


PREDICTED FED DECISION **HOLD**
5.50%

OPENFED OPTIMAL RATE **HOLD**
5.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 5.5%, and its own framework independently judges 0 bps optimal — predicted and optimal policy converge cleanly despite the Taylor rule's lone -25 bps signal.

STATEMENT

The most striking feature of this meeting is how little separated the participants once the data were laid out. Core PCE at 1.9% sits just below the 2.0% objective, giving no sign of an inflation overshoot, while unemployment at 4.9% runs below the estimated 5.24% natural rate, pointing to a labor market that is tight rather than slack. The Beige Book reinforced this picture: tight labor markets with a few new reports of upward wage pressures, retail prices reported as relatively flat across nearly all districts, and business lending picking up amid fierce competition and lowered credit standards. Against that backdrop, participants judged that the recent move to 5.5% is still working through the economy and that current conditions present no urgent case for action in either direction.

One participant opened the meeting leaning toward a 25 basis point increase, weighing the tight labor market, the Beige Book's wage-pressure reports, high manufacturing activity, and the loosening of credit standards as a buildup of inflation risk worth insuring against. On reflection, that participant was persuaded to hold: with core PCE actually below target and prices reported flat, a preemptive hike was difficult to justify against the risk of over-tightening, particularly given that the 3-month bill sits 0.4 below the funds rate — an indication markets are not pricing further near-term tightening — and that financial conditions were absorbing 5.5% without stress. Those concerned primarily with employment saw no deterioration to defend against, since jobless claims of 318,000 were moderate and unemployment momentum was slightly negative at -0.05; tightening into a strong labor market would risk the very jobs they aim to protect. Participants attentive to financial conditions pointed to a low financial stress index of 0.1113, a tight Baa spread of 1.48, a positive 10-2 spread of 0.41, and a moderate VIX of 20.81, and cautioned that the one live concern, loosening credit standards, argues against easing



rather than for it. On this reasoning the Committee expects the real Federal Reserve to leave the target rate unchanged, a hold with no bps change.

The Committee's own deterministic framework arrives at the same destination by an independent route, and its recommendation is 0 bps. Three of the four reference rules point squarely to holding — the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule all return 0 bps. The lone dissenter among the rules is the Taylor rule, which prescribes -25 bps, reflecting inflation running slightly under target with unemployment below its natural rate. Participants engaged directly with that divergence and found the cut unpersuasive against the real conditions: with estimated r^* at 2.959, a 5.5% nominal rate is only modestly restrictive, and cutting into a tight labor market with loose credit would be procyclical. Inflation momentum of 0.04 and unemployment momentum of -0.05 are both minimal, and the first-difference logic — no change absent momentum in either variable — captured the situation well for several members. The balanced-approach rule was cited as the most persuasive, weighing the small inflation undershoot against labor-market tightness to land at hold.

That the predicted policy and the framework's loss-minimizing recommendation converge so cleanly was read by participants as confirmation that the current stance is well-calibrated: neither so restrictive as to endanger jobs nor so loose as to feed the loosening credit standards flagged in the Beige Book. The Committee therefore both predicts a hold at 5.5% and independently judges 0 bps to be the optimal policy, and it will remain alert to whether the isolated wage-pressure reports broaden into actual price acceleration or the loosening credit standards escalate into genuine systemic risk.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for no change at 5.5%. On the framework's 0 bps recommendation, the optimal-side deliberation was also unanimous, with all five members voting to endorse.