OpenFed

POLICY STATEMENT | April 21, 2010

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 at 0.0%-0.25% and independently judges that hold to be optimal, with all four reference rules and the loss framework converging on 0 bps.

STATEMENT

What stands out about this meeting is the near-total absence of tension. On the data before it, the Committee found no genuine case for moving in either direction, and every strand of its deliberation - predictive, rule-based, and loss-minimizing - pointed to the same place. Core PCE inflation registered 0.96%, well under half the 2.0% objective, and the framework's inflation momentum term of -0.135 indicated prices were decelerating rather than firming. At the same time, unemployment stood at 9.7% against an estimated natural rate near 5.03%, an enormous gap, with initial claims of 484,000 still elevated and only a slow improvement evident in the unemployment momentum reading of -0.15. Beige Book commentary reinforced the picture: labor markets 'generally remained weak' with hiring 'mostly limited' to temporary staff, wage pressures 'minimal or contained,' and retail prices roughly level. With no inflation pressure to lean against and substantial slack in the labor market, participants saw nothing in the incoming data to justify removing accommodation.

The Committee also judged financial conditions to be calm rather than fragile enough to force a defensive response. The financial stress index at 0.168 was low, the VIX at 16.32 subdued, the Baa spread of 2.38 moderate, and the 10-year to 2-year curve steeply positive at 2.74 with no inversion signaling recession. Set against this, some participants gave real weight to the observation that credit conditions, while orderly, are not healthy - loan volumes and credit quality had decreased, the banking sector remained impaired, and commercial real estate was very weak across most Districts. That fragility argued against premature tightening, which risked reversing tentative gains in housing and credit. A related concern, carried over from a prior dissent, was that with r* estimated at 1.363 the real policy rate is deeply accommodative and could seed financial imbalances over time. Participants took that vigilance seriously, but concluded that the current indicators showed no imbalance actually building, and so no basis for acting on the worry now.

On its predictive judgment, the Committee expects the real Federal Reserve to leave the target range unchanged at 0.0% to 0.25%, maintaining its extended-period stance. Market pricing pointed the same way: the 3-month T-bill spread to the current rate of 0.035 was essentially flat, implying no near-term move, and the calm in volatility and credit spreads gave markets no reason to expect one. That predictive call was matched, term for term, by the Committee's own optimal determination. The deterministic framework recommended 0 bps, and all four reference rules - the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule - converged on 0 bps, judged reliable this meeting. The reasoning differed by lens but not by conclusion: those weighting inflation found the Taylor rule persuasive, with core inflation near 1% and unemployment at 9.7% prescribing zero; those weighting employment leaned on the balanced-approach rule, which loads heavily on the unemployment gap yet still lands at zero because the range is already at the floor; and those attentive to the constraint itself found the ELB-adjusted logic most direct, since with rates pinned near zero there is no conventional room to ease further.

Taken together, the Committee concludes that the optimal policy this meeting is 0 bps, and that holding at 0.0% to 0.25% is appropriately neutral-to-accommodative given contained inflation and a large output and employment gap. Members were candid that this stance leaves an unresolved tension for later meetings: with policy this accommodative relative to r*, the Committee should be prepared to resist extending easing further and to watch credit quality and bank loan volumes closely for emerging imbalances. But on today's information, both the predicted action and the Committee's independent judgment of the best action are the same - hold.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, for no change to the 0.0% to 0.25% target range; on the optimal side, all five members endorsed the framework's 0 bps recommendation as-is (5-0), with no member declining or partially dissenting.