OpenFed

POLICY STATEMENT | January 25, 2023

PREDICTED FED DECISION +25 bps

4.50%-4.75%

OPENFED OPTIMAL RATE +25 bps

4.50%-4.75%

KEY TAKEAWAY

The Committee expects a 25 bps hike to 4.50-4.75% and, through its own framework, judges 25 bps to be optimal as well — a rare, complete convergence of prediction, policy rule, and every member's vote.

STATEMENT

Information reviewed by the Committee showed inflation still running well above the 2 percent objective, with core PCE at 3.63 percent, against a labor market that remained visibly tight. The unemployment rate stood at 3.5 percent, far below the 4.43 percent natural rate estimate, and initial jobless claims at 190,000 gave no hint of deterioration. Beige Book reporting pointed in a more encouraging direction: selling-price increases decelerating, freight and commodity costs easing, and wage pressures reported as easing in five Districts, though still elevated overall. Participants read this combination as one that plainly ruled out easing while, at the same time, arguing for a smaller step than in the recent past. With inflation nearly double target and no labor softening to defend against, a cut was seen as unjustifiable; with disinflation genuinely underway, holding pace at a larger increment was seen as unnecessary.

Against that backdrop the Committee's predictive judgment settled quickly and without dissent on a 25 basis point increase, moving the target range to 4.50-4.75 percent. The reasoning drew on several strands that reinforced one another rather than competing. Prior guidance had signaled that 'ongoing increases' would be appropriate, and the Committee's own last median projection of 5.1 percent left room above the current 4.25-4.50 percent range for further gradual moves. Market pricing corroborated the same figure: the 3-month T-bill spread of roughly 0.195 above the current range implied that one 25 basis point move was fully expected, and participants attentive to financial conditions judged that a larger 50 basis point step would overshoot that pricing and risk a disorderly tightening. Financial stress was low at 0.189, the VIX moderate at 19.08, and the Baa spread contained at 1.94, so nothing in the conditions data forced a pause, and nothing made a measured hike destabilizing.

The Committee's independent policy framework arrived at the same destination, and the way it did so is worth setting out, because the reference rules did not agree among themselves. Three of them — the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule — each pointed to a 75 basis point cut, driven by an estimated r* of -0.5 that treats the current stance as already restrictive relative to a very low neutral rate. The first-difference rule pointed the other way, to a 75 basis point hike, keying off inflation still far above target. Participants broadly discounted the three cut signals as resting on an implausibly low neutral-rate assumption given core inflation near 3.63 percent, while judging that the first-difference rule captured the correct direction but overshot on magnitude. The loss-minimizing output reconciled these into a 25 basis point increase, and that reconciliation was reinforced by an inflation momentum term of -0.055, indicating that price pressures are decelerating, alongside an unemployment momentum term of exactly 0.0, indicating no opening slack to protect. The framework flagged its reference rules as reliable. On that basis the Committee determined that 25 basis points is the optimal move — enough to honor the disinflation path toward the projected rate, moderated by real evidence that momentum is slowing.

Taken together, the predictive read and the framework's determination point to the same 4.50-4.75 percent range, and participants noted that this convergence — market pricing, the loss-minimizing rule output, and each member's own judgment landing in the same place — signals a policy stance now approaching, but not yet clearly at, sufficiently restrictive territory. The Committee acknowledged the countervailing signals it is carrying forward: the 2s10s curve inverted at -0.65 and a Chicago Fed activity reading slightly below trend at -0.05 are genuine recession-risk indicators. But with credit and financial conditions still orderly, the appropriate response was seen as slowing the pace and watching cumulative lags, not stopping. Several participants stressed that this should not be read as the end of tightening while inflation remains this far above target.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 basis point increase to 4.50-4.75 percent. On the framework's optimal recommendation of 25 basis points, the Committee's deliberation was also unanimous, with all five members endorsing the recommendation as-is.