OpenFed

POLICY STATEMENT | January 20, 2021

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%-0.25%, and its own policy framework independently confirms 0 bps as the loss-minimizing choice, with rules and members in full agreement.

STATEMENT

What is most striking about this meeting is the completeness of the convergence: across four rounds of deliberation, five members reasoning from very different mandates, and a deterministic framework built on four separate reference rules, every path led to the same place. Core PCE inflation stands at 0.98%, roughly half the 2% objective, and inflation momentum registers a barely positive 0.055 — no sign of the acceleration that would trigger a tightening response. Even the member most attentive to price risk concluded that hawkish vigilance is simply not engaged by these data: undershooting, not overshooting, is the current condition, with the Employment Cost Index at 141.4 and Beige Book reports of only 'modest' wage gains confirming subdued wage dynamics. On the other side of the mandate, unemployment at 6.7% sits well above the estimated 4.36% natural rate, initial claims remain elevated at 965,000, and the Beige Book described labor markets as 'mixed,' with health risks keeping workers out. Recovery is incomplete, and activity remains below pre-pandemic levels.

Both mandate legs, then, argue against any tightening. The harder question was whether the depth of labor-market slack warranted a further move down. Here the binding constraint is the effective lower bound: with the target range already at 0.0%-0.25%, a conventional cut would push policy into negative territory, an unproven and potentially destabilizing step. The member most focused on employment considered whether that step was justified and concluded it was not — with no acute crisis signal, negative rates would be a drastic move unwarranted by orderly conditions, and holding at the floor already delivers maximum feasible accommodation. Financial conditions reinforced that reading rather than complicating it. The financial stress index at 0.1147 is low, the Baa spread of 2.13 is contained, and the 10y-2y spread at 0.97 is positively sloped with no inversion warning. A VIX of 21.58 reflects residual pandemic wariness rather than acute stress, and the 3-month T-bill spread of -0.035 shows the front end well anchored. On this reading, neither a defensive tightening nor an emergency easing has any basis; a surprise move in either direction would risk disturbing conditions that are functioning normally.

On its predictive judgment, the Committee expects the real Federal Reserve to leave the target range unchanged at 0.0% to 0.25%. Market pricing supports this directly — the near-flat T-bill spread implies no expected near-term move — and the prior meeting's guidance to hold until maximum employment and inflation on track above 2% remains unmet on both counts. Turning to its own independent assessment of optimal policy, the Committee reached the same conclusion for reasons of its own construction. The deterministic framework's loss-minimizing recommendation is 0 bps, and all four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — printed 0 bps and were judged reliable this meeting. The estimated neutral real rate of -0.208 is telling: with r* below zero, the current 0.0%-0.25% stance is genuinely accommodative rather than merely passive, and the ELB-adjusted rule's recognition that conventional easing is exhausted at the floor proved the most persuasive to several members.

The optimal figure is therefore 0 bps, and the appropriate stance is to hold the target range at 0.0% to 0.25%. That the framework's loss-minimizing answer and the predicted real-world outcome coincide is itself informative: it indicates the current stance is well-calibrated, with no divergence signaling that policy is mispriced. The Committee will remain alert to any shift in inflation momentum as recovery proceeds, and would reassess promptly should that momentum turn upward.

COMMITTEE VOTE	The Committee's predictive vote was unanimous, 5-0, that the real Federal Reserve will hold at 0.0%-0.25%. On its own framework's 0 bps recommendation, the optimal-side vote was likewise unanimous, with all five members endorsing the recommendation as-is (5 endorse, 0 decline, 0 partial).