OpenFed

POLICY STATEMENT | September 14, 2022

PREDICTED FED DECISION +75 bps

3.00%-3.25%

OPENFED OPTIMAL RATE +50 bps

2.75%-3.00%

KEY TAKEAWAY

The Committee expects the real Fed to deliver another 75 bps hike, but its own loss-minimizing framework judges 50 bps the optimal step, a 25-bps gap that quantifies expected policy running slightly ahead of a balanced reading of the data.

STATEMENT

Information reviewed for this meeting showed core PCE inflation at 3.99%, still nearly double the 2 percent objective, against an unemployment rate of 3.7% that sits below the estimated natural rate of 4.44%. The labor market remained tight: jobless claims stayed low at 222,000, and Beige Book contacts reported employment still rising at a modest to moderate pace, with wages growing across all Districts even as the pace of increase moderated and labor availability improved. At the same time, participants gave weight to a set of softening signals — a generally weak six-to-twelve-month growth outlook, home sales falling across all Districts, and an inverted 10-year/2-year spread at -0.37 that several read as a genuine recession-risk warning. Measures of stress were elevated but not acute: the financial stress index at 0.234, a Baa spread of 2.18, and the VIX at 26.16 were judged consistent with markets that were nervous rather than dislocated.

On the question of what the real Federal Reserve is likely to do, participants converged on a further 75-basis-point increase, moving the target range to 3.00-3.25%. The case rested on elevated and persistent inflation, prior guidance that ongoing increases would be appropriate, and the FOMC's own last median projection of 3.4%, which sits well above the current 2.25-2.50% range and implies more tightening ahead. Several participants placed particular weight on market pricing: the 3-month T-bill spread of 0.815 over the current rate was read as most consistent with roughly 75 basis points of near-term firming, so that delivering that amount would validate rather than surprise expectations, while a smaller move risked being read as a loss of resolve on inflation. One participant, weighting employment risk most heavily, favored a smaller 50-basis-point step given housing weakness and the curve inversion, but agreed that with core inflation near 4 percent and no contraction in employment, a cut could not be justified.

The Committee's own deterministic framework arrived at a different conclusion, recommending a 50-basis-point increase as the loss-minimizing policy. The framework's reference rules split sharply: the Taylor rule and the first-difference rule both pointed to +75, anchored to the large inflation gap and tight labor market, while the balanced-approach and ELB-adjusted rules both pointed to -25, driven by an estimated r* of -0.5 and negative inflation momentum of -0.23. With reference rules judged reliable, the framework landed at +50 as the balanced reading between these extremes — firm enough against roughly 4 percent core inflation, but respecting an estimated neutral rate that already leaves the current stance meaningfully restrictive in real terms, together with clear signs that inflation is decelerating rather than accelerating.

In the optimal-side deliberation, participants found this reasoning persuasive across their differing lenses. The inflation-focused view accepted that negative inflation momentum and moderating wages represented genuine, not speculative, easing, making +50 defensible continued tightening toward the 3.4% path — though it maintained that a fuller +75 would be its own preference. The employment- and stability-oriented views argued that a fourth consecutive 75 risked over-tightening into an inverting curve and softening credit-sensitive sectors, while noting that contained stress readings meant a 50-basis-point move could be absorbed without dislocation. The market-based view described the resulting 25-basis-point gap between the expected outcome and the optimal recommendation as the distance between what the front end is pricing the real Fed to do and what the loss function judges optimal. Both conclusions stand as the Committee's own: an expected +75 in practice, and an independently determined +50 as the balanced, loss-minimizing step.

COMMITTEE VOTE	The predictive vote was 4-1 in favor of a 75-basis-point increase, with one participant favoring 50. On the framework's 50-basis-point recommendation, the optimal-side stance was 4 endorse, 1 partial, and none declining.
NOTES	*The lone predictive dissent came from the participant weighting employment risk most heavily, who preferred a 50-basis-point move to a 2.75-3.00% range as an employment-protective moderation, citing housing weakness across all Districts and the -0.37 curve inversion as reasons to take a more measured step while still fighting inflation. On the optimal side, the inflation-focused participant registered only partial agreement, accepting +50 as the right direction but arguing a full +75 remained warranted given inflation persistence.*