


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

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

KEY TAKEAWAY

The Committee expects the real Fed to hold the target range at 0.0%-0.25%, and its own policy framework independently arrives at the same 0 bps as loss-minimizing, with every reference rule concurring.

STATEMENT

Information reviewed by the Committee pointed to a recovery that remained modest and a labor market still under considerable strain. Unemployment stood at 9.7%, far above the 5.03% natural rate estimate the Committee uses, and initial jobless claims at 456,000 remained elevated. Growth indicators reinforced the impression of a fragile, below-trend pace: the Chicago Fed activity index registered -0.17. Against this backdrop, inflation was not a source of concern in either direction that would argue for tightening. Core PCE ran at 0.91%, less than half the 2% objective, and the Beige Book confirmed the absence of price pressure, with higher input costs largely not passed through to customers, minimal wage pressures, and stable final prices. Participants uniformly read this as disinflation rather than overheating.

With the fed funds target range already at 0.0% to 0.25%, participants judged that conventional easing was not meaningfully available, and no member saw a case for withdrawing accommodation. On the labor side, the enormous employment gap and only slow healing argued for maintaining support; participants weighing employment most heavily stressed that, pinned at the effective floor, preserving accommodative guidance was the practical way to protect a still-weak recovery, particularly with downside risks such as the Gulf oil spill and slowing inventory investment in view. From a financial-stability perspective, conditions were fragile enough that tightening would risk a destabilizing shock to credit markets: the VIX at 25.92 signaled meaningful market anxiety, the Baa spread of 3.07 pointed to persistent corporate borrowing stress, and the financial stress index at 0.2922 was moderate but not benign. Market-based signals told the same story, with the 3-month T-bill spread at -0.055 implying no expected hike and if anything a mild easing bias, while the steeply positive 10-year to



2-year spread of 2.52 reflected an anchored front end rather than any recession alarm. Weighing these considerations, the Committee expects the real Federal Reserve to leave the target range unchanged at 0.0% to 0.25%.

The Committee's own deterministic policy framework arrived independently at the same conclusion, recommending 0 bps as the loss-minimizing choice. All four reference rules the framework consulted -- the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule -- returned 0 bps, and the framework judged the reference rules reliable this meeting. The underlying momentum terms were consistent with holding: inflation momentum at -0.13 indicated decelerating price pressures, and unemployment momentum at -0.15 indicated only marginal improvement in slack. Participants noted that the Taylor rule logic was especially telling, since a large employment gap combined with below-target inflation prescribes a rate below zero that is then floored at the effective lower bound; the ELB-adjusted rule captured exactly that binding constraint. With an estimated r^* of 1.311 and core inflation under 1%, participants characterized the current stance as only mildly accommodative rather than excessively loose. The convergence of the predictive judgment, the reference rules, and market pricing gave the Committee high confidence that the current stance is appropriately calibrated to conditions.

The one consideration cutting against continued accommodation was the standing concern, echoed from a prior meeting's dissent, that prolonged accommodation could build financial imbalances over time. Participants across lenses acknowledged this as a legitimate longer-run worry, but judged it not yet actionable: current spreads and stress readings showed imbalances were not acute, and with core inflation at 0.91% and decelerating, the near-term risk of destabilizing a shaky credit recovery clearly dominated. The Committee therefore concluded that holding at 0.0% to 0.25% was both the expected real-world outcome and its own optimal call, while remaining alert to imbalance risks as the recovery matures.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 for no change, holding the target range at 0.0% to 0.25%, and on the optimal side all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement.