PREDICTED FED DECISION **HOLD**

4.25%-4.50%

OPENFED OPTIMAL RATE **−25 bps**

4.00%-4.25%

KEY TAKEAWAY

The Committee unanimously predicts the real Federal Reserve holds at 4.25%-4.50%, while its own framework judges the optimal move to be a 25 bps cut to begin removing restriction with inflation essentially at target.

STATEMENT

Information reviewed for this meeting showed core PCE inflation at 2.06%, essentially at the 2.0% objective and a marked improvement from the 2.8% core reading cited at the prior meeting. The labor market remained solid rather than strained: the unemployment rate stood at 4.1%, below the estimated natural rate of 4.32%, initial jobless claims were low at 221,000, and the Chicago Fed National Activity Index near zero (-0.03) pointed to growth running at or slightly below trend. Financial conditions gave no cause for alarm. The financial stress index at 0.1299 was low, the Baa spread over Treasuries at 1.68 was contained, and the 10-2 spread at +0.31 was positively sloped, no longer flashing the recession signal an inverted curve would. Against this benign backdrop the Beige Book supplied the recurring counterweight the Committee returned to again and again: several Districts reported an uptick in the pace of price increases, input price pressures exceeded sales price pressures in manufacturing and construction, and contacts repeatedly flagged tariff and immigration uncertainty as live upside risks to the disinflation now nearly achieved.

In predicting the real policy decision, all five members converged on a hold. Members weighting inflation risk judged that cutting with core just at target while tariff pass-through remains unresolved would risk re-accelerating prices, the outcome they weigh most heavily against, and saw little cost to patience given a solid labor market and no financial stress. The member most inclined to ease acknowledged that policy at 4.25%-4.50% sits well above the prior 3.9% median projection and is genuinely restrictive, and pointed to the 3-month T-bill spread of -0.175 as evidence markets anticipate lower rates ahead. But that member conceded that employment, though showing early softening in manufacturing and IT and easing wage pressures, is not yet weakening enough to override the hold-and-assess consensus, and that a preemptive cut reversed by a tariff-driven price rebound would be worse for employment than a measured pause. Members reading credit and market signals reached the same place: the negative bill spread implies modest, gradual easing is expected eventually, not urgently at this meeting, and the mildly elevated VIX at 24.23 reflects unease rather than distress that would demand support. The predictive conclusion is therefore to maintain the target range at 4.25% to 4.50%.

The Committee's own deterministic framework, which it applies independently each meeting to determine optimal rather than predicted policy, pointed in a different direction. With the estimated r* used at -0.168 implying a materially negative neutral real rate and inflation momentum at -0.195 confirming that price pressures are receding, the level-based reference rules all called for substantial easing: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each returned -75 bps. The first-difference rule, respecting gradualism and the prior patient path, returned 0 bps. The loss-minimizing figure fell between these poles at -25 bps. Members found the reasoning behind that quarter-point persuasive on its own terms. The balanced-approach logic, weighting an unemployment rate below its natural rate against inflation essentially at goal, indicated real rates are simply too tight; unemployment momentum at 0.0 meant no crisis forced the aggressive three-quarter-point move the level rules implied. The market read reinforced the magnitude directly, the -17.5 bps bill spread aligning almost exactly with a single 25 bps cut markets have effectively pre-priced. And the same tariff-driven upside risks that argued against front-loading a large cut argued for restraint on size, not for standing still. The Committee's optimal conclusion is thus a 25 bps cut to 4.00%-4.25%, a disciplined first step toward the prior 3.9% path that begins removing restriction while preserving flexibility as tariff pass-through clarifies.

The gap between the predicted hold and the optimal quarter-point cut reflects a genuine tension the Committee did not paper over: by the level rules the current stance is mildly too tight, yet two-sided risks, chief among them unresolved tariff pass-through, make the predicted policy path more cautious than the framework's loss-minimizing answer. The Committee judged both conclusions defensible, and stated each on its own merits.

COMMITTEE VOTE

The predictive vote to hold at 4.25%-4.50% was unanimous, 5-0. On the framework's -25 bps optimal recommendation, the Committee landed 4 to endorse and 1 partial, with no member declining outright.

NOTES

The lone partial vote came from the member weighting inflation risk, who accepted the easing direction as modest insurance given near-target core and negative inflation momentum but preferred either holding one more cycle or a smaller step, finding the first-difference rule's 0 bps most persuasive and citing unresolved tariff and input-price upside risks flagged across several Districts as reason to wait for clarity before conceding to a cut.