OpenFed

POLICY STATEMENT | December 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 Federal Reserve to hold at 0.0% to 0.25%, and its own deterministic framework independently arrives at the same 0 bps as the loss-minimizing optimum given a binding effective lower bound.

STATEMENT

The defining feature of this meeting was the absence of tension: every consideration the Committee weighed pointed in the same direction, and the effective lower bound removed the only lever that might have separated the members. Core PCE inflation stands at 1.14%, nearly a full point below the 2% objective, so there is no overshoot to lean against. Unemployment at 6.7% remains far above the 4.37% natural rate, and initial claims at 712,000 are still elevated, with the Beige Book describing restrained hiring amid pandemic uncertainty and an uneven recovery. Both sides of the mandate therefore argue for sustained accommodation rather than any withdrawal of it. The members focused on inflation risk found no trigger to tighten: the only watch item, supply-chain costs lifting some transportation and construction and manufacturing input prices, remains localized rather than broad, and overall wage and price growth is described as modest to slight.

With the target range already at 0.0% to 0.25%, the practical question was not whether to move but whether the floor itself is the right place to be. Members weighting employment noted that unemployment momentum of -1.6 shows the labor market improving, though slowly and from a deeply damaged starting point, and concluded that holding at the floor is itself the pro-employment vote, since cutting into negative territory is neither supported nor free of risk to orderly markets. Members attentive to financial conditions reached the same place from a different lens: the financial stress index at 0.1161 is low, the Baa spread at 2.22 is moderate, the 10y-2y curve at 0.79 is positively sloped with no inversion, and the slightly negative 3-month T-bill spread of -0.035 reflects front-end pricing anchored at the lower bound, not any expectation of a cut. VIX at 22.27 is elevated but well short of crisis levels. On this reading, tightening would restrict conditions needlessly and easing would risk signaling alarm without meaningful benefit.

On this basis the Committee's predictive judgment is that the real Federal Reserve will leave the target range unchanged at 0.0% to 0.25%, a call that all five members reached independently and held through rebuttal. The Committee's own deterministic framework returns the same figure as the optimal policy: 0 bps. All four reference rules, the Taylor rule, the balanced-approach rule, the first-difference rule, and the effective-lower-bound-adjusted rule, converge on 0 bps and are judged reliable this meeting. The framework's terms explain why the two conclusions coincide rather than merely happening to agree. Inflation momentum of 0.41 is positive but mild, giving no case for preemptive tightening, while the estimated r* of -0.188 places the neutral real rate below zero. Because unconstrained policy would prefer to go lower than the floor allows, the lower bound binds, and holding at 0.0% to 0.25% is the literal loss-minimizing choice rather than a compromise.

The Committee thus arrives at genuine convergence: the stance it expects and the stance it judges optimal are one and the same. That agreement is itself the finding worth stating plainly. With inflation below target, a large employment gap that policy cannot close faster from the floor, and financial conditions calm, the accommodative stance is appropriately calibrated and consistent with prior guidance tying rates near zero until maximum employment and 2% inflation are achieved. Members flagged that this calibration is conditional: should the noted cost pressures broaden, the readiness to tighten sooner would move to the fore, and the incomplete labor recovery would argue against any early withdrawal of support.

COMMITTEE VOTE

The predictive vote was unanimous at 0 bps (5-0), and on the optimal side all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement with no declines or partial agreements.