


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 policy framework independently confirms 0 bps as optimal, with all four reference rules pinned at zero by the effective lower bound.

STATEMENT

Information reviewed for this meeting pointed in a single direction across both of the Committee's mandate objectives. Core PCE inflation stood at 0.59% on a twelve-month basis, well short of the 2.0% objective, and the framework's inflation momentum term at -0.21 indicated prices were still drifting down rather than firming. At the same time, unemployment at 9.4% remained far above the roughly 5.01% natural rate, a gap participants repeatedly characterized as severe and painful, with initial jobless claims near 445,000 still elevated and temporary-help demand described only as 'flat to up slightly.' Members focused on the employment mandate stressed that a labor recovery this fragile argued for maximum accommodation, while members most attentive to price risk acknowledged that with inflation undershooting the target this far, there was simply no near-term inflation threat to guard against. Both legs of the mandate, in other words, pointed toward continued support.

Against that backdrop, participants concluded that the real Federal Reserve is most likely to leave the federal funds target range unchanged at 0.0% to 0.25%, and the Committee's predictive vote reflected that judgment. Several members grounded this reading in market pricing: with the three-month T-bill spread just 2.5 basis points above the current range and the yield curve steeply positive at 2.77 with no inversion, markets were pricing continuity rather than any move in either direction. Those attentive to financial conditions reinforced the point, noting that a financial stress index of 0.132, a VIX of 17.31, and a contained Baa spread of 2.7 showed calm, non-tight conditions with no acute distress demanding a defensive shift. Participants also emphasized that the ongoing \$600 billion asset purchase program, at \$75 billion per month through the second quarter of 2011, was mid-stream, and that abruptly altering



the rate stance risked unsettling credit conditions to little purpose.

Turning to its own assessment of the appropriate stance, the Committee's deterministic framework independently arrived at 0 bps as the loss-minimizing policy. All four reference rules the framework consults — the Taylor rule, the balanced-approach rule, the first-difference rule, and the effective-lower-bound-adjusted rule — returned 0 bps, and the framework judged those rules reliable in current conditions. Members found different rules most persuasive from their own vantage points, and the reasoning is worth distinguishing. Those weighing inflation risk found the Taylor rule most compelling, since its explicit balancing of an inflation gap well below target against unemployment of 9.4% relative to a 5.01% natural rate points clearly toward an accommodative, near-zero setting. Members focused on employment and on financial stability leaned instead on the effective-lower-bound-adjusted rule, which captures the essential tension the framework itself surfaced: with an estimated r^* of 0.959 and inflation near 0.6%, an unconstrained rule would call for policy below zero, but the floor binds, so holding at the current range is the optimal feasible outcome.

The Committee therefore judged that its predictive conclusion and its independent optimal conclusion coincide: 0 bps on both counts, with the stance appropriately accommodative and constrained by the lower bound rather than out of line with the rules. Members remained attentive to the Beige Book's signals of rising raw-material prices alongside solid manufacturing, a retail pickup, and firmer loan demand. But with finished-goods prices little changed and no evident pass-through to consumer inflation, participants generally judged those cost pressures a watchpoint rather than a trigger — a consideration arguing against further easing were it available, not for withdrawing support now. The Committee will maintain the current target range and the ongoing purchase program while slack heals, and stands ready to reassess should upstream cost pressures begin to pass through in coming meetings.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in favor of the real Federal Reserve holding the target range at 0.0% to 0.25%; on the optimal side, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement.