OpenFed

POLICY STATEMENT | December 6, 2023

PREDICTED FED DECISION **HOLD**

5.25%-5.50%

OPENFED OPTIMAL RATE **−25 bps**

5.00%-5.25%

KEY TAKEAWAY

The Committee unanimously expects the real FOMC to hold at 5.25%-5.50%, while its own framework judges optimal policy to be a modest 25 bps cut to 5.00%-5.25%, an easing four of five members endorse on the merits.

STATEMENT

Information reviewed for this meeting described an economy that is still restrictive underfoot but visibly cooling on the surface. Core PCE inflation stood at 2.77%, meaningfully above the Committee's 2 percent objective, and participants agreed that the disinflation, while underway, is not yet complete. The unemployment rate at 3.9% remained below an estimated natural rate of 4.42%, indicating a labor market that is loosening only gradually rather than deteriorating; initial claims held low at 218,000. Beige Book reports across most districts pointed the same direction: activity flat or contracting, hiring cooled, wage pressures easing, and pricing power reduced. Against that, participants weighed clear signals of accumulating downside risk, including a below-trend CFNAI reading of -0.49, an inverted 2s10s spread at -0.48, and a 3-month T-bill sitting 12.5 basis points below the current rate, which participants read as markets already pricing an easing bias. Financial conditions themselves looked calm, with the stress index at 0.1612, the VIX at 12.97, and the Baa spread contained at 1.65, though several participants flagged rising office-property loan defaults and declining commercial real estate lending as a slow-building credit vulnerability beneath quiet markets.

On the question of what the real Federal Reserve will decide, participants converged with unusual completeness on a hold at the current 5.25% to 5.50% target range. The reasoning ran along a common thread from every vantage point: with core PCE still near 2.8 percent and the labor market not yet at the natural rate, a cut would be premature relative to the prior stance emphasizing that inflation remained 'unacceptably high' and that 'further evidence' of convergence was required; at the same time, flat-to-contracting activity, market pricing that leans toward eventual easing, and the risk of accelerating CRE distress made a further hike difficult to justify. That two-sided balance, participants generally judged, points squarely at a patient, data-dependent pause that preserves optionality in both directions. Accordingly, the Committee's predictive conclusion is no change, 0 basis points.

The Committee's own deterministic framework reached a different conclusion, and participants engaged with the gap directly rather than papering over it. The framework's loss-minimizing recommendation was a cut of 25 basis points, to 5.00% to 5.25%. Notably, the level-based reference rules pointed the other way: the Taylor rule and the balanced-approach rule each printed roughly 75 basis points of additional firming, and the ELB-adjusted rule likewise sat near 75, while the first-difference rule indicated 50 basis points of easing. What tips the optimal calculation toward a modest cut is momentum and the neutral-rate anchor. Inflation momentum registered -0.415, confirming that price pressures are actively fading, while unemployment momentum of 0.1 showed only slight loosening. With r* estimated at -0.5, the real policy rate of roughly 2.6 percent (5.375% less 2.77% core PCE) is deeply restrictive against a low neutral rate. Participants who found the first-difference logic more persuasive than the level rules argued that holding nominal rates steady while inflation decelerates amounts to passive, automatic tightening, and that a 25 basis point step corrects for restrictiveness that has already overshot rather than initiating an aggressive easing cycle. The magnitude was seen as fitting: larger moves of 50 to 75 basis points found no support given calm markets and still-above-target inflation, and the modest step reads as insurance against over-tightening and against slow-building CRE credit stress, while retaining the ability to re-firm if inflation reaccelerates.

The distinctive feature of this meeting was thus not disagreement about the likely outcome, which was settled, but a genuine and reasoned divergence between what participants expect and what their framework judges best. That divergence, most participants concluded, quantifies how far the current stance sits above what conditions now justify: markets, momentum, and the neutral-rate math all lean toward easing, even as caution and an unmet inflation target argue for waiting. The Committee's optimal conclusion is a 25 basis point cut to 5.00% to 5.25%; its predictive conclusion is a hold at 5.25% to 5.50%.

COMMITTEE VOTE

The predictive vote to expect a hold at 5.25%-5.50% was unanimous, 5-0. On the framework's recommended 25 basis point cut, the Committee's optimal-side deliberation landed 4-1 in favor of endorsing the easing as-is.

NOTES

The single vote against the framework's -25 bps recommendation came from the inflation-focused member, who acknowledged that a real rate near 2.6 percent against a negative r is deeply restrictive and conceded easing is eventually warranted, but held that with core PCE near 2.8 percent and the 2 percent target unmet, a cut is premature; this member found the level-based Taylor and balanced-approach rules at 75 bps more persuasive than the first-difference momentum logic, warning that inflation momentum can reverse, and would accept easing only paired with strong optionality to re-firm.*