OpenFed

POLICY STATEMENT | September 17, 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 predictive forecast and loss-minimizing recommendation fully coincide.

STATEMENT

Information reviewed at this meeting described an economy sitting close to both mandate objectives, with little in the data pressing policy in either direction. Core PCE inflation at 1.9% was judged essentially at the 2.0% target, neither overshooting nor signaling a deflationary shortfall demanding support. The unemployment rate at 5.1% stood modestly below the 5.29% estimate of its natural level, which participants generally read as a firm, somewhat tight labor market rather than a weakening one, with initial jobless claims of 338,000 showing no clear deterioration and the Chicago Fed activity index at 0.3 pointing to growth slightly above trend. Financial conditions were characterized as calm and orderly throughout: the financial stress index at 0.0789 showed no systemic strain, the VIX at 15.74 reflected subdued volatility, the Baa credit spread of 1.51 indicated benign borrowing costs, and the 10-year/2-year spread of 0.59 remained positively sloped, carrying no recession warning. Against this backdrop, all five participants independently arrived at the same predictive conclusion — that the real Federal Reserve would leave its policy rate unchanged at 5.25% — a view none revised after seeing one another's reasoning.

Where genuine tension surfaced, it was as much a forward-looking disagreement about risk as about the present read. Participants weighting inflation risk most heavily stressed that a labor market running below its natural rate can generate wage pressure over time, and viewed this as the principal upside concern to monitor; they conceded, however, that inflation was not yet accelerating above target and that a preemptive hike was not compelled at this meeting. Participants weighting employment risk noted that their own case for easing depends on evidence of rising unemployment or slowing job growth, and found that evidence simply absent — cutting into a firm labor market with above-trend growth would risk overheating for no employment benefit. Those focused on financial stability and on market pricing reinforced the hold from their own angles, observing that the 3-month T-bill sitting 8 basis points below the funds rate implied markets expected no move, and that easing into calm, tight-spread markets risked fueling excess. The shared conclusion was that current policy is roughly neutral and that holding preserves optionality in either direction.

The Committee's own policy framework, applied independently of the predictive forecast, likewise recommended 0 bps. That recommendation ran against several of its own reference rules: the Taylor rule prescribed -50 basis points and the balanced-approach rule -75, with the ELB-adjusted variant also at -75, each driven by inflation slightly below target and unemployment near its natural rate against an r* of 2.871. The framework declined to follow these level-based prescriptions. The decisive consideration was the first-difference rule, which returned 0 bps, together with essentially flat dynamics — inflation momentum of -0.065 and unemployment momentum of exactly 0.0. Participants found this the more persuasive read: with no adverse drift and reference rules judged reliable, the framework weighted the absence of change over the mechanical, absolute-level easing signals. The negative inflation-momentum term was regarded as too mild to justify moving against a labor market this tight, and with unemployment momentum at zero there was no deterioration to lean against. On this reasoning the loss-minimizing recommendation of 0 bps overrode the cut-signaling rules.

The upshot is a meeting in which forecast and framework converged rather than diverged. Both the prediction of what the real Federal Reserve will do and the Committee's independent judgment of optimal policy landed at no change from 5.25%. Participants read this agreement as confirmation that the current stance is well-calibrated — neither restrictive enough to threaten employment nor accommodative enough to risk inflation or financial excess — and emphasized that a prompt response remains available should jobless claims rise, unemployment momentum turn positive, or inflation firm from here.

COMMITTEE VOTE

The predictive vote was unanimous at 0 bps, 5-0. 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 dissents.