OpenFed

POLICY STATEMENT | March 8, 2020

PREDICTED FED DECISION −100 bps

0.00%-0.25%

OPENFED OPTIMAL RATE HOLD

1.00%-1.25%

KEY TAKEAWAY

The Committee unanimously expects a full 100 bps cut to 0.00-0.25%, even as its own policy framework judges optimal action to be 0 bps, holding at 1.00-1.25% on the fundamentals alone.

STATEMENT

The defining feature of this meeting is the gap between what the Committee expects the Federal Reserve to do and what its own framework judges to be optimal. On the mandate variables taken at face value, the case for restraint is real: core PCE at 1.53 percent runs below the 2 percent objective, unemployment at 3.5 percent sits well beneath the 4.44 percent natural rate estimate, and initial claims at 216,000 remain low. Participants recognized these readings as genuinely strong. What overrode them, in every participant's predictive judgment, was the speed and severity of an emerging shock that the hard data has not yet caught. The VIX at 41.94 was read as panic-level financial stress; the 3-month Treasury bill sitting 0.515 below the current target range was read as markets already pricing aggressive further easing; and the Baa spread at 2.52 was cited as evidence of widening credit stress feeding directly into firms' borrowing costs. Set against a Beige Book documenting coronavirus disruption to travel, tourism, and supply chains, with contacts fearing worse ahead, participants generally judged the labor readings backward-looking and the financial signals forward-looking. That inflation is running under target mattered here for a shared reason: it removed any overheating tradeoff, so easing to meet the shock carried little cost on the price-stability side.

On that basis the Committee's predictive conclusion is unambiguous. All five participants expect the Federal Reserve to cut by a full 100 basis points, moving the target range from 1.00-1.25 percent to 0.00-0.25 percent. Participants emphasized that the prior meeting had already delivered an emergency 50 basis point inter-meeting cut and that conditions had deteriorated sharply since; half-measures, several argued, would risk failing to stabilize credit and liquidity conditions and would defy a market-implied path that points toward the floor. The move to the effective lower bound was described as aligning policy with where markets say it belongs and as preempting rapid job losses before they materialize in the data.

The Committee's own deterministic framework reaches the opposite conclusion, and it deserves to be stated as plainly: the loss-minimizing recommendation is 0 basis points, holding the range at 1.00-1.25 percent. Three of the four reference rules read a hold outright, with the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all at 0 bps; only the first-difference rule leans lower, at -25 bps, reflecting the modest inflation momentum term of 0.145 and zero unemployment momentum. The framework judged its reference rules reliable this meeting. The reasoning tracks the mandate data: with inflation near target and labor-market slack essentially absent, standard rule logic finds no easing warranted, and even the one dissenting rule stops well short of the predictive path. The estimated r* of -0.199 is the one input pulling the other way, and it did not go unremarked; it implies the current range is somewhat restrictive relative to neutral, and participants weighing market pricing and financial stress leaned on it heavily. But the balanced rules already incorporate that low neutral rate and still land at zero. The framework's honest verdict is that inflation and employment alone do not justify emergency easing; the 100 basis point predictive gap measures precisely how much of this meeting's action lives outside standard rule inputs, in crisis insurance the realized data cannot yet support.

Both conclusions are the Committee's own. The predictive vote reflects how policy is expected to respond to a fast-moving systemic shock; the optimal figure reflects what the fundamentals, read literally, actually call for. That they diverge so sharply is the story of this meeting.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 100 basis point cut to 0.00-0.25 percent. On the framework's 0 bps recommendation the Committee split three ways: one member endorsed it as-is, three declined it, and one agreed with the direction but not the magnitude.

NOTES

Although the predictive vote was unanimous, the optimal-side deliberation showed real disagreement: the participants weighting employment, financial stability, and market pricing declined the framework's hold, arguing that a negative r of -0.199 leaves the 1.00-1.25 percent range restrictive against a collapsed neutral rate and that the level-based rules are blind to a shock the VIX and the -0.515 T-bill spread have already registered; the data-focused participant took a middle position, accepting the framework's direction but judging the -0.515 spread and 41.94 VIX to be hard data justifying a modest step rather than a full hold, closer to the first-difference rule's -25 bps.*