PREDICTED FED DECISION +25 bps

5.00%-5.25%

OPENFED OPTIMAL RATE +25 bps

5.00%-5.25%

KEY TAKEAWAY

The Committee expects a 25 bps hike to 5.00-5.25% and independently judges that same quarter-point step optimal, even as three of four reference rules pointed toward a deep cut.

STATEMENT

Information reviewed by the Committee showed core PCE inflation running at 3.89%, still nearly double the 2% objective, against an unemployment rate of 3.5% that remains well below the 4.42% natural rate estimate. Members judged the labor market still tight, though clearly moderating: the Beige Book described employment growth as slowing somewhat, with a small number of large firms reporting layoffs and labor supply rising, while wages and price increases were characterized as easing at the margin even as producer prices and pay 'remain elevated.' Financial conditions were viewed as contained rather than acute, with the financial stress index at 0.2093, the VIX at 18.84, and the Baa spread at 2.09 all pointing to orderly credit conditions. Set against that, the Beige Book flagged banks tightening lending standards amid liquidity concerns and declining loan demand across categories, and the 10-year/2-year spread stood deeply inverted at -0.47, a signal several members read as a warning against overtightening.

Against this backdrop the Committee's predictive judgment converged, from five distinct analytical lenses, on a 25 basis point increase to a 5.00-5.25% range. Members weighting inflation risk most heavily argued that core PCE near 3.9% makes a pause difficult to justify and a cut indefensible, while those most attentive to employment concluded that with unemployment still below its natural rate and jobless claims at 245,000, labor has not yet turned enough to warrant easing, even if a pause soon may be warranted as policy lags bite. Members focused on financial stability held that credit tightening is already doing part of the work of further hikes, which argues against a larger move but not against a final measured step. And members reading market signals noted the 3-month T-bill sitting roughly 9.5 basis points above the current range, consistent with markets pricing one more quarter-point move and no more. Prior guidance that 'some additional policy firming may be appropriate,' together with the last median projection of 5.1% relative to the current 4.875% midpoint, reinforced the case for one further step toward a sufficiently restrictive stance.

The Committee's own deterministic policy framework independently arrived at the same conclusion: a 25 basis point increase is loss-minimizing. That recommendation was not obvious from the reference rules, which pulled sharply in opposite directions. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed a 75 basis point cut, driven largely by a negative neutral-rate estimate (r* of -0.5) and inflation momentum of just 0.03. The first-difference rule, by contrast, called for a 75 basis point hike, responding to inflation still well above target and momentum that has not decisively reversed. Members generally distrusted the level rules' aggressive easing signal, judging that cutting with core inflation near 3.9% would look like panic absent any acute stress and could risk re-anchoring inflation expectations higher; they found the first-difference logic, which responds to the change in conditions rather than a contested neutral-rate level, the more persuasive input. The framework reconciled these extremes at +25 bps, and members agreed a full hike of that size was warranted while credit headwinds and the inverted curve counseled against the larger move.

The Committee therefore concluded that both its forecast of near-term policy and its own assessment of optimal policy point to the same outcome: a quarter-point increase to 5.00-5.25%. Members emphasized that this step should be understood as a measured, likely-final firming rather than the start of a further tightening leg, with several noting a preference to pause thereafter to let tightening credit conditions and policy lags work through, and readiness to reassess should labor-market softening accelerate.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, for a 25 basis point increase to 5.00-5.25%. On the framework's optimal recommendation, the Committee also landed in full agreement, with all five members endorsing the 25 bps step as-is.