OpenFed

POLICY STATEMENT | January 24, 2024

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 Federal Reserve to hold at 5.25-5.50%, yet its own framework judges the optimal move to be a 25 bps cut, a divergence traced to a deeply restrictive real stance against fading inflation momentum.

STATEMENT

Core PCE inflation stood at 2.24%, still above the 2% objective but with real progress evident, and inflation momentum registering at -0.21 pointed to disinflation that is continuing rather than merely pausing. Unemployment at 3.7% remained well below the estimated natural rate of 4.42%, and jobless claims near 187,000 confirmed a labor market cooling from a very tight starting point rather than one in distress. Participants generally read the Beige Book as showing modest softening: activity 'down slightly' nationally, manufacturing contracting sharply in some Districts, and repeated concern about the high cost and reduced availability of credit weighing on households and businesses. Against this, financial conditions looked calm, with a stress index of 0.1281, a VIX of 13.14, and a Baa spread of 1.62 giving no sign of acute distress that would force action.

On the question of what the real Federal Reserve will do at this meeting, all five members independently arrived at the same place: hold the target range at 5.25-5.50%. The reasoning converged even as members came at it from different mandates. With core PCE still above target and the prior stance emphasizing a desire for more evidence that inflation is sustainably abating, only one week of new data was judged insufficient to meet that bar. The member most inclined toward easing conceded that the labor damage feared is prospective, not yet realized in the unemployment data, and that a cut now would move ahead of the evidence. Others noted that the negative 3-month T-bill spread (-0.165) and the inverted 2s10s (-0.16) reflect anticipation of easing on the horizon, not a demand for a January move. The Committee's predictive conclusion is therefore a unanimous hold.

The Committee's own deterministic framework reached a different judgment, recommending a 25 bps cut. That divergence rests largely on how restrictive current policy has become relative to neutral. With the estimated r* at -0.5, a nominal midpoint of 5.375% against core PCE near 2.24% leaves the real policy rate far above neutral. The reference rules did not speak with one voice on this: the Taylor rule pointed to 50 bps, the balanced-approach and ELB-adjusted rules to 75 bps each, all above the current setting and reflecting the wide gap between unemployment and its natural rate, while the first-difference rule returned 0, matching the members' instinct to hold given inflation still above target. The loss-minimizing output nets to -25 bps, weighing the deeply restrictive stance and negative inflation momentum (-0.21) against a still-modest inflation gap and slight unemployment momentum of 0.05. Members who engaged with the framework accepted its logic that holding indefinitely while disinflation continues would passively tighten real rates further, and that a measured single step begins normalizing toward neutral without surrendering the 2% goal or inflation-fighting credibility.

Reconciling the two, the Committee's position is that institutional caution and lingering attentiveness to inflation risk make a hold the likely outcome at the coming meeting, while its own framework judges that policy is now more restrictive than optimal by roughly one cut. The predictive call reflects a stance that is lagging the easing markets have already priced; the optimal call, at -25 bps, is the forward-looking, insurance-style step that relieves credit-channel pressure while conditions remain contained and inflation risk stays near target.

COMMITTEE VOTE	The predictive vote to hold at 5.25-5.50% was unanimous, 5-0. On the framework's -25 bps recommendation, the optimal-side deliberation landed 3 to endorse, 1 to decline, and 1 partial.
NOTES	*The lone decline came from the inflation-focused member, who argued that with inflation still 24 bps above target and labor still tight, building a cut on a speculative negative r* estimate risks re-accelerating prices and surrendering hard-won credibility before inflation actually reaches 2%; the data-dependent member gave only partial support, agreeing easing is defensible in direction but preferring to wait for more disinflation confirmation before the first cut.*