PREDICTED FED DECISION HOLD

0.50%-0.75%

OPENFED OPTIMAL RATE −25 bps

0.25%-0.50%

KEY TAKEAWAY

The Committee unanimously expects the Fed to hold at 0.5% to 0.75%, even as its own policy framework judges the loss-minimizing move to be a modest 25 basis point cut to 0.25% to 0.5%.

STATEMENT

Information reviewed by the Committee described an economy expanding at a modest-to-moderate pace, with conditions that argued for patience in both directions. Core PCE inflation stood at 1.3%, well below the 2% objective, while the unemployment rate at 4.7% sat essentially at the estimated natural rate of 4.74%. Initial jobless claims of 234,000 and Beige Book reports of tightening labor markets pointed to a healthy employment picture, with only mild wage and price pressures across Districts. Financial conditions were notably calm and loose: the VIX at 10.81 and a financial stress index of 0.063 signaled market complacency rather than fear, the Baa spread at 2.61 showed no credit-market distress, and the 10-year to 2-year spread of 1.3 gave no recession signal. Against this backdrop, and with a 25 basis point hike having been delivered at the prior meeting under guidance stressing 'only gradual' increases, all five members judged that a back-to-back move would be premature.

On the predictive question, the Committee was unanimous: it expects the Federal Reserve to hold the target range at 0.5% to 0.75% at this meeting. Members reached that conclusion from different vantage points that reinforced one another. Those weighting inflation risk saw no emergency to defend against, with core PCE below target and inflation momentum weak. Those focused on employment found their caution against restriction untriggered, since unemployment was neither rising nor showing slowing job growth. Members attentive to financial stability saw no stress demanding a defensive move, and those reading market pricing noted the 3-month T-bill sitting 12.5 basis points below the current rate midpoint, consistent with markets pricing no imminent hike and a hold being well tolerated. Below-target inflation, near-neutral unemployment, and benign financial conditions together left nothing pressing an immediate move.

The Committee's own deterministic policy framework, applied independently, reached a different conclusion: the loss-minimizing action would be a cut of 25 basis points, to a target range of 0.25% to 0.5%. The reference rules clustered decisively toward easing, with the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all printing -50 basis points, and the first-difference rule printing -25. The case rests on the material inflation shortfall against a low neutral rate: with r* estimated at -0.5, the current range is tighter in real terms than its nominal level suggests, while unemployment near equilibrium concentrates the mandate slack on the inflation side. Members converged on the first-difference rule's -25 as the right anchor rather than the level rules' -50. Inflation momentum of 0.11 and unemployment momentum of -0.15 were both mild, arguing against an aggressive reset in favor of an incremental, momentum-based adjustment consistent with the gradualism the Committee has emphasized. Slightly below-trend growth, indicated by a CFNAI reading of -0.27, mildly reinforced that policy could afford to be somewhat easier.

The gap between the expected hold and the framework's -25 basis point recommendation was thus a narrow one, spanning a single increment, and the Committee characterized it as reflecting policy that is mildly, not severely, too tight. Members observed that the same calm financial conditions supporting a hold also complicate the easing case: cutting into a 0.063 stress index and a VIX near historic lows risks fueling asset-price froth and seeding later imbalances. That froth concern, together with the fiscal-policy uncertainty flagged previously, offers a coherent rationale for why the Committee expects the real Federal Reserve to prioritize patience over the rule-implied easing at this meeting, even as the framework judges a measured single step to be optimal.

COMMITTEE VOTE	The predictive vote was unanimous, 5-0, to expect a hold at the 0.5% to 0.75% target range. On the framework's -25 basis point recommendation, the Committee split 3 to 2, with three members endorsing it as-is and two agreeing with the direction but not the timing.
NOTES	*The two partial members agreed easing was the right direction but declined to endorse acting now. One, weighting financial stability, objected that cutting into extraordinarily loose and complacent markets risks amplifying asset-price froth and would prefer to wait for data. The other, weighting market pricing, judged the -12.5 basis point front-end tilt too small to force immediate correction, reading it as mild latent easing pressure rather than an emergency.*