



PREDICTED FED DECISION +75 bps

3.75%-4.00%

OPENFED OPTIMAL RATE +75 bps

3.75%-4.00%

KEY TAKEAWAY

The Committee expects a 75 bps hike to 3.75-4.00%, and its own deterministic framework independently judges 75 bps optimal — the predictive read and the loss-minimizing math converge cleanly.

STATEMENT

Information reviewed at this meeting pointed to an economy still contending with inflation well above target even as forward-looking activity indicators softened. Core PCE inflation stood at 4.27%, more than double the 2% objective, and the Beige Book described pricing pressures as persistent across districts, with wage gains still rapid in several. The labor market remained tight: unemployment at 3.5% sat well below the estimated 4.43% natural rate, and initial jobless claims at 214,000 gave no sign of deterioration. Against this, participants weighed clear signals of slowing momentum ahead — activity contracting modestly, businesses increasingly pessimistic, and a 10-year/2-year spread inverted at -0.35, a recognized flag of rising recession risk. Financial conditions were characterized as strained but not disorderly, with the financial stress index at 0.2665, the VIX elevated at 27.28, and the Baa spread contained at 2.37.

In arriving at the Committee's judgment of what the real Federal Reserve is most likely to do, participants placed considerable weight on prior guidance, which had explicitly signaled 'ongoing increases' in the target range, and on the gap between the current 3.00-3.25% range and the Committee's own prior median projection of 4.4%, which implies more than one further move ahead. Several participants emphasized that the 3-month T-bill spread of 0.845 over the current rate already embeds expectations of another sizable hike, so that an abrupt step-down would risk an unwelcome loosening of conditions and a destabilizing surprise to markets positioned for 75 bps. A genuine tension surfaced here. Two participants — one focused on employment risk, one on financial stability — voiced a real preference to moderate the pace to 50 bps as preemptive insurance against overtightening into an inverted curve and cooling activity. Both ultimately judged that preference premature: with no



realized labor-market damage, contained credit spreads, and inflation still hot, neither found a present data trigger to justify slowing. The Committee's predictive conclusion was another 75 bps increase, to 3.75–4.00%.

Turning to the separate question of what policy would be optimal under the Committee's own deterministic framework, the loss-minimizing output likewise recommended 75 bps. Participants found the reference-rule readings instructive precisely because they did not all point the same way: the Taylor rule and the first-difference rule both prescribed 75 bps, while the balanced-approach and ELB-adjusted rules called for –25 bps. That divergence, several participants noted, reflects a stance nearing but not yet at neutral restraint rather than a case for easing. The dovish rules lean heavily on an estimated r^* of –0.5 and on growth and slack considerations; participants discounted them given that inflation momentum remained positive at 0.085, unemployment momentum was only 0.05, and employment showed no crack. The Taylor and first-difference logic — responding directly to a large inflation gap against a tight labor market, with reference rules judged reliable — was found most persuasive, and the framework's 75 bps was endorsed as loss-minimizing rather than merely expected.

The two conclusions thus reinforced one another: the pace markets are pricing, the guidance already given, and the Committee's own loss-minimizing math all point to the same move. Participants stressed that this convergence signals policy remains behind the inflation curve while the financial plumbing stays intact enough to absorb another firm step. Several flagged the yield-curve inversion as a reason to watch stress and labor indicators closely in the period ahead, with more than one noting that a step-down in pace would become appropriate quickly should employment begin to soften or credit conditions worsen materially.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5–0, for a 75 bps increase to 3.75–4.00%. On the separate question of the framework's optimal recommendation, the Committee also landed in full agreement, endorsing 75 bps 5–0.

NOTES

Though both votes were unanimous, two participants registered a substantive reservation in deliberation: one weighing employment risk and one weighing financial stability each expressed a genuine preference to moderate the pace to 50 bps as insurance against overtightening amid the –0.35 curve inversion and contracting activity, but both concluded such a step-down was premature absent any realized labor-market damage or acute credit stress, and both aligned with 75 bps for this meeting while flagging that they would favor a slower pace should conditions deteriorate.