OpenFed

POLICY STATEMENT | December 6, 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 finds that same 0 bps stance loss-minimizing — the two conclusions coincide fully.

STATEMENT

What stands out at this meeting is the completeness of the agreement: five members reasoning from five different starting points, a deterministic rule engine drawing on four separate reference rules, and market-implied pricing all arrived at the same place, with essentially no live tension in either direction. Core PCE inflation stood at 1.56%, below the 2.0% objective, and the Beige Book characterized price increases as subdued with some cost pressures easing. Wages and salaries were described as stable across Districts, and the members most attentive to inflation risk concluded there was simply nothing to lean against — no wage-push dynamic, no acceleration, and inflation momentum of only 0.165 in the framework's reading. Set against that, unemployment at 8.6% remained far above the 5.2% natural rate, a gap the members focused on employment stressed as an enormous and painfully slow-healing shortfall, with initial claims near 402,000 and hiring generally subdued.

With inflation soft and slack large, both mandate legs pointed the same way, and neither the participants nor the framework saw a case for tightening. The binding fact throughout the discussion was the effective lower bound: the target range already sits at 0.0% to 0.25%, so a conventional cut is not available even to those who wanted more support. Members attentive to financial conditions reinforced the case for standing pat rather than removing accommodation, pointing to a financial stress index of 0.297, a VIX of 28.13, and a Baa spread of 3.26 as signs of elevated but not crisis-level strain that tightening would only aggravate. Those weighing market signals noted that the 3-month T-bill spread of -0.105 implied no near-term hikes priced in, while the upward-sloping 10y-2y curve at 1.83 gave no signal of an imminent recession that might force emergency easing. On that basis the Committee's predictive judgment is that the real Federal Reserve will make no change, holding the range at 0.0% to

0.25% and maintaining its existing supportive programs and guidance.

The Committee's own policy framework reached the identical conclusion, and did so on its own terms rather than as an echo of the predictive vote. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — printed 0 bps, and the framework judged these rules reliable this meeting, so the optimal recommendation is likewise 0 bps. The loss-function inputs tell a coherent story behind that number: an estimated r* of just 0.262 means that even a rate pinned at the floor is only modestly accommodative in real terms, inflation momentum of 0.165 shows no overshoot pressure, and unemployment momentum of -0.05 reflects only glacial improvement. Members read the convergence somewhat differently — those focused on inflation found the Taylor rule most persuasive, holding at the ELB with inflation near target as the disciplined choice, while those focused on employment leaned on the ELB-adjusted rule, reading 0 bps not as comfort with an 8.6% unemployment rate but as the constrained optimum once the floor caps any deeper easing. Either way, the framework's loss-minimizing stance is 0 bps: hold the current range.

Taken together, the predictive and optimal conclusions coincide. The Committee expects no change from the real Federal Reserve, and its framework independently finds that holding at 0.0% to 0.25% is the appropriately calibrated stance given below-target inflation, substantial labor-market slack, a very low neutral rate, and financial conditions that remain fragile without being acute. There is no gap here between what the Committee expects and what it judges optimal.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for no change to the 0.0% to 0.25% target range; on the framework's 0 bps recommendation the optimal-side deliberation was also unanimous, with all five members endorsing it (5 endorse, 0 decline, 0 partial).

NOTES

There was no formal dissent on either side, though the members most focused on employment framed their endorsement pointedly: their support for holding reflected only the lower-bound constraint, not any acceptance of 8.6% unemployment, and they echoed a prior instinct that stronger accommodation would be warranted if the target range could go lower.