



PREDICTED FED DECISION **HOLD**

2.00%

OPENFED OPTIMAL RATE **-25 bps**

1.75%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 2.0% (3-2), while its own framework judges the loss-minimizing policy to be a 25 bps cut, a divergence four of five members endorsed on the merits.

STATEMENT

Information reviewed for this meeting pointed to an economy weakening on most fronts while inflation held close to target. Core PCE inflation was essentially at the Committee's 2 percent objective, at 1.97 percent, and inflation momentum was low, at 0.025 in the framework's reading. Against that, the labor market showed clear deterioration: the unemployment rate stood at 6.1 percent, more than a point above the 5.05 percent natural rate estimate, with unemployment momentum of 0.2 indicating the jobless rate was still rising rather than stabilizing. Initial claims at 441,000 and a Chicago Fed National Activity Index of -2.58 reinforced a picture of activity running sharply below trend, and the Beige Book described conditions across most Districts as slow, weak, or subdued, with a broad pullback in hiring and easing loan demand. Financial conditions were tight as well, with the financial stress index at 0.60, the Baa spread at 3.35, a VIX of 25.47, and the 3-month T-bill trading 0.35 below the funds rate.

In deliberating on the likely near-term policy path, participants divided. Those inclined to hold at 2 percent, a majority, emphasized that while inflation was at target on the core measure, the Beige Book documented persistent and widespread price pressures from energy, food, and commodity costs, with firms passing higher input costs into selling prices. On this view, cutting into live pass-through risk could re-anchor inflation expectations higher, and at a 2 percent funds rate policy was already accommodative, so holding preserved flexibility and ammunition without easing prematurely. Participants attentive to financial stability made a related point: with the yield curve still positively sloped at 1.39 and the VIX elevated but short of panic, stress had not reached the systemic threshold that would warrant a preemptive cut, and moving ahead of clearer evidence risked itself signaling alarm to fragile markets. A minority favoring a 25 bps reduction argued that inflation was simply not the



binding constraint, that moderate wage pressures amid a hiring pullback limited second-round risk, and that the negative T-bill spread showed markets already pricing roughly a quarter point of easing, which a measured cut would deliver without appearing panicked. On balance, the Committee's assessment of the most likely real-world outcome is no change, holding the target at 2.0 percent, by a vote of 3 to 2.

The Committee's own deterministic framework, applied to the same data, reached a different conclusion, recommending a 25 bps cut as the loss-minimizing policy. The reference rules split sharply and were judged unreliable for this meeting: the Taylor rule prescribed +75 bps, reflecting an inflation-weighted stance that participants viewed as an outlier given inflation already at target and large labor-market slack; the first-difference rule returned 0 bps, consistent with holding; but both the balanced-approach and ELB-adjusted rules pointed to -25 bps. With the framework's r^* estimate near 1.741 and the funds rate at 2 percent, real policy was only barely accommodative against a widening employment gap. The balanced-approach logic, which weights that gap more heavily, proved most persuasive to a majority in the optimal-side discussion: with inflation momentum at just 0.025 and unemployment momentum at 0.2, the pressures point toward easing rather than tightening, and the framework's -25 bps recommendation aligns with the credit deterioration and below-trend activity the data show.

The gap between the expected hold and the framework's recommended cut quantifies how far the anticipated real-world stance sits above the loss-minimizing path. Most participants read that gap as evidence that current policy at 2 percent is modestly too tight given weakening data, with the hold reflecting caution over energy- and food-driven price pass-through and a preference to retain flexibility rather than a substantive case that inflation risk overrides the deterioration in employment and credit conditions. The Committee judges the optimal policy at this meeting to be a 25 bps reduction, while recognizing that inflation-vigilance and financial-stability considerations plausibly explain a more cautious near-term stance.

COMMITTEE VOTE

On the predictive question, the Committee split 3 to 2 in favor of holding the target rate at 2.0 percent; on the framework's -25 bps recommendation, the optimal-side deliberation landed 4 to 1 in favor of endorsement.



NOTES

The lone objection to the framework's recommended cut came from the inflation-focused perspective, which accepted that -25 bps was optimal under the framework's loss function but declined to support it, arguing that the Beige Book's documented commodity-cost pass-through into selling prices left inflation risk unresolved and that easing now, with the Taylor rule itself prescribing +75 bps, would compromise inflation-fighting credibility.