PREDICTED FED DECISION HOLD
3.50%-3.75%

OPENFED OPTIMAL RATE −25 bps
3.25%-3.50%

KEY TAKEAWAY

The Committee expects the real FOMC to hold at 3.5%-3.75% by a 3-2 vote, while its own framework judges a 25 bp cut optimal, a conclusion all five members endorsed.

STATEMENT

The most notable feature of this meeting is the gap between what the Committee expects and what it judges best. On the predictive question, participants divided, with a majority favoring a hold at 3.5%-3.75% and a minority pressing for a 25 bp cut. Yet when the Committee turned to the framework's own loss-minimizing recommendation, all five members endorsed a 25 bp reduction. The two conclusions are not in conflict so much as separated by timing and caution: the predictive hold reflects prudence in the face of inflation still slightly above target, while the optimal cut reflects the Committee's independent reading that current policy is modestly more restrictive than conditions warrant.

Information reviewed indicated a labor market and inflation picture both close to their targets. Core PCE stood at 2.12%, marginally above the 2.0% objective, and unemployment at 4.4% sat exactly at the estimated natural rate. Participants favoring a hold placed weight on the fact that inflation has not convincingly reached 2%, citing the Beige Book's references to rising nonlabor input costs and cost expectations, along with tariff-driven core goods pressure that could persist. In their view the labor market showed no distress that would compel preemptive easing, with jobless claims low and above-trend growth signals intact, and financial conditions benign, the stress index at 0.1459, the Baa spread contained at 1.77, and the yield curve positively sloped at 0.57. Cutting into calm credit conditions with inflation still above target, they argued, risked reigniting demand without solving any stability problem. Participants favoring a cut read the same data differently, emphasizing Beige Book signs of softening, five Districts flat or declining, cautious hiring, and weak consumer spending, together with a current range that sits above the prior median projection of 3.4% and a slightly negative

3-month T-bill spread of -0.025 pointing toward mild easing expectations.

The Committee's deterministic framework recommended a 25 bp cut, to a range of 3.25%-3.5%. The reference rules did not speak with one voice: the Taylor rule pointed to -75 bps, the balanced approach and ELB-adjusted rules to -25 bps, and the first-difference rule to 0 bps. With an estimated r* of 0.383 and reference rules judged reliable, the framework's loss-minimizing output landed at -25 bps, splitting the aggressive Taylor reading against the first-difference hold. Participants found the balanced-approach logic most persuasive precisely because both mandate legs sit near target: negative inflation momentum of -0.21 signals continued disinflation, while unemployment momentum of just 0.05 describes a labor market that is flat at worst. A real policy rate well above neutral confirmed to members across stances that the stance is genuinely restrictive, and a 25 bp step would remove some of that restrictiveness while still leaving policy above estimated neutral, so it does not commit to an open easing cycle.

The reconciliation, then, is that the divergence between the predictive hold and the optimal cut is small and honest. Members who expect the real FOMC to hold nonetheless accepted -25 bps as the loss-minimizing call, reasoning that the Taylor rule's -75 bps overreacts given no recession signal and calm credit markets, while a measured 25 bp move matches both the near-target mandate and the gentle gradualism implied by market pricing. Even the most inflation-cautious view could endorse the direction, conditional on continued disinflation, since negative inflation momentum and a low r* make the step defensible rather than reckless. The Committee's judgment is that policy is modestly too tight, that a controlled 25 bp reduction is the appropriate optimal response, and that the predictive hold reflects a real-world Committee waiting for cleaner confirmation before acting.

COMMITTEE VOTE	On the predictive question the Committee split 3-2 in favor of holding at 3.5%-3.75%, with two members expecting a 25 bp cut; on the framework's -25 bps recommendation the optimal-side deliberation was unanimous, all five members endorsing the cut.
NOTES	*Although all five members endorsed the framework's -25 bps recommendation, the inflation-focused endorsement came with a real qualification: that member supported the cut only as a controlled, confirmation-dependent step, judging the first-difference rule's 0 bps closest to instinct and insisting the move remain gradual and not open an easing cycle.*