OpenFed

POLICY STATEMENT | January 22, 2014

PREDICTED FED DECISION **HOLD**

0.00%-0.25%

OPENFED OPTIMAL RATE **HOLD**

0.00%-0.25%

KEY TAKEAWAY

The Committee unanimously expects the target range held at 0.0% to 0.25%, and its own framework independently finds that same hold optimal, overriding level rules' 75 bps prescription given a deeply negative r* and downward inflation momentum.

STATEMENT

Information reviewed at this meeting showed an economy expanding at a moderate, above-trend pace while remaining well short of full recovery. Core PCE inflation stood at 0.86%, less than half the 2% objective, and the labor market carried evident slack, with unemployment at 6.7% against an estimated 5.5% natural rate. Against that backdrop, participants noted that the Chicago Fed activity index at 0.6 and initial jobless claims at a moderate 326,000 pointed to steady improvement rather than deterioration, and the Beige Book described widespread hiring and expansion across manufacturing, services, and real estate. Financial conditions were calm by every measure participants weighed: a financial stress index of 0.018, the VIX at 12.84, a Baa spread of 2.3, and a positively sloped yield curve at 2.43, with the 3-month T-bill spread at -0.085 indicating that markets themselves priced no near-term change.

With the target range already at its effective lower bound of 0.0% to 0.25%, participants approached the decision from distinct vantage points and converged on the same reading. Those most attentive to inflation risk observed that the risk here runs to the downside, not the upside, so there was no case for tightening; those focused on employment stressed that unemployment above the natural rate argued for maintaining accommodation, while the near-zero floor left no meaningful room for a conventional cut. Participants attentive to financial stability found nothing in credit or funding markets to justify emergency action in either direction, and those reading market signals saw the same continuity priced in. Prior guidance, which held that the current range remains appropriate well past unemployment falling below 6.5% and especially with inflation undershooting, was judged still plainly binding at 6.7%.

On that basis the Committee's predictive judgment was that the real Federal Reserve will hold the target range unchanged at 0.0% to 0.25%.

The Committee's own deterministic framework, applied independently, arrived at the same +0 bps as the loss-minimizing course. That conclusion required weighing a genuine internal tension in the rulebook: the level-based reference rules pointed the other way, with the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribing 75 bps, driven mechanically by the wide unemployment gap. Participants judged those prescriptions overstated, because they assume a neutral rate far higher than the estimated r* of -0.5% supports; with a deeply negative neutral real rate, a move to 75 bps would be genuinely restrictive rather than a return toward neutral. The first-difference rule, which responds to momentum rather than static gaps, uniquely returned 0 bps, and participants found its logic most persuasive given inflation momentum of -0.045 and unemployment momentum of -0.15 — inflation still drifting away from target even as joblessness slowly eases. Some participants added that abruptly tightening into low-VIX complacency could invite a sharp repricing of spreads against already-weak inflation.

The Committee therefore concluded that holding at 0.0% to 0.25% is not a restrictive stance but the maximally accommodative one available at the floor, and that patience is the disciplined course until inflation momentum turns back toward the 2% objective. Both conclusions — the prediction that policy will be held and the independent finding that a hold is optimal — rest on the same argument: undershooting inflation, remaining labor slack, a negative neutral rate that discounts the level rules, and calm markets that demand neither easing nor tightening.

COMMITTEE VOTE

The predictive vote to hold the target range at 0.0% to 0.25% was unanimous at 5-0, and the Committee's optimal-side deliberation likewise landed in full agreement, with all five members endorsing the framework's +0 bps recommendation as-is.