PREDICTED FED DECISION −25 bps
5.25%

OPENFED OPTIMAL RATE −25 bps
5.25%

KEY TAKEAWAY

The Committee expects a 25 basis point cut and independently judges that reduction optimal, easing to 5.25% as an insurance move against darkening 1999 expectations while inflation runs well below target.

STATEMENT

The most striking feature of this meeting was how completely the members converged: from independent opening positions through the framework deliberation, all five arrived at the same quarter-point cut, with the usual hawkish instinct effectively neutralized by a price backdrop that simply offered nothing to defend against. Core PCE at 1.21% sits a full 80 basis points below the 2% objective, retail prices are steady or declining, and falling import and commodity prices are damping goods inflation. The one genuine inflation signal, the labor tightness reported in the Beige Book pushing wages higher against an unemployment rate of 4.5% that remains below the 5.17% natural rate, registered as a latent watch item rather than a present threat. Members focused on price stability were explicit that holding purely on inflation grounds is not defensible when observed prices are falling and inflation momentum is a barely positive 0.085.

Against that quiet inflation picture, the argument for easing rested on financial strain and a deteriorating forward outlook. The VIX at 36.62 was described as extraordinarily elevated, the Baa credit spread at 2.35 pointed to real and widening borrowing-cost stress, and the nearly flat 10-2 spread of 0.07 read as a recession-risk warning. The 3-month T-bill sitting 0.81 below the current 5.5% funds rate told members that markets already anticipate easing; those weighting market signals most heavily noted this implied roughly three cuts relative to today and worried a single quarter-point might undershoot the forward signal. Members attentive to employment risk emphasized the Beige Book's 'sharp deterioration' in fourth-quarter and 1999 expectations, with New York and Dallas decelerating outright, as the leading development they wanted to get ahead of before cracks widen. Balanced against this, the Chicago Fed index at -0.01 and jobless claims of 305,000 showed activity roughly at trend, not collapsing, which the Committee read as a firm argument against a larger 50 basis point move that could itself signal alarm. On that reasoning, the Committee's predictive judgment is that the real Federal Reserve will reduce the target rate by 25 basis points, to 5.25%.

The Committee's own deterministic framework arrived at the same 25 basis point cut as the loss-minimizing policy, and the reference rules underneath it made clear why this was a considered balance rather than an obvious one. The rules diverged widely: the Taylor rule returned 0, while the balanced-approach and ELB-adjusted rules both called for +75, keying on the labor-market slack implied by unemployment below its natural rate and a high r* of 3.261. The first-difference rule, by contrast, pointed to -50, responding to the change in conditions rather than the level gaps. Members judged the +75 level rules to be overweighting backward-looking slack against price data that is actually falling, and found the first-difference logic the more persuasive read of the moment, since it captures the souring expectations and building financial stress the level rules ignore. But with inflation momentum at 0.085 and unemployment momentum at only 0.1, the case for the full -50 was thin. The framework's -25, with its reference rules flagged as reliable, split between the stable Taylor reading and the easing signal, landing on a measured insurance cut that eases less than first-difference would while respecting residual wage risk.

The Committee therefore holds that current policy at 5.5% is modestly too restrictive given contained inflation and rising downside risk, and that a quarter-point reduction to 5.25% is both the likely and the optimal response, moving toward neutral without committing to a full easing cycle.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 basis point cut, and the Committee's optimal-side deliberation likewise landed in full agreement, with all five members endorsing the framework's -25 basis point recommendation as-is.