PREDICTED FED DECISION **HOLD**

1.25%-1.50%

OPENFED OPTIMAL RATE **−25 bps**

1.00%-1.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 1.25-1.50%, while its own framework judges a 25 bps cut optimal, exposing a gap between the calm data and a soft-inflation policy signal.

STATEMENT

Information reviewed for this meeting described a labor market that remains tight and, if anything, still strengthening. The unemployment rate stood at 4.1%, below the 4.73% natural rate, and initial jobless claims at 220,000 gave no sign of deterioration; the Beige Book repeatedly cited tight labor markets and broadening wage pressures across districts, though price and wage gains were characterized as only modest. Against that backdrop, core PCE inflation registered 1.05%, nearly a full point below the 2% objective. Financial conditions were notably easy: the financial stress index at 0.018 and the VIX at 11.47 pointed to calm, orderly markets, credit spreads were tight with a Baa spread of 1.64, and the yield curve remained positively sloped at 0.57 with no inversion signal.

In their opening assessments, two members initially favored a 25 bps increase, reasoning that a well-telegraphed, gradual hike carried no systemic risk in such benign markets and was consistent with a labor market showing no weakness. On reflection, however, the Committee converged on holding the current range. Several considerations proved decisive: core PCE running well below target argued against accelerating; a hike had just been delivered at the prior meeting; and the 3-month T-bill spread of only about 4.5 bps above the current midpoint indicated that markets embed the next firming step later rather than at this meeting. Consecutive moves, participants generally judged, are not what a gradual normalization path or current market pricing supports. On that basis the Committee's prediction for the real Federal Reserve is to hold the target range at 1.25% to 1.50%.

The Committee's own deterministic policy framework tells a different story, and the divergence is the central feature of this meeting. The framework's loss-minimizing recommendation is a 25 bps cut. Its reference rules point sharply easier still: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each return -75 bps, with the first-difference rule at -50 bps, and the rules are judged reliable this meeting. The dominant driver is the inflation shortfall against 2%, magnified by an estimated r* of -0.5, which implies the current range is more restrictive than its nominal level suggests. Two momentum terms temper the aggressive rule outputs up to a modest -25 bps: inflation momentum of only 0.09, confirming no upside pressure is building despite labor-market tightness, and unemployment momentum of -0.15, signaling a labor market that is still tightening rather than cracking. Weighing a large inflation gap against genuine but mild labor strength, the Committee concludes that the optimal policy at this meeting is a 25 bps cut.

The gap between the predicted hold and the optimal -25 bps quantifies how the two readings differ: the framework prioritizes persistent below-target inflation and a low neutral rate, while the predictive consensus prioritizes gradualism, labor-market strength, and the absence of any market dislocation demanding action. Even among members sympathetic to the framework, a real tension remained. Some argued that cutting into calm, arguably frothy markets, with the stress index this low and activity above trend at a CFNAI of 0.27, risks re-igniting the very excess a stability-minded seat most fears, and that easy financial conditions make current policy effectively neutral rather than restrictive. That guardrail did not overturn the framework's arithmetic, but it kept the endorsement of an actual cut short of unanimous.

COMMITTEE VOTE

The predictive vote to hold the target range at 1.25% to 1.50% was unanimous, 5-0. On the framework's -25 bps recommendation, the Committee split: two members endorsed it as calibrated, two declined, and one agreed with the easing direction but not the full 25 bps magnitude.

NOTES

Though the hold was unanimous, the optimal-side deliberation drew real dissent: the inflation-focused and financial-stability members declined the -25 bps call, arguing that with the stress index at 0.018, the VIX at 11.47, and activity above trend, cutting into loose conditions and tight labor risks re-igniting inflation and froth, leaving current policy effectively neutral despite the paper inflation gap; the market-signals member endorsed only the direction, judging the flat 4.5 bps T-bill spread inconsistent with a full 25 bps move.