



PREDICTED FED DECISION +75 bps

1.50%-1.75%

OPENFED OPTIMAL RATE +50 bps

1.25%-1.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to raise rates 75 bps, while its own loss-minimizing framework judges 50 bps optimal, with all members agreeing the direction is firmly upward and dividing only on pace.

STATEMENT

Information reviewed at this meeting showed inflation running well above the Committee's 2% objective, with core PCE at 3.82%, nearly double target, and the Beige Book confirming broad and persistent wage and price growth across nearly every district. The labor market remained very tight: unemployment at 3.6% stood well below the 4.44% natural rate, initial jobless claims were low at 200,000, and the Chicago Fed activity index at 0.47 pointed to above-trend growth. Financial conditions were contained rather than distressed. The financial stress index at 0.2167 signaled no systemic strain, the Baa corporate spread of 2.07 showed no acute credit widening, and the VIX at 23.96, while elevated, read as markets digesting hawkish expectations rather than panic. The 10y-2y spread at +0.25 remained positive though flattening. Against this backdrop, participants generally judged that the current 0.75%-1.0% range sits far below the Committee's last projected 1.9% median and that policy remains accommodative.

In forming its view of the likely policy action, participants weighed how far behind the curve policy had fallen against signs of emerging caution. Those favoring a larger move emphasized that entrenched, broad-based inflation dominates the balance of risks, that the economy can plainly absorb tightening, and that the 3-month T-bill spread of 0.365 over the current range implies markets have priced a step well beyond incremental hiking; under-delivering against that pricing, several argued, would itself risk disorderly repricing later. Those inclined toward a more measured pace pointed to repeated recession fears in the Beige Book, softening in some districts, and a preference not to overtighten into a labor market worth preserving, while acknowledging there is no employment weakness to defend against now. Over the course of deliberation, one participant initially favoring 50 bps was persuaded upward by



the combination of core PCE near double target, the very tight labor market, and market pricing. The Committee's assessment is that the real Federal Reserve will raise the target range by 75 bps.

The Committee's own deterministic framework points in the same direction but to a different pace, recommending 50 bps as the loss-minimizing action. All four reference rules -- the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule -- independently printed 75 bps and were judged reliable this meeting, so the framework's step below that unanimous rule signal is deliberate. It reflects several tempering terms: an estimated r^* of -0.5, meaning neutral is low and less nominal tightening is needed to reach a restrictive stance; inflation momentum of just 0.095, suggesting price pressures may be plateauing; and unemployment momentum of -0.15, read as cooling from an overheated level rather than deterioration. Set against the qualitative recession fears in the Beige Book and moderate market anxiety, the framework trades a measure of front-loading speed for reduced risk of overshooting into softening demand.

Both conclusions were treated as the Committee's own. The predictive judgment of 75 bps rests on the level the reference rules and market pricing embed; the optimal judgment of 50 bps rests on the loss function's weighting of a low neutral rate and cooling momentum. Participants stressed that the two figures agree on direction and differ only on pace -- either path is unambiguously restrictive-directional, a meaningful move above the effective lower bound, not a pause. Members inclined toward the framework's moderation noted that any step to 50 bps should be paired with a clear commitment to further increases to preserve credibility.

COMMITTEE VOTE

The Committee's predictive vote was 75 bps, carried 4 to 1, with one member holding to 50 bps. On the framework's 50 bps recommendation, the optimal-side deliberation split 2 endorse and 3 partial, with no member declining -- all five agreed on the upward direction while three preferred a larger magnitude.

NOTES

The predictive dissent came from the participant prioritizing employment risk, who argued that with no labor-market slack to defend but repeated recession fears in the Beige Book, a measured 50 bps addresses inflation without needlessly jeopardizing a strong labor market, and who declined to be moved to 75 bps by market-pricing arguments that speak to expectations rather than employment risk.