


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 confirms 0 bps as optimal despite three reference rules pointing to 75 bps.

STATEMENT

Information reviewed at this meeting described an economy still marked by substantial slack and subdued price pressures. Core PCE inflation stood at 1.11%, well below the Committee's 2% objective, while the unemployment rate held at 9.8%, far above the 5.04% figure participants treat as the natural rate. Initial jobless claims remained elevated, and the Chicago Fed National Activity Index at -0.29 pointed to below-trend growth. The Beige Book described only 'small or scattered' improvement, with commercial real estate weak across Districts and banking credit quality eroding in several. Financial conditions had eased from crisis levels but were not benign: the financial stress index at 0.31 and the VIX at 27.91 signaled lingering anxiety, and the Baa spread of 2.85 showed that borrowing costs had not normalized. Against this backdrop, participants were unanimous that no basis existed for tightening, and with the target range already at its effective lower bound, no meaningful room remained to cut.

The Committee's predictive judgment followed directly from this reading. Participants weighing inflation risk most heavily emphasized that their usual caution presupposes inflation running above target, a condition simply not present here; with price pressures below objective and enormous resource slack, there was no inflation trigger to defend against. Those attentive to the labor market stressed that the roughly five-point gap between unemployment and its natural rate dominated all other considerations, and that the current range represents the most accommodative feasible rate stance given the bound. Participants focused on financial stability warned that removing accommodation would risk shocking thin credit and commercial real estate markets, while those reading market signals noted that the 3-month T-bill spread at -0.045 and the steeply positive 10-2 spread of 2.49 indicated markets were pricing no near-term move. On these grounds the Committee



expects the real Federal Reserve to maintain the federal funds target range at 0.0% to 0.25%.

Turning to its own determination of optimal policy, the Committee arrived at the same figure through its deterministic framework, though not without genuine tension in the reference rules. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed a 75 bps increase, driven mechanically by the large unemployment gap and an estimated r^* of 1.567%. Participants judged these level-based prescriptions inappropriate to present conditions: a rule calling for 75 bps cannot be reconciled with a target range already at the lower bound, and none of the level rules accounts for the fragility evident in credit markets or the loss function's momentum terms. The first-difference rule, by contrast, returned 0 bps, and participants found its logic most persuasive because it responds to changes in conditions rather than a level gap. Inflation momentum was negative at -0.175 , indicating price pressures still decelerating rather than building, while unemployment momentum remained slightly positive at 0.15 , suggesting slack was if anything still growing. With no tightening impulse in either momentum term, the framework's loss-minimizing recommendation of 0 bps prevailed, and the Committee adopted it as its own optimal conclusion.

The convergence of the predictive vote and the optimal recommendation reflected a shared reading that the current stance is correctly calibrated for now. Participants acknowledged the divergence between the 75 bps level rules and the 0 bps outcome, and attributed it squarely to the lower-bound constraint: the neutral rate implied by those rules is unreachable given the depth of current slack. The Committee will continue to watch for the first sign of positive inflation momentum or genuine slack absorption that might warrant a shift at a future meeting, but concluded that such signals are absent today.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in expecting the target range to be held at 0.0% to 0.25%, and the Committee's optimal-side deliberation was likewise unanimous, with all five members endorsing the framework's 0 bps recommendation as-is.