OpenFed

POLICY STATEMENT | July 23, 2014

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 finds 0 bps optimal — a clean convergence with all four reference rules at zero.

STATEMENT

What is most striking about this meeting is how little tension there was to resolve: every member arrived independently at the same conclusion, and the deterministic framework landed there too. The data give no reason to move in either direction. Core PCE inflation stands at 1.21%, well below the 2% objective, and inflation momentum is weak at 0.1 — no breakout is brewing. Unemployment at 6.1% remains above the 5.5% natural rate, a gap that argues for continued accommodation rather than any withdrawal of support, though unemployment momentum of -0.2 indicates the labor market is healing rather than deteriorating. Initial claims near 302,000 and modest employment and price gains reported in the Beige Book round out a picture of steady, non-inflationary improvement. On this reading, the Committee judges that the real Federal Reserve will maintain the target range at 0.0% to 0.25%, and it expects no rate move at this meeting.

Turning to what the Committee independently determines to be the optimal policy, the framework's recommendation is likewise 0 bps, and the case is unusually clean. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — return 0 bps, and the reference rules are judged reliable this meeting. Members found the Taylor rule most persuasive on its own terms: with inflation below target and unemployment above the natural rate, both mandate gaps point toward accommodation, not tightening. The estimated neutral real rate of -0.5 reinforces the point — a nominal range of 0.0% to 0.25% is not deeply stimulative when neutral is so far below zero, so holding at the floor is simply keeping policy appropriately accommodative rather than adding new stimulus. With the rate already at the effective lower bound, the ELB-adjusted rule confirms that a hold is the accommodative stance available; there is no room to cut and no fundamental case to tighten. The Committee therefore concludes that 0 bps is the optimal policy, not merely the expected one.

The one consideration that gave any member pause was financial stability. Conditions are extraordinarily calm — a financial stress index of 0.003, VIX at 11.52, a compressed Baa spread of 2.19, and a positively sloped 10-year to 2-year curve at 1.98 — and that very calm was flagged as a possible sign of complacency and building reach-for-yield. The Committee took this seriously but treated it as a future risk to monitor rather than a basis for action now. An abrupt hike into markets showing no stress would be gratuitous and potentially destabilizing, cutting against the mandate to avoid disrupting orderly conditions, while below-target inflation and persistent slack remove any fundamental grounds for tightening. Market pricing pointed the same way: the 3-month T-bill sits roughly 9.5 basis points below the current range midpoint, consistent with markets expecting no near-term move.

Weighing these considerations together, the Committee's predictive judgment and its independent optimal determination coincide fully: hold the target range at 0.0% to 0.25%. That agreement reflects a stance the Committee judges to be well-calibrated to current conditions — no inflation risk to lean against, no labor-market emergency, no room below, and calm financial conditions that counsel patience. The Committee will continue to monitor whether prolonged low volatility and compressed spreads eventually build imbalances.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in favor of maintaining the 0.0% to 0.25% target range. On the framework's optimal recommendation, the Committee also reached full agreement, with all five members endorsing the 0 bps recommendation as-is.