OpenFed

POLICY STATEMENT | April 30, 2025

PREDICTED FED DECISION **HOLD**

4.25%-4.50%

OPENFED OPTIMAL RATE **−25 bps**

4.00%-4.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 4.25-4.5%, while its own framework judges a 25 bps cut optimal, a one-increment gap reflecting policy that is modestly tighter than warranted.

STATEMENT

Information reviewed by the Committee showed core PCE inflation at 2.38%, still meaningfully above the 2.0% longer-run objective, and unemployment at 4.2%, sitting just below an estimated natural rate of 4.32%. Activity was little changed overall, with the Chicago Fed activity index at -0.03 running near trend rather than in recession territory, and initial claims steady at 222,000. Against this, the Beige Book was read as flagging pervasive tariff-driven uncertainty, worsening District-level outlooks, and early labor cracks: more Districts reporting employment declines, hiring pauses, wait-and-see behavior, and scattered layoff preparations. Financial conditions were judged contained rather than stressed, with the financial stress index at 0.1672, the Baa spread at 1.88, a positively sloped 2s10s curve at +0.57, and a VIX of 24.7 that participants took to reflect tariff anxiety rather than crisis-level panic.

On the question of what the real Federal Reserve is likely to do, participants converged unanimously on holding the target range at 4.25-4.5%. The reasoning was shared across the Committee even as members came to it from different lenses. Inflation-focused participants stressed that core PCE remains well above target with tariff pass-through a live upside risk and near-term expectations rising, so that cutting now could risk unanchoring expectations without an acute inflation surge yet to point to. Employment-focused participants acknowledged genuine deterioration in the anecdotal labor signals but noted the hard data 'has not yet decisively broken,' with claims contained and unemployment still below the natural rate; a cut this meeting was judged unlikely to command consensus. Financial-stability and market-reading participants reinforced that no credit blowout or funding strain forces a preemptive move, and that the 3-month bill sitting 17.5 bps below the current midpoint points to gradual easing priced for later meetings, not an urgent step now.

The Committee's own deterministic framework arrived at a different answer: it judged the loss-minimizing policy to be a 25 bps cut. Here the reference rules genuinely diverged. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each pointed to -75 bps, driven by an estimated r* near zero (-0.116) that implies a real policy rate around 2% is meaningfully restrictive, and by negative inflation momentum of -0.23 suggesting price pressures are easing at the margin. Pulling the other way, the first-difference rule pointed to +25 bps, respecting still-above-target inflation and counseling against overreacting to a single soft quarter. The framework's -25 bps recommendation tempers the aggressive rules against that outlier. Participants engaging with this result generally accepted the direction: the gap between a hold and a modest cut, they judged, quantifies how much tighter current policy sits relative to a low neutral rate. A full -75 bps was set aside as risking a panic signal that could itself widen spreads, while the +25 bps rule was discounted as anchoring to inertia and missing the accumulating employment downside.

Weighing these considerations, the Committee's predictive judgment is that the real Federal Reserve holds at 4.25-4.5%, reflecting behavioral caution amid tariff uncertainty, while its independent framework identifies 25 bps of easing as the optimal step, one increment below the current stance, cautious enough to honor tariff-inflation risk while beginning to realign policy toward neutral. Both conclusions rest on the same body of evidence: contained financial conditions, a labor market softening but not broken, and inflation above target but with momentum easing. The distance between them is one 25 bps step, and the Committee regards that distance as the fair measure of the meeting's central tension.

COMMITTEE VOTE

The predictive vote to hold at 4.25-4.5% was unanimous at 5-0. On the framework's -25 bps recommendation, the optimal-side deliberation landed 4 endorsing with 1 partial (endorsing the direction but not the magnitude or timing).

NOTES

The lone qualifier on the optimal side came from the inflation-focused position, which accepted a 25 bps cut only as a defensible insurance-style step and remained uneasy about easing at all; it found the first-difference rule's +25 bps most persuasive on inflation momentum grounds and worried that tariff pass-through could reverse the -0.23 reading, endorsing the direction but not the full magnitude relative to holding.