OpenFed

POLICY STATEMENT | April 27, 2022

PREDICTED FED DECISION +50 bps

0.75%-1.00%

OPENFED OPTIMAL RATE +75 bps

1.00%-1.25%

KEY TAKEAWAY

The Committee unanimously expects a 50 bps hike to 0.75%-1.0%, while its own policy framework judges 75 bps optimal—a gap all five members read as evidence policy remains behind the curve.

STATEMENT

Information reviewed for this meeting showed inflation running far above the Committee's 2 percent objective, with core PCE at 4.31 percent and Beige Book reports of broadening price pressures—input costs, energy, metals, agricultural commodities, and wages all passing swiftly through to customers. Against that backdrop, the labor market offered no reason for restraint: unemployment stood at 3.6 percent, below the estimated 4.44 percent natural rate, initial claims were very low at 184,000, and the Chicago Fed activity index at 0.44 pointed to above-trend growth. Members generally judged the current 0.25 to 0.5 percent range deeply accommodative given this backdrop, well below the prior median projection of 1.9 percent and implying substantial catch-up ahead.

In arriving at the predicted policy action, participants weighed the case for the size of the step. All five converged on a 50 basis point move from a range of differing lenses. Those focused on market signals noted that the 3-month T-bill spread of 0.465 over the current midpoint implied markets were pricing roughly 46 basis points of tightening—consistent with a 50 basis point move rather than 25. Those attentive to financial conditions flagged the VIX at 31.6 as a real caution against a jarring larger move, while observing that credit markets remained orderly, with the Baa spread contained at 2.06 and the financial stress index moderate at 0.1923. A 25 basis point step, participants agreed, would look timid against 4.31 percent core PCE and risk unanchoring expectations, while a 50 basis point move matched both the inflation urgency and what markets had already priced. The Committee's predicted action is therefore a 50 basis point increase, to a target range of 0.75 to 1.0 percent.

The Committee's own deterministic policy framework, however, pointed higher. All four reference rules—the Taylor rule, balanced-approach, first-difference, and ELB-adjusted—converged on 75 basis points and were judged reliable this meeting, an unusual unanimity across differently-constructed rules. The framework's loss-function terms underscored the case: inflation momentum at 0.415 indicated pressures still building rather than fading, unemployment momentum at -0.2 showed the labor market still tightening, and an estimated r* of -0.5 meant real policy rates remained sharply negative even after a hike. Members engaging with this framework read the 25 basis point gap between their predicted 50 and the optimal 75 as evidence that policy remains behind the curve and their own caution reflected sequencing prudence and institutional habit more than a genuine disagreement with the math. On the framework's own terms, the Committee judges 75 basis points to be the optimal action; even that move, from the current range, would leave real rates deeply negative.

The tension the Committee surfaced was less about direction than pace. Participants acknowledged that elevated volatility argued for gradualism in what markets would actually absorb, yet several concluded that with credit spreads benign, the usual financial-stability brake was simply not triggered, and that front-loading now reduces the risk of a disorderly catch-up later. The Committee will continue to assess incoming data, particularly any softening in job growth or claims, in judging the appropriate path of policy.

COMMITTEE VOTE

The Committee was unanimous, 5-0, in predicting a 50 basis point increase to 0.75-1.0 percent. On its own framework's 75 basis point recommendation, the optimal-side deliberation landed 4-1, with four members endorsing the recommendation as-is and one endorsing the direction but not the full magnitude.

NOTES

The lone partial position came from the member weighting market-implied pricing most heavily, who agreed tightening must accelerate beyond 25 basis points and that the 75 basis point direction was right, but held that the T-bill spread of 0.465 corroborated only about 50 basis points of anticipated action; with the VIX at 31.6, this member judged that front-running to a full 75 would outpace market expectations and risk the disorderly volatility they most guard against.