OpenFed

POLICY STATEMENT | June 21, 2000

PREDICTED FED DECISION HOLD

6.50%

OPENFED OPTIMAL RATE −25 bps

6.25%

KEY TAKEAWAY

The Committee unanimously expects the Fed to hold at 6.5%, while its own framework judges a 25 bps cut optimal — a divergence its members split 3-2 on endorsing.

STATEMENT

All five members converged, from distinctly different vantage points, on the same near-term judgment: the real Federal Reserve will hold the funds rate at 6.5% at this meeting. Core PCE at 1.74% sits below the 2.0% target, removing any urgency to tighten further, yet the labor market remains extremely tight — unemployment at 4.1% is well below the 5.11% natural rate, and the Beige Book reports tight conditions across all 12 Districts, with worker shortages constraining output in several. That combination cut against action in either direction. The members watching credit and market signals emphasized that the 10-year/2-year spread is inverted at -0.39 and the 3-month T-bill sits 0.85 below the current rate, both indicating that prior tightening has bitten and that markets read policy as at or near its peak. On the inflation side, the argument for restraint was tempered by the observation that base wages are not accelerating outside specialty and seasonal roles and that labor tightness has not intensified since the prior report. With demand moderating — softening auto and durable-goods sales, rising inventories, retail growth cooling in half the Districts — the case for a further hike was judged weak, and no member saw grounds for a cut this meeting with labor this tight. The predictive conclusion was a hold at 6.5%.

Separately, the Committee's deterministic policy framework identified -25 bps as the loss-minimizing rate for this meeting. That recommendation does not follow from the reference rules read at their surface: the Taylor rule prescribes +50 bps and both the balanced-approach and ELB-adjusted rules prescribe +75 bps, each leaning heavily on the wide unemployment-versus-natural-rate gap. Only the first-difference rule, at 0 bps, matches the predictive hold. The framework's tilt toward easing rests instead on momentum and neutral-rate readings: inflation momentum of just +0.09 and unemployment momentum of -0.1 point to little acceleration, while the estimated r* of 3.737 combined with core PCE near target implies a nominal neutral rate meaningfully below the current 6.5%. Read against those inputs, the levels-based rules were judged backward-looking, overweighting a tight labor market they measure without regard to the inverted curve and building recession risk.

The members who endorsed the -25 bps recommendation framed it as precautionary insurance rather than a response to any present weakness. From the employment lens, waiting for unemployment to actually rise risks acting too late; the inverted curve and the sub-funds T-bill argue that a measured step back toward neutral is warranted before slowing hardens. From the financial-stability lens, the Baa spread at 2.35 reflects meaningful borrowing-cost stress building even as the VIX at 20.61 and the stress index at 0.3084 signal no acute distress, so a small ease relieves funding pressure without abandoning inflation discipline. The market-focused reading reached the same place: with the funds rate roughly 100 bps above market-implied neutral, one 25 bps step toward that neutral is measured, not aggressive. Those who declined the recommendation grounded their objection in the same data set read differently. The inflation-focused view held that risk still skews upside, that three of four rules point higher, and that positive inflation momentum and a labor market overshooting its natural rate argue against easing until inflation momentum clearly turns negative. The centrist objection was one of timing: with momentum near zero, growth still solid (CFNAI at 0.12), and no crisis in the stress readings, a cut against below-target-but-firm data and still-tight labor was judged premature this meeting, the direction plausible but not yet warranted.

The Committee therefore records a hold at 6.5% as its prediction of Federal Reserve action, and a 25 bps cut as its own framework's optimal policy — a genuine divergence, small in magnitude but real in direction, that its members themselves did not fully resolve. The gap between the two figures quantifies a stance judged mildly too restrictive by three members and defensibly patient by two, with the tension turning on whether forward-looking curve and momentum signals should be acted on now or confirmed first.

COMMITTEE VOTE

The predictive vote to hold at 6.5% was unanimous, 5-0. On the framework's -25 bps optimal recommendation, the Committee split 3-2, with three members endorsing the cut and two declining it.

NOTES

The two members declining the -25 bps recommendation did so on distinct grounds: one, weighting inflation risk, held that the labor-market overshoot and positive inflation momentum of +0.09 keep the risk skewed upside and that three of four reference rules point higher, so easing would abandon restraint prematurely; the other objected on timing, judging that with momentum near zero and no acute stress, a cut against still-firm data and a tight labor market is premature this meeting even if the direction is plausible.