OpenFed

POLICY STATEMENT | October 22, 2025

PREDICTED FED DECISION −25 bps
**3.75%-4.00%**

OPENFED OPTIMAL RATE HOLD
**4.00%-4.25%**

KEY TAKEAWAY

**The Committee expects the real Federal Reserve to cut 25 bps to 3.75-4.00%, but its own loss-minimizing framework judged 0 bps optimal this meeting, a one-cut divergence that reflects policy sitting close to neutral.**

## STATEMENT

The information reviewed pointed to an economy softening at the margins rather than turning down sharply. Core PCE inflation stood at 2.32%, still above the Committee's 2.0% objective, with the Beige Book noting that lower- and middle-income households continue to face rising prices and prior minutes flagging tariff-driven upside risk that most participants weighted heavily. Against that, labor demand had clearly cooled: the Beige Book described rising layoffs, muted hiring, headcount reduction through attrition, and a tilt toward part-time work. Even so, the unemployment rate at 4.3% sat essentially at the 4.31% estimate of its natural rate, and jobless claims at 218k remained low, so the softening read as gradual and largely anecdotal, ahead of hard data that a government shutdown was likely to delay. Financial conditions were calm throughout, with a financial stress index of 0.1345, a VIX of 18.6, a contained Baa spread of 1.68, and a positively sloped 10y-2y curve at 0.52.

On the question of what the real Federal Reserve is most likely to do, four of five members concluded that a 25 bps cut to a 3.75-4.00% range is the probable outcome, and the Committee adopts that as its predictive judgment. Several strands of reasoning converged. Continuity with the prior meeting's cut and its projected 3.6% path argued for continued, measured easing rather than a pause; the 3-month T-bill trading 0.325 below the current range indicated markets had already priced roughly one cut, so delivering it avoids an adverse repricing while withholding it would surprise markets and tighten conditions unexpectedly. Members also generally agreed that nothing in the data justified a larger 50 bps move: with claims low, unemployment at its natural rate, and no credit-market distress, an outsized cut risked signaling hidden alarm the Committee does not see. One member preferred to hold outright, judging that above-target inflation with positive momentum outweighs a gradual, anecdotal labor softening while markets are calm enough that a hold would not destabilize.

The Committee's own deterministic framework reached a different answer, and it records that independent conclusion with equal weight: the loss-minimizing recommendation was 0 bps, holding at 4.00-4.25% this meeting. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all pointed sharply lower at -75 bps, reflecting an estimated r* of just 0.17 and inflation near target. But the first-difference rule returned 0, and with both momentum terms small (inflation momentum at 0.12, unemployment momentum at 0.05), the framework weighed the aggressive rule signals against gradualism and landed on no change. Members found the first-difference logic persuasive on its own terms: the Committee had just eased, momentum was drifting rather than lurching, and with unemployment at the natural rate and inflation only modestly above target, neither mandate was materially breached in a way that would compel a back-to-back cut into residual price risk.

The gap between the predictive -25 and the optimal 0 is itself the most telling feature of this meeting. It is a single 25 bps step, and members read it as confirmation that the stance is very near neutral, so the marginal move barely matters for the loss function. The predictive cut reflects the easing already priced by markets and the Committee's accommodation of employment downside risk; the optimal hold reflects the discipline of not over-easing while inflation sits above target. Both are the Committee's considered conclusions from the same deliberation, not competing forecasts.

**COMMITTEE VOTE**

The predictive vote was 4-1 in favor of a 25 bps cut to 3.75-4.00%, with one member favoring a hold. On the framework's 0 bps optimal recommendation, the Committee split 3-2 in the sense of degree: three members endorsed the hold as-is and two agreed with its direction but not its magnitude for this meeting.

**NOTES**

*On the predictive side, the inflation-focused member declined to join the majority cut, arguing that Core PCE at 2.32% with positive momentum and tariff-driven upside risk outweighs a labor softening that remains gradual and anecdotal, and that calm markets removed any urgency to ease. On the optimal side, the labor-focused and market-pricing members agreed with holding this meeting but only partially: the former kept an employment tilt toward action and would cut swiftly on further labor weakening, while the latter held that the roughly one cut priced into the T-bill spread still favored -25 over 0.*