


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%-0.25%, and its own policy framework independently arrives at the same 0 bps as the loss-minimizing optimal, with all five members endorsing that recommendation.

STATEMENT

What is most striking about this meeting is the absence of any real tension: every member, weighing the data through a different lens, arrived at the same conclusion, and the deterministic framework confirmed it. Core PCE inflation stood at 1.38%, well below the 2% objective, a persistent undershoot rather than any sign of overheating. Unemployment at 7.9% remained nearly double the 4.0% natural rate, with initial claims still elevated at 751,000 and the Beige Book describing employment growth as 'slow,' with continued furloughs and layoffs even as some sectors gained. Members focused on inflation risk found nothing to lean against; the Beige Book noted only modest price increases with limited passthrough of input costs, and wage growth described as 'slight' against a subdued ECI. Members focused on the labor market saw a mandate still far from met, but with the target range already at 0.0% to 0.25%, effectively the lower bound, there was no conventional room to ease further in support of employment.

The Committee's judgment about the likely path of policy followed directly from these conditions. With inflation too low to justify tightening and the labor market too weak to warrant it, and with rates pinned at the floor, participants concluded that the real Federal Reserve will hold the target range unchanged, a move of 0 bps. Market-based signals reinforced this reading: the 3-month T-bill sat about 2.5 basis points below the current rate, implying markets price no near-term move and if anything an easing bias, while the 10y-2y spread at 0.69 remained positively sloped, showing no acute recession signal demanding emergency action. Elevated volatility, with the VIX at 37.59, drew attention, but members judged that volatility alone, absent a spike in the financial stress index (0.1443, moderate) or in credit



spreads (Baa at 2.62), did not corroborate a case for moving off the floor. Several members also cautioned that cutting into negative territory would risk destabilizing money markets and compressing bank margins, potentially harming credit availability and, through it, the very employment recovery the labor-focused members prioritized.

The Committee's own policy framework, applied independently, landed in the same place, and members treated that agreement as confirmation that the current stance is appropriately calibrated rather than as a coincidence. The framework's loss-minimizing recommendation was 0 bps. Four of the five reference rules clustered there: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all returned 0, and the final recommendation agreed. Members found the Taylor rule's level-based logic particularly persuasive here, since it accounts for both a below-target inflation gap and a wide unemployment gap, both pointing to the floor, while the ELB-adjusted rule was cited for explicitly respecting the lower-bound constraint. The estimated r^* of -0.199 underscored that neutral policy is already very low, leaving no room to tighten; inflation momentum of only 0.185 was judged far too weak to signal any move toward liftoff.

The one genuine point of tension came from within the framework itself. The first-difference rule printed 75 bps, a clear outlier driven by unemployment momentum of -3.15, which reflects joblessness falling. Members engaged with this signal directly and discounted it, judging that it overweights recent direction rather than levels: with core PCE at 1.38% and unemployment at 7.9%, raising rates on improving momentum alone would be premature, and markets plainly were not pricing any such tightening. The labor-focused view held that the still-large employment shortfall, not the direction of travel, was decisive, and the stability-focused view added that a hike into fragile conditions could re-widen spreads and lift the VIX further. Weighing the momentum signal against the levels, participants concluded that maintaining the target range at 0.0% to 0.25% is both the expected outcome and the optimal one.

COMMITTEE VOTE

The Committee's predictive vote was unanimous at 5-0 for a hold of 0 bps, and on the optimal side all five members endorsed the framework's 0 bps recommendation as-is (endorse 5, decline 0, partial 0).