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 at 0.0% to 0.25%, and its own framework independently judges 0 bps optimal — the level rules' 75 bps giving way to the binding lower bound and a fragile recovery.

STATEMENT

Information reviewed for this meeting described an economy that had improved only modestly and remained fragile. Core PCE inflation stood at 1.41%, well below the 2.0% objective, while the unemployment rate at 10.0% ran far above the 5.04% estimate of its natural rate. Initial jobless claims of 457,000 remained elevated, and the Chicago Fed National Activity Index at -0.29 pointed to below-trend growth. The Beige Book characterized labor conditions as 'weak' with only scattered signs of improvement, and depicted commercial real estate as very weak and deteriorating across many Districts, with financial institutions maintaining tight credit standards and reporting deteriorating loan quality. Against this backdrop, members generally saw no case for a change in the target range, which already sits at its effective floor of 0.0% to 0.25%.

The predictive conclusion followed directly from that reading. With inflation subdued and no cost-push threat evident given the enormous labor slack, the member most attentive to price risk found no fuel for tightening, while those focused on employment stressed that holding at the floor is itself the maximally accommodative feasible stance, since conventional easing is no longer available. Members attentive to financial conditions cautioned that a Baa spread of 2.89 and deteriorating commercial real estate leave the credit channel still impaired, so that any hike would risk destabilizing markets that are only partly repaired. Market-based signals reinforced the same conclusion: with the 3-month T-bill spread at -0.085, trading slightly below the current target, and a steeply positive yield curve at 2.69, pricing reflected an expectation of continued accommodation rather than any near-term move. Financial stress at 0.2844 and the VIX at 22.66 were judged elevated but off crisis levels. The Committee's assessment is that the real Federal Reserve will leave the target range unchanged at 0.0%

to 0.25%, a hold of 0 bps.

The Committee's own policy framework arrived independently at the same destination, though the reference rules exposed a genuine tension worth stating plainly. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed 75 bps, anchored on an r* of 1.505 and the wide gap between 10.0% unemployment and its natural rate — a reading that, absent the lower bound, would call for a positive nominal rate. The first-difference rule, by contrast, returned 0 bps. Members judged the first-difference logic the more persuasive guide here, because it prescribes changes from current policy rather than a computed level, and the momentum terms gave no impulse to move in either direction: inflation momentum registered 0.0 and unemployment momentum only 0.15. The level rules, in the Committee's view, do not so much conflict with holding as signal a hike that lies ahead once the recovery firms and the floor no longer binds. Reconciling the 75-bps prescriptions against the effective lower bound and the fragility captured in credit spreads and the labor data, the framework's loss-minimizing recommendation is 0 bps. The Committee determines that holding at 0.0% to 0.25% is the optimal policy this meeting.

Both conclusions are held with the same conviction: the expected action and the optimal action coincide at no change. The Committee notes that the divergence between the level rules and the recommended stance reflects the binding lower bound and residual credit-market fragility rather than any policy error, and that a durable pickup in activity — a decline in claims, a firming labor market, or a narrowing of spreads — would begin to argue for withdrawing accommodation before inflation risk fully materializes.

COMMITTEE VOTE

The Committee unanimously projects a 0 bps hold, 5-0. On its own framework's 0 bps recommendation, the optimal-side deliberation also landed unanimously, with all five members endorsing the recommendation as-is (5-0).