OpenFed

POLICY STATEMENT | September 11, 2024

PREDICTED FED DECISION −25 bps

5.00%-5.25%

OPENFED OPTIMAL RATE −25 bps

5.00%-5.25%

KEY TAKEAWAY

The Committee expects a 25 basis point cut and independently judges that same quarter-point move optimal, with markets and the loss-minimizing framework converging even as reference rules pointed to steeper easing.

STATEMENT

Information reviewed at this meeting pointed to an economy that is decelerating in an orderly fashion rather than deteriorating. Core PCE inflation stood at 2.18%, modestly above the 2% objective but with the disinflation trend intact; prior minutes and the Beige Book described broad-based moderation in prices, waning pricing power, and modest wage growth. Activity had softened noticeably, with nine Districts reported flat or declining, consumer spending ticking down, and manufacturing contracting. At the same time, financial conditions remained calm: the financial stress index at 0.1289 and the VIX at 17.69 signaled no acute distress, and the Baa corporate spread of 1.74 over Treasuries pointed to healthy, orderly credit markets. Participants agreed this combination argued for beginning to normalize a policy stance that, at the current 5.25-5.50% range, sits meaningfully above the last median projection of 5.1% and is genuinely restrictive.

The central question was one of magnitude, not direction. Several participants opened the discussion favoring a 50 basis point cut, reading the 3-month T-bill spread of -0.525 as a market signal pointing beyond a single quarter-point step, and emphasizing a cooling labor market where hiring had stalled, hours were being cut, and job searches had lengthened. Others countered that a spread of that size is consistent with the start of an easing cycle rather than a mandate for an outsized opening move, and that with inflation still above target and no credit stress to head off, a front-loaded 50 basis point cut risked being read as alarm the data did not support. That risk-management view carried the room: over the course of deliberation, the members who had favored 50 basis points revised toward 25, judging that the gradual, non-crisis character of the cooling — rare layoffs, contained jobless claims, calm markets — did not yet justify a larger step. The Committee's predictive judgment is that the real Federal

Reserve will cut by 25 basis points, moving the target range to 5.00-5.25%.

The Committee's independent policy framework arrived at the same 25 basis point cut as the loss-minimizing recommendation, and the deliberation on that conclusion was notable for how the reference rules pulled the other way. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed -75 basis points, reflecting an estimated r* of -0.342 and level gaps that place current policy well above neutral. The first-difference rule, by contrast, recommended 0 basis points, a reading grounded in contained momentum — inflation momentum of just 0.07 and unemployment momentum of 0.15. Participants treated the first-difference result as a legitimate governor on the aggressive rules: with momentum this muted, front-loading a 75 basis point cut would overreact to level gaps alone. The framework's -25 basis point output threaded these positions, and members across perspectives found it persuasive for the same underlying reason — policy is restrictive and should ease, but neither the price data nor the labor data justifies front-loading.

Taken together, the predictive and optimal conclusions coincide at a 25 basis point cut, an agreement the Committee reads as confirming a measured first step rather than a coincidence. The move relieves an overtight funding stance that markets have already priced, addresses emerging labor softening, and keeps the disinflation effort credible while inflation remains within striking distance of target. Participants generally judged that this cut preserves optionality: the Committee can pause if inflation stalls above 2%, or accelerate if labor conditions weaken further.

COMMITTEE VOTE	The predictive vote was 4-1 in favor of a 25 basis point cut, with one member preferring 50 basis points; on the framework's -25 basis point recommendation, the optimal-side deliberation landed 5-0, with all five members endorsing it as-is.
NOTES	*One participant, weighting market-implied pricing most heavily, held to a 50 basis point cut on the predictive vote, arguing that the magnitude of the -0.525 T-bill spread and the un-inversion of the 2s10s curve to +0.03 pointed beyond a token quarter-point move; this member nonetheless endorsed the framework's 25 basis point recommendation, agreeing that calm markets and contained momentum warranted a deliberate, non-disruptive first step.*