OpenFed

POLICY STATEMENT | November 8, 2000

PREDICTED FED DECISION HOLD
6.50%

OPENFED OPTIMAL RATE −25 bps
6.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 6.5%, yet its own framework judges the optimal move to be a 25 bps cut to 6.25%, a one-step divergence every member ultimately endorsed.

STATEMENT

The information reviewed indicated an economy that is cooling without any breakout on either side of the Committee's concerns. Core PCE inflation stands at 1.5%, half a point below the 2.0% target, while the unemployment rate at 3.9% remains well below the 5.1% natural rate. The Beige Book described moderate growth with additional signs of slowing across several districts, softening retail, and slowing housing sales and construction. Participants gave weight to a set of forward-looking signals pointing the same direction: the 10-year to 2-year spread is inverted at -0.12, the 3-month T-bill trades 0.28 below the current funds rate, and the Chicago Fed activity index sits at -0.36. Financial conditions were judged elevated but contained, with the VIX at 25.66, the Baa credit spread at 2.48, and a financial stress index of 0.2526 — nervousness rather than acute distress.

On the question of what the real Federal Reserve will do at this meeting, the Committee arrived at a clear and unanimous read. The still-tight labor market, with jobless claims at 331k not yet spiking and wage pressures noted in the Beige Book, was seen as removing any urgent case to ease, even as the sub-target and softening inflation backdrop removed any case to tighten. Participants attentive to inflation risk emphasized that firms report they cannot pass cost increases through to prices given strong competition, capping realized inflation but not, in their view, justifying a cut while labor remains this stretched. Those most focused on financial stability and market pricing agreed that a preemptive cut, absent confirming deterioration in credit or labor markets, could itself be a destabilizing surprise relative to what markets have priced. The Committee therefore expects the Federal Reserve to hold the target rate at 6.5%, keeping restrictive policy in place while monitoring for the first genuine signs of a slowdown reaching the labor market.

The Committee's own deterministic framework, run independently of that predictive judgment, points modestly the other way. With an estimated r* of 3.83 and negative inflation momentum of -0.19, the loss-minimizing recommendation is -25 bps, a cut to 6.25%. The reference rules diverge sharply on this point: the Taylor rule reads 0 bps, consistent with holding, while the Balanced Approach and ELB-adjusted rules both read +75 bps, driven almost entirely by the wide unemployment gap. The First-Difference rule, at -25 bps, matches the framework's output. In reconciling these, participants judged the +75 rules to rest on a labor gap that is stale — unemployment momentum is 0.0 and the tightness has produced no actual price acceleration. The First-Difference logic proved most persuasive because it responds to the direction of travel: inflation drifting below target and activity running below trend. On this reasoning, the framework's -25 bps is a proportionate first step, leaving policy still restrictive at 6.25%, well above a neutral rate participants placed near 5.3 to 5.8%.

The gap between the expected hold and the optimal -25 bps is thus a single 25 bps step, and the Committee read it as a signal that current policy has become modestly more restrictive than the disinflation warrants. Members focused on inflation risk accepted that guarding against price pressures no longer requires this degree of restriction given a falling, sub-target core PCE; those focused on employment framed the cut as insurance against the inverted curve and rising claims translating into actual job losses; and those weighing market signals noted that forward pricing already places the funds rate above where markets see it settling. A hold this meeting was judged defensible caution, but the framework's small easing was judged the sounder optimal call.

COMMITTEE VOTE

The predictive vote to expect a hold at 6.5% was unanimous, 5-0. On the optimal side, the Committee's deliberation on the framework's -25 bps recommendation also landed in full agreement, with all five members voting to endorse.