OpenFed

POLICY STATEMENT | September 6, 2012

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 unchanged at 0.0% to 0.25%, and its own framework independently arrives at the same 0 bps as optimal, constrained at the effective floor.

STATEMENT

The defining feature of this meeting is the absence of tension: every member, working from a distinct mandate emphasis, arrived independently at the same reading of the data and stayed there through four rounds of deliberation. Core PCE inflation at 1.45 percent sits well below the 2.0 percent objective, with inflation momentum estimated at -0.06, indicating price pressures that are softening rather than building. Against that, unemployment at 8.3 percent remains far above the 5.36 percent natural rate, and the Beige Book describes hiring as 'selective' and labor conditions as 'little changed,' with business spending decelerating and manufacturing moderating. Both sides of the mandate point the same direction: soft inflation offers no case for tightening, and pronounced labor-market slack argues for accommodation rather than restraint. The one inflation signal several members flagged for monitoring was the drought pushing crop prices higher, with 'some pass-through to wholesale prices already taking place,' but participants judged this supply-side and localized, not the broad, demand-driven pressure that would warrant a move.

The binding constraint on this meeting is arithmetic, not judgment. With the target range already at its 0.0 percent to 0.25 percent floor, conventional easing is effectively exhausted, and no participant saw a case for an emergency move below that level. Financial conditions reinforced the point rather than complicating it: the financial stress index at 0.111 is low, the VIX at 15.6 is subdued, the Baa spread at 3.19 is moderate rather than acutely distressed, and the 10-year to 2-year spread at 1.41 is positively sloped, showing no imminent recession signal from the curve. The three-month T-bill spread of -0.015 is essentially flat, indicating markets price no near-term change in the range. Members observed that any additional accommodation the Committee might contemplate would necessarily come through balance-sheet tools rather than the range itself, which leaves the rate decision as a hold. On that basis the Committee's predictive judgment is that the real Federal Reserve will leave the target range unchanged, a change of +0 bps.

The Committee's independent policy framework lands at the same place, and for reasons that are worth stating concretely rather than treating the two conclusions as separate exercises. All four reference rules return 0 bps this meeting: the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule, with the rules judged reliable. Estimated r* at -0.367 confirms that the neutral real rate is negative, so the current stance is already accommodative relative to neutral even at the floor. The Taylor rule's logic, weighing the inflation shortfall against the large unemployment gap, prescribes a rate below zero that is floored at the effective lower bound, which is precisely why it resolves to a hold rather than a cut. Unemployment momentum of 0.0 shows a labor market that is neither healing nor deteriorating quickly, and negative inflation momentum removes any preemptive-tightening rationale. The framework's recommended optimal policy is therefore +0 bps.

What the convergence reveals is that holding at the floor is a corner solution, not an assertion that conditions are satisfactory. With r* negative, a stance held at 0.0 percent to 0.25 percent may remain effectively tight relative to neutral even as slack persists, which is why the optimal reading is to preserve maximal available accommodation rather than to remove any. The Committee will remain attentive to the downside risks noted in the Beige Book, including fiscal uncertainty and weaker growth in Europe and Asia, and to any sign that the observed cost pass-through broadens. Absent such a shift, both the predictive and optimal conclusions are the same: maintain the target range at 0.0 percent to 0.25 percent.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for no change to the target range, and the Committee's optimal-side deliberation was likewise unanimous, with all five members endorsing the framework's 0 bps recommendation as-is.