OpenFed

POLICY STATEMENT | October 17, 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 at 0.0% to 0.25%, and its own framework independently confirms 0 bps as optimal, with every reference rule and all five members in agreement.

STATEMENT

What is most striking about this meeting is how completely the two questions before the Committee collapsed into a single answer. Members converged, without dissent, on the view that the real Federal Reserve will hold its target range steady at 0.0% to 0.25%, and the Committee's own deterministic framework arrived independently at the same figure, 0 bps, as the optimal course. The reasoning behind the two conclusions turned out to be substantially the same, and the recorded deliberation reflects that: no member found an argument that would move the decision in either direction, and no reference rule pointed against the outcome.

The data reviewed offered no live case for tightening. Core PCE inflation stood at 1.44%, well below the 2.0% target, with inflation momentum essentially flat at -0.005 and the Beige Book describing a promotional, disinflationary pricing environment; the Employment Cost Index at 117.8 showed no wage-push pressure to lean against. Members who weight inflation risk most heavily acknowledged that their usual caution simply had no fuel here. On the other side of the mandate, unemployment at 7.8% remained far above the 5.4% natural rate, with unemployment momentum drifting slightly the wrong way at +0.05, the Chicago Fed National Activity Index at -0.87 signaling below-trend growth, and initial claims at 339,000 pointing to a soft rather than collapsing labor market. Members focused on employment argued that the economy plainly needed continued support. Yet the funds rate sits at its effective floor, and the framework's estimated r* of -0.483 makes plain that a neutral setting would require a rate below zero. The point emphasized repeatedly, and it was the centrist framing that several members found most persuasive, is that the rules would cut further if they could; zero is simply the answer once the effective lower bound binds.

That constraint runs through every reference rule the framework consulted. The Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule all printed 0 bps, and the framework judged them reliable for this meeting. For members attentive to the labor gap, the balanced-approach rule was the telling one: it weights the large unemployment shortfall heavily and still lands at zero, precisely because the rate lever is exhausted. From a financial-stability standpoint, conditions gave no reason to disturb the range in either direction. The financial stress index at 0.075 was very low, the VIX at 15.07 subdued, the Baa spread at 2.77 moderate, and the yield curve positively sloped at 1.53 with no inversion. The 3-month T-bill spread at -0.035 confirmed the short end pinned near the floor, with market pricing showing no anticipation of a move. Members observed that changing the range now would risk introducing volatility into calm and orderly markets for no offsetting benefit.

The Committee also noted that the primary accommodation lever at present is the ongoing asset purchase program launched at the prior meeting, not the funds rate, and that this recently deployed accommodation is still working through the credit and mortgage channels and warrants time to be assessed. Members inclined toward more employment support were clear that their concern would be expressed through continued purchases if labor weakness persists, rather than through a rate move that is not available. On both the predictive and the optimal questions, then, the conclusion was the same and was reached by the same argument: no indicator justifies a hike, no conventional cut is feasible at the floor, and holding the range at 0.0% to 0.25% is both the expected action and the loss-minimizing one.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for holding the target range at 0.0% to 0.25%. On the optimal-side deliberation, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement with no declines or partial agreements.