


PREDICTED FED DECISION **HOLD**
5.25%-5.50%

OPENFED OPTIMAL RATE **-50 bps**
4.75%-5.00%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 5.25%-5.50%, even as its own framework judges the loss-minimizing policy to be a 50 bps cut — a divergence that measures accumulated restrictiveness.

STATEMENT

Information reviewed at this meeting described an economy still growing but visibly cooling at the margins. Core PCE inflation stood at 2.14%, just above the Committee's 2.0% objective, with the momentum term in the reference framework at -0.405 confirming that disinflation is genuinely continuing rather than stalling. The unemployment rate at 3.9% remained below the 4.42% natural rate, though Beige Book reports pointed to easing labor tightness, easier hiring, and slower wage growth across Districts. Financial conditions were calm: the financial stress index at 0.1493, the VIX at 13.75, and a Baa spread of 1.55 gave no sign of credit-market strain. The 3-month T-bill spread of -0.125 indicated markets anticipate a modest easing path over time, not a cut at this meeting, while the 10y-2y inversion at -0.42 and a Chicago Fed activity index of -0.3 flagged below-trend growth and forward recession risk.

On the predictive question — what the real Federal Reserve will do — all five participants converged on a hold at 5.25%-5.50%. The reasoning ran along consistent lines across differing mandates. Inflation at 2.14% is close to but not confirmed sustainably at target, and the prior meeting's demand for 'greater confidence' has not clearly been met in the space of a week. No participant found present labor-market deterioration acute enough to force accommodation; unemployment below its natural rate and low jobless claims describe cooling, not collapse. Calm credit conditions supplied no external pressure in either direction, and the shallow front-end spread told participants that markets themselves do not price a move now. Several who lean toward employment support conceded that one meeting of patience does not yet cost jobs given a 3.9% unemployment rate.



The Committee's own deterministic framework arrived at a different conclusion. Judged optimal on the loss function, with the reference rules deemed reliable this meeting, the recommendation was a 50 bps cut. The pull is substantial: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each signal -75 bps, driven by an estimated r^* of -0.5 that renders the current 5.375% policy deeply restrictive against a neutral nominal rate near 1.5%. Only the first-difference rule pointed the other way, at +25 bps — but because it reacts to changes rather than levels, most participants discounted it where the level of restriction is the problem. The -50 bps figure splits the aggressive level-based signals against that lone cautious one. Participants who endorsed it argued that with inflation nearly resolved, disinflation ongoing, and the yield curve inverted, holding this restrictive amounts to running behind the curve, and that easing preemptively while stress is low is insurance rather than rescue — safer than cutting sharply into a credit event later.

The gap between the unanimous predictive hold and the -50 bps optimal call is, in the Committee's reading, a measure of how far the current stance sits above what the data and the rules justify. The predictive vote reflects a Committee still anchored to prior inflation vigilance; the framework reflects what the numbers alone support. Both are stated here as the Committee's considered conclusions: the real Federal Reserve is expected to hold at 5.25%-5.50%, while the optimal policy this meeting is a 50 bps reduction.

COMMITTEE VOTE

The predictive vote for a hold at 5.25%-5.50% was unanimous, 5-0. On the framework's -50 bps recommendation, the Committee landed 3 endorse, 1 decline, 1 partial.

NOTES

On the optimal side, the inflation-weighted member declined the -50 bps cut, holding that core PCE at 2.14% remains above target and that 'greater confidence' in sustainable disinflation has not been earned; the market-focused member gave only partial support, agreeing with the direction of easing but judging 50 bps ahead of the roughly 12.5 bps the front end currently prices, preferring a more measured 25 bps step.