



PREDICTED FED DECISION +25 bps

4.75%-5.00%

OPENFED OPTIMAL RATE +25 bps

4.75%-5.00%

KEY TAKEAWAY

The Committee expects the real FOMC to raise rates by 25 bps and independently judges that same 25 bps to be optimal, with predictive forecast and policy framework converging cleanly on one measured step.

STATEMENT

Information reviewed at this meeting showed inflation still well above the Committee's 2 percent objective, with core PCE running at 3.94 percent, while the labor market remained tight: unemployment at 3.6 percent sits below the 4.43 percent natural rate, and jobless claims stayed low at 211,000. Against that backdrop, the case for continued firming was widely shared. Members weighting inflation risk most heavily emphasized that core prices near double target, together with prior guidance anticipating 'ongoing increases' toward a 5.1 percent prior median projection above the current 4.5-4.75 percent range, made a pause difficult to justify without risking an unanchoring of expectations. Members focused on employment concurred that, with no current labor deterioration to defend against, a cut or a hold could not yet be squared with the data.

That said, the discussion carried real cross-currents. Members attentive to financial stability pointed to a financial stress index at 0.1943 that is moderate but rising, a VIX of 26.14 signaling jittery markets, and a deeply inverted 10-year/2-year spread of -0.42 that flags recession risk, even as a contained Baa credit spread of 2.11 indicated no acute blowout. The Beige Book's reports of declining loan demand, tightening credit standards, and delinquencies edging up were read as evidence that lags are already doing part of the tightening work organically. These considerations argued forcefully against a larger 50 bps move; members attentive to market signals noted that the 3-month T-bill spread of +0.085 was only modestly positive, consistent with markets pricing roughly one more small step rather than aggressive further firming. Weighing continued disinflation against these fragilities, the Committee judged that the most likely and appropriate action for the real FOMC is a 25 bps increase, to 4.75-5.00 percent.



The Committee's own deterministic framework arrived independently at the same destination, recommending 25 bps, and the deliberation over that recommendation is instructive precisely because the underlying reference rules did not agree. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all pointed to -75 bps, driven by an estimated r^* of -0.5. Members were candid in distrusting that signal: with core PCE at 3.94 percent, several judged the low neutral-rate estimate too fragile to justify easing, and noted that those rules optimize on levels rather than the disinflation path still to be verified. The first-difference rule, by contrast, called for +75 bps, keying on the still-large inflation gap. The framework's loss-minimizing output reconciled these opposing pulls at +25 bps, with a negative inflation momentum term of -0.32 that signals cooling but not victory, and unemployment momentum at 0.0 confirming no labor deterioration. That softening momentum was itself cited as reason to step down from the first-difference rule's +75 rather than accelerate.

In the Committee's view, the convergence of the predictive forecast, market pricing, prior guidance, and the framework's own loss-minimizing output on a single measured step is itself informative: it suggests policy is approaching, but has not yet reached, a sufficiently restrictive stance. Members characterized 25 bps as a near-terminal, calibrating move rather than the opening of a new leg of tightening, and several signaled they would resist further hikes if credit stress worsened materially or if employment momentum turned negative. The Committee therefore judges 25 bps, to 4.75-5.00 percent, to be both the most probable real-FOMC outcome and the optimal policy on its own framework.

COMMITTEE VOTE

The predictive vote was unanimous at 25 bps, 5-0. On the optimal-side deliberation, all five members endorsed the framework's 25 bps recommendation as-is, a 5-0 endorsement.