OpenFed

POLICY STATEMENT | September 11, 2019

PREDICTED FED DECISION −25 bps

1.75%-2.00%

OPENFED OPTIMAL RATE −25 bps

1.75%-2.00%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to deliver a 25 bps cut, and its own policy framework independently arrives at the same -25 bps as loss-minimizing, with all five members endorsing.

STATEMENT

Information reviewed by the Committee described an economy expanding at a modest pace, with a labor market still firm but showing scattered signs of cooling. Unemployment stood at 3.7%, comfortably below the estimated 4.57% natural rate, and initial claims at 217,000 remained low, indicating no acute deterioration. Against that strength, core PCE inflation of 1.41% sat well below the 2.0% objective, and inflation momentum, at just 0.015, gave no hint of building price pressure. Beige Book contacts described prices as rising only 'modestly,' cited a general lack of cost inflation, and flagged softening demand and manufacturing declines across several districts. The Chicago Fed National Activity Index at -0.36 confirmed below-trend growth. Participants read this configuration as one in which the usual case against easing on inflation-risk grounds simply did not arise: with inflation this soft, there was no overheating to defend against.

Members weighed those signals against a still-solid domestic backdrop and the possibility that the yield curve was flagging risk the activity data had not yet confirmed. The 10-year/2-year spread at 0.07 was barely positive, near inversion, and the 3-month T-bill spread of -0.215 showed the front end already pricing easing—signals that several participants took seriously as forward-looking warnings worth preempting, whether framed as recession risk, as a threat to future hiring, or as pressure on financial conditions. At the same time, the financial-stress backdrop argued firmly against any outsized response: the stress index at 0.087, the VIX at 14.61, and a contained Baa spread of 2.22 all described orderly, non-panicked markets. Participants generally judged that a larger 50 basis point move would risk signaling alarm and destabilizing calm conditions for no proximate reason, while a hold would contradict the market-implied path and ignore the near-inverted curve. On that reasoning the

Committee expects the real Federal Reserve to deliver a further 25 basis point cut, lowering the target range to 1.75% to 2.00%, continuing the insurance framing of the prior meeting rather than committing to an extended easing cycle.

The Committee's own deterministic policy framework arrived independently at the same conclusion: -25 basis points is the loss-minimizing recommendation. That convergence was not mechanical. The framework's more aggressive reference rules pointed considerably further—the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed -75 basis points, driven by inflation well below target and unemployment far under the natural rate. The first-difference rule, by contrast, returned -25 basis points, and it was this incremental, momentum-based logic that participants found most persuasive. With inflation momentum at 0.015 and unemployment momentum at -0.05, both small, the case for adjusting from current conditions rather than resetting toward a distant absolute level was strong. An estimated r* of -0.366 indicated that the current 2.00% to 2.25% range is only modestly restrictive, so reaching an accommodative stance did not require cutting hard. Participants judged that the -75 basis point rules overshot what tight labor markets and calm credit conditions warranted, and that front-loading that magnitude risked seeding a future inflation overshoot with little present justification.

Taken together, the predictive and optimal readings reinforced one another. A quarter-point cut to 1.75% to 2.00% honors the market-implied path, acknowledges below-target inflation and curve risk, and provides employment insurance ahead of any labor-market weakness—while preserving optionality to ease again if activity deteriorates, or to hold if price pressures firm. The Committee viewed this measured step, consistent with the prior meeting's 'act as appropriate' posture, as the disciplined call from both its predictive and its framework-based perspectives.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in expecting a 25 basis point cut; on the optimal side, all five members endorsed the framework's -25 basis point recommendation as-is, for a 5-0 endorsement.