



PREDICTED FED DECISION +75 bps

2.25%-2.50%

OPENFED OPTIMAL RATE +25 bps

1.75%-2.00%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to deliver a 75 bps hike, but its own framework judges 25 bps optimal — a divergence traced to decelerating inflation momentum and a low neutral rate.

STATEMENT

Information reviewed at this meeting showed inflation still running well above the Committee's 2 percent objective, with core PCE at 3.85 percent, nearly double target. The labor market remained tight: unemployment at 3.6 percent stood below the 4.44 percent natural rate, and initial claims at 244,000 gave no sign of a genuine downturn in hiring. At the same time, participants noted accumulating signs of slowing. The 10-year to 2-year spread was inverted at -0.21, five Districts flagged recession concerns, and the Beige Book described weakening housing demand, moderating consumer spending, and improving labor availability amid softer demand for workers. Financial conditions were judged moderate rather than distressed, with the stress index at 0.2443, the VIX elevated but not at crisis levels at 23.88, and the Baa spread modestly wide at 2.26.

On the question of what the real Federal Reserve is likely to do, the Committee's judgment was firm. Four of five participants concluded that continued aggressive tightening of 75 bps is the expected move, pointing to inflation still far above target, the prior meeting's delivery of 75 bps and its signal that ongoing increases would be appropriate, and market pricing that already embeds such a step — the 3-month T-bill spread over the current rate of 0.835 was read as implying roughly 75 to 85 bps of near-term tightening. Participants took the yield-curve inversion and negative growth outlook seriously enough to counsel against anything larger, but on a literal reading of the data most saw no case for slowing to a more measured pace this meeting. One participant dissented on the predictive call, favoring 50 bps out of concern that a maximal move risks overtightening into a visibly slowing economy and threatening future employment.



The Committee's own deterministic framework arrived at a different conclusion: the loss-minimizing recommendation was 25 bps. The reference rules split evenly, with the Taylor rule and the first-difference rule both prescribing 75 bps while the balanced-approach and ELB-adjusted rules pointed to 25, and reference rules were judged reliable this meeting. What tipped the framework toward the smaller step was the reading of trend rather than level. Estimated r^* was negative at -0.5 , meaning the current 1.50 to 1.75 percent range is already moving meaningfully toward restrictive territory relative to a low neutral rate. Inflation momentum was negative at -0.405 , indicating that price pressures, while high in level, are decelerating; unemployment momentum was also modestly negative at -0.1 , consistent with the cooling in labor demand noted across Districts.

In deliberating on this recommendation, participants converged on the balanced-approach logic as the most persuasive: it weighs the turning inflation trend and the emerging softness in activity against a still-elevated price level, rather than leaning solely on the size of the inflation gap. Several observed that the divergence between the expected 75 bps and the optimal 25 bps quantifies a stance driven more by inflation-fighting resolve and prior guidance than by the underlying data, and warns that the pace risks overshooting as the credit channel already transmits earlier hikes. Crucially, participants stressed that 25 bps remains a hike, not a cut or a pause — with core PCE near 3.85 percent, none would ease policy. Direction and objective are unchanged; the difference is one of pace. The framework's optimal path would move the target range to 1.75 to 2.00 percent, continuing toward the previously projected 3.4 percent path without front-loading risk into an inverted curve and a low neutral rate.

The Committee will continue to assess incoming data and stands ready to accelerate again should inflation momentum reverse.

COMMITTEE VOTE

The predictive vote was 4-1 in favor of a 75 bps hike, with one participant preferring 50 bps. On the framework's 25 bps recommendation, the optimal-side deliberation was unanimous: all five participants endorsed it as-is.

NOTES

On the predictive call, one participant dissented in favor of 50 bps, arguing that with unemployment momentum turning, a negative Beige Book outlook, weakening housing, and improving labor availability amid softer worker demand, a maximal 75 bps move risks overtightening into a slowing economy and damaging future employment, and that front-running priced-in expectations is not itself a reason to overtighten against an employment-focused mandate.