OpenFed

POLICY STATEMENT | September 14, 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%, and its own policy framework independently arrives at the same 0 bps conclusion.

STATEMENT

The defining feature of this meeting is how little separates the Committee's read of likely policy from its own judgment of optimal policy: every member, from every analytical lens, arrived at 0 bps, and the deterministic framework returned the same. With the target range already at 0.0% to 0.25%, the effective lower bound is the binding fact around which the entire deliberation organized. Core PCE at 1.45% sits below the 2.0% objective, and members focused on price stability found no inflation to lean against — the framework's inflation momentum term of 0.265 confirms soft, not accelerating, pressure, and Beige Book reports of price pressures 'edging lower' and 'minimal' wage pressure reinforced that reading. There was, in short, no case for tightening, and no conventional room to ease.

Downside considerations dominated the discussion. Members attentive to the labor market emphasized that unemployment at 9.1% remains far above the 5.2% natural rate, with initial claims at 414,000 above the 400k line members treat as a stress signal and a Chicago Fed activity reading of -0.06 pointing to below-trend growth. Members weighing financial conditions pointed to a VIX of 34.6 and a Baa spread of 3.3 as evidence of elevated volatility and credit-cost strain, with contacts in the Beige Book downgrading their outlooks specifically on account of market volatility and uncertainty. A negative 3-month T-bill spread of -0.115 was read as markets pricing the floor rather than any liftoff. Against this, members observing that the 10-year to 2-year spread remained positively sloped at 1.84 noted the curve was not signaling imminent recession, which tempered the urgency for any dramatic action but did nothing to build a case for a hike.

On this basis, the Committee's predictive judgment is that the real Federal Reserve will hold the target range at 0.0% to 0.25%. Its own optimal determination lands at the same place, and here the framework did more than confirm a floor. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — returned 0 bps, and the framework judged the reference rules reliable this meeting. Members found the ELB-adjusted logic most persuasive given that rates are pinned, but the Taylor rule underlying it is instructive: below-target inflation combined with a large unemployment gap would call for a policy rate below zero, truncated at the floor. An estimated r* of 0.495 reinforces that the neutral rate is low and leaves little scope above the current stance. The framework's optimal recommendation is therefore explicitly 0 bps.

The Committee was careful to note what this agreement does and does not mean. Holding at the floor reflects a binding constraint, not a satisfied economy: members favoring maximum employment support and those weighting financial stability both indicated they would prefer additional accommodation were the rate instrument not exhausted, and framed the hold as the most accommodative rate stance available rather than as an endorsement of current conditions. The unemployment momentum term of 0.2 and the persistent slack behind it underscore that the stance is appropriately accommodative given the shortfall, not that the shortfall has been addressed.

COMMITTEE VOTE

The Committee's predictive vote was unanimous at 0 bps, 5 to 0. On the optimal side, all five members endorsed the framework's 0 bps recommendation, a 5-0 result with no declines or partial dissents.