OpenFed

POLICY STATEMENT | July 24, 2019

PREDICTED FED DECISION −25 bps

2.00%-2.25%

OPENFED OPTIMAL RATE −25 bps

2.00%-2.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to cut 25 bps and independently judges 25 bps optimal — a rare case where its own gradualist framework tempers level rules calling for a far larger move.

STATEMENT

The defining feature of this meeting is how much argument it took to reach a conclusion that ultimately felt uncontested: inflation running soft, not hot. Core PCE stands at 1.29%, well below the 2% objective, with the Beige Book describing the pace of price inflation as 'stable to down slightly' and the framework's inflation momentum reading confirming the drift with a value of -0.065. That single fact reshaped the deliberation. The member most naturally inclined to resist easing acknowledged that a hold-tight instinct is triggered by inflation running above target, and it simply is not doing so here. The counterweight, raised repeatedly, is a labor market that remains genuinely tight — unemployment at 3.7% against an estimated 4.6% natural rate, jobless claims low at 216k — alongside a concern that tariff-driven input costs could feed through to prices later. But with compensation growth described as only modest-to-moderate and no evident wage-to-price pass-through, that concern was judged a reason for restraint on magnitude rather than grounds to hold.

On the labor side, participants weighed the tightness of the level against the direction of travel. The Beige Book noted employment growing at a modest pace, slightly slower than the prior period, with some manufacturing and IT firms in the Northeast reducing workers; the framework's unemployment momentum term of -0.1 puts a number on that softening at the margin. Set against a below-target inflation reading and negative inflation momentum, the two mandate sides point the same way toward some accommodation now rather than waiting. Financial conditions supply no urgency in either direction: the stress index at 0.048, VIX at 12.07, and a contained Baa spread of 2.23 describe calm, orderly markets with no acute distress. The signal that carried the most weight was the 3-month T-bill sitting 0.355 below the current range, which participants read as the front end having already discounted roughly one 25 bp cut — with the 10y-2y spread at a thin 0.22 flagging enough recession risk to favor modest insurance. Not delivering the priced-in move, several judged, would itself tighten conditions.

Taken together, the Committee's predictive conclusion is that the real Federal Reserve will cut by 25 bps, moving the target range from 2.25%-2.50% to 2.00%-2.25%. On its own optimal determination, the Committee arrives at the same figure, and here the reasoning is worth stating plainly because the reference rules do not all agree. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each call for -75 bps, driven by inflation well under target and an estimated r* of -0.42 that leaves the current stance meaningfully restrictive. The first-difference rule alone returns -25 bps. The framework's loss-minimizing recommendation lands on -25 bps, and every member found the first-difference logic the most persuasive: it adjusts incrementally from the current stance rather than resetting to the full level gap all at once.

The gap between the -75 bp level rules and the -25 bp recommendation was read not as the framework being overruled but as judgment tempering mechanics for good reason. A move of that size, participants agreed, would overstate distress the data does not show and risk a disorderly repricing that runs against the calm stress readings. Market pricing corroborates one cut, not three. With the labor market still strong at its level even as momentum softens, and with latent tariff pressures counseling against front-loading, the Committee judges 25 bps the proportionate step — modest insurance against sub-target inflation and curve-flattening recession risk that preserves room to do more if job growth weakens further.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in favor of a 25 bp cut. On the framework's optimal recommendation of -25 bps, the Committee's deliberation likewise landed in full agreement, with all five members endorsing the recommendation as-is (5 endorse, 0 decline, 0 partial).