PREDICTED FED DECISION HOLD

1.75%

OPENFED OPTIMAL RATE −50 bps

1.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 1.75%, yet its own framework judges optimal policy to lie 50 basis points lower, a divergence its members endorse only in direction, not full magnitude.

STATEMENT

Information reviewed for this meeting described a recovery that is real but uneven. Core PCE inflation stood at 1.05%, well below the 2.0% objective, while unemployment at 5.7% remained above the estimated 5.07% natural rate, and initial jobless claims at 414,000 continued to signal soft labor demand. Beige Book reporting pointed to broad improvement across most districts, with residential real estate, retail, and tourism firming, though several districts, including Cleveland, Kansas City, and Dallas, noted weakness or a slowing pace. Financial conditions gave little cause for alarm: the financial stress index at 0.1266 was low, the Baa spread of 2.84 elevated but contained, the VIX at 21.91 moderate rather than panicked, and the 10-year to 2-year curve steeply positive at 1.87. Members generally read this configuration the same way, that subdued inflation removed any case for tightening while broad-based improvement and the absence of market stress removed any urgency to ease.

On the question of what the real Federal Reserve will do, the Committee reached unanimous agreement that policy will be held at 1.75%. Members supporting this predictive judgment emphasized that the near-flat 3-month T-bill spread of -0.01 indicates markets have priced in no imminent move, so a change in either direction would come as a surprise unsupported by current pricing. Those weighting inflation risk stressed that the one firming price signal in the Beige Book, a sharp steel price increase, appeared isolated against generally flat retail prices, and warned that easing into a strengthening economy could stoke inflation once slack is absorbed. Members most attentive to employment acknowledged genuine labor slack but judged the labor market to be soft and stabilizing rather than collapsing, and current policy already accommodative after substantial prior easing. The convergence was near-total: holding steady lets disinflation and the recovery clarify before any move.

Applying its own deterministic framework, the Committee separately concluded that the optimal policy setting would be a 50 basis point cut. That conclusion does not follow the level-based reference rules, which point the other way: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed +75 basis points, anchored to an r* of 3.58 that leaves nominal policy at 1.75% looking accommodative rather than restrictive. The framework instead gave decisive weight to the direction of travel. Inflation momentum registered -0.255, indicating disinflation is deepening rather than stabilizing, while unemployment momentum at 0.05 showed slack that is not closing. On this reading the first-difference rule, at -25 basis points, and the loss-minimizing calculation, at -50 basis points, both prioritize momentum over a phantom output gap, and with reference rules judged reliable the loss function landed on the deeper cut as the setting that best closes both the inflation shortfall and the labor gap.

The tension between the two conclusions was the defining feature of this meeting, and it surfaced within the framework deliberation itself. Members broadly credited the disinflation-momentum case for easing, but most balked at the magnitude. Those weighting financial stability and market pricing argued that with no credit stress, a steeply positive curve, and markets pricing no move, a full 50 basis point cut would overshoot conditions and risk destabilizing signaling, with a measured 25 basis point step better matching soft momentum. The centrist reading credited the momentum logic but judged 50 basis points too large against a Beige Book showing broadening activity. Only the most employment-focused member endorsed the full recommendation, reasoning that with prices contained the risk of moving too slowly on jobs outweighs inflation risk, while the inflation-focused member declined it outright, holding that easing 50 basis points against three level rules calling for a hike is excessive into a firming recovery.

COMMITTEE VOTE

The predictive vote to hold at 1.75% was unanimous, 5-0. On the framework's -50 basis point recommendation, the Committee split three ways: one member endorsed it as-is, three endorsed the easing direction but not the magnitude, and one declined it.

NOTES

Although the predictive vote was unanimous, real disagreement centered on the optimal recommendation. The inflation-focused member declined the -50 basis point call, arguing that the Taylor rule, balanced-approach, and ELB-adjusted rules all prescribing +75 basis points show policy is already accommodative relative to an r of 3.58, and that with unemployment momentum only marginally positive at 0.05, the labor case for a half-point cut into a broadening recovery is too thin to justify overstimulation.*