OpenFed

POLICY STATEMENT | June 5, 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 loss-minimizing move to be a 25 basis point cut, a gap four of five members endorsed.

STATEMENT

The most striking feature of this meeting is not disagreement over what will happen, but the distance between what the Committee expects and what its own framework judges best. On the predictive question, all five members converged quickly and without friction. Core PCE inflation stands at 2.28%, still above the 2% objective, and the prior meeting's demand for greater confidence in sustained disinflation has not, in members' judgment, been met by a single soft reading. The labor market shows no deterioration to force a response: unemployment at 3.9% remains below the estimated 4.41% natural rate, and jobless claims at 219,000 are low. Financial conditions are calm rather than stressed, with the financial stress index at 0.1385, the VIX at 12.63, and the Baa spread tight at 1.49. Members reading market-implied pricing noted that the 3-month T-bill spread of -0.125 signals markets lean toward eventual easing but see no imminent cut; had a near-term move been priced, that spread would sit far more negative. Taken together, the Committee's predictive conclusion is a hold at the current 5.25-5.50% range.

The Committee's own deterministic framework points the other way, recommending a cut of 25 basis points. That recommendation is a tempered one. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each call for -75 bps, reflecting an estimated r* of -0.436 that places neutral well below the current range and marks present policy as deeply restrictive. Pulling against them, the first-difference rule reads +25 bps, responding to the level of inflation rather than the level gap. The framework reconciles these into a single, measured -25 bps, with inflation momentum slightly negative at -0.055 and unemployment momentum modestly positive at 0.05 — disinflation continuing, labor cooling at the margin, neither moving sharply. Members found the balanced-approach logic most persuasive on direction: it weighs the employment and growth cost of an over-restrictive stance symmetrically against an inflation gap that is nearly closed.

The two conclusions describe the same evidence from different vantage points. What holds policy at the current range in the predictive judgment is caution: the prior statement's characterization of recent inflation as broad-based has not been resolved, and members were reluctant to cut with core PCE above target when doing so risks an embarrassing reversal if prices reaccelerate. What the framework sees instead is a stance that has grown tighter than the data alone would justify. The Beige Book describes activity as 'about flat', with wage growth slow-to-moderate, weakening real estate, and contacts citing rates staying 'higher for longer' as a drag on demand; the inverted 10y-2y spread at -0.43 and a below-trend CFNAI of -0.23 reinforce the concern. Members reading these signals argued that a first 25 basis point step begins removing excess restriction before labor damage shows up in the hard data, and that with markets calm such a move would not appear panicked. The divergence between the unanimous +0 predictive vote and the framework's -25 bps thus quantifies how much the expected stance leans on inflation-credibility caution rather than a pure reading of restrictiveness.

The Committee holds both conclusions as its own. It expects the real Federal Reserve to keep the target range at 5.25-5.50%, and it independently judges that the loss-minimizing policy at this meeting is a 25 basis point cut — a measured recalibration from an over-restrictive level, not an aggressive easing, and one that preserves optionality should inflation prove sticky.

COMMITTEE VOTE	The predictive vote to hold at 5.25-5.50% was unanimous, 5-0. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation split 4-1, with four members endorsing the cut as-is and one declining.
NOTES	*The lone decline came from the member weighting inflation risk most heavily, who accepted that the direction toward eventual easing is defensible but judged the timing premature: with core PCE at 2.28% and inflation momentum only slightly negative at -0.055, one soft reading is not the sustained progress the prior statement's 'greater confidence' standard requires, and cutting into a broad-based inflation base risks a forced reversal that waiting a single meeting would avoid.*