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 judges the loss-minimizing policy to be a 25-basis-point cut, given persistent sub-target inflation.

STATEMENT

The most notable feature of this meeting is not disagreement over what will happen, but a clean divergence between what the Committee expects and what its own framework judges optimal. On the predictive question, all five members arrived independently at the same reading and did not budge: the federal funds target range should be expected to hold at 0.25% to 0.5%. Core PCE inflation at 1.32% remains well below the 2% objective, and while the labor market is firm—unemployment at 4.9% sits essentially at the 4.8% natural rate, and initial claims are low at 259,000—the Beige Book describes tight labor markets alongside 'little action on prices,' with firms reporting prices unchanged or only slightly up. Members judged that the wage-price pass-through an inflation-focused reading would watch for is simply not materializing. Financial conditions gave no forcing signal in either direction: the financial stress index at 0.117 is low, the VIX at 18.14 moderate, the Baa spread at 2.7 contained, and the 10-year/2-year spread positive at 0.93 with no inversion.

Members placed particular weight on market pricing as a timing signal. The 3-month T-bill spread at -0.015 sits slightly below the current rate, which participants read as markets not pricing an imminent move; a hike now would surprise conditions rather than confirm them. Members generally noted that calm markets leave room for action but supply no urgency—the absence of stress removes a constraint without creating a reason to move. Set against prior guidance emphasizing 'gradual increases,' the balance of the data was judged to favor patience this meeting, and no member's argument shifted another's view. The predictive convergence was, if anything, mutually reinforcing.

The Committee's own deterministic framework reached a different conclusion, and the Committee states it plainly: the loss-minimizing policy this meeting is a 25-basis-point cut, to a range of 0 to 0.25%. All four reference rules agree—the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule each return -25 bps—and the rules were judged reliable this meeting. The logic turns on the same inflation shortfall the predictive discussion dwelled on, now read through the loss function: with core PCE running about 0.68 percentage point below target and inflation momentum only faintly positive at 0.035, the large inflation gap dominates the negligible unemployment gap, where momentum of -0.05 points to slight labor loosening rather than overheating. Decisive, in the members' engagement with the framework, was the estimated neutral real rate of -0.5, which implies the current range may already be modestly restrictive relative to neutral. Members drawn to employment considerations found the balanced-approach rule most persuasive on those grounds, while those attentive to credit conditions emphasized the ELB-adjusted rule's case for cheap, preemptive insurance while markets are calm.

The gap between the two conclusions is best understood as a difference over timing and magnitude, not direction. Members who engaged the framework broadly accepted that sub-target inflation and a negative neutral rate argue the current stance is slightly tight; where they parted from the -25 bps call was on whether to act now and at full size. The residual caution centered on spending scarce policy space near the lower bound, which is hard to reverse if inflation firms, and on the observation that neither labor nor markets are demanding a move—the T-bill spread is too faint to compel easing, and labor has not cracked. The Committee therefore records both conclusions with equal weight: it expects a hold, and it judges the optimal action to be a 25-basis-point reduction.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, to expect a hold at the 0.25%-0.5% range. On the framework's -25 bps recommendation, the optimal-side deliberation split: two members endorsed the cut as-is, three endorsed the direction but not the magnitude or timing, and none declined it outright.

NOTES

Though no member rejected the framework's direction, three registered a partial stance: one emphasized that cutting now would spend scarce policy space near the lower bound with inflation momentum faintly positive; one held that market front-end pricing at -0.015 does not affirmatively call for a move; and one, reading the data literally, judged that near-target unemployment, above-trend growth, and calm markets warrant a smaller, more patient step than a full 25 basis points.