OpenFed

POLICY STATEMENT | July 21, 2021

PREDICTED FED DECISION HOLD

0.00%-0.25%

OPENFED OPTIMAL RATE +50 bps

0.50%-0.75%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 0.0%-0.25%, even as its own framework judges 50 bps of firming optimal — a divergence that quantifies the accommodation the current stance deliberately tolerates.

STATEMENT

The defining feature of this meeting is not disagreement over where policy stands but a genuine gap between what the Committee expects the real Federal Reserve to do and what its own deterministic framework judges to be optimal. On the predictive question, all five members arrived independently at the same place: hold the target range at 0.0% to 0.25%. Core PCE at 2.75% runs well above the 2% objective, and the Beige Book reports broad-based wage acceleration, persistent labor shortages, and robust selling-price increases across nearly every District. But unemployment at 5.9% remains far above the 4.46% natural rate, prior guidance framed the inflation rise as largely transitory and committed to accommodation until the labor recovery matured, and members judged that a lone move now would contradict that standing guidance. Members attentive to price risk conceded that an immediate hike would be premature with the labor mandate still unmet; members focused on employment stressed that jobless claims near 360,000 remain elevated and that the recovery is uneven and incomplete. Those weighing financial conditions and market pricing found nothing demanding action in either direction: the financial stress index at 0.0903 is very low, the VIX at 17.91 is subdued, the Baa spread at 1.98 is tight, the 10y-2y curve at 1.08 is positively sloped with no recession signal, and the 3-month T-bill spread at -0.075 shows front-end markets pricing no near-term move.

Against that predictive consensus, the Committee's own policy framework returns a materially different answer: an optimal adjustment of +50 bps. The reference rules do not speak with one voice. The Taylor rule prescribes 75 bps, reacting strongly to the roughly 0.75-point inflation overshoot and to inflation momentum of 0.515, which points to pressures building rather than fading. The first-difference rule, which adjusts gradually from the current stance rather than assuming a precise neutral level, prints 50 bps. But the balanced-approach and ELB-adjusted rules both print 0, weighting the remaining employment gap heavily and, in the latter case, the proximity to the effective lower bound. The framework's 50 bps recommendation lands closest to the first-difference logic, splitting the inflation-sensitive and slack-sensitive rules. Members noted that with r* estimated at -0.252, even a 50 bps step would leave the real policy stance quite accommodative, so a move of that size begins normalization without choking off hiring; unemployment momentum of -0.2 confirms the labor market is still improving toward the goal even as the level remains short of it.

Taken together, the two conclusions are the Committee's considered judgments arrived at through the same deliberation. The predictive call is a hold at 0.0% to 0.25%, grounded in incomplete labor recovery, the transitory characterization of inflation, calm financial conditions, and market pricing that signals no move. The optimal call is +50 bps, grounded in an inflation overshoot the mechanical rules read literally and in the gradualism of the first-difference approach. The distance between the two is not incidental: several members observed that the gap between the held stance and the 50 bps recommendation measures the degree of accommodation the current path deliberately tolerates while the Committee waits to confirm whether inflation pressures prove transitory. That said, the optimal-side deliberation was itself divided on magnitude and timing, and the framework's recommendation did not command unanimous endorsement.

The Committee will continue to assess incoming data on inflation persistence, the pace of labor-market healing, and financial conditions. Members weighing price risk registered that their support for holding is conditional on continued vigilance: should inflation pressures broaden or persist beyond the transitory window, the case for leaning against them would strengthen at a subsequent meeting.

COMMITTEE VOTE

The predictive vote to hold the target range at 0.0% to 0.25% was unanimous, 5 to 0. On the framework's 50 bps recommendation, the Committee split three ways: one member endorsed it as-is, two agreed with the direction of firming but not its full magnitude or timing, and two declined to support a move.

NOTES

Although the predictive hold was unanimous, the optimal-side deliberation showed real disagreement. The two members who declined the 50 bps recommendation did so from opposite starting points: one held that a step of that size would front-run a labor recovery still 1.4 points short of the natural rate and risk harming vulnerable groups, arguing the rules weighting the employment gap both print 0; the other, weighting market pricing above rule math, argued that a move markets are not braced for — with the T-bill spread at -0.075 showing an easing bias — would be an unwarranted surprise, and that even a smaller step contradicts front-end pricing. The two partial dissenters accepted the direction of firming but judged the full 50 bps larger than persistent slack, prior guidance, and the risk of surprising unprepared markets warranted.