



PREDICTED FED DECISION +25 bps

0.25%-0.50%

OPENFED OPTIMAL RATE +75 bps

0.75%-1.00%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps liftoff, but its own policy framework judges the loss-minimizing move to be 75 bps — a 50 bps gap the Committee reads as evidence policy remains behind the curve.

STATEMENT

Information reviewed by the Committee showed inflation running well above the 2 percent objective, with core PCE at 4.63 percent, and a labor market that by every available measure is tight: unemployment at 3.8 percent, below the 4.45 percent estimated natural rate, and initial jobless claims low at 215,000. The Beige Book confirmed robust price increases, with some Districts accelerating, and wage growth described as the fastest in decades. Against that backdrop, and with the prior meeting having signaled that hikes were 'soon appropriate' and asset purchases concluding, participants agreed unanimously that the appropriate predictive call for this meeting is a 25 bps increase, raising the target range from 0.0-0.25 percent to 0.25-0.50 percent. The case for a measured first step rested less on the inflation data than on market fragility: the VIX at 32.45 was judged elevated, the Beige Book noted 'some weakening of financial conditions,' and the 3-month T-bill spread of 0.235 over the current range was read as pricing in almost exactly one 25 bps increment. Several participants noted that a 50 bps surprise risked destabilizing already-jittery markets on the first move off the zero lower bound, while a Baa spread of 2.35 and a still-positive 10y-2y spread of 0.26 showed no recession alarm to force restraint.

Turning to what optimal policy would require, the Committee's deterministic framework pointed considerably higher. All four reference rules — the Taylor rule, the balanced approach, the first-difference, and the ELB-adjusted rule — converged on 75 bps and were judged reliable this meeting. Participants found the unanimity of that convergence hard to dismiss: four independent specifications agreeing suggested a robust optimum rather than an artifact. The loss-function terms pointed the same way, with inflation momentum positive at 0.325 (pressures still building, not fading)



and unemployment momentum at -0.45 (joblessness still falling). Even with r^* estimated at -0.5, a 75 bps move would carry the range only to 0.75-1.00 percent — still accommodative, still below neutral given 4.63 percent inflation. On that reading, the Committee's independent conclusion is that the loss-minimizing policy for this meeting is a 75 bps increase.

The 50 bps gap between the 25 bps predictive call and the 75 bps optimal figure was itself the central object of the discussion. Participants who favored the framework's number argued that the gap quantified how far behind the curve the current stance sits: gradualism now risks letting inflation entrench and forcing a sharper, more disruptive correction later — worse for both prices and employment. From an employment lens, the tight labor market and falling unemployment leave no slack to defend and ample room to act. From a data-literal lens, both mandate legs point the same direction, so the direction of 75 bps is simply the honest reading of the numbers. The counterargument, pressed most forcefully on grounds of market pricing and financial stability, did not dispute the direction. It turned on magnitude and surprise: front-end pricing embeds roughly a 25 bps step, and delivering 75 into a market with the VIX at 32.45 risks a disorderly repricing that fundamentals alone do not yet justify. On this view, the 25 bps instinct reflects genuine caution about volatility rather than disagreement about where policy needs to go.

The Committee thus arrives at two conclusions from a single deliberation. It expects the real Federal Reserve to raise the target range by 25 bps, and it judges that its own framework's loss-minimizing recommendation of 75 bps is the more complete answer to the underlying conditions — with the difference between the two reflecting the weight placed on market fragility and orderly transmission versus the pace at which accommodation should be removed. In either case, participants agreed that this stance remains below neutral and that further hikes will be needed regardless of the size of this meeting's step.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 bps increase to a target range of 0.25-0.50 percent. On the framework's 75 bps recommendation, the Committee split 2-3: two members endorsed 75 bps as-is, and three agreed with the direction of tightening but not the magnitude for this first move.



NOTES

Though the predictive vote was unanimous, the optimal-side deliberation showed real disagreement over magnitude. Three participants declined to endorse 75 bps outright, arguing that front-end pricing has embedded only about a 25 bps step and that a larger-than-priced move into a VIX of 32.45 risks a disorderly repricing — a caution grounded in volatility and market expectations, they conceded, rather than in any recession signal or credit distress, and one that leaves the tightening direction itself undisputed.