PREDICTED FED DECISION HOLD

5.50%

OPENFED OPTIMAL RATE −25 bps

5.25%

KEY TAKEAWAY

The Committee unanimously expects the real Fed to hold at 5.5%, yet its own framework judges the loss-minimizing move to be a 25 basis point cut, a divergence three of five members endorse outright.

STATEMENT

Core PCE inflation stood at 1.45%, below the 2.0% objective, while the unemployment rate at 4.6% remained well beneath the 5.21% natural rate the Committee referenced. Participants generally read the labor market as tight rather than weakening: initial claims at 317,000 were low and steady, and the Beige Book described tight labor conditions nationwide with hiring difficulty and some wage pressure in shortage occupations. Yet those wage gains were not showing through to prices. Participants pointed to the Beige Book's characterization of price pressures as 'neutral', with productivity gains, soft commodities, and import competition offsetting wages. Growth was judged moderate, with the Chicago Fed index near trend at 0.06. Weighing against this steadiness was the Asian financial turmoil cited in the Beige Book, viewed as a disinflationary and growth-dampening force that could soften export demand, alongside a VIX of 23.36 that signaled market nervousness even as the financial stress index at 0.1563 and a Baa spread of 1.5 pointed to no acute credit distress.

On the question of what the real Federal Reserve would do, the Committee's judgment was straightforward and unanimous. With inflation running below target, no participant saw a case for a hike; with the labor market tight and no realized weakness to defend against, none saw a case for a cut. Participants noted that the 3-month T-bill trading about 0.37 below the current rate, and a barely positive 10y-2y spread of 0.14, both suggested markets expected steady policy with possibly some easing ahead rather than any near-term tightening. The Asian turmoil was treated as a risk to monitor, not a realized shock demanding action. The Committee accordingly expects the real Federal Reserve to hold the policy rate at 5.5%.

The Committee's own deterministic framework reached a different conclusion, recommending a 25 basis point cut, and several members engaged that recommendation directly. The reference rules straddled the current stance: the Taylor rule prescribed -50 bps, reflecting inflation materially below target, while the balanced-approach and ELB-adjusted rules each returned +25 bps, driven by sub-natural unemployment. The first-difference rule at -25 bps matched the framework's final call, and members repeatedly found it the most persuasive, reading it as a measured response to the direction of change rather than an overreaction to the gap. That direction was clear in the loss-function terms: inflation momentum of -0.145 confirmed disinflation, and unemployment momentum of just 0.05 showed essentially no overheating acceleration. With r* estimated at 3.086 and real policy sitting well above neutral, participants judged the current 5.5% rate to be mildly restrictive. Several framed a quarter-point cut as insurance against Asian financial spillover to domestic credit and future manufacturing employment, warranted precisely because inflation gave room to act before a shock materialized. The Committee thus concluded that the optimal policy for this meeting is a 25 basis point reduction.

The gap between the expected hold and the optimal cut reflects a genuine, acknowledged tension rather than a formality. Members who favored the framework's recommendation argued that the loss-minimizing math prices the downside risk now, while the predicted hold reflects institutional caution. Those less willing to endorse a full cut agreed the easing direction was defensible but preferred to wait for confirmation that disinflation would hold, wary that easing into a still-tight labor market could unlock the latent wage-price pressure the Beige Book already flagged, and mindful that at-trend activity did not compel acting before the data confirmed it.

COMMITTEE VOTE	The Committee voted unanimously, 5-0, that the real Federal Reserve will hold the policy rate at 5.5%. On its own framework's -25 bps recommendation, the optimal-side deliberation split 3-2, with three members endorsing the cut as recommended and two agreeing with the direction but not the timing.
NOTES	*The predictive vote was unanimous, so the substantive disagreement surfaced on the optimal side: two members declined to endorse a full 25 basis point cut, agreeing that below-target inflation and negative inflation momentum left policy mildly restrictive, but arguing the tight labor market (4.6% unemployment against a 5.21% natural rate) and at-trend activity counseled waiting for confirmation before easing rather than acting preemptively.*