OpenFed

POLICY STATEMENT | June 22, 1999

PREDICTED FED DECISION +25 bps

5.00%

OPENFED OPTIMAL RATE −25 bps

4.50%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps hike against a tight, wage-pressured economy, yet its own framework judges the loss-minimizing move to be a 25 bps cut, driven by soft, decelerating inflation.

STATEMENT

Information reviewed for this meeting described an economy that remains strong, with widespread activity gains and, per the Beige Book, very tight labor markets, upward wage pressure across many districts, and labor supply constraints actually impeding employment growth. Unemployment stood at 4.2%, far below the 5.14% estimated natural rate, and jobless claims of 292,000 gave no hint of deterioration. Against that backdrop, core PCE inflation was only 1.4%, well below the 2.0% target, while rising oil and building costs were read by several participants as early signs of cost pressures not yet showing through to core prices. Financial conditions were judged stable enough to absorb a move: the financial stress index at 0.1947 was moderate, the Baa spread at 2.12 contained, the 10-year to 2-year spread positive but flat at 0.29, and the VIX at 21.7 elevated but short of stress levels. The 3-month T-bill sitting 0.15 below the funds rate suggested markets were not pricing aggressive tightening.

On the question of what the real Federal Reserve is likely to do, all five participants independently arrived at the same place. Approaching the data from distinct lenses -- inflation risk, labor tightness, financial stability, literal data-dependence, and market pricing -- each judged that tight labor and strong, broad-based demand argued for preemptive tightening, while below-target inflation capped the appropriate size at a single move. The financial-stability case that delaying now risks a sharper, more disruptive correction later was widely found persuasive, and no participant saw an employment weakness or recession signal that would justify holding or cutting. The Committee's predictive judgment is accordingly a 25 bps increase, taken as measured insurance against building wage and cost pressures rather than a response to any realized inflation emergency.

The Committee's own deterministic policy framework pointed the other way, recommending a 25 bps cut. That divergence is genuine and worth stating plainly. Three of the four reference rules -- the Taylor rule at 75 bps, the balanced-approach rule at 75 bps, and the ELB-adjusted rule at 75 bps -- keyed off the wide unemployment gap and an estimated r* of 3.547, implying substantial room above the current 4.75% stance. The first-difference rule, by contrast, recommended -25 bps, and the loss-minimizing calculation followed it. The decisive terms were inflation momentum of -0.06 and unemployment momentum of 0.0: with prices soft and decelerating and the labor market not tightening further, a change-based rule sees no push toward restraint, and the loss function read the current 4.75% stance as already modestly restrictive relative to 1.4% inflation. Participants sympathetic to this reading noted that the level rules assume a neutral rate and natural-rate gap that soft, well-behaved prices call into question, and that market pricing -- the negative bill spread and the near-flat curve -- quietly doubts that high r*.

The optimal-side deliberation did not resolve into agreement, and the Committee records that openly. Those weighting current, decelerating inflation and market-implied conditions most heavily accepted the framework's -25 bps as the loss-minimizing response to present data. Those weighting forward inflation risk resisted easing into a labor market running well below the natural rate, judging that a cut would add accommodation exactly when wage pressures are building. Even among participants who accepted the easing direction, there was hesitation about the full 25 bps magnitude given robust activity and no realized job-loss threat. The Committee therefore presents both conclusions as its own considered judgments arrived at through this deliberation: a predicted 25 bps hike, and an independently determined optimal move of a 25 bps cut, with the gap between them itself a measure of how far the anticipated policy stance sits from what the framework's rules imply.

COMMITTEE VOTE	The predictive vote for a 25 bps increase was unanimous at 5-0. On the framework's -25 bps recommendation, the Committee split: one member endorsed it as-is, two agreed with the easing direction but not the magnitude or timing, and two declined it outright.
NOTES	*The two members who declined the -25 bps recommendation grounded their objection in forward inflation risk: with unemployment at 4.2% against a 5.14% natural rate, tight labor and building wage and cost pressures, they judged that easing would compound accommodation in an already-hot economy and that the level-based rules pointing to 75 bps better captured the overheating gap than a momentum-driven cut.*