


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

OPENFED OPTIMAL RATE **+75 bps**
0.75%-1.00%

KEY TAKEAWAY

The Committee unanimously expects the real Fed to hold at 0.0%-0.25%, even as its own policy framework judges the loss-minimizing rate to be 75 bps higher — a gap the Committee reads as accommodation the data no longer supports.

STATEMENT

Core PCE inflation stands at 3.47%, well above the Committee's 2% objective, and the Beige Book pointed to robust wage growth and significantly elevated prices across most Districts. Yet all five members independently arrived at the same prediction for the coming meeting: a hold at the current 0.0%-0.25% target range. The reasoning converged from several directions. Members focused on the labor market observed that unemployment at 4.8% remains above the 4.45% natural rate, so slack has not fully closed, and with the funds rate already pinned at its effective floor, a cut is neither feasible nor warranted. Members attentive to financial conditions noted that a hold poses no destabilization risk while markets are calm — the stress index at 0.092, VIX at 16.98, and a tight Baa spread of 1.71 give no sign of fragility that would force accommodation. And members reading market pricing pointed to the 3-month T-bill spread at -0.065, which implies no near-term hike is priced, alongside a positively-sloped 10y-2y curve at 1.04 that carries no recession signal.

Even the member most concerned about inflation concluded that a funds-rate hike now would be premature. The prior guidance ties liftoff to reaching maximum employment, a condition not yet met, and the sequencing logic points to slowing the pace of asset purchases before touching the rate. On that basis the predictive read is unambiguous, and the Committee expects the real Fed to leave policy unchanged, treating the inflation overshoot as largely transitory in its published framing.

The Committee's own deterministic framework tells a different story. Its recommended optimal setting is 75 bps above the current range, and this figure was not the product of a single rule: the Taylor rule,



the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule all landed on 75 bps, and the framework judged the reference rules reliable this meeting. The inputs make the case plain. With an estimated r^* of -0.342 , holding a $0-0.25\%$ range against 3.47% inflation leaves real rates deeply negative. Inflation momentum registers positive at 0.32 , indicating prices are still firming, while unemployment momentum at -0.3 shows joblessness falling as slack shrinks — both terms pushing in the same direction. Members endorsing the framework's direction stressed that the near-closed employment gap means the balanced-approach and Taylor formulations give the inflation overshoot dominant weight, and that low financial stress makes the risk of removing accommodation small relative to the risk of waiting.

The Committee therefore holds both conclusions at once and with equal conviction: the real Fed will most likely stand pat, and yet the loss-minimizing policy, read straight from the framework, is a 75 bps move toward less accommodation. The distance between them reflects the caution the real committee attaches to below-pre-pandemic participation, the Delta variant, and supply constraints — considerations that argue for gradualism in timing rather than against the direction itself.

COMMITTEE VOTE

The predictive vote to hold at $0.0\%-0.25\%$ was unanimous, 5-0. On the framework's 75 bps recommendation, the optimal-side deliberation split 1-4: one member endorsed the 75 bps as-is, and the other four agreed with the direction of tightening but not the magnitude of a single step from the floor.

NOTES

Though the hold was unanimous, four members declined to endorse the full 75 bps move, judging the direction correct but the magnitude too aggressive: members cited below-pre-pandemic participation and Delta-related downside risk, the risk of a disorderly repricing from a sudden jump when short-term markets price essentially no near-term hike, and a Beige Book and CFNAI reading of -0.13 consistent with slightly below-trend, not overheating, growth — all favoring a smaller, measured first step.