OpenFed

POLICY STATEMENT | March 19, 1996

PREDICTED FED DECISION HOLD

5.25%

OPENFED OPTIMAL RATE HOLD

5.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 5.25%, and its own framework independently judges 0 bps optimal — a rare case where the predictive read and the loss-minimizing recommendation fully coincide.

STATEMENT

Information reviewed at this meeting described an economy sitting close to balance on every mandate-relevant dimension, with no single signal urgent enough to force a move in either direction. Core PCE inflation at 1.96% was judged essentially at the 2.0% target — neither overshooting nor materially undershooting — and participants noted that this near-target reading was the pivot on which most of the debate turned. Unemployment at 5.5% stood modestly above an estimated natural rate of 5.32%, pointing to slight labor slack rather than overheating. A somewhat softer picture on the real side came through in the Chicago Fed activity index at -0.14, indicating below-trend growth, and initial jobless claims at 384,000, read as elevated but not alarming. Financial conditions were characterized as calm: a financial stress index of 0.0705, a moderate VIX at 18.35, contained Baa spreads of 1.71, and a positively sloped yield curve at 0.56 that gave no recession signal.

Against this backdrop, most participants judged that the real Federal Reserve would hold at 5.25%, and the Committee predicts no change. The argument for standing pat rested on the same near-target inflation reading from several directions at once: with price pressures neither building nor clearly receding, those focused on inflation risk viewed a cut as premature and a needless invitation to reignite pressure, while those attentive to credit conditions saw no stress or volatility that would justify injecting a policy surprise into benign markets. A minority made the case for a modest 25bp cut, weighting the softer real-side data and, in particular, the 3-month T-bill trading roughly 20bps below the funds rate as evidence that markets were pricing about one small cut; in this view, a calm environment is precisely the low-cost moment to act preemptively on labor softening. Others took the same T-bill spread as a signal against tightening rather than a mandate to ease, and with slack mild and inflation at target, the balance of the Committee did not find the easing case compelling enough to move. The final predictive vote was 3 to 2 in favor of a hold.

Turning to its own assessment of optimal policy, the Committee's deterministic framework likewise recommended 0 bps, and here the more instructive feature was the gap between the level-based reference rules and that recommendation. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all pointed to 75 bps — notably above the current 5.25% — implying that on a static, level basis policy looks slightly accommodative. The first-difference rule, which responds to changes rather than levels, returned 0 bps. Participants generally judged the momentum framing the more persuasive read for this meeting: inflation momentum was barely negative at -0.015 and unemployment momentum only 0.05, both small and stable, so nothing had shifted enough to warrant moving rates. With an r* of roughly 2.75% implying a current real rate that is only modestly restrictive, and with the reference rules flagged as reliable, the framework's loss-minimizing output reconciled the tension by holding: no case to tighten into calm-but-softening conditions, and no disinflation demanding a cut.

The convergence of the predictive read and the optimal recommendation was noted, though participants read the level-rule divergence through different lenses. Those weighting inflation risk emphasized that with three rules leaning toward tightening and none toward easing, a hold represents the dovish edge of the defensible range and 0 bps is a floor, not a step toward a cut. Those weighting employment argued the opposite: that the 75bp level-rule signal overstates the tightening need because it ignores rising unemployment momentum and softening claims, and that the change-based logic correctly protects a labor market that is drifting, if only slightly, in the wrong direction. Both readings, however, landed on the same conclusion — hold at 5.25% — and the Committee judged that current policy is roughly appropriate given the mixed but non-urgent signals in front of it.

COMMITTEE VOTE

The Committee's predictive vote was 3 to 2 that the real Federal Reserve will hold the target rate at 5.25%; on its own framework's 0 bps recommendation, the optimal-side deliberation was unanimous, with all five members endorsing the recommendation as-is.

NOTES

On the predictive vote, two members favored a 25bp cut, arguing that mild labor softening — unemployment above the natural rate, elevated jobless claims at 384,000, below-trend activity at -0.14, and a T-bill spread 20bps under the funds rate — made a calm environment the low-cost moment to ease preemptively while inflation sat at target.