


PREDICTED FED DECISION **HOLD**
5.25%

OPENFED OPTIMAL RATE **HOLD**
5.25%

KEY TAKEAWAY

The Committee unanimously expects the Federal Reserve to hold at 5.25% and independently judges 0 bps optimal, siding with the First-Difference rule's steadiness over three reference rules calling for 75 bps of cuts.

STATEMENT

With core PCE inflation at exactly 2.0%, the Committee's members opened from strikingly similar ground despite their different lenses. Inflation sits precisely at target, neither overshooting in a way that would demand further restraint nor undershooting in a way that would call for relief. Unemployment at 4.7% remains below the estimated natural rate of 5.04%, pointing to a labor market that is still tight rather than deteriorating, with initial jobless claims low and stable at 314,000. Yet the Beige Book told a cooling story: deceleration across five Districts, uniformly weak residential real estate, softening loan demand, and consumer spending that has slowed. Members took seriously the near-inverted 10y-2y spread at -0.03 and the 3-month T-bill sitting 0.44 below the funds rate, reading both as evidence that markets regard the tightening cycle as complete and are already pricing eventual easing. Against calm financial conditions -- a stress index of 0.1182, VIX at 11.18, and a moderate Baa spread of 1.7 -- no member saw either a fresh inflation surge demanding a hike or an acute stress event demanding a cut. All five arrived independently at holding, and none moved off that view on rebuttal.

On this basis the Committee's predictive judgment is that the real Federal Reserve will leave the target rate unchanged at 5.25%. The members reasoned toward this from complementary starting points. Those attentive to inflation risk stressed that scattered labor shortages and specialized-skill wage pressures keep some upside risk alive, so easing at target would be premature -- but conceded that a hike into a clear slowdown, with prior restraint plainly biting, is equally hard to justify. Those focused on employment noted that their trigger for a cut, genuine labor-market deterioration, is simply not yet present. And those weighing financial stability argued that adding tightening to a fragile housing and credit backdrop risks destabilizing conditions the mandate is meant to protect. Holding, in every telling,



lets the existing restraint continue working.

The Committee's own optimal-policy framework, run independently of the predictive vote, also recommends 0 bps -- but the interest in that recommendation lies in the tension behind it. Three of the four reference rules pointed sharply the other way: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each called for -75 bps, reading on-target inflation and sub-natural unemployment, against an estimated r^* of 0.95, as ample room to ease. The framework nonetheless landed on the First-Difference rule's 0 bps, and the members found that logic persuasive. The decisive consideration was momentum: inflation momentum is positive at 0.25, meaning prices are not demonstrably falling below target, while unemployment momentum is only barely negative at -0.05, so labor has not actually turned. Members judged that the level-based rules mechanically mistake inflation being at target for permission to cut, and that a 75-basis-point move into calm markets and an inverted curve would itself signal an alarm the data do not support. The divergence between the rule levels and the 0 bps outcome is informative in its own right: it says the current 5.25% stance is genuinely restrictive relative to a pure inflation-and-output reading -- neutral sits near 2.95% on the same r^* estimate -- yet appropriate given positive inflation momentum, lingering wage risk, and the absence of realized labor weakness. The Committee therefore concludes that 0 bps is not merely the expected outcome but the optimal one, preserving optionality to ease decisively once data confirm slowing.

The Committee will retain data-dependent guidance, keeping open the option to tighten should inflation risks re-intensify and to ease should labor-market conditions genuinely deteriorate.

COMMITTEE VOTE

The predictive vote to hold at 5.25% was unanimous at 5-0. On the optimal-policy framework's 0 bps recommendation, the Committee likewise endorsed unanimously, 5-0.