



PREDICTED FED DECISION **+25 bps**

0.75%-1.00%

OPENFED OPTIMAL RATE **-25 bps**

0.25%-0.50%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to raise rates by 25 bps, even as its own policy framework judges the loss-minimizing move to be a 25 bps cut — a sharp divergence the Committee itself is divided over.

STATEMENT

Information reviewed at this meeting described an economy firming rather than faltering. Activity was accelerating to a modest-to-moderate pace across districts, with the Beige Book noting that selling prices were accelerating and that input cost increases had become more widespread. The labor market was judged to be essentially at balance: unemployment at 4.8 percent sits close to the 4.74 percent estimated natural rate, initial jobless claims were low at 223,000, and contacts reported that hiring had picked up, wages continued to rise modestly, and high-skilled workers were difficult to retain. Core PCE inflation, at 1.48 percent, remained below the 2.0 percent objective. Financial conditions were calm and accommodative — the stress index at 0.075, the VIX at 11.86, the Baa spread contained at 2.61, and the yield curve positively sloped at 1.21 gave no recession signal. The 3-month T-bill spread of 0.125 over the current 0.50-to-0.75 percent range indicated that markets were already pricing a near-term move.

On the question of what the real Federal Reserve will do, the Committee reached full agreement: a 25 basis point increase, lifting the target range to 0.75 to 1.0 percent. Members arrived at this from different starting points but found them mutually reinforcing. Those weighting inflation risk emphasized that, while the level of core PCE remains below target, the widening cost pressures documented in the Beige Book are the kind of firming a preemptive approach should address before it broadens, with a tight labor market and rising wages as the transmission channel. Members focused on employment saw no case for accommodation, since the data showed strength rather than deterioration, and judged that a gradual step posed no threat to jobs. Members attentive to financial stability and to market signals stressed that benign conditions leave ample room to move, that delivering the move markets have priced avoids a destabilizing surprise, and that a larger 50 basis point



step would run ahead of expectations. All viewed a single quarter-point move as consistent with the current range sitting well below the prior median projection of 1.4 percent and with prior guidance of 'only gradual increases.'

The Committee's own deterministic policy framework pointed the other way, recommending a 25 basis point cut. The reference rules were more emphatic still: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each returned -50 bps, while the first-difference rule returned -25 bps, with the reference rules flagged as reliable. Two features of the loss function drove this. The estimated r^* of -0.5 implies a very low neutral rate, so that the current 0.50-to-0.75 percent range may already be at or above neutral; and with core PCE below target and inflation momentum slightly negative at -0.09, the level-based rules mechanically penalize the inflation shortfall. Unemployment momentum of -0.15 reinforced the case, in the framework's terms, against staying restrictive. The framework's final -25 bps recommendation tempered the aggressive -50 bps rules toward the gradualism of the first-difference rule, which several members regarded as the most defensible of the four for adjusting incrementally from the current stance rather than chasing a computed level.

This left an unusually sharp divergence between what the Committee expects and what its framework judges optimal, and the Committee was itself divided on the framework's call. One member accepted the -25 bps recommendation as the loss-minimizing choice, reasoning that with inflation soft, neutral low, and unemployment momentum mildly negative, easing protects against unnecessary restriction of employment. The majority declined it. Some read the sub-target inflation figure as a lagging indicator rather than a shortfall to ease into, arguing that cutting while cost pressures broaden risks unanchoring expectations. Others held that loose financial conditions and market pricing of a hike argue against adding accommodation, and that no financial-stability rationale exists for easing into already-complacent markets. On a face-value reading of trend growth, firm claims, a tight labor market, and rising costs, most members concluded the data did not support a cut, even as they recognized the rules-based case resting on the inflation gap and low r^* .

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 basis point increase. On the framework's -25 bps recommendation the Committee split 1-4: one member endorsed it, four declined.



NOTES

Although the predictive vote was unanimous, the optimal-side deliberation surfaced real disagreement. The lone endorsing member, weighting employment risk, accepted the -25 bps cut as loss-minimizing given below-target inflation, negative inflation momentum of -0.09, and an estimated r^ of -0.5 suggesting current policy may already be near or above neutral. The four declining members rejected easing into a firm labor market with broadening cost pressures, variously treating the inflation shortfall as lagging, pointing to loose financial conditions and market pricing of a hike, and judging that the non-deteriorating real-economy data offered no case for a cut.*