OpenFed

POLICY STATEMENT | April 24, 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 framework independently judges that same hold optimal, with every reference rule printing 0 bps.

STATEMENT

What stands out about this meeting is the near-complete absence of tension: every lens the Committee brought to bear, and every rule in its framework, pointed the same way. Core PCE inflation ran at 0.94%, less than half the 2% objective, and its momentum was negative at -0.17, so prices were decelerating rather than building. Unemployment stood at 7.6%, well above the 5.5% natural rate, a gap that would ordinarily invite easing. But with the target range already at the 0.0% to 0.25% effective lower bound, there was no conventional room to cut further, and nothing in the data argued for tightening against it. The Beige Book described only modest-to-moderate growth with minimal price pressures and cautious hiring, and the Chicago Fed index at -0.23 confirmed slightly below-trend activity. Financial conditions were calm throughout: a financial stress index of 0.057, VIX at 13.61, a moderate Baa spread of 2.8, and a positively sloped 10y-2y curve at 1.5 showing no recession signal.

Members reasoned from different starting points and arrived at the same place. Those most attentive to inflation risk found nothing to act on: with core PCE below 1% and falling, the usual hawkish trigger simply did not fire, and premature tightening into benign conditions with no inflation to fight would have been gratuitous. Members focused on the labor market wanted maximum support for still-substantial slack, but recognized that maximum rate accommodation was already being delivered at the floor, so holding was the loss-minimizing choice rather than a restrictive one. Those weighing financial stability saw calm, functioning credit markets that neither demanded a defensive hike nor signaled the kind of stress that would force new easing, and judged that abruptly moving off accommodation would risk destabilizing markets to no offsetting benefit. Market-signal readings reinforced all of this: the 3-month T-bill spread at -0.075 showed markets pricing no near-term hike, and the yield curve gave no recession warning. On this basis the Committee expects the real Federal Reserve to leave the federal funds target range unchanged at 0.0% to 0.25%.

The Committee's own deterministic framework reached the same conclusion through its policy-rule engine, and did so with unusual unanimity across rules. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — returned 0 bps, and the framework judged them reliable this meeting. That agreement rests on the same conditions the members cited: an estimated r* of -0.5 means the neutral real rate is itself negative, so the current stance is less loose than its nominal level suggests, and the ELB-adjusted rule confirms both that there is no room to move down and no cause to move up. Inflation momentum of -0.17 gave the inflation-weighting rules no reason to lift off, and unemployment momentum of -0.1 signaled only gradual improvement, consistent with continued accommodation. The Committee therefore independently determines that the optimal policy at this meeting is 0 bps — holding the target range at 0.0% to 0.25%.

The one consideration that carried any real weight in the other direction was the prospect of future imbalances from prolonged accommodation, a long-run concern shared even by members not inclined to ease. But the Committee treated that risk as prospective rather than present: with financial stress at 0.057 and spreads contained, no imbalance has yet materialized, and acting on it now — with inflation below 1% and a wide employment gap — would be premature. Both the predictive read and the framework's own calculation thus land on the same figure, arrived at through the same deliberation rather than bolted together after the fact.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, that the real Federal Reserve will hold at 0.0% to 0.25%; on the optimal side, all five members endorsed the framework's 0 bps recommendation, a 5-0 endorsement.