OpenFed

POLICY STATEMENT | March 9, 2016

PREDICTED FED DECISION **HOLD**

0.25%-0.50%

OPENFED OPTIMAL RATE **−25 bps**

0.00%-0.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 0.25%-0.5%, yet its own framework judges the loss-minimizing move to be a 25 bps cut, with all five members endorsing that easing case.

STATEMENT

Information reviewed for this meeting described an economy holding steady but soft beneath the surface. Core PCE inflation stood at 1.33%, well below the 2% objective, with price pressures reported as little changed and Beige Book accounts pointing to weakening manufacturing, recent service-sector contraction, and scattered softening in residential real estate. Against that backdrop the labor market looked firm rather than strained: unemployment at 4.9% sat exactly at the natural rate, and initial jobless claims near 278,000 remained low, indicating no imminent employment stress. Wage pressure in services drew attention as a modest upside risk, but participants generally judged it had not fed into broad prices. Financial conditions were calm without being exuberant, with the stress index low at 0.132 and the VIX moderate at 18.34, though the Baa spread at 3.38 was seen as somewhat wide, a lingering sign of credit-market caution.

On the question of what the real Federal Reserve is likely to do, participants converged quickly and without dissent on a hold at the current 0.25% to 0.5% range. The reasoning ran in a single direction from every vantage point: with core PCE running below target, there was no inflation case for tightening, while unemployment at the natural rate and low, stable claims left no employment case for easing. The negative 3-month T-bill spread of -0.085 was read as markets pricing no near-term move, and a hike into wide Baa spreads and weakening household loan demand was judged likely to tighten fragile credit conditions unnecessarily. Consistent with prior guidance stressing a gradual path and caution on below-target inflation, participants expected the Committee to hold and continue monitoring the sector-weakness flags.

The Committee's own deterministic framework told a different story about what would be optimal, and the members took that divergence seriously rather than waving it off. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — pointed to a 25 bps cut, and the rules were judged reliable this meeting. The case rested on a below-target inflation shortfall of roughly two-thirds of a percentage point, an inflation momentum term of just +0.085, and an estimated r* of -0.5, which together implied that the current range is effectively restrictive rather than neutral; the slightly falling unemployment momentum of -0.05 did not offset that reading with the labor market already at balance. Examining the gap between their predictive hold and this -25 bps recommendation, participants concluded the honest reading was that the expected stance is modestly too tight for conditions. The inflation hawk acknowledged that a hold keeps policy restrictive against a weak backdrop with no factual inflation trigger to cite; the employment-focused view favored pre-emptive support before softening demand lifts unemployment; the stability-focused view saw a measured cut easing credit-cost stress near the lower bound without signaling alarm. Weighing these considerations, the Committee determined that the optimal policy for this meeting is a 25 bps cut, to a 0.0% to 0.25% range.

The two conclusions thus sit side by side and are both the Committee's own: policy is likely to hold, and policy would be better placed one step lower. Members characterized the difference as latent easing bias unrealized — a stance the front-end market signal and the rules jointly imply, but which the real Federal Reserve, given its stated preference for gradual moves and the absence of any acute financial or labor stress forcing its hand, is expected to leave unacted for now.

COMMITTEE VOTE

The predictive vote to expect a hold at 0.25% to 0.5% was unanimous, 5 to 0. On the framework's optimal recommendation of a 25 bps cut, the Committee also landed in full agreement, with all five members endorsing the -25 bps call as-is.