



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 arrives at the same 0 bps as the loss-minimizing call.

STATEMENT

What stands out about this meeting is the near-total absence of tension: every member, across every round, read the same data the same way, and the Committee's own deterministic framework landed on the identical conclusion. Core PCE at 0.69% sits far below the 2.0% objective, while unemployment at 8.8% remains well above the 5.2% natural rate, leaving a wide employment gap. Both legs of the mandate therefore point in the same direction, toward continued accommodation. With the target range already at 0.0% to 0.25% and the QE2 program still running through the second quarter of 2011, participants generally judged there is little room to ease conventionally and no case for tightening. On this reading, the Committee expects the real Federal Reserve to make no change to the target range at this meeting: +0 bps.

Even the member most attentive to inflation risk found no trigger. The Beige Book notes 'some further pass-through of higher commodity prices to downstream prices' and firms building raw-material inventories ahead of expected price increases, and that pass-through was flagged as a genuine watch item. But underlying core measures remain subdued, the Employment Cost Index at 114.7 shows no wage-driven spiral, and prior guidance characterized the commodity effects as transitory. The framework's inflation momentum term of -0.07, essentially flat to slightly negative, is consistent with that transitory reading. Enormous slack, elevated jobless claims at 412,000, and a Chicago Fed activity index of -0.48 all argue against any demand-side inflation risk that would justify a preemptive hike. Those tracking financial conditions saw no stress forcing action in either direction: the financial stress index at 0.1251 and VIX at 15.07 are calm, the Baa spread of 2.55 is contained, and the steep 2.74 slope of the 10y-2y curve carries no recession signal. Credit conditions, per the Beige Book, 'continued to



improve.'

On its own optimal-policy determination, the Committee concludes independently that the loss-minimizing setting is likewise +0 bps. All four reference rules considered — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — output 0 bps, and the framework judged them reliable this meeting. The reasoning coheres around a low neutral rate: with the estimated r^* at 0.844 and core inflation near 0.7%, the neutral nominal rate sits barely above zero, so a policy rate at the floor is already close to appropriately calibrated. The Taylor rule was cited as most persuasive for its discipline against overreacting to transitory commodity moves, balancing inflation weight against the large output gap; the balanced-approach rule, which weights the employment gap heavily, still lands at 0 bps, confirming that even an aggressively pro-employment stance cannot justify moving off the effective lower bound now. The ELB-adjusted rule makes the constraint explicit: pinned near zero, 0 bps is the constrained optimum. Unemployment momentum of -0.45 indicates joblessness is easing, but only gradually, reinforcing that premature tightening would risk that improvement.

The agreement between the predicted decision and the framework's recommendation was read by participants not as coincidence but as a signal that the current stance is well-calibrated — accommodative where the economy needs support, without inviting instability given benign financial conditions. Withdrawing accommodation now, against subdued core inflation, a wide employment shortfall, and below-trend growth, would risk choking a fragile recovery. Members did register watch items for future meetings: any acceleration in core PCE or the ECI, and any widening in credit spreads or VIX spikes tied to Japan production disruptions or commodity shocks. For this meeting, however, the Committee holds the federal funds target range at 0.0% to 0.25% and expects the same of the real Federal Reserve.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for no change to the target range. On the Committee's own optimal-policy determination, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement with no declines or partial dissents.