OpenFed

POLICY STATEMENT | March 13, 2013

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 as optimal.

STATEMENT

The most striking feature of this meeting is how little separated the Committee's members: five independent readings of the data converged on the same conclusion from five different vantage points, and the deterministic framework landed there too. Core PCE inflation stood at 0.95%, less than half the 2% objective, with the framework's inflation momentum term at -0.19 pointing toward continued disinflation rather than any building of price pressure. Against that, unemployment at 7.7% remained well above the 5.5% natural rate, a gap the members read as substantial and persistent labor-market slack, reinforced by an unemployment momentum reading of zero. Both legs of the mandate, in short, argued in the same direction: continued accommodation, with no case for a move in either direction at the target-range level.

The member most inclined to guard against inflation risk was candid that the usual hawkish trigger was simply absent here. With core PCE below 1% and negative momentum, and with the Beige Book reporting stable vendor and selling prices and steady wholesale prices, there was no overshoot to lean against and thus no basis for a hike. The member most focused on labor conditions would have supported easing to aid employment, but noted that the target range already sits at the effective lower bound at 0.0% to 0.25%, leaving no conventional room to cut, so that the existing stance and ongoing asset purchases must carry the accommodative burden. Members attentive to markets pointed to a 3-month T-bill spread of -0.025, essentially aligned with the current range, indicating that no near-term move was being priced, and to a positively sloped 10-year to 2-year spread of 1.77 that gave no recession signal demanding emergency action. 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%.

The Committee's own policy framework reached the same 0 bps figure as the optimal call, and did so with unusual internal consistency. All four reference rules the Committee consults returned 0 bps, and were judged reliable this meeting. That agreement, with no rule dissenting toward tightening or toward a deeper cut, made the case unusually clean. Members noted that with the estimated r* at -0.5%, the neutral real rate is itself negative, so that even a zero nominal rate is only mildly accommodative rather than deeply stimulative. The ELB-adjusted rule drew particular weight given that policy is pinned at the floor, and several members treated it as the most persuasive of the four precisely because it recognizes that a conventional cut is not available. Weighing the below-target inflation gap against the above-natural unemployment gap, the framework's loss-minimizing recommendation is to hold at 0.0% to 0.25%, and the Committee endorses that as the optimal policy for this meeting.

One genuine caveat ran through the deliberation without altering the conclusion. The financial-stability perspective flagged that a financial stress index of 0.072 and a VIX of 11.83 reflect not merely calm but possible complacency, and that persistently loose conditions can seed longer-term imbalances. That concern was shared, at least in part, by the inflation-focused member as a matter of ongoing vigilance. But the same members judged that acting preemptively against quiet markets, into soft inflation and a still-weak labor market, would itself risk destabilizing conditions and withdrawing support prematurely. The resolution was to treat the imbalance risk as something to monitor rather than to act on now.

COMMITTEE VOTE

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