OpenFed

POLICY STATEMENT | July 23, 2025

PREDICTED FED DECISION HOLD

4.25%-4.50%

OPENFED OPTIMAL RATE HOLD

4.25%-4.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 4.25%-4.50%, and its own framework independently arrives at the same 0 bps conclusion, with all five members endorsing the recommendation.

STATEMENT

The most notable feature of this meeting is how completely the two questions before the Committee converged. On the predictive side, all five members judged that the real Federal Reserve would hold its target range at 4.25%-4.50%, and on the optimal side the Committee's own deterministic framework returned the same 0 bps. That agreement is worth stating plainly, because it did not come from an absence of tension in the underlying data so much as from a genuine two-sided balancing that landed, from several different vantage points, in the same place. Core PCE at 2.27% remains modestly above the 2.0% target, while unemployment at 4.1% sits below the estimated 4.32% natural rate, so both mandate gaps are small and neither argues for an aggressive move. Members observed that the Beige Book showed prices rising across all Districts, with seven characterizing growth as 'moderate,' and that hiring was cautious and activity only slightly positive - softening at the margin rather than the deterioration that would force a hand.

The inflation-focused reasoning weighed heaviest on the risk that easing now, with tariff pass-through unresolved and flagged in prior minutes as the primary concern, could unanchor expectations after a prolonged period above target. Members watching the labor market agreed a cut was hard to defend while unemployment remains below the natural rate and initial claims stay low at 221k, though they were explicit that the case for eventual easing is building and that the next move should lean toward a cut once softening shows up in the hard data. Those attentive to financial conditions found nothing demanding action in either direction: the financial stress index at 0.1341, a subdued VIX at 15.37, a tight Baa spread of 1.73, and a positively sloped 10y-2y curve at +0.52 together describe a system that is calm rather than strained. Several noted that the 3-month T-bill sitting 0.135 below the current rate implies markets have priced gradual easing ahead, but not with the conviction that would justify front-running a move at this meeting.

The Committee's optimal framework tells the same story through its rule disagreement rather than in spite of it. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each pointed to -75 bps, reading a tight labor market and near-target inflation against an r* of just 0.036 as clear evidence that policy is restrictive. Pulling the other way, the first-difference rule recommended +25 bps, reflecting positive inflation momentum of 0.075. Members took this split seriously: when the level rules call for a deep cut and the change rule calls for a hike, the honest reading is uncertainty, not conviction in either direction. With unemployment momentum at 0.05 modest and positive, and inflation momentum still live, the framework's loss-minimizing resolution of that conflict is 0 bps - a hold that declines to chase the level rules down while tariff risk and price momentum remain unresolved. The Committee found this persuasive on its own terms, not merely as a match to the predictive call.

Taken together, the Committee concludes that the appropriate policy at this meeting - both as a prediction of the real Federal Reserve's decision and as its own independent determination of optimal policy - is to maintain the target range at 4.25%-4.50%. Holding preserves optionality while tariff pass-through works through, keeps policy restrictive enough to guard the inflation side, and leaves room to ease decisively once labor softening becomes evident. Members generally judged the current stance appropriately calibrated to present conditions, with the clear understanding that the balance of risks may tilt toward easing at a later meeting.

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 full 5-0 endorsement with no declines or partial dissents.