OpenFed

POLICY STATEMENT | September 10, 2015

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 at 0.0%-0.25%, and its own deterministic framework independently prescribes the same 0 bps as optimal—a clean, unanimous convergence.

STATEMENT

Information reviewed for this meeting described a labor market that has, on most readings, largely healed. Unemployment stood at 5.1%, essentially at the 5.06% natural rate members treated as the reference point, with initial jobless claims low at 275,000 and the Chicago Fed activity index positive at 0.34. Beige Book contacts reported modest employment growth—roughly two-thirds of managers actively hiring—alongside only moderate wage gains. Participants across differing analytical lenses agreed that this satisfied the 'some further improvement in the labor market' condition carried over from prior guidance. What it did not do was supply an independent case for tightening: with wage growth moderate and no pipeline pressure evident, employment strength on its own was judged insufficient reason to move off the floor.

The inflation side of the mandate told a plainer story and, in the Committee's judgment, was decisive. Core PCE was running at 1.06%, roughly half the 2% objective, and momentum was pointed the wrong way—the framework recorded inflation momentum of -0.025, consistent with prices drifting away from target rather than toward it. Members weighing the inflation risk most heavily emphasized that there was simply no overshoot to lean against; the prior meeting's conditional criterion, a hike only once 'reasonably confident that inflation will move back to 2%,' remained clearly unmet. Financial conditions reinforced caution rather than complicating it. The VIX at 24.37 signaled elevated market anxiety, and while the financial stress index at 0.123 and the Baa spread of 3.1 were contained, several participants judged that hiking into that volatility risked converting soft unease into harder stress. The 3-month T-bill sitting 9.5 basis points below the current midpoint indicated markets were not pricing an imminent move, and the 10y-2y spread of 1.48 gave no recession signal that would argue for easing either. On these grounds the Committee's predictive conclusion is that the real Federal Reserve will maintain the 0.0% to 0.25% target range.

The Committee's own deterministic framework arrived at the same destination by its own route, and members treated that convergence as confirming rather than coincidental. 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 those rules reliable for this meeting. The loss-minimizing recommendation was likewise +0 bps. Members drew on different pieces of that machinery. Those focused on the mandate gaps found the Taylor rule most persuasive: with the inflation gap large and the unemployment gap roughly closed, the shortfall in prices dominates and holds the prescribed rate at the floor. Others leaned on the ELB-adjusted logic, noting that the estimated r* of -0.5 implies the current range is considerably less accommodative than its nominal level suggests, so the effective lower bound still binds. The negative unemployment momentum of -0.1—joblessness still falling without a wage-pressure spike—was read as further reason that no preemptive tightening was warranted. The Committee's optimal determination is therefore an explicit 0 bps: given a negative neutral real rate, a wide and worsening inflation gap, and a labor market at but not beyond its natural rate, the loss function is minimized by leaving policy unchanged.

Taken together, the predictive and optimal sides of this deliberation reinforced one another with unusual cleanness. The current stance was judged appropriately accommodative on the fundamentals and not behind the curve: labor near target, inflation short and softening, markets jittery, and the reference rules all pointing to the floor. The tension present at earlier meetings—a firm labor market pressing toward liftoff—remained real but subordinate, held in check by the unmet inflation-confidence condition. Members were explicit that holding preserves optionality to move once inflation firms and volatility subsides, rather than committing to accommodation indefinitely.

COMMITTEE VOTE

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