


PREDICTED FED DECISION **HOLD**
0.75%-1.00%

OPENFED OPTIMAL RATE **-25 bps**
0.50%-0.75%

KEY TAKEAWAY

The Committee unanimously expects the real Fed to hold at 0.75-1.00%, even as its own framework judges a modest 25 basis point cut to be the loss-minimizing move — a gap the members read as policy having crept slightly restrictive.

STATEMENT

The information reviewed by the Committee described an economy on solid footing but with little price pressure to answer. Core PCE inflation stood at 1.48%, meaningfully below the 2% objective, and Beige Book reports characterized prices as having risen only modestly, with selling prices up 'only slightly' even as input prices outpaced them. The labor market, by contrast, was tight: unemployment at 4.5% sat below the 4.74% estimate of its natural rate, initial jobless claims were low at 244,000, and firms reported worker shortages and broadening wage increases. Financial conditions were notably calm, with the stress index at 0.069, the VIX at an unusually subdued 10.85, the Baa spread contained at 2.26, and the 10-year/2-year curve positively sloped at 1.04. Growth was described as modest to moderate across districts.

On the question of what the real Federal Reserve will do at this meeting, participants converged, from distinct starting points, on holding the target range at 0.75-1.00%. The dominant consideration was the recent path of policy: having raised rates at the prior meeting under guidance emphasizing gradual, data-dependent increases, participants generally judged that a back-to-back move would run ahead of that stated trajectory. With core inflation still below target, there was no urgency to bunch hikes. Some weighed the tight labor market and the broadening wage increases in the Beige Book as a genuine forward inflation risk that would warrant resuming gradual tightening at a later meeting, but not one that demanded action now against a soft realized-inflation backdrop. Others noted that the 3-month T-bill spread at -0.065 showed markets pricing no imminent hike, and that moving into such placid, complacent conditions risked an abrupt repricing for no clear benefit. The Committee's predictive



judgment was a hold — zero basis points.

The Committee's independent assessment of optimal policy pointed the other way. The deterministic framework recommended a 25 basis point cut, and participants worked through why. The reference rules leaned decisively easier: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each returned -75 bps, driven by the inflation shortfall and an estimated neutral real rate (r^*) of -0.5, which implies the current stance sits above neutral. The first-difference rule returned -25 bps, and it was this rule most members found persuasive, precisely because it adjusts incrementally from the current stance rather than jumping to an absolute level derived from the uncertain r^* estimate. Inflation momentum of -0.03 indicated core PCE drifting away from, not toward, target, while unemployment momentum of just +0.1 gave no sign of overheating. Participants judged the -75 bps rules an overreaction into calm markets and a tight labor market, and read the framework's landing on -25 bps as the loss function properly tempering those level rules toward gradualism.

The divergence between the expected hold and the optimal -25 bps was itself the meeting's central point. Members supporting the cut read it as evidence that the current range has crept modestly restrictive relative to a low neutral rate: the labor-focused view saw a small cut as insurance for employment gains before any softening in slack accelerates; the stability-focused view saw a measured step toward neutral that honors gradualism without fueling asset froth; the neutral, data-at-face-value reading held that persistent below-target inflation with negative momentum simply outweighs the small labor-market tightness. The Committee thus recorded both conclusions with equal weight: the real Fed is likely to hold at 0.75-1.00%, while the Committee's own framework judges a 25 basis point reduction to be the appropriate, loss-minimizing action given below-target inflation, negative r^* , and calm financial conditions.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 to expect a hold at 0.75-1.00%. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation landed 4-1 in favor of endorsing the cut.



NOTES

The lone dissent on the optimal side came from the inflation-focused member, who declined to support the 25 basis point cut. While acknowledging that core PCE at 1.48% and slightly negative inflation momentum showed no current inflation surge, this member weighted heavily the latent wage-driven risk from a labor market with unemployment below its natural rate, broadening wage increases, and reported worker shortages. On that view, easing preemptively into tight labor conditions risked unanchoring inflation just as it approaches target; better to tolerate mild restrictiveness, leaving the current range judged close to appropriate rather than clearly too tight.