PREDICTED FED DECISION **HOLD**

5.25%

OPENFED OPTIMAL RATE **HOLD**

5.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 5.25%, and its own framework independently judges 0 bps optimal — an agreement that rests on the change-based rule overriding three level rules calling for a 75 bps cut.

STATEMENT

Information reviewed for this meeting pointed in two directions at once, and the Committee's task was to weigh them. Core PCE inflation at 2.14% remained modestly above the 2.0% objective, with the framework's inflation-momentum term at +0.21 indicating that price pressures were still building rather than fading. At the same time, the Beige Book described a broad-based moderation in activity: six Districts noted a slowing pace of growth, housing was cooling, retail was somewhat softer, and residential mortgage lending was declining. Wage and price increases were characterized as 'modest on net.' Against this backdrop the labor market stayed firm — unemployment at 4.6% sat below the 5.04% estimate of its natural rate, initial jobless claims of 311,000 gave no signal of rising layoffs, and unemployment momentum of -0.1 indicated the rate was still edging lower. Financial conditions were calm throughout, with the stress index at 0.13, the VIX at 15.05, and the Baa spread contained at 1.69.

In building toward a decision, participants gave weight to the shape of the yield curve. The 10-year to 2-year spread of 0.02 was essentially flat, and the 3-month bill trading 31 basis points below the current funds rate was read as a market judgment that policy is already restrictive at 5.25%. Participants attentive to inflation would not entertain a cut with core PCE above target and momentum positive, but even they acknowledged that hiking into a near-flat curve, after cumulative prior firming and with wage and price gains described as modest, offered little marginal benefit against real risk. Those focused on employment saw no trigger for easing absent any deterioration in the labor data, while those attentive to financial stability warned that an abrupt move in either direction risked disturbing credit and rate markets that were pricing a settled stance. The reasoning converged, and the Committee judges that the real Federal Reserve will hold the target rate unchanged, a change of 0 basis points.

The Committee's own policy framework arrived at the same destination by a more contested route, and the tension is worth stating plainly. Three of the framework's reference rules — the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule — each called for a cut of 75 basis points, resting on a low estimated neutral rate (r* of 0.896) and on inflation only modestly above target. The first-difference rule, by contrast, recommended 0 basis points, adjusting from the current stance on the basis of momentum rather than the level of any estimated gap. The framework's loss-minimizing recommendation was 0 basis points, and participants found the first-difference logic the more persuasive. With inflation still above target and its momentum positive, and with unemployment below its natural rate, a 75 basis point cut was judged premature and potentially destabilizing — the level rules identified theoretical room to ease, not a validated case for doing so. The Committee therefore independently determines that the optimal policy at this meeting is to hold at 5.25%, a 0 basis point change, treating the divergence between the level rules and the change rule as a sign that the current stance is restrictive but appropriately patient.

Both conclusions thus point the same way: the Committee expects a hold, and judges a hold to be optimal. Participants emphasized that this agreement reflects a stance near neutral rather than a coincidence — firm enough to contain the modestly elevated 2.14% core reading, not so tight as to force the easing the level rules mechanically imply. The Committee will remain data-dependent, prepared to firm again should inflation momentum reaccelerate, and equally prepared to ease should labor market indicators such as jobless claims turn up meaningfully.

COMMITTEE VOTE

The Committee was unanimous in predicting a hold, 5-0 for a 0 basis point change. On its own framework's 0 basis point recommendation, the optimal-side deliberation likewise landed in full agreement, with all five members endorsing the recommendation as-is (5-0).