OpenFed

POLICY STATEMENT | June 9, 2021

PREDICTED FED DECISION **HOLD**

0.00%-0.25%

OPENFED OPTIMAL RATE **+25 bps**

0.25%-0.50%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 0.0% to 0.25%, but its own loss-minimizing framework points to a 25 bps first tightening step — a full quarter-point divergence.

STATEMENT

Information reviewed at this meeting showed an economy expanding moderately, with price pressures the standout feature. Core PCE inflation stood at 2.5%, a half-point above the Committee's 2% objective, and the Beige Book recorded widespread cost pressures across Districts — rising input and material costs, intensifying price pressures, and labor shortages widening across skill levels. Against this, the labor market remained clearly incomplete: unemployment at 5.8% sat well above the estimated 4.46% natural rate, with prior-meeting material noting a large employment gap still below pre-pandemic levels and initial claims still elevated by historical standards. Financial conditions were calm and supportive. The financial stress index was low at 0.0862, the VIX moderate at 17.89, the Baa spread tight at 1.98, and the 10-year to 2-year curve positively sloped at 1.34, with no recession signal and no funding disruption.

In assessing what the real Federal Reserve is most likely to do, participants converged quickly. The prior two-condition guidance requires BOTH maximum employment and inflation sustainably on track before tightening, and participants generally judged the employment condition plainly unmet. Members focused on inflation acknowledged real risk in the data and would firmly oppose any easing, but noted no member supported an actual hike and that policy already sits at the effective lower bound. Members focused on employment stressed that tightening while the labor market is still healing would endanger the recovery, and treated the current price pressures as largely transitory in line with prior framing. Members weighing financial signals observed that the 3-month T-bill spread at -0.105 shows markets pricing no near-term move, and that calm credit and volatility conditions supply no urgency in either direction. On that basis the Committee's predictive conclusion is a hold, maintaining the target range at 0.0% to 0.25%.

Turning to what conditions themselves demand, the Committee's deterministic policy framework recommended a first step of +25 bps. The reference rules split: the Taylor rule printed 75 bps, weighting the inflation overshoot and a closing unemployment gap heavily; the balanced-approach and ELB-adjusted rules both returned 0 bps, leaning on remaining slack and the lower bound; and the first-difference rule landed at 25 bps. With reference rules judged reliable, inflation momentum reading a firm +0.485 and unemployment momentum -0.35, the loss-minimizing output settled on the first-difference figure — a modest, momentum-driven lean rather than a lurch to the Taylor rule's 75 bps. Participants endorsing this call read the estimated r* of -0.218 as confirming a low neutral rate, yet still saw real policy at zero as deeply stimulative against 2.5% inflation, with benign markets able to absorb a move from 0.0%-0.25% toward 0.25%-0.50% without disruption. The optimal conclusion, then, is +25 bps: a cautious first calibration against the risk that transitory pressures harden into persistent ones.

The gap between the two conclusions was itself the meeting's central story. The predictive hold reflects the Committee's institutional anchor to its two-condition guidance and the transitory characterization of inflation; the +25 optimum reflects where the momentum-based rule math points once that guidance is set aside. Participants across stances described the divergence as small but real — a single quarter-point that places policy near, rather than far from, the edge of needing adjustment. Even among those comfortable with the framework's direction, the negative T-bill spread and the near-even split of the reference rules were flagged as reasons to question the magnitude and timing of an immediate step.

COMMITTEE VOTE	The predictive vote to hold the target range at 0.0% to 0.25% was unanimous, 5-0. On the framework's 25 bps recommendation, the Committee split 2 endorse, 2 partial, 1 decline.
NOTES	*On the optimal side, one employment-focused member declined the +25 bps recommendation outright, arguing that with unemployment 1.34 points above the natural rate, 8.4M jobs still missing, and a negative neutral rate, a preemptive step would tighten before the labor mandate is met; two members agreed with the direction but not an immediate quarter-point, citing the negative T-bill spread and the even split of the reference rules as reasons the magnitude felt premature.*