



PREDICTED FED DECISION **-25 bps**

1.50%-1.75%

OPENFED OPTIMAL RATE **-25 bps**

1.50%-1.75%

KEY TAKEAWAY

The Committee expects a 25 basis point cut and independently judges that same 25 basis point move optimal, with all five members endorsing the framework even as three reference rules pointed toward a deeper 75 basis point reduction.

STATEMENT

Information reviewed at this meeting described an economy expanding near trend with muted inflation and a labor market still notably tight. Core PCE inflation stood at 1.48 percent, well below the Committee's 2 percent objective, while the unemployment rate at 3.5 percent remained far under the 4.56 percent natural rate. Financial conditions were calm across the board: the financial stress index registered 0.078, the VIX closed near 14, and the Baa corporate spread of 2.17 pointed to functioning credit markets with no sign of distress. Against this benign backdrop, participants read the Beige Book as showing activity 'stable on balance' but with scattered softening beneath the headline, as manufacturers froze hiring and cut hours and freight haulers reduced headcounts in response to trade tensions and slower global growth.

In assessing the likely policy path, all five participants converged on a 25 basis point reduction, moving the target range from 1.75-2.00 percent to 1.50-1.75 percent. The case rested on soft inflation leaving room to support employment without near-term price risk, on emerging trade-driven weakness in manufacturing and freight that argued for pre-emptive insurance, and on market pricing that had already digested a cut: the 3-month T-bill yield sat about a quarter point below the current midpoint, a spread of -0.255, while the 10-year to 2-year spread at 0.19 was barely positive. Participants generally judged that standing pat would defy this priced-in expectation and risk a disorderly repricing at the short end, while a 50 basis point move found no support in the calm stress and credit data. One participant, whose mandate weights inflation risk most heavily, made clear that on the merits a preference to hold at 1.75-2.00 percent remained, given the tight labor market and the channel



through which such tightness could eventually feed wages and prices; that participant nonetheless recognized that the modal Committee outcome, absent any inflation-side need, was another 25 basis point cut.

Turning to what policy should be rather than what it is likely to be, the Committee's own deterministic framework independently recommended a 25 basis point cut, and here a genuine tension surfaced. Three of the reference rules pointed considerably deeper: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each called for -75 basis points, driven by the sizable inflation shortfall and a low estimated r^* of -0.319. Only the first-difference rule, at -25 basis points, matched the framework's loss-minimizing answer. Participants judged the first-difference logic the more persuasive guide under present conditions, because it adjusts incrementally from the current stance in line with realized momentum rather than reaching for a model-implied level. With inflation momentum at just 0.09 and unemployment momentum at 0.05, both mild, there was no acceleration and no acute deterioration to justify an outsized, front-loaded move. Several participants observed that a 75 basis point cut would signal an alarm that the stress and credit data simply did not register, and could itself unsettle otherwise-calm markets or invite excessive risk-taking.

The Committee therefore read the divergence between the -75 basis point rules and the -25 basis point recommendation as a signal that current policy is only modestly restrictive and close to neutral, warranting a measured step rather than a leap. A 25 basis point reduction was judged to relieve the mild restrictiveness implied by the flat-to-inverting curve, to validate market expectations without either under-easing into a repricing shock or over-easing into a signal of panic, and to provide insurance against trade-driven downside risks while preserving room to act should credit spreads later widen. On both counts, then, the predictive forecast and the optimal determination coincided at -25 basis points, to a target range of 1.50-1.75 percent.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 in favor of a 25 basis point cut, and on the optimal side all five members endorsed the framework's -25 basis point recommendation as-is, a 5-0 endorsement with no declines or partial dissents.



NOTES

Although the votes were unanimous, one participant focused on inflation risk registered a substantive reservation on the merits, stating a personal preference to hold the range at 1.75–2.00 percent given the tight labor market and the risk that further easing could feed future wage pressure; that participant supported the cut only in recognition of the Committee's dominant easing bias and the muted inflation momentum of 0.09, which undercut the case for guarding against overshoot.