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 0-0.25%, and its own deterministic framework independently arrives at the same conclusion: 0 bps is optimal, with all four reference rules and the loss function in agreement.

STATEMENT

Information reviewed for this meeting described a recovery that is genuinely underway but fragile. Core PCE inflation stood at 1.46%, meaningfully below the Committee's 2% objective, and the prior pickup in prices, tied largely to gasoline, had been characterized as temporary; Beige Book contacts 'rarely mention prices or pricing,' and gasoline-related fears had moderated. Against this benign price picture stood a labor market that remained the more pressing concern for several participants: unemployment at 8.2% was still far above the 5.5% natural rate, initial claims at 377,000 were elevated and not improving decisively, and firms outside software and IT were doing little substantial hiring, with some manufacturers making contingency plans for a slowdown. The Chicago Fed activity index at 0.11 pointed to barely-trend growth rather than either overheating or collapse.

Financial conditions were judged mixed but not acutely strained. The VIX at 24.27 was elevated, but participants generally read this as reflecting anxiety about European spillovers rather than a domestic funding seizure; the financial stress index at 0.177 was moderate, the Baa spread of 3.43 showed a meaningful but non-crisis credit premium, and the 10-year-to-2-year term spread at 1.31 was positively sloped, carrying no recession signal. Money-market pricing, with the 3-month T-bill spread at -0.025, indicated that markets anticipated neither a hike nor an imminent cut. From these signals the participant weighing inflation risk found no trigger for tightening, given below-target prices and no wage acceleration in the ECI reading of 116.8. The participant most focused on employment made the strongest case for easing but, confronting the fact that the target range already sat at its effective lower bound of 0.0% to 0.25%, revised toward holding while stressing that the accommodative bias should be preserved. On that basis the Committee concluded that the real Federal Reserve would maintain the target range at 0.0% to 0.25%, and its predictive vote came in unanimously at 0 bps.

The Committee then turned to its own deterministic framework to ask, separately, what the optimal policy would be. Here the arithmetic reinforced rather than complicated the judgment. The estimate of r* used was -0.126, placing the neutral real rate essentially below zero, so that current policy is accommodative merely by holding steady. Inflation momentum registered a mild 0.075 and unemployment momentum -0.15, consistent with gradual labor improvement and no building price pressure. All four reference rules the framework consulted returned 0 bps, and each was judged reliable this meeting. Participants noted that the Taylor rule, given inflation below target and unemployment well above the natural rate, mechanically prescribes deeply negative rates that are floored at zero, while the ELB-adjusted rule captures directly that policy is pinned at the lower bound. With neutral below zero and the funds rate unable to fall further conventionally, holding at 0.0% to 0.25% is the tightest feasible stance the framework endorses.

The predictive and optimal conclusions therefore coincided at 0 bps, and this convergence was itself informative: it indicated to participants that the current stance is appropriately calibrated, loose enough to support fragile credit markets and a weak labor market without stoking the upside inflation risk some had earlier flagged from prolonged accommodation. Participants observed that the remaining levers for additional support lie in the existing guidance and maturity-extension arrangements rather than in the rate level. A residual reservation was voiced about the duration of forward accommodation, but this bore on guidance, not on today's rate decision, on which the Committee found no case for a change in either direction.

COMMITTEE VOTE

The predictive vote was unanimous at 0 bps (5-0). On the optimal-side deliberation, all five members endorsed the framework's 0 bps recommendation, a 5-0 endorsement with no declines or partial agreements.