OpenFed

POLICY STATEMENT | September 9, 2026

PREDICTED FED DECISION HOLD

3.50%-3.75%

OPENFED OPTIMAL RATE +50 bps

4.00%-4.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 3.5-3.75%, while its own framework judges optimal policy to be a 50 bps hike, a gap that quantifies how far current policy sits behind persistent above-target inflation.

STATEMENT

Information reviewed at this meeting showed core PCE inflation at 2.92%, nearly a full percentage point above the Committee's 2% goal, with the framework's inflation momentum term at +0.33 indicating that price pressures are still building rather than fading. The US-Iran conflict has driven Brent crude toward the $96-100 range, a genuine energy supply shock, and Beige Book reporting confirmed elevated input costs across most Districts along with tariff pass-through, including new 50% tariffs on Canadian goods. Against this, the labor market was judged firm but not overheating: unemployment at 4.1% sits below the 4.39% natural rate, August payrolls rebounded to 162,000, and initial claims remained low at 206,000. Participants generally observed that there is no employment emergency of the kind that would justify easing into an active inflation shock.

On the question of what the real Federal Reserve is likely to do, all five members converged on a hold at the current 3.5% to 3.75% range. Financial conditions were seen as calm and non-stressed, with the financial stress index at 0.13, the VIX at 14.32, the Baa corporate spread tight at 1.57, and a positively sloped yield curve at +0.41 — none of which argue for easing, and none of which force the Committee's hand toward tightening either. Members who weight market pricing most heavily emphasized that the 3-month T-bill sits about 12.5 bps above the current midpoint, signaling that markets expect no cut and, if anything, a modest tightening bias. Inflation was judged too elevated to cut, while the supply-driven nature of the energy shock, rising global yields, and September equity weakness were cited as reasons not to force an abrupt hike this meeting. Holding was described as the posture that preserves optionality and lets the Committee monitor energy pass-through without adding market strain.

Assessed independently through the Committee's deterministic policy framework, however, optimal policy this meeting is a 50 bps increase. All four reference rules point higher: the Taylor rule and the first-difference rule each prescribe 50 bps, while the balanced-approach and ELB-adjusted rules prescribe 75 bps, and the rules were judged reliable this meeting. With an estimated r* of 0.604 and core inflation near 2.9%, the current range was seen as barely restrictive. The loss-minimizing recommendation of +50 bps was characterized as the disciplined middle: it responds directly to above-target inflation and positive momentum without carrying the market-jolting risk that a 75 bps move might pose to otherwise orderly credit markets. Several members noted that the very calmness of financial conditions — low volatility and tight spreads — removes the usual restraint against tightening and, on one reading, reflects market complacency about the energy-driven upside risk.

The Committee thus arrives at two conclusions from the same deliberation. Its predictive judgment is that the real Federal Reserve will hold, anchored by caution over geopolitical uncertainty and gradualism. Its own framework judgment is that a 50 bps hike is the correct, loss-minimizing move on the literal data. The divergence between the two is itself informative: it indicates that current policy is likely somewhat too accommodative given persistent above-target inflation and a firm labor market, and that the expected hold, while defensible as a bridge, leaves inflation-fighting work undone.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, to hold the target range at 3.5% to 3.75%. On the framework's 50 bps recommendation, the Committee split 3 to endorse, 1 to decline, and 1 partial — agreement on the upward direction but not on committing to the full magnitude at this meeting.

NOTES

One member declined to endorse the 50 bps optimal call, arguing that beneath a stable headline the labor market is softening at the margin — payrolls only rebounding after a weak summer, employment rising very slightly with five Districts flat, and retail and hospitality demand falling — so that a 50 bps hike into an already-decelerating hiring pace and a supply-driven shock risks over-tightening; a further member agreed with the upward direction but held that the calm 3-month T-bill spread and market pricing did not support the full move this meeting, preferring to let incoming CPI clarify.