OpenFed

POLICY STATEMENT | September 10, 2025

PREDICTED FED DECISION −25 bps

4.00%-4.25%

OPENFED OPTIMAL RATE HOLD

4.25%-4.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to cut 25 bps, but its own loss-minimizing framework recommends holding at 0 bps, a divergence turning on above-target inflation and tariff persistence risk.

STATEMENT

Information reviewed for this meeting described an economy losing some forward momentum without any sign of acute distress. Core PCE inflation stood at 2.45%, still meaningfully above the Committee's 2.0% objective, and the Beige Book pointed to prices rising modestly to moderately, with several districts reporting that tariffs were pushing input prices up strongly and inflation expectations described in one district as 'higher still.' At the same time, unemployment at 4.3% sat essentially at the estimated natural rate of 4.32%, and employment was characterized as 'down slightly' nationally, with flat consumer spending and a Chicago Fed index reading of -0.19 signaling below-trend growth. Financial conditions were calm: the stress index at 0.1371 and the VIX at 15.35 were subdued, the Baa spread at 1.75 was contained, and the 10-year to 2-year spread remained positively sloped at 0.5. The 3-month T-bill sitting 0.425 below the current 4.25-4.50% range indicated that markets had already priced a near-term reduction.

Against this backdrop, most participants judged that the real Federal Reserve is likely to reduce the target range by 25 basis points at this meeting. Four of the five members read the balance of signals the same way: a labor market that has moved from slack to balance and is now softening at the margin, inflation that remains above target but is moderating, and market pricing together with the prior median projection of 3.9% both implying room to ease from a stance judged to be modestly restrictive. Those favoring a cut were careful to note what did not support a larger move. With no financial-stability emergency, a subdued VIX, and inflation still above target, a 50 basis point step was seen as signaling an alarm the data did not warrant. One participant dissented from this predictive view, giving priority to inflation persistence: being at the natural rate is balance, not deterioration, and validating a market-priced cut before tariff pass-through resolves risks cementing above-target inflation.

The Committee's own deterministic framework arrived at a different destination, recommending no change at 0 basis points. The reference rules spanned an unusually wide range this meeting. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all pointed to -75 basis points, driven by an estimated r* near zero (0.099) that makes the current stance read as meaningfully restrictive. The first-difference rule, reacting to changes rather than levels, pointed the other way to +25 basis points, reflecting inflation that is not yet defeated. With inflation momentum only gently negative at -0.055 and unemployment momentum at -0.05, the framework reconciled these opposing signals by holding. Participants engaging with this recommendation found the logic persuasive: the aggressive-easing rules assume inflation is contained and understate the tariff persistence risk the Beige Book flags, while tightening into calm markets is unwarranted. With both mandate gaps small (unemployment at the natural rate, inflation roughly 0.45 percentage point above target), the loss-minimizing hold preserves optionality without re-accelerating prices.

The divergence between the expected 25 basis point cut and the framework's 0 basis point recommendation was itself read as informative: it confirms that current policy is only marginally restrictive, so the case for cutting now versus waiting one meeting is genuinely close. Several participants who favored a cut in the predictive vote nonetheless acknowledged that with stress indices this low, waiting costs little, and that the next move is more likely a cut than a hold if labor data deteriorate further. The Committee therefore holds that the optimal policy this meeting is to leave the target range unchanged at 4.25-4.50%, while expecting the real Federal Reserve to deliver a 25 basis point reduction.

COMMITTEE VOTE

The Committee's predictive vote was 4 to 1 in favor of a 25 basis point cut. On the framework's 0 basis point recommendation, the optimal-side deliberation landed 3 endorsing outright with 2 in partial agreement, accepting the direction but preferring a modest cut over a full hold.

NOTES

On the predictive side, one participant dissented in favor of holding at 4.25-4.50%, arguing that Core PCE at 2.45% with tariff-driven input prices rising strongly and expectations described as rising made premature easing the greater risk, and that a labor market at the natural rate reflected balance rather than the deterioration that would justify a cut. On the optimal side, the two partial members agreed the current stance is only slightly restrictive but weighted labor softening and market-implied pricing enough to prefer a 25 basis point cut this meeting rather than the framework's hold.