OpenFed

POLICY STATEMENT | September 9, 2020

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 the target range at 0.0%-0.25%, and its own framework independently confirms 0 bps as loss-minimizing given the effective lower bound and sub-target inflation.

STATEMENT

The defining feature of this meeting is the near-total absence of tension: five members, approaching the question from inflation, employment, financial-stability, data-dependent, and market-signal perspectives, arrived independently at the same place, and the Committee's own policy framework landed there too. With the target range already at 0.0%-0.25%, effectively the lower bound, the practical choice was never between cutting and holding but between holding and an indefensible tightening. Core PCE at 1.03% runs roughly a full point below the 2% objective, and unemployment at 8.4% stands far above the estimated natural rate of 4.38%, with initial jobless claims still at 881,000 weekly. Beige Book information described activity as well below pre-pandemic levels, with price pressures increased but modest, input costs moderate, and wages flat to slightly higher. On that reading, no participant found a case to withdraw accommodation.

Members weighing inflation risk noted that their usual caution applies when prices run hot, and here they plainly do not: inflation momentum in the framework registers -0.475, consistent with disinflation rather than any building price danger. Members focused on employment stressed that the labor picture argues for maximal support, with unemployment momentum at 3.35 and the Beige Book flagging permanent layoffs replacing furloughs and slowing service-sector hiring; the constraint, they acknowledged, is that the rate lever is exhausted at the floor, so holding is the most accommodative posture conventional tools allow. Those attentive to financial conditions found no distress demanding a move in either direction: the financial stress index at 0.14 is contained, the Baa spread at 2.67 elevated but not at crisis levels, the 10-year/2-year spread positive at 0.57, and the near-zero 3-month T-bill spread of 0.005 confirming markets are anchored to the current range and pricing no change. A VIX at

28.81, elevated but off crisis peaks, was read as residual uncertainty and a reason against premature tightening rather than a signal to act.

On the predictive question, the Committee's judgment is that the real Federal Reserve will leave the target range unchanged at 0.0%-0.25% at this meeting. On the separate question of what optimal policy would be, the Committee's deterministic framework independently recommends 0 bps as the loss-minimizing action, and the two conclusions coincide. Three of the four reference rules point the same way: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each read 0 bps. The one dissenting rule is the first-difference rule at +75 bps, which members uniformly discounted as a momentum-driven outlier reacting to the unemployment-momentum term rather than to the depth of current slack; with an estimated r* of -0.198, a negative neutral real rate itself signals that the current stance is appropriately accommodative rather than excessively easy. Members variously found the Taylor rule most persuasive for balancing measured slack against subdued inflation, and the ELB-adjusted rule most persuasive for recognizing explicitly that policy is pinned at the floor.

The convergence across mandates, rules, and the loss function was read by the Committee not as coincidence but as evidence that policy is neither ahead of nor behind the curve. There is no inflation case for tightening, no room to ease further conventionally, and no acute market dysfunction that would warrant an emergency move. The Committee therefore judges that holding the target range at 0.0%-0.25%, while maintaining accommodation and continued emphasis on the employment recovery, is both the likely and the optimal course.

COMMITTEE VOTE	The predictive vote was unanimous, 5-0, for holding the target range at 0.0%-0.25%. On the optimal-side deliberation, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement with no declines or partial agreements.