OpenFed

POLICY STATEMENT | December 9, 2015

PREDICTED FED DECISION **+25 bps**

0.25%-0.50%

OPENFED OPTIMAL RATE **HOLD**

0.00%-0.25%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps liftoff to 0.25%-0.50%, yet its own framework judges the loss-minimizing policy to be no change at all, holding at 0.0%-0.25% while inflation runs below target.

STATEMENT

The defining feature of this meeting is not disagreement but distance: every member expects the real Federal Reserve to raise the target range by 25 basis points, from 0.0%-0.25% to 0.25%-0.50%, while every member also concluded that the analytically optimal step is to make no change. Both conclusions are the Committee's own, and both were reached through the same deliberation. The labor picture largely explains the predictive lean toward liftoff. Unemployment at 5.0% sits essentially at the estimated natural rate of 5.05%, initial jobless claims at 269,000 are low, and the Beige Book reported further labor market tightening alongside upward pressure on wages and input prices in services. Financial conditions were judged calm enough to absorb a first move: the financial stress index at 0.099 is very low, the VIX at 19.61 is moderate rather than elevated, and the 10-year to 2-year spread at 1.29 is positively sloped with no recession signal. Several members placed particular weight on market pricing, noting that the 3-month T-bill spread of 0.145 over the current rate implies markets already treat a 25 basis point hike as near-certain.

Underlying much of the predictive case was prior guidance conditioning a hike on continued labor improvement together with 'reasonable confidence' that inflation returns to 2% over the medium term. Members generally agreed the labor leg is satisfied. What none of them could establish, working strictly from the data, was that current inflation supplies any case for tightening. Core PCE stands at 1.19%, roughly 80 basis points below the 2% target, and inflation momentum is only 0.055 — barely positive, with no acceleration signal. When the Committee turned to its deterministic framework, the recommendation was unambiguous: 0 basis points, hold at 0.0%-0.25%. All four reference rules converged on that answer and were judged reliable this meeting — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule each returned 0. With the estimated neutral real rate (r*) at -0.5%, the current near-zero stance is close to neutral rather than deeply accommodative, weakening any claim that policy needs to be pulled back.

In the framework deliberation, members reasoned through why a hold is the loss-minimizing call from each of their own priorities. From an inflation-risk lens, the trigger for tightening is elevated inflation risk, a condition simply absent at 1.19% core with flat momentum; the balanced-approach rule, weighting the large inflation shortfall heavily, was found most persuasive on that view. From an employment perspective, unemployment momentum of only -0.1 points to slow, decelerating improvement rather than overheating, and the Beige Book's notes of weakening manufacturing, mixed-to-weaker consumer spending, and sluggish tourism suggest hiring gains that a premature move could stall. From a financial-stability standpoint, the somewhat wide Baa spread of 3.19 argues that tightening into fragile demand carries destabilization risk with no inflation cover, and the ELB-adjusted rule's continued reading of hold, even accounting for the lower bound, was cited as confirming no financial cost to patience.

The Committee is candid that these two conclusions genuinely diverge, and about why. The predictive vote reflects a reading of the real Federal Reserve's normalization intent — an institutional impulse to begin liftoff now that labor has firmed and markets are positioned for it. The framework's 0 basis point recommendation reflects what current inflation and unemployment data optimally require, and the members agreed the 'reasonably confident' precondition on inflation is not yet met at 1.19%. The gap between the two is therefore honest rather than accidental: markets and the anticipated policy path point to a 25 basis point move, while the data alone counsel holding at 0.0%-0.25%.

COMMITTEE VOTE

The Committee's predictive vote was unanimous at 25 basis points, 5-0. On the framework's own recommendation, the optimal-side deliberation was also unanimous: all five members endorsed the 0 basis point call, 5-0.