# OpenFed

**POLICY STATEMENT** | August 17, 1999

PREDICTED FED DECISION +25 bps
**5.25%**

OPENFED OPTIMAL RATE −25 bps
**4.75%**

KEY TAKEAWAY

**The Committee unanimously expects the real Federal Reserve to raise rates 25 bps, even as its own policy framework judges the loss-minimizing move to be a 25 bps cut toward a neutral stance already below the current rate.**

## STATEMENT

Information reviewed by the Committee described an economy running warm with inflation nonetheless quiet. Unemployment stood at 4.3%, well below the 5.13% estimated natural rate, and the Beige Book pointed to widespread labor shortages and supply constraints across virtually every district, alongside brisk loan demand and continued expansion. Core PCE, at 1.15%, remained a full 85 basis points under the 2.0% objective, and reports of wage acceleration were only 'scattered' with no broad-based pickup in consumer prices. Financial conditions looked orderly: the stress index at 0.2481 was moderate, the Baa spread contained at 2.24, and the 10-year to 2-year term spread barely positive at +0.21. The VIX, at 21.67, was elevated but short of anything resembling panic.

Against that backdrop, all five members independently arrived at the same predictive judgment: the real Federal Reserve would most likely deliver a modest 25 basis point hike. Participants emphasizing inflation risk argued that a labor market this tight, with oil prices climbing and home-construction costs firming, builds upside pressure that has not yet shown up in the numbers but warrants pre-emptive leaning against. Those attentive to employment found no weakness to defend and read the tightness itself as an overheating risk. The financial-stability perspective judged that calm credit conditions could absorb a small step without destabilization, and the market read of the slightly negative 3-month T-bill spread of -0.31 was taken as consistent with modest firming being priced rather than aggressive tightening. Members were careful to note that subdued realized inflation argued against anything larger than 25 bps.

The Committee's own deterministic framework, run on the same data, reached a different conclusion: the loss-minimizing move is -25 bps, a modest cut. The reference rules themselves split sharply. The Taylor rule returned +25, aligning with the predictive vote, while the Balanced Approach and ELB-adjusted rules both called for +75 on the strength of the unemployment gap. The First-Difference rule, responding to the direction of change rather than the level, prescribed -50 bps, reflecting an inflation momentum term of only 0.13 and a slightly negative unemployment momentum of -0.1. With the rules judged reliable this meeting and an estimated r* of 3.543 implying a neutral nominal rate near 4.7%, below the current 5.0%, the framework read the present stance as already mildly restrictive. Weighing the aggressive gap-based prescriptions against benign realized inflation, the loss function landed on a modest -25 bps cut toward neutral.

The divergence between the +25 predictive expectation and the -25 optimal recommendation is the essential story of this meeting. Members endorsing the framework's easing case stressed that below-target inflation and negative price and employment momentum give no mandate for restraint, that the nearly flat curve cautions against tightening that could invert it, and that the sub-funds-rate T-bill signal confirms markets see the stance as already tight. The Committee acknowledged the tension openly: the predictive vote reflects institutional caution about supply constraints and labor tightness, while the framework prices what is measured rather than anticipated. That gap is worth watching. Should scattered wage reports broaden, the case for easing would need swift reversal.

**COMMITTEE VOTE**

The predictive vote was unanimous at 5-0 for a 25 basis point increase. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation split 3-1-1: three members endorsed the cut as recommended, one declined, and one agreed with the direction but not the full magnitude.

**NOTES**

*The lone decline came from the inflation-risk perspective, which held that easing into a labor market this tight invites future price pressure, that -0.1 unemployment momentum is too small to read as genuine softening, and that while subdued core PCE offers no case to hike, an active cut cannot be endorsed while overheating risk is elevated; a hold was seen as more defensible. The partial position, from the data-dependent view, agreed that below-target inflation and a flat curve support easing in direction but judged a full -25 bps step more than the neutral gap alone demands against 4.3% unemployment, preferring a smaller move.*