



PREDICTED FED DECISION +25 bps

# 2.00%

OPENFED OPTIMAL RATE -25 bps

# 1.50%

## KEY TAKEAWAY

**The Committee unanimously expects a 25 bps hike, yet its own framework judges a 25 bps cut optimal given below-target inflation and labor slack — a rare 50 bps gap on which the members themselves split 3-2 against endorsing the easing.**

## STATEMENT

Information reviewed for this meeting described an economy in broad, continued expansion. The Beige Book pointed to business outlays and hiring picking up across most Districts, with household loan demand softening somewhat even as business loan demand firmed. Core PCE inflation stood at 1.21%, well below the 2.0% target, while wage and retail price increases were characterized as subdued. Against that soft inflation reading, participants weighed a genuine cost-push signal: energy and input costs are rising, and more manufacturers and business service providers report being able to pass part or all of those increases along to customers. Unemployment at 5.4% sat modestly above an estimated natural rate near 5.04%, with initial jobless claims around 332,000 and unemployment momentum of -0.1 — improving, but not yet a tight labor market. Financial conditions were calm throughout: the stress index at 0.0885, the VIX at 14.04, and a Baa spread near 2.08 gave no sign of strain, and the positively sloped yield curve, at 1.49, carried no recession warning.

On the question of what the real Federal Reserve is likely to do, all five members converged on a further 25 bps increase. With the funds rate at 1.75% and the real rate still negative given core PCE near 1.2%, participants generally judged policy to remain accommodative relative to an economy that is expanding, and saw the low-stress backdrop as easily able to absorb a measured step. Several placed weight on market pricing: the 3-month T-bill sitting about 0.17 above the current rate indicates the front end already anticipates a near-term hike, so delivering the expected move is the path least likely to disturb orderly markets. The inflation-focused case rested on preempting the emerging pass-through risk while conditions permit; the labor-focused case rested on the observation that a



1.75% rate is not restrictive and so poses no threat to the tentative hiring recovery. No member argued for a larger move — subdued wages made a 50 bps step unwarranted — and none saw data supporting a pause.

The Committee's own deterministic framework arrived at a different answer, and the gap is the central feature of this meeting. Judging the reference rules reliable and using an  $r^*$  of 1.745, the framework recommended -25 bps. The individual rules spread widely: the Taylor rule read 0, essentially neutral, while both the balanced-approach and ELB-adjusted rules read -75, weighting the inflation shortfall and the employment gap heavily. The first-difference rule, at -25, sat in the middle, and most members found it the most persuasive of the four precisely because it works off momentum — inflation momentum of only 0.16 and unemployment momentum of -0.1 — without leaning on an uncertain  $r^*$  estimate. The loss-minimizing recommendation of -25 bps reflects that averaging: below-target inflation plus remaining labor slack skews the optimum toward easing, tempered away from the aggressive -75 readings that participants judged too large for a calm, expanding economy.

The 50 bps divergence between the predicted 25 bps hike and the optimal -25 bps cut drew a real and unresolved split among the members. Those who declined the framework's easing did not dispute its arithmetic so much as its omissions: from a stability lens, a deeply negative real rate is already highly stimulative, and easing further from an accommodative stance risks fueling future imbalances that calm markets can otherwise absorb tightening to address. The inflation-focused view held that cost-push pass-through and an already near-neutral real rate make additional stimulus premature, and the market-pricing view held that the front-end spread and steep curve describe a forward path toward neutral, not away from it. Those who endorsed -25 bps read the mandate legs at face value: with inflation subdued, slack still present, and hiring described only as modest, the data alone points to modest easing, and restrictive momentum should not be prioritized over a fragile labor recovery. The Committee thus records the -25 bps figure as its considered optimal policy under the framework, while recognizing that its members do not agree on whether that optimum should be acted upon.

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**COMMITTEE VOTE**

The predictive vote was unanimous, 5-0, for a 25 bps increase. On the framework's -25 bps optimal recommendation, the Committee split 3-2 against endorsement.



## NOTES

*Although the predicted hike was unanimous, the optimal-side deliberation divided sharply. The financial-stability and market-pricing members declined the -25 bps recommendation on the grounds that a deeply negative real rate is already stimulative and that market signals point toward gradual normalization upward, not easing, while the inflation-focused member declined it as premature given building cost pass-through; the labor-focused and data-dependent members endorsed it, reading below-target inflation and above-natural unemployment as warranting modest support.*