OpenFed

POLICY STATEMENT | June 7, 2023

PREDICTED FED DECISION **HOLD**

5.00%-5.25%

OPENFED OPTIMAL RATE **+25 bps**

5.25%-5.50%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 5.00-5.25%, while its own framework judged 25 bps of firming optimal — a gap every member accepted in direction but declined to take this meeting.

STATEMENT

Core PCE inflation at 3.65% remains well above the Committee's 2% objective, and with inflation momentum still positive at 0.13, participants agreed that price pressures have not yet been durably conquered. The labor market stayed tight: unemployment at 3.7% sits below the estimated 4.42% natural rate, unemployment momentum is flat at 0.0, and initial claims near 232,000 show no clear deterioration. Against this, participants weighed a body of evidence pointing toward restraint already in train. The Beige Book described wages rising more moderately and nearing pre-pandemic norms, prices slowing in several Districts, and banking conditions 'subdued' with lending activity continuing to soften. Financial conditions were calm rather than stressed — the financial stress index at 0.2331, the VIX at 13.94, and a moderate Baa spread of 2.08 gave no sign of a disruption that would force action in either direction.

In predicting the real Federal Reserve's decision, participants converged quickly and without friction. The 3-month T-bill spread against the current rate, essentially flat at +0.055, indicated markets expect no near-term move, and the prior median projected rate of 5.1% sits right at the current 5.125% midpoint. The deeply inverted 10y-2y curve at -0.77 was read as a genuine recession-risk signal that counsels against overtightening, not further firming. Participants emphasizing inflation acknowledged a live hiking bias but saw banking-sector credit tightening as 'doing tightening work for us,' reducing the urgency of an additional move; participants attentive to employment saw no softening yet to justify a cut, but feared overtightening into a slowing economy. All five members concluded the real Federal Reserve will hold the target range at 5.00-5.25%, a 0 bps change.

The Committee's own deterministic framework, run independently, reached a different figure: an optimal move of +25 bps. That recommendation reflected a real tension among the reference rules. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each pointed to -75 bps, leaning heavily on an estimated r* of -0.5 — a set of deep-cut signals participants distrusted, judging that easing 75 bps into 3.65% core inflation and a tight labor market would be premature and risk unanchoring expectations. The first-difference rule, by contrast, called for +75 bps, responding to inflation still above target from the current stance rather than recomputing a level from an uncertain r*. With reference rules flagged reliable and positive inflation momentum in the loss function, the framework's loss-minimizing output landed between these poles at +25 bps — a modest firming that leans against persistent inflation without the aggressive move either extreme implied.

The gap between the predicted hold and the optimal +25 bps was the meeting's central point of reflection. Every participant accepted the framework's firming direction as correct and rejected the level rules' deep cuts outright. The remaining disagreement was narrow: whether one more small step is warranted now. Participants judged the divergence to reveal a current stance near neutral-to-restrictive, arguably on the accommodative edge for this inflation, with the debate reduced to a single 25 bps increment. Weighing softening lending, the lagged effects of credit tightening still building, and flat near-term market pricing, participants concluded those forces may do the remaining work, and preferred to hold rather than add an incremental hike this meeting.

COMMITTEE VOTE

The Committee's predictive vote was unanimous, 5-0, that the real Federal Reserve will hold at 5.00-5.25% (0 bps). On the framework's own optimal recommendation of +25 bps, all five members took a partial stance — endorsing the firming direction but declining its magnitude or timing this meeting — for a 0-0-5 split.

NOTES

Though the predictive vote was unanimous, no member fully endorsed the framework's +25 bps: all five landed partial. The common thread was that with lending already softening and credit-tightening lags still building, an additional hike now was unnecessary, while flat market pricing and the inverted curve argued against placing policy ahead of what conditions sanctioned — accepting the anti-cut direction but preferring to hold and let restraint already underway do the work.