



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 policy framework independently judges 0 bps to be optimal, with all reference rules and members agreeing.

STATEMENT

Information reviewed at this meeting described an economy expanding only at a measured pace. Core PCE inflation at 1.29 percent remained well below the Committee's 2 percent objective, with no evidence of wage-push pressure from the employment cost measure (117.8) and initial jobless claims running at 393,000. The unemployment rate at 7.9 percent stood far above the 5.4 percent natural rate estimate, and the Chicago Fed national activity index at -0.56 pointed to below-trend growth. Members weighing inflation risk most heavily concluded that, with prices this soft, there was simply nothing to fight; members focused on the labor market saw the wide employment gap as an argument for maximum support. The Beige Book's picture of measured expansion, weakening manufacturing across a majority of Districts, and fiscal cliff uncertainty reinforced the downside tilt, arguing against any premature removal of accommodation.

Financial conditions gave no reason to move in the other direction. The financial stress index at 0.072 and the VIX at 16.46 were subdued, the Baa corporate spread at 2.97 was moderate rather than distressed, and the 10-year to 2-year spread at 1.35 was positively sloped with no inversion signaling recession from the rate structure. The 3-month T-bill spread of -0.025, essentially flat to the current range, indicated that markets were pricing no imminent change; front-end funding markets showed no dislocation. Members who read policy through market pricing took this flat path as the aggregated bet that 0.0 to 0.25 percent holds, and members attentive to credit stability judged that abruptly altering the stance amid fiscal cliff and Hurricane Sandy disruptions could unsettle otherwise calm-but-fragile conditions. On this basis the Committee's predictive judgment is that the real Federal Reserve will hold the target range unchanged at 0.0 to 0.25 percent, a conclusion all five members reached



independently.

The Committee's own deterministic policy framework arrived at the same destination, and did so through its own numbers rather than by echoing the predictive read. Its recommendation was 0 bps, with all four reference rules converging there: the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule each returned 0 and were judged reliable this meeting. The estimated neutral real rate of -0.5 percent confirmed that a floored nominal rate is only mildly accommodative in real terms, so holding at the range is the accommodative choice, not a passive one. Members found the ELB-adjusted rule the most persuasive: with both the inflation shortfall and the labor slack pointing below zero, the appropriate rate is capped at the effective lower bound, where it already sits. The loss-function momentum terms carried no impulse to override this reading. Inflation momentum at -0.01 was flat, if slightly disinflationary, giving the inflation-focused members no trigger to tighten; unemployment momentum at -0.2 suggested slow improvement without closing the wide gap that concerned the labor-focused members. The framework's optimal conclusion is therefore 0 bps, holding the range at 0.0 to 0.25 percent as the loss-minimizing stance.

That the predictive and optimal conclusions coincide is, in the Committee's view, itself informative: even an inflation-vigilant reading finds no case to tighten, the labor case for further ease is blocked only by the mechanical floor, and calm markets demand no emergency action in either direction. Policy is neither behind nor ahead of the curve on rates. The constraint of the effective lower bound binds, and the disciplined call is to hold and let existing accommodation work.

COMMITTEE VOTE

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