OpenFed

POLICY STATEMENT | October 21, 2015

PREDICTED FED DECISION **HOLD**

0.00%-0.25%

OPENFED OPTIMAL RATE **HOLD**

0.00%-0.25%

KEY TAKEAWAY

The Committee expects the real Fed to hold at 0.0%-0.25%, and its own framework independently confirms that hold as optimal, with all four reference rules and a negative r* of -0.5 pointing to the floor.

STATEMENT

What stands out about this meeting is the absence of tension: every member, working from a different mandate, arrived at the same conclusion, and the deterministic framework landed there too. Core PCE inflation stands at 1.09%, well below the 2% objective, with no evidence of upward momentum. Unemployment at 5.1% sits essentially at the estimated natural rate of 5.05%, so the labor mandate is close to satisfied even as the inflation side is plainly not. The Beige Book described only modest activity growth, wage adjustments running around 2%, and widespread difficulty finding workers, while the Chicago Fed National Activity Index at -0.41 pointed to below-trend growth momentum. Members focused on employment noted that this is a tight labor market rather than a slack one; low initial claims near 255,000 and continued gradual improvement gave no basis for easing to rescue jobs that are not weakening.

Against that backdrop, the case for tightening did surface but did not hold. The strongest version of it rested on full employment plus around 2% wage adjustments and reported hiring difficulty as evidence of prospective wage pressure. Members weighing inflation risk took that seriously as forward risk, but judged it prospective, not present: with the Employment Cost Index at 123.8 showing no acceleration, falling fuel and crop prices adding near-term disinflation, and market-based inflation compensation declining, there was no elevated inflation risk to lean against now. The Committee's prior conditional guidance requires reasonable confidence that inflation is returning to 2% before liftoff, and that confidence is not established. On the other side, financial conditions offered no trigger for easing. The financial stress index at 0.105 was low and the VIX at 16.7 moderate; the yield curve remained positively sloped at 1.4, with no inversion signal. The one caution flag was the Baa corporate spread at 3.29, somewhat wide and worth watching, which argued against a premature hike into modestly stressed credit rather than for a cut. Market pricing reinforced the same reading: the 3-month T-bill traded about 10.5 basis points below the current range midpoint, indicating markets price no imminent hike, so moving now would risk a destabilizing surprise with no offsetting inflation urgency. On this reasoning the Committee expects the real Federal Reserve to keep the target range unchanged at 0.0% to 0.25%, a change of 0 basis points.

The Committee's own policy framework independently reached the same figure. All four reference rules the Committee consults returned 0 basis points and were judged reliable this meeting: the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule. The Taylor rule logic was persuasive to several members precisely because inflation is so far below target with unemployment near natural, which holds the prescribed rate at the floor. The loss-function inputs pointed the same way: inflation momentum of just 0.08 confirmed price pressures are weak and not accelerating, while unemployment momentum of -0.2 indicated continued labor improvement without overheating. Critically, the estimated r* of -0.5 means the neutral real rate is negative, so the current 0.0%-0.25% range is only barely accommodative rather than restrictive. The ELB-adjusted rule carried particular weight for those emphasizing financial stability, since at the effective lower bound with negative r* holding is the loss-minimizing move.

Taken together, the predictive and optimal conclusions coincide: the framework's loss-minimizing recommendation is also 0 basis points, and the convergence of independent rules, market pricing, and each mandate's own reasoning was read as a sign the stance is correctly calibrated, neither behind nor ahead of the curve. The Committee therefore judges 0 basis points to be both the likely and the optimal outcome, and would maintain the target range at 0.0% to 0.25% while preserving readiness to act once inflation confidence firms or the labor picture turns.

COMMITTEE VOTE

The predictive vote to hold the target range at 0.0% to 0.25% was unanimous, 5-0. On the framework's 0-basis-point recommendation, the optimal-side deliberation was also unanimous, with all five members endorsing it as-is (5-0).