OpenFed

POLICY STATEMENT | October 27, 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 the target range at 0.0% to 0.25%, and its own framework independently finds that same setting optimal, with all four reference rules reading 0 bps.

STATEMENT

The defining feature of this meeting is not disagreement but a boxed-in convergence: every consideration on the table, from the most dovish to the most hawkish, arrived at the same place because the policy rate has essentially run out of room. Core PCE is running at 0.97% year over year, roughly half the 2.0% objective, and the Beige Book describes minimal wage pressures and final goods prices that are 'mostly stable' even as some input costs rise. Unemployment stands at 9.6%, far above the 5.02% estimated natural rate, with initial claims elevated at 452,000 and the Chicago Fed index slightly negative at -0.12. This is a picture of substantial slack and disinflation risk, not overheating. Both sides of the mandate therefore point toward accommodation, yet the target range already sits at its effective floor.

Participants inclined to emphasize inflation risk acknowledged plainly that there is no upside threat to lean against at present; inflation momentum registers only 0.11, and while rising costs for metals, agricultural commodities, and shipping bear watching, those costs are not being passed through to consumers. Participants most focused on the labor market stressed that the employment gap would ordinarily justify further easing, but that a conventional cut below the current range is simply not available; the range is already the lowest feasible setting. Those attentive to financial conditions found no case for a defensive move in either direction: the stress index at 0.1758 and VIX at 20.71 are moderate rather than crisis-level, the Baa spread of 3.09 is contained, and the steep 2.35 yield curve carries no inversion signal. Market-based readings reinforced the same conclusion, with the 3-month T-bill spread of roughly 0.015 indicating that markets are pricing no change to the target range. On this basis, the Committee's predictive judgment is that the real Federal Reserve will hold the federal funds target range at 0.0% to 0.25%.

The Committee's own deterministic framework points to the identical setting, and does so without ambiguity. All four reference rules, the Taylor rule, the balanced-approach rule, the first-difference rule, and the effective-lower-bound-adjusted rule, return 0 bps, and were judged reliable this meeting. The loss-minimizing recommendation is therefore 0 bps as well. The ELB-adjusted rule carried the most weight in participants' reasoning precisely because it makes the binding constraint explicit: with an estimated r* of 1.111 and inflation near 1%, the neutral rate lies above current policy, so the rule framework would in principle prefer a lower setting than the floor allows, but the lower bound blocks any further easing through the rate tool. Inflation momentum of 0.11 and unemployment momentum of -0.05 indicate no urgency to move in either direction. The Committee's considered conclusion is that the optimal policy this meeting is to hold at 0.0% to 0.25%, the same call as its predictive forecast.

Participants were candid that this agreement reflects a constraint rather than a judgment that the stance is fully adequate. Several observed that the mandate would justify additional support for employment if the rate tool were available, and that any further accommodation would have to be delivered through other means rather than the target range itself. That caveat noted, holding at the floor is both the feasible and the loss-minimizing action, and it preserves stable financial conditions while the recovery firms.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, for holding the target range at 0.0% to 0.25%, and its optimal-side deliberation likewise landed at full agreement, with all five members endorsing the framework's 0 bps recommendation.