OpenFed

POLICY STATEMENT | September 15, 2021

PREDICTED FED DECISION **HOLD**

0.00%-0.25%

OPENFED OPTIMAL RATE **+50 bps**

0.50%-0.75%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 0.0-0.25%, yet its own framework judges 50 bps optimal — a full-50-basis-point gap between the anticipated hold and what reliable rules prescribe.

STATEMENT

Information reviewed at this meeting showed an economy running hot on inflation while its labor recovery remains incomplete. Core PCE stood at 3.14%, more than a full point above the 2% objective, and the Beige Book reported widespread, persistent wage and price pressures across nearly every district, with contacts themselves 'less optimistic' that supply and labor challenges would soon abate. Against that, unemployment at 5.2% remained above the 4.46% natural rate, though it had fallen from 5.9% at the prior meeting and jobless claims of 310,000 were consistent with a recovery that is uneven but not stalling. Financial conditions were calm throughout: the stress index at 0.0927 was very low, the VIX at 18.18 moderate, the Baa spread at 1.87 tight, and the 10y-2y curve at 1.1 positively sloped with no recession signal.

On the question of what the real Federal Reserve will do at this meeting, participants converged without exception on a hold at the current 0.0% to 0.25% range. The reasoning was consistent across the Committee: prior guidance conditions liftoff on both maximum employment and inflation sustainably at or above target, and while the inflation leg is plainly satisfied, the employment leg is not. Members most attentive to inflation acknowledged that the transitory story is weakening and that the case for firmer policy is building, but concluded that hiking now — with the labor test unmet and no prior signal preparing markets — would break the Committee's own stated conditions and risk a disorderly move. Members focused on employment noted that with unemployment still above the natural rate and no room to cut below the effective floor, there is no case for tightening. Members watching markets and financial stability pointed to the 3-month T-bill spread of -0.085, which prices no imminent hike, and to the absence of any credit or systemic stress that would force a move in either direction.

The Committee's own deterministic framework tells a different story about what policy should be. Its reference rules cluster well above the current stance: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each point to 75 bps, while the more gradualist first-difference rule, which keys off momentum, points to 50 bps. With inflation momentum positive at 0.4 and unemployment momentum at -0.05, and with the reference rules judged reliable this meeting, the loss-minimizer settles on an optimal move of +50 bps — splitting the aggressive level rules against the case for gradualism. An estimated r* of -0.292 was central to why the Committee finds this defensible rather than restrictive: with the neutral rate deeply negative, even a 50 basis point step leaves policy accommodative in real terms, removing emergency-level support without choking off hiring. The Committee therefore holds two conclusions with equal conviction: it expects the real Federal Reserve to hold at 0.0-0.25%, and it independently judges the optimal policy to be a 50 basis point increase.

That gap of a full 50 basis points is the central feature of this meeting. It measures the distance between what the guidance and market pricing support and what the reliable rules prescribe — accommodation the Committee expects to be deliberately extended beyond the framework's recommendation on the strength of the transitory-inflation framing and the unmet maximum-employment goal. Several members read the calm in markets not as reassurance that waiting is costless but as the safe window in which to begin normalizing, cautioning that prolonged ultra-low rates can fuel asset mispricing and force sharper corrections later. The Committee judged the direction of the framework's call to be sound while recognizing that reasonable disagreement remains over its magnitude and timing.

COMMITTEE VOTE	The predictive vote to hold the target range at 0.0% to 0.25% was unanimous, 5-0. On the framework's 50 bps recommendation, the Committee split 3-2: three members endorsed it as-is and two supported the direction but not the magnitude, with none declining.
NOTES	*The two members who declined to endorse the full 50 bps — one weighting market pricing most heavily, one focused on financial stability — agreed the stance is falling behind a 3.14% core PCE overshoot but objected to the magnitude given that the -0.085 T-bill spread shows no hike priced in; the stability member warned that a 50 basis point surprise against zero market pricing could itself trigger the disorderly repricing he guards against, and both favored a smaller opening step toward normalization.*