PREDICTED FED DECISION **HOLD**

1.50%-1.75%

OPENFED OPTIMAL RATE **−25 bps**

1.25%-1.50%

KEY TAKEAWAY

The Committee unanimously expects the Federal Reserve to hold at 1.50-1.75%, even as its own framework judges the loss-minimizing policy to be a modest 25 basis point cut.

STATEMENT

The distinctive feature of this meeting is a quiet but real gap between what the Committee expects and what its own framework judges optimal. On the predictive question, all five members arrived independently at the same place: hold the target range at 1.50 to 1.75 percent, a move of zero basis points. That agreement was unusually clean. Core PCE at 1.22 percent sits well below the 2 percent objective, which removes any case for a hike; at the same time, with unemployment at 3.6 percent and no acute deterioration in the labor data, participants saw no emergency demanding a further cut after three consecutive easings this cycle. Financial conditions reinforced the case for patience. The financial stress index at 0.066 and a VIX of 14.8 point to calm markets, the Baa spread of 2.11 shows contained credit conditions, and the 10-year/2-year spread has un-inverted to a positive 0.19, easing the recession signal that would otherwise have argued for preemptive action.

Beneath that consensus, participants weighed genuine cross-currents. Members attentive to labor risk gave weight to signs of early cooling — slowing job gains, declining openings, and Beige Book reports of layoffs in freight, trucking, rail, and some manufacturing — and to the Chicago Fed National Activity Index at -0.71, which signals below-trend growth. But with initial claims at 213,000 and headline unemployment still well below the 4.56 percent natural rate, they judged this a reason to stand ready to act rather than to move now. Members watching credit and market pricing noted that the 3-month T-bill spread of -0.085 is only faintly negative — a mild easing tilt, but far short of pricing a full cut. The general view was that three prior cuts have already delivered meaningful accommodation, that holding preserves policy room, and that the data-dependent guidance supports pausing to let those cuts work through.

The Committee's deterministic framework, run against the same data, reached a different conclusion: the loss-minimizing policy is a cut of 25 basis points. Here the reference rules pulled hard in one direction. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each recommended -75 basis points, driven by inflation running well under target and a negative unemployment gap, and reinforced by an estimated r* of -0.281 that implies even the current range may be modestly restrictive relative to neutral. Members judged that -75 overweights the level gaps and would risk overshooting into unwarranted aggression given a labor market at 3.6 percent. The first-difference rule, which responds to changes rather than levels, recommended only -25 basis points, and this is the logic the framework and most members found most persuasive: inflation momentum is barely positive at 0.095 and unemployment momentum is a slight negative at -0.1, small moves that argue for a measured step rather than a large one.

Read together, the two conclusions describe a stance close to neutral but slightly restrictive against a very low estimated r*. The predictive hold reflects calm markets, still-solid employment, and accommodation already delivered; the framework's -25 basis points reflects a persistent inflation undershoot that a modest, low-risk insurance cut would address without threatening stable credit conditions. The divergence of one quarter-point is best understood as the measure of how much weight one places on the inflation shortfall versus the evident adequacy of current conditions.

COMMITTEE VOTE

The predictive vote to hold at 1.50-1.75 percent was unanimous, 5-0. On the framework's -25 basis point recommendation, the optimal-side deliberation landed 4-1, with four members endorsing the recommendation as-is and one offering only partial support.

NOTES

The lone partial vote came from the member weighting market-implied signals, who accepted the easing direction as reasonable insurance against 1.22 percent core inflation but held that markets — a faint T-bill tilt, a positive yield curve, and no funding stress — show adequacy rather than a demand for acting now, making the direction defensible but the timing weak.