OpenFed

POLICY STATEMENT | November 1, 2018

PREDICTED FED DECISION HOLD

2.00%-2.25%

OPENFED OPTIMAL RATE −25 bps

1.75%-2.00%

KEY TAKEAWAY

The Committee expects the real FOMC to hold at 2.0-2.25% this meeting, while its own framework finds the loss-minimizing policy to be a modest 25 basis point cut, a direction the majority endorses only partially.

STATEMENT

Information reviewed for this meeting described an economy still expanding with a notably tight labor market and inflation running below the Committee's objective. Core PCE stood at 1.61%, beneath the 2.0% target, while unemployment at 3.7% remained well below the estimated natural rate of 4.61%. The Beige Book confirmed broad labor shortages, wage increases, and rising materials and shipping costs, with some manufacturers raising finished-goods prices. Financial conditions were calm: the financial stress index at 0.048 was very low, the Baa corporate spread at 2.03 was tight, and the VIX at 19.34, though modestly elevated, signaled no acute distress. The 10-year minus 2-year spread, positive at 0.3, showed no recession signal but was flattening in a way several participants judged worth watching.

On the question of what the real Federal Reserve will do at this meeting, the Committee arrived at a hold, keeping the target range at 2.0% to 2.25%. Two members opened arguing for a 25 basis point increase, reasoning that strong labor conditions, room below the FOMC's own median projection of 2.4%, and benign credit markets all supported continued gradual normalization; leaving policy accommodative too long while the economy runs hot carries its own risks. But the decisive consideration for the majority was timing. This meeting immediately follows a recent hike, the 3-month T-bill sits only about 16.5 basis points above the current range, and market pricing points to the following meeting as the more probable move. With realized inflation still under target and no acute price surge in hand, participants generally concluded that holding preserves the tightening bias fully intact without sacrificing inflation vigilance. Even the most inflation-focused member, whose priors lean toward tightening, was persuaded that a pause between scheduled increases is defensible here.

The Committee's own deterministic framework reached a different conclusion about optimal policy: a 25 basis point cut. This divergence is the meeting's central tension. The level-based reference rules pointed sharply the other way, with the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all recommending +75 basis points, driven mechanically by the wide gap between 3.7% unemployment and the 4.61% natural rate. The first-difference rule, however, returned -25 basis points, and the framework weighted it most heavily. That rule responds to momentum rather than a contested neutral-rate level, and both inflation momentum (0.07) and unemployment momentum (0.05) are only weakly positive. Decisive to the easing case was the estimated r* of -0.5: against a deeply negative neutral real rate, a nominal rate near 2.125% with inflation at 1.61% is already meaningfully restrictive, and the flattening yield curve reinforces the concern that further tightening would risk inversion. On this reading, the level rules overstate urgency by assuming a higher neutral rate than the data support.

The Committee thus holds two conclusions from the same deliberation: a predicted hold at the current range, and an optimal loss-minimizing policy of a 25 basis point cut. Members who did not endorse the cut stressed that it rests on a contested r* estimate and that no realized signal — not widening credit spreads, not rising jobless claims (214,000), not the Beige Book's modest-to-moderate growth — independently demands easing. Those sympathetic to the direction but not the step agreed the hiking cycle has reached restrictive enough territory and should pause, while judging an actual cut premature ahead of the market signal. The shared thread across every member was that further tightening is no longer warranted; the disagreement was only over whether to stop or to begin gently reversing.

COMMITTEE VOTE	The predictive vote to hold the target range at 2.0% to 2.25% was 4 to 1, with one member favoring a 25 basis point increase. On the framework's -25 basis point recommendation, the Committee split three ways: one member endorsed it as-is, two declined, and two agreed with the easing direction but not the magnitude or timing.
NOTES	*The lone predictive dissent favored a 25 basis point hike, arguing that a strong labor market, room below the 2.4% median projection, and calm credit conditions warranted continuing gradual normalization now rather than deferring to the next meeting. On the optimal side, one member endorsed the -25 basis point cut outright as insurance for employment given the negative r*, while two declined it as resting on a contested neutral-rate estimate unsupported by any realized distress.*