



PREDICTED FED DECISION +50 bps

6.50%

OPENFED OPTIMAL RATE HOLD

6.00%

KEY TAKEAWAY

The Committee expects the real Fed to raise rates 50 bps to lean against a broadly overheating labor market, even as its own framework judges 0 bps the loss-minimizing call given already-restrictive policy and flashing recession signals.

STATEMENT

The material reviewed at this meeting pointed, on nearly every real-economy measure, in one direction. Unemployment stood at 3.9%, far below the estimated natural rate of 5.11%, and the Beige Book reported intensifying wage pressures and worker shortages in all Districts, with input prices rising nearly everywhere. Members generally read these as classic late-cycle overheating conditions. Yet realized inflation had not confirmed that pressure: core PCE was 1.72%, still below the 2% objective, with limited pass-through to retail prices noted in the Beige Book. Members were also mindful of a set of signals pointing the other way: the 10y-2y curve was inverted at -0.33, the Chicago Fed activity index was negative at -0.35, and the VIX was elevated at 28.93. Credit conditions, by contrast, remained orderly, with the Baa spread at a moderate 2.36 and the financial stress index contained at 0.29.

In forming its view of what the real Federal Reserve is most likely to do, the Committee weighed the breadth of the overheating evidence against these cautionary signals and concluded a 50 bps increase, from the current 6.0%, is the probable outcome. Most members judged that the tight labor market and broad-based cost pressures argue for preemptive firming before pressures pass through to consumer prices, and that with credit markets functioning normally, a measured move could be absorbed without disorder. A minority, weighing the same data, favored a smaller 25 bps step. That view rested less on any employment risk to defend against, given the absence of labor slack, than on market pricing and asymmetric overtightening risk: the 3-month T-bill spread of -0.04 signals little further tightening priced in, and the inverted curve warns against front-loading a larger move into a cycle the market already reads as maturing. On the Committee's predictive read, the firmer move prevailed.



The Committee's independent determination of optimal policy pointed the other way. Its deterministic framework recommends 0 bps. The reference rules were themselves split: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed +75 bps, reflecting the labor-market overshoot, while the first-difference rule, which leans on momentum, called for -25 bps. With inflation momentum at only 0.23 and unemployment momentum flat at 0.0, and with the loss function netting this wide dispersion against the recession-risk signals, the framework arrived at a hold. Several members found this reading persuasive on its own terms. With r^* estimated at 3.725, a 6.0% funds rate already sits well above r^* plus target inflation, so policy is meaningfully restrictive before any further move. Realized inflation below target, an inverted curve, and below-trend activity were judged to offset the tight-labor overshoot, making patience the loss-minimizing call rather than adding restraint into flashing slowdown signals.

The gap between the Committee's +50 predictive expectation and its 0 bps optimal determination is the central feature of this meeting. It reflects a genuine tension the members did not paper over: the level rules and institutional inflation-vigilance push toward continued tightening, while the framework's balancing of momentum, forward market pricing, and the restrictive existing stance says the tightening work is largely done. The Committee states both conclusions as its own considered judgments — that the real Federal Reserve will most likely raise by 50 bps, and that optimal policy, on the framework, is to hold.

COMMITTEE VOTE

The predictive vote was 3-2 in favor of a 50 bps increase, with two members favoring 25 bps. On the framework's 0 bps recommendation, the optimal-side deliberation landed 4-1 in favor of endorsement.

NOTES

The lone optimal-side dissent came from the inflation-focused member, who declined to endorse the 0 bps recommendation on the grounds that positive inflation momentum and a labor market at 3.9% against a 5.11% natural rate make the forward inflation risk too elevated to stand pat; this member weighted the three reference rules clustered at +75 bps over the framework's netted hold, holding that tolerating overheating now risks a costlier tightening later.