# OpenFed

**POLICY STATEMENT** | March 14, 2000

PREDICTED FED DECISION +25 bps

**6.00%**

OPENFED OPTIMAL RATE HOLD

**5.75%**

KEY TAKEAWAY

**The Committee unanimously expects the real Fed to raise rates 25 bps, yet its own deterministic framework judges the loss-minimizing move to be 0 bps, holding at 5.75%.**

## STATEMENT

Activity reviewed at this meeting was, by nearly every measure, running hot. The Beige Book pointed to appreciable, widespread expansion, tight labor supply for both skilled and entry-level workers, and upward wage pressure across most districts, with the Chicago Fed National Activity reading at 0.44 confirming above-trend growth. The labor market stood out most sharply: unemployment at 4.1% sits well below the 5.12% natural rate, and initial claims of 270,000 gave no hint of deterioration. Against that backdrop, core PCE at 1.9% remained just below the 2.0% objective. Participants generally read this configuration the same way — a strong real economy with building wage pressure but, as yet, contained final goods prices, described in the Beige Book as 'limited overall.'

On the question of what the real Federal Reserve will do, all five participants arrived independently at the same answer: a further 25 bps step, lifting the funds rate from 5.75%. The reasoning converged from different starting points. Members weighting inflation emphasized momentum over the level, arguing that standing still amid this degree of labor tightness risks letting wage-driven pressure firm. Members focused on employment reached a hike from the opposite direction — with no visible labor weakness to cushion, a modest firming now was judged to guard against a sharper, more damaging correction later. Those attentive to financial conditions and market pricing agreed on both the direction and, importantly, the size: the near-flat 3-month T-bill spread of -0.04 suggested markets have priced roughly one more measured move, while the inverted 10y-2y spread of -0.17 argued against anything larger. Financial stress at 0.2541, a Baa spread of 2.15, and a VIX of 24.41 were read as elevated but tolerable — enough to counsel a gradual pace, not a pause.

The Committee's own deterministic framework told a different story, and the divergence is the central feature of this meeting. The loss-minimizing recommendation came in at 0 bps — a hold. That result reflects a genuine split among the reference rules themselves. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all called for 75 bps of tightening, driven by the large unemployment gap and an estimated r* of 3.722. But the first-difference rule, which responds to change rather than level, returned 0 bps, and it is that logic the framework's loss function favored here: inflation momentum registered only 0.025 and unemployment momentum was flat at 0.0. With inflation essentially at target and no accelerating deterioration in either direction, the case for adding restriction rested almost entirely on a high, uncertain r* — precisely the input the first-difference approach is designed to sidestep. Set against the inverted curve and moderate credit stress already doing some tightening work, the framework judged that holding at 5.75% minimizes expected loss.

Most participants found the hold defensible on its own terms. Those weighing financial stability stressed that tightening into an inverted curve with a Baa spread of 2.15 could convert a soft recession signal into genuine credit contraction; those tracking market pricing noted the flat T-bill spread implies policy is already near or above neutral. The employment-focused view landed the same place — no labor threat means no reason to cut, but also no reason to add restraint that could bite if activity turns. The dissenting texture came from the inflation side: a real rate near 3.85% was seen as only modestly above neutral against a below-natural-rate labor market, and three level rules agreeing at 75 bps was read as a strong overheating tell. On that view, 0 bps undershoots — the optimal step, though not a large one, should lean toward closing the gap. The Committee therefore holds two conclusions of equal standing: a predicted 25 bps hike from the real Fed, and an independently determined optimal path of no change.

**COMMITTEE VOTE**

The predictive vote for a 25 bps hike was unanimous, 5-0. On the framework's 0 bps recommendation, the optimal-side deliberation landed 4-1 in favor, with four members endorsing the hold as-is and one endorsing its direction but not its magnitude.

**NOTES**

*The lone qualification came from the inflation-weighted member, who accepted the framework's math but judged 0 bps to undershoot: with unemployment far below the 5.12% natural rate, three level rules at 75 bps, and inflation momentum drifting up at 0.025, a modest tightening step was seen as the more prudent guard against under-tightening in a hot economy.*