PREDICTED FED DECISION +25 bps

3.25%

OPENFED OPTIMAL RATE −25 bps

2.75%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps hike to 3.25%, even as its own policy framework judges a 25 bps cut optimal — a full 50 bps divergence in direction, with soft core inflation on one side and firm momentum on the other.

STATEMENT

Information reviewed at this meeting described an economy expanding at a moderate, well-sustained pace across most Districts, with labor markets that have continued to improve. Unemployment stands at 5.1%, essentially at the estimated natural rate of 5.04%, and initial claims at 321,000 remain low and stable; the Chicago Fed activity index at +0.41 points to above-trend growth. Financial conditions are calm to the point of complacency, with the financial stress index at 0.12, the VIX at 12.13, and Baa credit spreads tight at 1.88. The yield curve, at +0.33, is flattening but has not inverted. Against this backdrop, core PCE inflation of 1.44% sits below the 2.0% objective, though the Beige Book flagged recurring concerns about high fuel, transportation, and building-materials costs. On the predictive question, all five participants judged that the real Federal Reserve would deliver a measured 25 bps increase, lifting the funds rate to 3.25%. The reasoning converged: with the 3-month T-bill spread at 0.0, markets already appear to be pricing continued gradual normalization, so an expected quarter-point step would not surprise or destabilize; a solid expansion and a tight labor market leave the current 3.0% stance still somewhat accommodative; and no participant identified a labor-market, credit, or recession signal that would argue for a pause or a cut.

The Committee's independent policy framework arrived at a materially different place, recommending 25 bps of easing. The gap is worth stating plainly: a full 50 bps separates the expected hike from the framework's optimal cut. Three of the four reference rules pointed to aggressive easing — the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each returned -75 bps, driven by inflation running below target with unemployment near its natural rate. The first-difference rule, which responds to momentum rather than to level estimates, returned -25 bps, and the loss-minimizing framework settled there as well. Participants generally found the first-difference logic the more persuasive. Inflation momentum is only mildly positive at +0.05 and unemployment momentum is -0.1 — conditions are drifting, not deteriorating — which several judged made the level rules' -75 bps an over-reaction to a level gap in the absence of any activity weakness. With r* estimated at 1.398 and inflation near 1.44%, the implied neutral nominal rate is roughly 2.8%, leaving current policy only modestly restrictive and a small, reversible step proportionate to the soft inflation reading.

Real tension surfaced in reconciling the two conclusions. Those endorsing the -25 bps recommendation framed it as a disciplined middle path: a proactive, gradual step that supports employment and respects sub-target inflation while avoiding the destabilizing lurch the level rules would impose on calm, tight-credit markets. Others were more reluctant. A stability-minded reading cautioned that even a quarter-point cut into froth-prone housing — residential real estate was described as strong in most Districts — and historically tight credit spreads adds marginal risk that may be underweighted; the flattening curve cut both ways, easing inversion risk on one hand while feeding excess on the other. An inflation-focused view accepted the easing direction only grudgingly, noting that positive inflation momentum and pipeline cost pressures would, on their own, argue for holding rather than cutting. And a market-signal reading dissented from the direction outright: with the T-bill spread at zero and neutral arguably above the current rate, market pricing suggests the economy tolerates the present stance and the path is toward firming, not easing.

Weighing these considerations, the Committee affirmed both conclusions as its own. Its predictive judgment is that the real Federal Reserve will raise the target rate by 25 bps, to 3.25%, consistent with the ongoing measured normalization the data and market pricing support. Its independent framework judgment is that the optimal move is a 25 bps cut, reflecting below-target inflation and a policy stance modestly firmer than a momentum-based reading of the data warrants. The divergence itself is the meeting's central observation: the expected path leans more restrictive than the framework's loss-minimizing calculus, quantifying a stance the framework reads as slightly too tight relative to soft inflation and balanced labor conditions.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 bps increase. On the framework's -25 bps recommendation, the Committee split: two members endorsed it as-is, two agreed with the direction but not the magnitude or timing, and one declined it entirely.

NOTES

Although the predictive vote was unanimous, the optimal-side deliberation drew a genuine dissent: the market-signal member declined the -25 bps recommendation, arguing that with the T-bill spread at zero, a positive if flat yield curve, and neutral plausibly above the current 3.0%, market pricing implies the economy tolerates the present stance and the appropriate move is to hold or firm, not ease. The two partial positions — one grounded in inflation vigilance and pipeline cost pressures, the other in housing and credit-froth risk — accepted the easing direction but resisted committing to the quarter-point magnitude.