OpenFed

POLICY STATEMENT | March 8, 2011

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 percent, and its own framework independently arrives at the same 0 bps as optimal.

STATEMENT

What is most striking about this meeting is how little tension there was to resolve: five members, working from five different starting priorities, converged on the same conclusion, and the deterministic framework landed there independently. The data leave little room for argument. Core PCE is running at 0.57 percent, far below the 2.0 percent objective, and the framework's inflation momentum term of -0.19 confirms that underlying prices are still drifting lower rather than building — consistent with the prior meeting's description of inflation as 'trending downward.' Against that, unemployment at 8.9 percent sits well above the 5.2 percent natural rate, a gap of roughly 3.7 points that members focused on the labor mandate treated as the dominant fact of the meeting. Both legs of the mandate, in other words, point the same way: accommodation should stay in place.

The one genuine upside consideration came from members weighting inflation risk most heavily, who flagged the rising commodity prices and the 'some pass-through' to downstream prices noted in the Beige Book. That risk was taken seriously and is worth watching for any breakout into core. But it was judged limited and concentrated, affecting headline more than core, with no corroborating wage pressure (the ECI reading gave no sign of a wage-price spiral). Members watching financial conditions reinforced the calm read: the financial stress index at 0.1332 is low, the VIX at 19.82 moderate, the Baa spread at 2.59 contained, and the 10-year-to-2-year spread of 2.83 steeply positive with no hint of inversion. Nothing in the credit or market data argued for either emergency easing or defensive tightening.

On the predictive question, the Committee's judgment is that the real Federal Reserve will leave the target range unchanged at 0.0 to 0.25 percent. The rate is already at its effective lower bound, so a meaningful cut is not mechanically available, and members tracking market pricing noted that the 3-month T-bill spread of -0.005 sits essentially flat inside the current range, embedding no near-term move; with asset purchases committed through the second quarter of 2011 and 'extended period' guidance intact, an abrupt reversal would surprise markets absent any signal justifying it.

The Committee's independent determination of optimal policy is likewise 0 bps. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — print 0 bps and were judged reliable this meeting. Members found the ELB-adjusted logic most persuasive, since it recognizes that the rate is floored and cannot fall further; with the estimated r* at only 0.924, even a near-zero policy rate is not wildly accommodative in real terms, which argues against reading the current stance as excessively loose. Negative inflation momentum (-0.19) removes any case for tightening, while the still-slow improvement captured in the unemployment momentum term of -0.1 argues for patience rather than an early exit. That the predictive expectation and the loss-minimizing recommendation coincide is, in the Committee's view, not coincidence but confirmation that the current stance is well-calibrated to the data.

COMMITTEE VOTE

The predictive vote to hold at 0.0 to 0.25 percent was unanimous, 5-0. On the optimal-side deliberation, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 result with no declines or partial endorsements.