PREDICTED FED DECISION HOLD

**0.25%-0.50%**

OPENFED OPTIMAL RATE −25 bps

**0.00%-0.25%**

KEY TAKEAWAY

**The Committee expects the real Federal Reserve to hold at 1/4 to 1/2 percent, while its own framework judges the loss-minimizing policy to be a 25 basis point cut, a divergence all five members explain as institutional caution rather than optimal policy.**

## STATEMENT

Information reviewed at this meeting described an economy that is firm but not pressing in either direction. Core PCE inflation stood at 1.48 percent, meaningfully below the Committee's 2 percent objective, and unemployment at 5.0 percent sat just above the 4.8 percent natural rate. Initial claims of 260,000 and Beige Book reports of modest-to-moderate growth, with a larger share of contacts raising wages to attract and retain workers, pointed to a labor market that is healthy without overheating. Members watching inflation risk most closely noted these wage reports as a genuine but still nascent signal; members watching employment saw no rising unemployment or slowing job growth that would justify easing. Against this, several members gave weight to the presidential election one week out, which the Beige Book cited explicitly as delaying business decisions, and to the prior meeting's three dissents favoring an immediate hike, which showed tightening pressure building but not yet commanding a majority.

In assessing the likely path of the real Federal Reserve, members returned repeatedly to two constraints. Inflation running below target remained, in the prior statement's language, a 'key constraint on tightening,' and the market pricing members emphasized that the 3-month T-bill spread of -0.035, sitting just below the current range midpoint, showed no imminent hike being priced this week. With the financial stress index at 0.105, the VIX at 14.24, credit spreads contained at 2.61, and the yield curve positive at 0.93, conditions were calm enough that no move was forced in either direction. Weighing the strengthened case for a hike against soft inflation and election-week uncertainty, all five members judged that the Committee would most likely hold the target range at 1/4 to 1/2 percent and wait for further confirmation. The predictive conclusion was a hold, 0 basis points.

The Committee's own deterministic framework reached a different judgment, and members engaged with it directly. All four reference rules the framework consults, the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule, converged on -25 basis points and were judged reliable this meeting. That convergence rests on the same data read through the loss function: with an estimated r* of -0.5 percent, the current 1/4 to 1/2 percent stance is modestly restrictive in real terms rather than as loose as it appears. Inflation momentum was slightly negative at -0.005, so the shortfall showed no drift back toward target, while unemployment momentum of +0.1 indicated slack widening rather than closing, a reading reinforced by a Chicago Fed activity index of -0.14 below trend. Members applied their own lenses and arrived at the same place: the inflation-focused view found no above-target inflation to lean against and thus no basis for restraint; the employment-focused view read the drifting-up unemployment as early softening worth cushioning before it hardens; the stability-focused view found that with r* deeply negative and stress low, a cut removes needless restriction with no destabilizing downside. The framework's optimal conclusion was a 25 basis point cut, to correct a stance running above what the mandate gaps warrant.

The gap between the two conclusions was, in the members' own telling, the substance of this meeting. The 0 basis point hold reflects institutional caution, the prior hawkish dissents, and a reluctance to move against calm markets into election-week uncertainty; the -25 basis point optimal reflects loss-minimization taking the sub-target inflation and slightly widening slack at face value. Members characterized their predictive hold as gradualism and psychology rather than what the fundamentals and market pricing actually justify, with the negative bill spread indicating that a cut would carry no inflation-expectations penalty. The Committee let both conclusions stand, side by side, as the honest output of this deliberation.

**COMMITTEE VOTE**

The predictive vote was unanimous, 5-0, for holding the target range at 1/4 to 1/2 percent; on the framework's -25 basis point recommendation, the Committee's optimal-side deliberation was also unanimous, with all five members endorsing the cut as the loss-minimizing policy.