



PREDICTED FED DECISION +25 bps

5.25%-5.50%

OPENFED OPTIMAL RATE +25 bps

5.25%-5.50%

KEY TAKEAWAY

The Committee expects a 25 bps hike to 5.25-5.50% and independently judges 25 bps optimal — its predictive and framework conclusions converge, though one member would prefer to hold.

STATEMENT

Information reviewed at this meeting showed core PCE inflation at 3.88%, still nearly double the 2.0% objective, against a labor market that remains tight: unemployment at 3.6%, below the 4.42% estimated natural rate, with initial jobless claims of 237,000 and Beige Book reports of modest, continued job growth. Financial conditions were calm, with a financial stress index of 0.189, the VIX at 13.76, and a Baa corporate spread of 1.89. Set against this were clear caution flags for the future: the 2s10s curve deeply inverted at -0.99, subdued banking conditions, and softening lending. Most members judged that persistent above-target inflation, absent any acute stress or labor-market deterioration, argued for resuming firming after the prior pause at 5.00-5.25%, and the Committee's predictive assessment is that the real Federal Reserve will raise the target range by 25 bps to 5.25-5.50%.

In reaching that predictive view, participants leaned on several mutually reinforcing readings. Several emphasized that the calm in markets left latitude to act on inflation without destabilization, and that a 25 bps move was already partly discounted: the 3-month T-bill spread of +0.125 places short rates slightly above the current midpoint, so a single step is anticipated rather than a shock. Others stressed that the prior median projection of 5.6% sits above the current range, implying more firming was expected. The one member giving real weight to holding did so on employment grounds — with no rising unemployment or slowing hiring yet visible, and the inverted curve flagging prospective recession risk, this member preferred to watch labor data before adding restriction — but conceded that no labor distress and inflation near 4% ruled out a cut. That tension, between finishing the inflation fight cleanly and not overtightening into a slowing economy, was the live disagreement, not the direction itself.



The Committee's own deterministic framework independently recommends 25 bps, and its members endorsed that recommendation. The internal reference rules pointed sharply in opposite directions: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each printed -75 bps, while the first-difference rule printed +75 bps. Members discounted the three easing signals because they rest heavily on an estimated r^* of -0.5, a soft and contested neutral-rate assumption; with unemployment below its natural rate, participants read that gap as inflationary pressure rather than as slack justifying cuts. The first-difference rule's +75 bps better captured inflation persistence, but inflation momentum of -0.145 indicates disinflation is under way, if incomplete — enough to argue against an aggressive move. Unemployment momentum of just +0.05 signals only a faint loosening. The loss-minimizing recommendation of +25 bps splits the -75/+75 divergence, and members judged it the measured step that hedges genuine r^* uncertainty: firm enough to keep policy restrictive against sticky core inflation, small enough not to jar the fragile banking sector or destabilize anchored expectations.

Taken together, the predictive and optimal conclusions land in the same place. The Committee both expects the real Federal Reserve to move 25 bps to 5.25-5.50% and independently judges that 25 bps is the appropriate policy, a final firming step that respects still-elevated inflation, a resilient labor market, and calm financial conditions while stopping well short of the abrupt adjustment either the level rules or the first-difference rule would imply.

COMMITTEE VOTE

The predictive vote was 4-1 in favor of a 25 bps increase, with one member favoring a hold; on the optimal side, the Committee endorsed the framework's 25 bps recommendation unanimously, 5-0.

NOTES

One member, weighting employment risk most heavily, would have held the target range at 5.00-5.25%, judging that no rise in unemployment or slowing in hiring was yet visible and that adding restriction into a curve-inverted, softening-lending economy risked the very labor-market damage it sought to avoid — while acknowledging that with core PCE near 4% and no labor distress, a cut was not warranted either.