OpenFed

POLICY STATEMENT | October 25, 2023

PREDICTED FED DECISION HOLD

5.25%-5.50%

OPENFED OPTIMAL RATE HOLD

5.25%-5.50%

KEY TAKEAWAY

The Committee expects the real FOMC to hold at 5.25-5.50%, and its own framework independently endorses that same hold at 0 bps, even as static reference rules point 75 bps higher.

STATEMENT

Information reviewed at this meeting described an economy still running warm on inflation while cooling at the margins. Core PCE at 3.05% remains well above the 2% objective, and members were unanimous that this alone ruled out any case for easing at the current juncture. At the same time, the labor market showed no crack that would force the Committee's hand in either direction: unemployment at 3.8% sits below the 4.42% estimate of its natural rate, and initial jobless claims at 198,000 remain very low. Members reading the Beige Book saw hiring flat to moderate, wage pressures easing, and price increases slowing across several districts, alongside genuinely softening activity in contracting regions and tightening credit conditions. Financial conditions were not disorderly, with the financial stress index low at 0.183, the VIX moderate at 20.19, and the Baa spread contained at 1.84.

Against that backdrop, the Committee's predictive judgment is that the real Federal Reserve will hold the target range at 5.25-5.50%, a conclusion all five members reached independently and then reaffirmed on rebuttal. The reasoning converged from different lenses. Members focused on inflation stressed that 3.05% core PCE leaves no room to cut, but noted that higher long-term yields are already transmitting tighter conditions and that adding a hike now risks overtightening while disinflation is underway. Members attentive to employment observed that their cutting bias is simply not triggered, since unemployment momentum is essentially flat at 0.05, while resisting any further firming that could threaten jobs later. Members weighing market signals pointed to the 3-month T-bill spread at -0.065, showing markets pricing no additional hike, and to the 10y-2y inversion at -0.13 flagging recession risk. Those attentive to financial stability judged that the incremental hike's stability cost would exceed its marginal disinflation benefit given tightening already in the pipeline.

The Committee's own deterministic policy framework arrived at the same destination, and the interesting feature of this meeting is how it got there. The reference rules read hawkish: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each call for 75 bps above the current range, and even the first-difference rule points to 50 bps. Yet the framework's loss-minimizing recommendation is 0 bps. That gap is not a contradiction so much as a statement about momentum and lags. With the estimated r* at -0.5, a nominal range of 5.25-5.50% against 3.05% core inflation is already deeply restrictive in real terms. Inflation momentum is negative at -0.23, indicating disinflation is genuinely proceeding, while unemployment momentum at 0.05 signals no offsetting labor deterioration. Several members found the first-difference logic most persuasive precisely because it responds to changes rather than the static level gap, and the framework judges that the static rules, useful as they are, prescribe a level of firming that decelerating inflation and prior transmission have made unnecessary. The Committee therefore determines that the optimal policy at this meeting is also 0 bps.

Both conclusions, then, point to holding at 5.25-5.50%: the Committee expects the real FOMC to hold, and independently judges a hold to be optimal. The stance keeps policy firmly restrictive and inflation-focused while letting prior tightening and higher long-term yields continue to filter through. It also preserves optionality in both directions — further firming should disinflation stall, and eventual easing should the labor market begin to weaken — without acting on either contingency before the data demand it.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, in favor of holding the target range at 5.25-5.50%. On the optimal side, all five members endorsed the framework's 0 bps recommendation, a 5-0 endorsement.