OpenFed

POLICY STATEMENT | July 24, 2024

PREDICTED FED DECISION **HOLD**

5.25%-5.50%

OPENFED OPTIMAL RATE **−25 bps**

5.00%-5.25%

KEY TAKEAWAY

The Committee unanimously predicts the Fed holds at 5.25%-5.50%, while its own framework judges the loss-minimizing move to be a modest -25 bps cut, an optimum a 3-2 majority endorsed.

STATEMENT

The most notable feature of this meeting is a gap between what the Committee expects and what it judges best: all five members predict a hold, yet the deterministic framework points to a first cut. Recent information showed core PCE inflation at 2.27%, above the 2.0% target but close to it, with the unemployment rate at 4.1%, still below the estimated natural rate of 4.41%. Beige Book reports described growth as slight-to-modest, with five Districts flat or declining, some slowing in wage growth as worker availability improved, and soft loan demand. Jobless claims at 243,000 and a Chicago Fed activity index near trend at 0.05 suggested cooling rather than distress. Financial conditions were calm throughout: the stress index at 0.1255 was low, the VIX at 18.04 moderate, and the Baa spread contained at 1.59. Members generally read this as genuine progress but not yet the sustained disinflation the prior meeting's 'greater confidence' bar required, and none saw stress compelling action.

On the predictive question, the argument for holding was broad. Participants weighing inflation risk emphasized that inflation momentum remained positive at 0.07, so disinflation was not yet convincingly established, and that one data cycle of progress did not clear the prior guidance. Those attentive to labor conditions acknowledged an honest preference to ease, citing softer hiring, no backfilling of open positions, and elevated claims, but judged that with unemployment still below the natural rate the deterioration was gradual, not the sharp weakening that would justify overriding consensus. Members focused on markets noted that the 3-month T-bill spread of -0.195 and the 10y-2y inversion at -0.09 priced easing as near, though the implied magnitude looked closer to a single 25 bps move than an aggressive one, making this meeting more the setup than the execution. With no credit or volatility signal forcing a preemptive cut, all five members concluded the real Federal Reserve is most likely to hold the target range at 5.25% to 5.50%.

Turning to what optimal policy would be, the Committee's framework recommended -25 bps. That figure is a tempering of sharply more aggressive level rules: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each pointed to -75 bps, driven by an estimated r* of -0.389 that places the current stance well above neutral, while the first-difference rule, which weights the change in conditions, returned 0 bps in light of the still-positive inflation momentum. The loss function blended these into a single measured step. Members supporting the recommendation argued that with inflation near target and momentum nearly flat, holding an overly restrictive stance risks over-tightening onto a cooling labor market, and that the absence of stress cuts both ways: with markets calm, a -25 bps move is low-risk to orderly conditions, while a -75 bps lurch would jolt them. On that reasoning the Committee's considered optimal conclusion is a -25 bps cut, a cautious first step toward neutral rather than the full relief the level rules imply.

The tension between the two conclusions was real and is worth stating plainly. Even members who endorsed the optimum conceded that inflation momentum gives no cutting signal on its own, and that the case rests on preemption against restriction that is biting before stress appears. The dissenting view held that, absent any market strain, confirming disinflation before easing remains the sounder course, and that a cut while momentum is positive carries a credibility cost the framework underweights. Both the predictive hold and the optimal -25 bps therefore emerge from the same balancing of a restrictive real stance against inflation still modestly above target, differing in how much patience that balance can afford.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for holding the target range at 5.25% to 5.50%; on the framework's -25 bps recommendation the Committee split 3-2 in favor, with the labor-focused, financial-stability, and market-signal members endorsing the cut and the inflation-focused and data-dependent members declining.

NOTES

The two members declining the -25 bps optimum argued that with core PCE still at 2.27% and inflation momentum positive at 0.07, the prior meeting's 'greater confidence' bar has not been met; absent any financial stress, they judged confirming sustained disinflation before easing preferable to beginning a cut this meeting, viewing the first-difference rule's 0 bps signal as the more persuasive guide.