OpenFed

POLICY STATEMENT | June 12, 2019

PREDICTED FED DECISION **HOLD**

2.25%-2.50%

OPENFED OPTIMAL RATE **−50 bps**

1.75%-2.00%

KEY TAKEAWAY

The Committee expects the real Fed to hold at 2.25-2.50%, yet its own framework judges optimal policy to be a 50 bps cut to 1.75-2.00% -- a gap all five members traced to a policy stance now meaningfully more restrictive than conditions warrant.

STATEMENT

The defining feature of this meeting is not disagreement but distance: every member expects the real Federal Reserve to hold the target range at 2.25 to 2.50 percent, and every member, working through the Committee's own policy framework, concluded that the loss-minimizing setting would instead be a cut of 50 basis points to 1.75 to 2.00 percent. That the predictive and optimal conclusions point in different directions, while the members themselves are unanimous on both, is the story of this deliberation. The data behind it is genuinely mixed. Core PCE inflation stands at 1.23 percent, well below the 2 percent objective and, by the framework's momentum reading of -0.11, still drifting lower. Against that, the labor market shows no deterioration: unemployment is 3.6 percent, a full point below the 4.6 percent natural rate estimate, and initial claims remain low at 218,000. Financial conditions are calm, with the VIX at 15.91, a financial stress index of 0.3, and a moderate Baa spread of 2.38. The Beige Book describes only modest growth and subdued wage pressures despite tight labor.

On the predictive question, participants generally judged that these facts do not compel action at this meeting. Low inflation removes any case for tightening, but with employment strong and no acute financial stress, most saw no trigger forcing a cut now. Several leaned on the 3-month T-bill spread of -0.155 against the current rate midpoint: markets are pricing easing, but a -0.155 spread is not a full 25 basis points, suggesting the market sees a cut coming soon rather than at this exact meeting. One member who opened the deliberation favoring a 25 basis point insurance cut revised to hold after weighing that same point, concluding that cutting into calm conditions would front-run market pricing and risk signaling an alarm the data does not support, and that a move against the prior unanimous 'patient' stance could itself unsettle markets. An employment-focused member likewise carried a strong easing bias but acknowledged that the core trigger -- rising unemployment or slowing job growth -- is simply not present, and settled on holding for one more meeting while positioning to cut promptly. The consensus predictive vote is therefore to hold at 2.25 to 2.50 percent, maintaining a patient stance with a clear easing tilt.

The framework's optimal recommendation of -50 basis points rests on a different reading of the same numbers, and in Round 3 and 4 the members engaged it directly. With the estimated neutral real rate at -0.474, a nominal range of 2.25 to 2.50 percent against roughly 1.2 percent inflation leaves the real policy rate meaningfully above neutral -- that is, restrictive. The Taylor rule and the balanced-approach rule both call for -75 basis points, driven mainly by the inflation shortfall; the ELB-adjusted rule also reads -75, while the first-difference rule, incorporating the negative inflation and unemployment momentum terms (-0.11 and -0.05), lands at -50. Reference rules were judged reliable this meeting. The framework settles on -50 rather than the deeper -75 precisely because the financial backdrop is benign: with no acute stress in the data, easing toward neutral is warranted, but an abrupt 75 basis point move would risk jolting credit spreads and signaling alarm. Members repeatedly gravitated to the first-difference logic as the disciplined middle -- a gradual step off a restrictive setting that neither overreacts nor leaves disinflation and a flat 10y-2y curve of 0.25 unaddressed.

What united the members on the optimal side is that the divergence itself is diagnostic. The gap between an expected hold and a loss-minimizing -50 tells them current policy is more restrictive than the inflation and neutral-rate data justify, and that the institutional caution embedded in the prior 'patient' guidance is lagging what the rules jointly indicate. Even the most inflation-focused member reached this conclusion on his own terms: with inflation 0.77 percentage points below target and actively decelerating, the real risk is a persistent below-target regime that erodes the symmetry of the objective, and defending 2 percent from below is consistent with, not contrary to, taking inflation seriously. The Committee's considered judgment is thus twofold and stated with equal weight: it expects the real Federal Reserve to hold, and it independently determines that optimal policy would ease 50 basis points to 1.75 to 2.00 percent.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, to hold the target range at 2.25 to 2.50 percent; on the framework's optimal recommendation, all five members endorsed the -50 basis point call as-is, a 5-0 endorsement.