OpenFed

POLICY STATEMENT | June 11, 2025

PREDICTED FED DECISION **HOLD**

4.25%-4.50%

OPENFED OPTIMAL RATE **HOLD**

4.25%-4.50%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 4.25%-4.50% and, on its own framework, judges 0 bps optimal despite three reference rules calling for a 75 bp cut, seeing that gap as deliberate insurance against summer tariff inflation.

STATEMENT

What most sharply defined this meeting was not disagreement over what to do, but a wide gap between what the Committee chose and what its own level-based reference rules recommended. Core PCE inflation stood at 2.21%, still above the 2.0% objective, while the unemployment rate at 4.2% sat just below the estimated natural rate of 4.32%. On those readings, the Taylor rule, the balanced-approach rule, and the effective-lower-bound-adjusted rule each pointed to a 75 basis point cut, driven by inflation near target and an estimated r* of roughly negative 0.032. And yet every participant judged holding the target range steady to be the appropriate stance, and all five expected the real Federal Reserve to leave the range unchanged at this meeting.

The case for holding rested on a risk the level rules do not capture. Participants noted that the Beige Book flagged larger price increases expected over the summer alongside tariff-induced input cost pressures across districts, an upside inflation risk that has not yet shown up in the data. Inflation momentum in the framework was positive at 0.13, reinforcing the judgment that easing now, one week before those price increases are expected to materialize, would risk unanchoring expectations already described as firming. On this reasoning the first-difference rule, which weights change rather than the level of the gap and returned 0 bps, was the reference most participants found persuasive. Financial conditions offered no offsetting case for action: the financial stress index at 0.1464 was low, the VIX at 17.26 was calm, the Baa spread at 1.71 was contained, and the 10-year to 2-year spread was positive at 0.47, removing any recession signal that might argue for preemptive easing. The mildly negative 3-month T-bill spread of negative 0.115 was read as markets pricing gradual easing further out, not an imminent cut at this meeting.

The countervailing consideration came from the labor side. Participants attentive to employment observed that the Beige Book reported paused hiring, a slight decline in employment nationally, wages rising 'just barely,' and softening labor demand, with the Chicago Fed National Activity Index at negative 0.25 signaling below-trend growth. On this view the level rules' -75 bp signals were not to be dismissed but taken as evidence that current policy is meaningfully restrictive against a cooling economy, with the small positive unemployment momentum of 0.05 pointing the same direction. Weighed against unresolved summer tariff pass-through, however, this argument counseled patience rather than immediate action, since the labor market, with unemployment still below the natural rate and jobless claims at a moderate 247,000, had not broken decisively. It was described as a reluctant hold, coupled with a clear willingness to press for a cut soon should employment weaken further, even before inflation reaches 2.0%.

Taking these considerations together, the Committee's predictive conclusion is that the real Federal Reserve will hold the target range at 4.25%-4.50%. Its independent optimal conclusion, arrived at through the same deliberation and consistent with the framework's loss-minimizing recommendation, is likewise 0 bps. Participants read the divergence between the -75 bp level rules and the 0 bp outcome not as a contradiction but as a measure of how modestly above neutral policy actually is, and as a deliberate insurance premium against the tariff-driven price increases flagged for the summer. The Committee judged that gap worth carrying for now, preserving the option to ease as the data clarify.

COMMITTEE VOTE	The predictive vote was unanimous, 5-0, for holding the target range at 4.25%-4.50%. On the optimal side, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 agreement.
NOTES	*No member dissented on either side, though the labor-focused view registered its endorsement as a close and reluctant hold, emphasizing that if employment softens further it would push to cut without waiting for inflation to return to 2.0%, and treating the -75 bp signals from the level rules as evidence that current policy is genuinely restrictive rather than neutral.*