


PREDICTED FED DECISION **-25 bps**
4.25%-4.50%

OPENFED OPTIMAL RATE **HOLD**
4.50%-4.75%

KEY TAKEAWAY

The Committee expects the real Fed to cut 25 bps to continue its easing cycle, but its own loss-minimizing framework calls for a hold at 0 bps — a divergence the members traced to cycle momentum rather than data.

STATEMENT

The most striking feature of this meeting is a gap between what the Committee expects and what it judges best. Core PCE stands at 2.52%, still meaningfully above the 2.0% objective, while the unemployment rate at 4.2% sits below the estimated 4.41% natural rate. Initial jobless claims remain low at 224,000, layoffs are reported as limited, and financial conditions are calm: the financial stress index at 0.1049 and the VIX at 13.58 signal no distress, with a Baa spread of 1.41 pointing to healthy credit availability. Beige Book contacts described modest price gains, softening wage growth, and difficulty passing costs on, alongside subdued hiring and flat-to-slightly-higher employment. Against this backdrop the 3-month T-bill sits 0.335 below the current 4.625% midpoint, and the prior median projection of 4.4% rests just under it — both consistent with markets pricing one further move.

On the predictive question, four of the five participants read those market signals and the continuation of the prior easing trajectory as pointing to a 25-basis-point reduction, to a range of 4.25% to 4.50%. In their view, a pause would surprise markets that have already priced further easing and risk an abrupt, unwanted tightening of financial conditions against an otherwise orderly backdrop. None saw a case for a larger 50-basis-point move: with unemployment below its natural rate, claims low, and no credit event to defend against, nothing forced aggressive action. One participant, weighting inflation credibility most heavily, would instead hold, noting that inflation is not yet defeated, that entry-level and skilled-trades wages continue to rise robustly, and that easing into already-loose conditions could reignite price pressures. The Committee's predictive judgment is therefore a 25-basis-point cut.



The Committee's own deterministic framework, however, recommends 0 basis points — a hold at 4.5% to 4.75%. The reference rules diverged sharply: the Taylor rule called for -75 basis points, the first-difference rule for +25, and both the balanced-approach and ELB-adjusted rules for 0. Participants gave the two zero readings the most weight and discounted the Taylor rule's -75, which leans on an r^* estimate of -0.268 that several regarded as fragile and, with inflation still above target and inflation momentum reading a positive 0.12, an overreach. Unemployment momentum at 0.0 indicated no deterioration to lean against, and the balanced-approach logic — weighing both mandates with labor near full employment and inflation elevated — was seen as decisive. In reconciling the two conclusions, participants were candid that their predictive -25 reflects the momentum of the easing cycle and market pricing, while the framework judges that current conditions no longer warrant a further cut. Holding, on this reading, lets the mildly restrictive stance implied by the T-bill spread continue doing the work and preserves the option to cut later if labor data turn.

The Committee thus arrives at two considered conclusions from the same deliberation: it expects the real Federal Reserve to cut 25 basis points, and it independently judges the optimal policy to be a hold at 0 basis points, letting prior easing work through while inflation finishes converging toward 2.0%.

COMMITTEE VOTE

The predictive vote was 4 to 1 in favor of a 25-basis-point cut, with one participant favoring a hold. On the framework's own 0-basis-point recommendation, the optimal-side deliberation was unanimous, all five members endorsing the hold.

NOTES

On the predictive side, the lone dissent came from the participant weighting inflation credibility most heavily, who argued that with core PCE at 2.52% still above target, inflation momentum positive at 0.12, unemployment below its 4.41% natural rate, and financial conditions already loose, continued easing was premature and would risk reigniting price pressures; this member would hold at 4.5% to 4.75%.