OpenFed

POLICY STATEMENT | June 17, 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 deterministic framework independently returns the same 0 bps as loss-minimizing—full agreement, driven by a binding lower bound.

STATEMENT

The defining feature of this meeting is convergence: every strand of the analysis, the market-signal read, the deterministic rule outputs, and each member's own mandate, arrives at the same place, and it does so because policy is already pressed against a floor it cannot pass. The federal funds target range stands at 0.0% to 0.25%, effectively the lower bound. Core PCE at 1.42% runs below the 2.0% objective, with the prior meeting having flagged deflation as the live risk rather than any overheating. Against that, the labor market remains deeply distressed—unemployment at 9.4%, far above the 5.05% natural rate assumed here, with initial claims still elevated at 601,000 and the Chicago Fed activity index at -0.93 confirming below-trend growth. The Beige Book showed weak conditions but with a tentative moderation in the decline across five Districts. Nothing in that combination argues for tightening, and a conventional cut is not available.

On the predictive question—what the Committee expects the real Federal Reserve to do—members were unanimous in judging that the outcome will be no change, holding the range at 0.0% to 0.25% with existing asset purchases and extended-period accommodation left in force. The reasoning ran along familiar lines from each perspective and, notably, did not diverge. The inflation-focused view found no upside price threat to lean against: wages flat or falling, an Employment Cost Index of 110.2 showing subdued wage growth, and inflation momentum of just 0.02. The employment-focused view wanted maximum support but acknowledged the floor leaves no room for a further conventional cut, with unemployment momentum of 0.65 signaling joblessness still rising. The financial-stability view emphasized that credit remains fragile—a Baa spread of 3.67, a financial stress index of 0.5385, and VIX at 31.54, all elevated though off crisis peaks—so that a hike would be reckless while a cut is impossible. And the market-based read pointed to a 3-month T-bill spread of 0.045, essentially flat against the current band, and a steeply positive 2.49 curve consistent with markets pricing prolonged accommodation and eventual recovery, not a near-term move in either direction.

On the Committee's own independent question—what the optimal policy would be under its deterministic framework—the answer was the same 0 bps, and members treated the agreement as informative rather than coincidental. All four reference rules returned 0 bps: the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule. The framework flagged the reference rules as not reliable this meeting, and members leaned most heavily on the ELB-adjusted framing for exactly that reason—it is the one construction that honestly registers the lower-bound constraint the others hit only implicitly. With an estimated r* of 1.601 and inflation running well below target, the unconstrained prescription from deep slack and soft prices would point below zero; truncated at the floor, that resolves to holding. The loss-function terms told a consistent story: near-zero inflation momentum at 0.02 removing any case for a move up, and unemployment momentum of 0.65 arguing for every ounce of accommodation the balance sheet can supply where the policy rate cannot. Members were candid that a 0 bps action here is not a neutral choice but the maximum easing conventional policy allows, with the QE programs carrying the additional support.

The Committee therefore concludes that both its predictive expectation and its own loss-minimizing determination point to holding the target range at 0.0% to 0.25%, maintaining existing asset purchases and extended-period guidance. The tentative moderation noted in the Beige Book was judged a reason for patience, not for any withdrawal of support; five Districts seeing a slowing decline still leaves most conditions weak, and no substantial recovery is expected through year-end. Members will continue to monitor whether the moderation firms into genuine recovery or the deflation and labor risks reassert themselves.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 for no change, holding the target range at 0.0% to 0.25%; on the framework's optimal recommendation, the Committee's separate deliberation also landed 5-0, with all five members endorsing the 0 bps recommendation as-is.