OpenFed

POLICY STATEMENT | December 8, 2021

PREDICTED FED DECISION HOLD
0.00%-0.25%

OPENFED OPTIMAL RATE +75 bps
0.75%-1.00%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 0.0-0.25% this meeting, even as its own policy framework judges the optimal setting to be 75 bps higher — a wide gap all five members read as policy running behind the curve.

STATEMENT

Information reviewed this meeting described an economy running hot against an accommodative stance. Core PCE inflation stood at 3.8%, nearly double the 2% objective, with the Beige Book reporting robust wage growth and widespread price increases across nearly all Districts. The labor market showed no slack: unemployment at 4.2% sat below the 4.45% natural rate, initial jobless claims were low at 222,000, and hiring difficulties were broad. Financial conditions were calm rather than fragile — the stress index at 0.1334 was low, the VIX at 19.9 moderate, the Baa spread at 1.75 tight, and the 10y-2y curve positively sloped at 0.84. The CFNAI at 0.76 pointed to above-trend growth. On the data as given, there was no crisis constraining policy in either direction and no employment weakness that could justify continued emergency support.

In deliberating on the most probable action of the real Federal Reserve, participants converged quickly and unanimously on a hold at the 0.0-0.25% range. The reasoning was one of sequencing rather than economic weakness: the committee only recently began reducing asset purchases, that wind-down remains underway, and layering a surprise rate move on top of it would be operationally inconsistent and risk unsettling otherwise stable markets. Prior guidance ties liftoff to conditions on the employment side that participants did not judge to have been met this meeting, and the 3-month T-bill spread of -0.065 relative to the current rate indicated markets are not pricing an imminent hike. Participants firmly ruled out any easing, given inflation far above target, and while several carried a clear tightening bias into coming meetings, the realistic near-term path was to hold and let existing normalization proceed. The predicted decision was a hold, but a hold explicitly described as behind the curve on inflation.

The Committee's own deterministic framework reached a sharply different conclusion about where policy should be. All four reference rules — the Taylor rule, the balanced-approach rule, the first-difference rule, and the ELB-adjusted rule — converged on 75 bps, and the framework judged them reliable this meeting. That unanimity across specifications carried weight: the Taylor rule logic responds directly to the 1.8pp inflation gap while unemployment sits below neutral, the balanced-approach rule weighs that employment gap alongside inflation and still lands at 75 bps, and inflation momentum of 0.36 confirmed pressures still building rather than receding, undercutting any residual 'transitory' framing. Unemployment momentum of -0.55 showed the labor market still tightening. Notably, estimated r* was negative at -0.397, which several participants read as reinforcing rather than softening the case: even a 75 bps move would leave real policy accommodative, making the recommendation catch-up toward neutral rather than restrictive tightening. On this reasoning the Committee's independent judgment of optimal policy was a hike of 75 bps, moving the range decisively toward 0.75-1.00%.

The gap between the predicted hold and the framework's 75 bps recommendation was, then, the central feature of this meeting: markets and institutional sequencing point to no move now, while the fundamentals and every reliable rule say policy should already have moved. Participants weighting employment concluded that a strong labor market gives room to firm without harm and that letting inflation erode real wages would ultimately hurt the workers the mandate protects. Those attentive to financial stability agreed the direction was correct and that benign conditions could absorb the move, but registered a genuine reservation about magnitude and timing — a single 75 bps step from the effective lower bound is larger than the -6.5 bps of market pricing is positioned for, and risks a disorderly repricing. That tension over how fast, not whether, to move was the one real crack in an otherwise one-directional optimal case.

COMMITTEE VOTE

The predictive vote to hold the target range at 0.0-0.25% was unanimous, 5-0. On the framework's 75 bps recommendation, the Committee's optimal-side deliberation split 3-2: three members endorsed the recommendation as-is, and two agreed with the direction but not the magnitude or timing.

NOTES

The two partial positions came from the financial-stability and market-signal perspectives. Both accepted that policy was behind the curve and that calm conditions left room to remove accommodation, but objected to a single 75 bps step from the lower bound against market pricing that discounts essentially no near-term move — arguing a smaller initial step would better match the orderly, gradual path markets have priced while still beginning the needed correction.