OpenFed

POLICY STATEMENT | August 3, 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 its own framework independently confirms 0 bps as optimal, with the effective lower bound binding a stance that both mandate legs would otherwise push lower.

STATEMENT

Information reviewed for this meeting described a recovery that has improved only modestly and remains uneven. Core PCE inflation stood at 1.19%, well below the Committee's 2.0% objective, and the framework's inflation-momentum term, at -0.115, indicated that underlying price pressure was easing further rather than building. The Beige Book reinforced this reading, noting that consumer and input prices held steady and that wage pressures remained contained. Against this, the unemployment rate at 9.5% sat far above the 5.03% estimated natural rate, a slack gap that participants weighted heavily. Initial jobless claims at 457,000 remained elevated, the Chicago Fed activity index was slightly negative at -0.16, and two Districts reported activity slowing, with hiring characterized as 'modest' and often temporary. Both legs of the mandate, in short, pointed toward accommodation rather than restraint.

With inflation soft and the labor market weak, no participant saw a case for tightening: a hike would require evidence of overheating or emerging price pressure, and the data offered neither. Financial conditions did not force the question in the other direction either. The financial stress index at 0.2277 was judged moderate rather than acute, the Baa spread of 2.92 showed contained credit stress, the VIX at 22.63 reflected caution short of panic, and the 10-year to 2-year spread of 2.41 remained steeply positive with no inversion signal. Participants noted that credit standards were still tight and loan demand soft, and several emphasized that removing or softening accommodation now would risk widening spreads and choking off a fragile recovery. On that reasoning, the Committee judged that the real Federal Reserve will leave the target range unchanged at 0.0% to 0.25%, and the Committee's own predictive vote was for no change, +0 bps.

The Committee's independent policy framework reached the same destination through its own logic. All four reference rules returned 0 bps and were judged reliable this meeting: the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule. Participants were candid that this convergence reflects a binding constraint rather than a comfortable equilibrium. With inflation below target and a slack gap approaching four and a half points, the unconstrained prescription of the Taylor and balanced-approach rules would call for deeply negative rates; both are truncated at zero, and the ELB-adjusted rule made explicit that the effective lower bound caps how much the rate lever can deliver. An estimated r* of 1.256 alongside sub-target inflation implies a low neutral nominal rate, so the current range remains genuinely accommodative even at the floor. On this basis the framework's loss-minimizing recommendation was likewise 0 bps, and the Committee determined that holding at 0.0% to 0.25% is the optimal policy this meeting.

The one honest tension in the record is not about the direction but about whether the stance is enough. Members focused on employment framed the hold as constrained rather than chosen: they would ease further to close the employment gap but have run out of conventional room, so holding is simply the most supportive setting available. A recurring counterweight, echoing a prior dissent, was the concern that prolonged accommodation could seed future imbalances. Participants took that concern seriously in principle but found no support for it in current data, with moderate stress readings and contained spreads showing no froth to lean against. The predictive and optimal conclusions therefore coincide at +0 bps, arrived at from opposite worries that happen to meet at the same floor.

COMMITTEE VOTE	The Committee's predictive vote was unanimous at 5-0 for no change to the 0.0% to 0.25% target range, and on the optimal side all five members endorsed the framework's 0 bps recommendation, a 5-0 endorsement with no declines or partial dissents.
NOTES	*No member dissented on either the predictive or the optimal vote, though members weighting the employment gap registered that they endorse the hold as the constrained floor rather than an adequately accommodative stance, and would ease further if conventional room remained.*