


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

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

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 0.0% to 0.25%, and its own deterministic framework independently confirms 0 bps as the loss-minimizing choice, with policy pinned at the effective lower bound.

STATEMENT

What is most striking about this meeting is the absence of tension: every lens the Committee brought to bear — inflation risk, labor-market health, financial stability, market pricing, and a straight reading of the data — arrived independently at the same destination. Core PCE inflation stood at 0.84% on a year-over-year basis, well below the 2% objective, while unemployment at 9.1% remained far above the 5.2% natural rate. Members characterizing themselves as inflation-focused noted that even weighting inflation risk heavily, there was simply nothing realized to fight: the Beige Book described commodity and gasoline pressures as facing limited pass-through, with customers 'strongly resisting' price increases and finished goods rising only moderately. The prior meeting's judgment that the commodity spike is transitory was seen as confirmed, and long-term inflation expectations were reported stable.

Against that backdrop, participants focused on the employment mandate stressed that the labor market remains weak and fragile. Initial jobless claims at 427,000 were judged elevated, the Chicago Fed activity index at -0.45 pointed to below-trend growth, and Beige Book reports of cooling manufacturing and softening retail sales reinforced the sense of lost momentum. Several of these participants observed that while their preference would be for easier policy to support jobs, the target range already sits at its 0.0% to 0.25% floor, so a further conventional cut is not available; a dovish inclination could not be expressed as a rate reduction. Members attending to financial conditions and market signals reached the same posture from a different angle: the financial stress index at 0.135 was low, the Baa spread at 2.74 contained, VIX at 21.32 elevated but not at panic levels, and the yield curve steeply positive at 2.6 with no inversion. A 3-month T-bill spread of -0.075, sitting just below the



current rate, was read as markets pricing in no near-term hike. Tightening into fragile, mixed data, with QE2 completing this quarter, was judged an unnecessary risk to credit conditions with no inflation payoff.

The Committee's own deterministic policy framework landed in exactly the same place, and the reasoning behind its 0 bps recommendation maps cleanly onto the participants' arguments. All four reference rules — 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 ELB-adjusted rule carried particular weight because it respects the reality of the zero lower bound: both the large unemployment gap and below-target inflation argue for deep accommodation, but the floor caps the rate at zero, so 0 bps is the loss-minimizing outcome rather than a compromise. The framework's inflation-momentum term of 0.05 confirmed there is no self-reinforcing price acceleration to lean against, consistent with the Beige Book's limited pass-through. Its unemployment-momentum term of -0.3 pointed to only marginal labor-market improvement, insufficient to justify any withdrawal of support. With the estimated r^* of 0.756, participants noted that even a zero nominal rate is only mildly accommodative in real terms given subdued inflation, so current policy is neither behind nor ahead of where the mandate gaps point.

The Committee therefore concludes, on both counts, that maintaining the target range at 0.0% to 0.25% is the appropriate action. As a prediction, it expects the real Federal Reserve to hold at 0 bps; as its own independent determination of optimal policy, it likewise finds 0 bps loss-minimizing at the effective lower bound. Participants generally agreed that the binding constraint here is the floor, not committee preference, and emphasized continued close monitoring of commodity pass-through and inflation expectations, ready to respond should underlying inflation momentum build.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in favor of 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 with no declines or partial agreements.