OpenFed

POLICY STATEMENT | January 21, 2009

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 the target range at 0.0% to 0.25%, and its own framework independently confirms 0 bps as optimal, the rate lever exhausted at the effective lower bound.

STATEMENT

The defining feature of this meeting is that a lens as different as an inflation-focused one, a labor-focused one, a financial-stability one, and two market- and data-driven ones all arrived at the same place, and did so not by splitting the difference but because each ran into the same hard constraint from a different direction. The target range already sits at 0.0% to 0.25%, effectively the zero lower bound, and the front end confirms it: the 3-month T-bill spread of -0.015 against the current target shows markets have already priced rates essentially at zero, with no expectation of a further conventional cut. Against that constraint the data speak with unusual clarity. Unemployment stands at 7.2% versus a 5.05% natural rate, initial claims are running at 591,000, and the Chicago Fed activity index at -3.04 points to deeply below-trend growth, while financial stress near its maximum reading of 0.9864, a VIX of 46.42, and a Baa spread of 5.58 confirm acute credit and funding strain. The Beige Book reinforces the picture, with broad weakening across nearly all districts and tight lending.

The case for accommodation is therefore overwhelming, but the conventional room to deliver it is gone. Participants weighting employment most heavily observed that every instinct pointed toward aggressive easing, yet the binding limit here is arithmetic rather than judgmental: the target cannot be lowered meaningfully below zero, and a 25 basis point cut from this range would push into negative territory. Those most attentive to financial stability sharpened the point, warning that such a move would risk destabilizing money-market funding, which is precisely the harm they most want to avoid amid stress this severe. Inflation posed no obstacle in either direction. With core PCE at 1.44%, below the 2.0% target, and disinflationary signals dominant in declining input prices, contained wages, and pay freezes, the member most alert to price risk found no upside threat to lean against and no case for a hike given the depth of contraction underway. On that reasoning the Committee's predictive judgment is that the real Federal Reserve will hold the target range unchanged at 0.0% to 0.25%.

The Committee's independent policy framework lands in the same place, and the reasoning behind that conclusion deserves equal weight. The framework's recommended action is 0 bps. Among its reference rules, the Taylor rule prescribed 75 basis points of tightening, but that reading was flagged unreliable at this juncture, and participants agreed it should be disregarded: it ignores the binding lower bound, since a positive rate simply cannot be reached from below zero. The remaining rules all converged on 0 bps, with the ELB-adjusted rule judged the most persuasive precisely because it respects the constraint the Taylor rule overlooks; the balanced-approach and first-difference rules pointed the same way. The loss-function inputs are consistent with that outcome. Inflation momentum is negative at -0.11, confirming disinflation rather than building pressure, while unemployment momentum of 0.3 signals a labor market still deteriorating. An estimated r* of 1.751 alongside negative inflation momentum suggests policy is not as loose as the low nominal rate implies, yet the floor remains the operative limit. Weighing these terms, the framework's loss-minimizing action is to hold, and the Committee adopts 0 bps as its optimal conclusion.

In practical terms, both conclusions agree that the rate dimension is exhausted and that the real work of policy must shift elsewhere. Participants repeatedly emphasized that additional support has to come through liquidity and credit facilities rather than further target reductions, given a stress reading of 0.9864 and borrowing costs that remain punishing despite a near-zero policy rate. Holding the range steady preserves market stability while those balance-sheet and credit tools carry the burden. The agreement between the predictive and optimal readings is itself the point: it reflects not a discretionary preference to stand pat but a genuinely binding lower bound, with no room down and no inflation case up.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, that the real Federal Reserve will hold the target range at 0.0% to 0.25%; on the optimal side, all five members endorsed the framework's 0 bps recommendation, a 5-0 result with no declines or partial agreements.