PREDICTED FED DECISION **HOLD**

4.75%

OPENFED OPTIMAL RATE **−25 bps**

4.50%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 4.75%, while its own framework judges a modest 25 basis point cut optimal — a divergence its members largely, but not entirely, endorse.

STATEMENT

Information reviewed at this meeting described an economy running with clear momentum but without evident inflation pressure. Core PCE inflation stood at 1.22%, well below the 2.0% objective, while the unemployment rate at 4.3% sat far beneath an estimated natural rate of 5.14%, pointing to a tight labor market. The Beige Book reinforced this picture: strong activity and healthy consumer and vehicle sales, tight labor markets across most Districts, but tightness that has generally not translated into higher wages. Financial conditions were characterized as unsettled but not distressed, with the VIX elevated at 25.62 and a financial stress index of 0.1722 that participants read as moderate rather than acute, alongside a contained Baa spread of 2.12 and a positively sloped yield curve. The 3-month T-bill sitting 0.26 below the funds rate was noted as evidence that markets expect no near-term tightening and perhaps a faint easing bias.

On the question of what the real Federal Reserve would do, participants converged quickly and completely on holding the funds rate at 4.75%. The reasoning ran along consistent lines across perspectives: subdued and below-target inflation offered no case for a hike, while strong growth, low jobless claims of 310,000, and a labor market showing no deterioration offered no case for easing. Several participants stressed that with tight labor conditions not feeding through to wages, the prudent posture was to watch rather than act, monitoring for emerging price or wage pressures. The elevated VIX weighed on the discussion from another angle, with participants judging that a surprise move in either direction risked destabilizing already-nervous markets. One participant, most attentive to inflation risk, held with a distinct tilt toward eventual tightening, viewing the deeply negative resource gap as a latent overheating threat even absent realized inflation.

The Committee's own deterministic framework arrived at a different destination, recommending a 25 basis point cut. The tension in that result is worth stating plainly, because it does not run in one direction. Three of the four reference rules — the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule — each pointed 75 basis points higher, driven by the wide gap between 4.3% unemployment and the 5.14% natural rate and by an estimated r* of 3.447 that leaves real policy only marginally restrictive. Pulling the other way, the first-difference rule called for -50 basis points, responding to the inflation shortfall and to inflation momentum of -0.105 rather than to a level gap resting on an uncertain natural rate. With unemployment momentum flat at 0.0, the framework's loss-minimizing calculation split these opposing signals and landed at -25 basis points: a modest insurance easing that honors below-target, cooling inflation without either chasing the aggressive first-difference cut or delivering the shock a 75 basis point hike would impose on anxious markets.

In deliberating on that recommendation, a majority of participants came to endorse it. Those endorsing found the first-difference logic most persuasive, arguing that direction of inflation momentum, not a stale level gap, should govern; they noted that the negative T-bill spread already prices an easing lean, that contained-but-nonzero stress argues against tightening, and that real funds near 3.5% against 1.22% inflation confirm genuine restraint that a small cut would gently relieve. The dissent came from the inflation-focused perspective, which declined the recommendation outright: cutting into a sub-natural-rate labor market, on this view, risks igniting precisely the wage pressure that low current inflation can mask. A further participant, weighing employment risk, agreed with the easing direction but not its full magnitude, observing that with employment secure and no softening in view, the urgency behind a complete step was weak. The Committee thus reports both conclusions as its own: a predicted hold at 4.75%, and an independently determined optimal path of a 25 basis point cut.

COMMITTEE VOTE	The predictive vote was unanimous, 5-0, in expecting a hold at 4.75%. On the framework's -25 basis point recommendation, the Committee's optimal-side vote was 3-1-1: three members endorsed it, one declined, and one supported the direction but not the full magnitude.
NOTES	*The lone decline came from the inflation-focused member, who held that with unemployment at 4.3% far below the 5.14% natural rate and real funds near r* of 3.447, policy is barely restrictive; easing into a hot labor market risks stoking wage-driven inflation despite core PCE running 0.78 percentage point below target, and the three rules pointing 75 basis points higher were, in this member's judgment, the more compelling signal.*