


PREDICTED FED DECISION **-50 bps**
5.00%

OPENFED OPTIMAL RATE **-25 bps**
5.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to cut 50 basis points, while its own framework judges a smaller 25 basis point reduction to be the loss-minimizing move — agreement on easing, disagreement on pace.

STATEMENT

The information reviewed pointed consistently toward a softening economy alongside contained inflation. Core PCE stood at 1.29 percent, well below the 2.0 percent objective, and inflation momentum was mildly negative at -0.06, signaling ongoing disinflation rather than any building price pressure. Against that backdrop, the Chicago Fed National Activity Index at -0.69 indicated below-trend growth, initial jobless claims were elevated at 393,000, and the Beige Book described sluggish-to-modest activity with manufacturing declining broadly and more than half of Districts reporting labor markets easing. Participants noted that although unemployment at 4.2 percent remained below the estimated natural rate of 5.09 percent, that reading is a lagging one, and the leading signals — softening demand for manufacturing, construction, and IT workers, and rising unemployment momentum of +0.05 — pointed the other way. With the current funds rate at 5.5 percent judged restrictive relative to deteriorating conditions, and with financial stress evident in the VIX at 27.55, a Baa spread of 2.85, and banks tightening credit standards, participants saw a clear case for easing.

On the question of how much easing the real Federal Reserve is likely to deliver, all five members converged, independently and then in rebuttal, on a 50 basis point cut. Central to that judgment was the 3-month T-bill trading 0.96 below the funds rate, which participants read as the market having already priced in substantial near-term easing. Several emphasized that underdelivering against that priced expectation would risk a disorderly repricing in credit and equity markets, itself tightening financial conditions further — precisely the outcome to be avoided when spreads are widening and lending is slowing. Some considered whether the front-end pricing argued for a still-larger move toward 75 basis points, but the yield curve at +0.49 was not deeply inverted, the financial stress index



was only moderate at 0.22, and still-low unemployment counseled against an emergency-sized step. A decisive but not alarming 50 basis point cut was seen as best aligning policy with the market-implied path.

The Committee's own deterministic framework arrived at a smaller figure: a 25 basis point reduction as the loss-minimizing choice. The reference rules diverged sharply — the Taylor rule returned 0 basis points, reflecting still-low unemployment, while both the balanced-approach and ELB-adjusted rules returned +75 basis points, anchoring on the wide unemployment gap. Participants judged the hiking rules to be reading a stale labor level rather than the trajectory, and found the first-difference rule, at -25 basis points, most persuasive, because it responds to the change in conditions — negative inflation momentum and rising unemployment momentum — without over-tightening. With the framework treating the reference rules as reliable and an estimated r^* of 3.91 leaving modest room below neutral, the loss-minimizing recommendation of -25 basis points was seen as easing decisively in the market-signaled direction while respecting that inflation remains near, not above, target.

The gap between the predicted -50 and the optimal -25 was itself informative to participants: it quantified how restrictive the 5.5 percent stance has become and confirmed that the live debate is over pace, not direction. Those endorsing the -25 recommendation as-is stressed inflation discipline and the absence of any data urgency to front-load, viewing a measured cut as sufficient to address demonstrable growth weakness while preserving vigilance should prices firm. Those who agreed on direction but preferred a larger move argued that rising claims and slackening labor demand, together with the risk of a self-reinforcing credit-and-jobs slowdown and market pricing consistent with 75 to 100 basis points of cuts ahead, warranted front-loading insurance now, treating -25 as a floor rather than the optimal step.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, for a 50 basis point cut. On its own framework's -25 basis point recommendation, the optimal-side deliberation split 2-3: two members endorsed it as-is, three agreed with the easing direction but not the magnitude, and none declined outright.



NOTES

Although the predictive vote was unanimous, three members declined to fully endorse the framework's -25 basis point figure. Two of them, weighting labor-market and financial-stability risk most heavily, argued that elevated jobless claims of 393,000, rising unemployment momentum, widening Baa spreads, and bank credit tightening pointed to a self-reinforcing downturn that justified front-loading a larger 50 basis point cut. A third, anchoring on the -0.96 T-bill spread, held that markets were demanding 75 to 100 basis points of cuts ahead and that a 25 basis point step undershot that priced expectation.