OpenFed

POLICY STATEMENT | April 24, 2024

PREDICTED FED DECISION **HOLD**

5.25%-5.50%

OPENFED OPTIMAL RATE **−50 bps**

4.75%-5.00%

KEY TAKEAWAY

The Committee unanimously expects the Federal Reserve to hold at 5.25%-5.50%, even as its own policy framework judges the loss-minimizing move to be a 50 basis point cut, a divergence that measures deliberate over-restriction.

STATEMENT

Information reviewed by the Committee described an economy that is expanding, if only modestly. Core PCE inflation stood at 2.13%, just above the 2 percent objective, with the Beige Book reporting only slight growth, mixed consumer spending, and manufacturing that had declined in several Districts. The labor market remained solid rather than strained: the unemployment rate of 3.8% sits below the 4.41% estimate of its natural rate, jobless claims were low at 212,000, and wage growth was described as moderating toward pre-pandemic norms as labor supply improved. Financial conditions were calm across the board, with the VIX at 15.97, a financial stress index of 0.1477, and a Baa corporate spread of 1.46 giving no indication of credit or systemic strain. Set against this, the persistent 10-year/2-year inversion of -0.24 and a 3-month T-bill spread of -0.125 flagged forward recession risk and a market that anticipates eventual easing, though not an imminent move.

On the question of what the real Federal Reserve will do at this meeting, participants converged quickly and without dissent on no change to the target range. The reasoning was consistent across differing lenses. Inflation at 2.13% is close to but not sustainably at target, and prior communications had set a bar of 'greater confidence' that inflation is moving to 2 percent before any cut, a threshold participants judged not yet met given recent readings characterized as firmer and broad based. The labor market showed no deterioration that would trigger easing on employment grounds, and benign financial conditions offered no stability rationale for a move either. Market pricing, on this reading, does not embed a cut at this meeting. Participants generally judged that easing into calm markets with inflation still above target would risk squandering hard-won progress, and that holding at 5.25%-5.50% while remaining data-dependent was the prudent course.

The Committee's own deterministic framework arrived at a materially different conclusion, recommending a 50 basis point cut. The gap turns on how far policy sits above neutral. With an estimated r* of -0.489 and a real policy rate above 3 percent, three of the four reference rules read policy as deeply restrictive: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each pointed to -75 basis points. Only the first-difference rule, which responds to momentum rather than levels, held at 0 basis points. Inflation momentum of -0.315 confirms disinflation is underway rather than building, and unemployment momentum was neutral at 0.0. The framework tempered the aggressive level-based rules against that mild momentum and residual inflation firmness, blending them into a -50 basis point recommendation, a partial step toward neutral rather than the full move the level rules alone implied.

Discussing that recommendation, participants broadly accepted its direction while questioning its size. Those weighing employment and recession risk found the case most compelling, arguing that with inflation nearly home and the curve inverted, holding restrictive policy risks pushing unemployment up before slack appears in the data, and that beginning to ease front-runs that risk. Others, while conceding that the real rate is meaningfully above neutral and that the direction toward easing is defensible, held that a 50 basis point step moves too much too fast: the confidence threshold on inflation is not yet met, the labor market remains tight, and short-end pricing embeds something closer to a single small step, not an aggressive 50 basis point cut. The honest reading the Committee settled on is that current policy is more restrictive than pure rule logic justifies, and that the distance between a hold and the framework's -50 basis points is the cost of a lingering, risk-managed hawkish posture awaiting one more inflation confirmation.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for no change to the 5.25%-5.50% target range. On the framework's -50 basis point recommendation, the optimal-side deliberation split 1-4: one member endorsed it as-is, while the other four agreed with the direction of easing but not its magnitude or timing.

NOTES

Though the predictive hold was unanimous, the optimal-side split was substantive: the four partial members favored a smaller initial step, variously citing an unmet confidence threshold on inflation, a still-tight labor market, and short-end pricing that embeds only a modest move, whereas the endorsing member argued that with disinflation confirmed and recession risk in the curve, the full -50 basis points is the right call to protect employment before slack materializes.