


PREDICTED FED DECISION **HOLD**
**0.00%–0.25%**

OPENFED OPTIMAL RATE **HOLD**
**0.00%–0.25%**

#### KEY TAKEAWAY

**The Committee expects the real Federal Reserve to hold the target range at 0.0% to 0.25%, and its own framework independently reaches the same conclusion—a fully accommodative rate stance pinned by the effective lower bound.**

#### STATEMENT

The defining fact of this meeting is that the rate instrument is exhausted before the argument even begins. With the federal funds target range already at 0.0% to 0.25%, participants confronted an environment of severe contraction with no conventional room left to respond. Unemployment stands at 8.1%, far above the 5.05% natural rate, and initial claims of 660,000 together with a Chicago Fed National Activity Index of -2.35 point to activity deeply below trend. The Beige Book reinforced the picture: ten of twelve Districts reported weaker conditions, credit availability was tight, and recovery was not expected before late 2009. Every member reasoned toward the same rate conclusion by a slightly different route, but the binding constraint was common to all—the floor has been reached, and pushing the range into negative territory would risk destabilizing money markets amid already fragile conditions.

On inflation, there was no tension to resolve. Core PCE at 1.27% sits well below the 2.0% objective, and the framework's inflation momentum reading of -0.305 confirms that price pressures are decelerating rather than building. Participants attentive to price risk noted that this removes any case for tightening; the concern flagged at the prior meeting was deflation, an undershoot of the objective that is itself a mandate failure, not overheating. The Beige Book's finding of upward price pressures easing broadly across final goods and services was consistent with that reading. Against this backdrop, and with financial stress acute—the stress index at 0.9432, the VIX at 43.61, and the Baa spread at 5.45—members judged that a surprise move in either direction would amplify volatility, and that continued accommodation was warranted even if the target range itself could not deliver it. Members



focused on market signals observed that the small positive 3-month T-bill spread of 0.105 and a steeply positive 10-year to 2-year curve of 1.92 indicate markets have already priced the floor and expect no near-term change.

The Committee's own policy framework arrives at the same destination and states it plainly: the optimal action is +0 bps. All four reference rules—the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule—returned 0 bps. The framework flagged its reference rules as unreliable this meeting, so members leaned on the ELB-adjusted logic and the underlying loss function rather than on rule precision. That distinction matters here, because with an estimated  $r^*$  of 1.676 and core inflation at 1.27%, the unconstrained rules imply a desired nominal rate that is negative. In other words, the loss-minimizing policy would ease further if it could; the 0 bps recommendation is a constrained optimum, not a judgment that current accommodation is sufficient. Unemployment momentum of 0.55—joblessness still climbing—only sharpens that gap. The framework and the participants agree that the rate is already maximally accommodative on its own dimension, and that any additional support must come through balance-sheet and credit channels the target range cannot reach.

Accordingly, the Committee's predictive judgment is that the real Federal Reserve will hold the target range at 0.0% to 0.25%, and its independent optimal determination is likewise to hold at 0.0% to 0.25%. Both conclusions rest on the same reasoning: subdued and decelerating inflation removes any tightening case, severe labor-market and financial stress argue for maximum accommodation, and the effective lower bound forecloses a further conventional cut. The Committee stressed that holding the rate steady should not be read as complacency about conditions that continue to deteriorate.

---

**COMMITTEE VOTE**

The predictive vote to hold at 0.0% to 0.25% was unanimous, 5-0. On the framework's optimal recommendation of +0 bps, the Committee also landed in full agreement, with all five members endorsing it as-is.