PREDICTED FED DECISION **HOLD**

0.25%-0.50%

OPENFED OPTIMAL RATE **−25 bps**

0.00%-0.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 0.25%-0.5%, even as its own framework concludes the loss-minimizing policy is a 25 basis point cut, endorsed by four of five members.

STATEMENT

Information reviewed for this meeting described an economy that is calm on the surface but running soft underneath. Core PCE inflation stands at 1.38%, well below the 2% objective, and participants uniformly read this as an undershoot rather than a threat, noting that inflation momentum is flat at 0.0 with no acceleration and that the Beige Book characterized price pressures as 'modest overall' and wage pressure as only 'moderate.' The unemployment rate at 4.9% sits essentially at the estimated 4.8% natural rate, so participants judged the labor market to be roughly balanced rather than either overheating or deteriorating. Against this backdrop financial conditions gave no cause for alarm: the financial stress index at 0.123 and the VIX at 11.77 pointed to notably calm, even complacent, markets, the Baa spread at 2.67 showed no credit distress, and the 10-year to 2-year curve remained positive at 0.86 with no recession signal. A slightly negative 3-month T-bill spread of -0.065 was read as markets pricing steady-to-slightly-lower rates ahead.

On this reading, participants converged from every analytical vantage on the same predictive conclusion. Those most attentive to inflation risk found no upside pressure to justify tightening; those most attentive to employment found no rising unemployment or collapsing job growth to justify easing, with initial claims low at 254,000; and those reading market signals and financial stability saw no stress demanding action in either direction. The one caution flag that drew broad attention was the Chicago Fed National Activity Index at -0.51, signaling below-trend growth, together with prior-meeting notes of slowing job gains despite low unemployment. Participants judged these as reasons for watchfulness, not for a move now. The Committee therefore expects the Federal Reserve to leave the target range unchanged at 0.25% to 0.5%.

The Committee's own deterministic framework reached a different conclusion, and participants engaged with it directly. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — pointed to -25 bps, an unusually complete agreement that several participants found persuasive on its own terms. The driver is straightforward: with an estimated r* of -0.5, the neutral real rate is negative, which means the current 0.25%-0.5% range is modestly tight rather than accommodative as its nominal level might suggest. The balanced-approach logic carried the most weight in discussion — the roughly 62 basis point core PCE shortfall dominates the near-zero unemployment gap, while an unemployment momentum term of -0.1 and the soft activity index reinforce rather than offset the case. Participants attentive to financial stability added that calm markets are precisely when preemptive easing is cheapest, framing a cut as low-cost insurance against below-trend growth before any stress appears. Even the participant most vigilant on inflation, while preferring to preserve optionality, acknowledged that no upside inflation risk exists to justify the current tightness. The Committee's optimal-policy conclusion is a 25 basis point reduction in the target range.

The gap between these two conclusions reflects institutional caution weighed against the arithmetic of the rules. Participants generally agreed on the direction — policy leans somewhat tighter than fundamentals warrant — while the expected hold reflects a preference to wait for clearer data given near-target unemployment and quiet markets. The Committee will continue to monitor inflation progress, credit spreads, and labor data for any turn toward genuine deterioration.

COMMITTEE VOTE

The predictive vote to expect a hold at 0.25%-0.5% was unanimous, 5-0. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation landed at 4 endorsing and 1 partial.

NOTES

The lone departure came from the participant weighting market pricing most heavily, who endorsed the easing direction but not its full magnitude, arguing that a -6.5 basis point T-bill spread and calm conditions imply steady-to-slightly-lower rates rather than an immediate full 25 basis point cut — agreement on direction, divergence on timing.