OpenFed

POLICY STATEMENT | October 31, 2024

PREDICTED FED DECISION −25 bps

4.50%-4.75%

OPENFED OPTIMAL RATE HOLD

4.75%-5.00%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps cut to 4.50-4.75%, yet its own loss-minimizing framework judges the optimal move to be a hold at 0 bps, a divergence tracing to inflation still above target.

STATEMENT

Information reviewed by the Committee described an economy that is softening at the margins without any sign of acute distress. Core PCE inflation stands at 2.51%, still meaningfully above the 2% objective, and disinflation appears to have slowed rather than stalled outright, with inflation momentum in the framework registering only -0.05. The labor market remains firm: unemployment at 4.1% sits below the estimated 4.41% natural rate, and initial claims of 216,000 give no signal of imminent deterioration, though participants noted a modest upward drift captured by unemployment momentum of +0.15. Activity readings pointed the other way, with the Chicago Fed activity index at -0.28 signaling below-trend growth and the Beige Book describing flat-to-slightly-declining conditions across several districts, softening consumer spending, and weaker housing, even as prices 'increased slightly' and wages rose modestly. Financial conditions were judged calm, with the stress index at 0.1316, the Baa spread tight at 1.44, the 10-year to 2-year spread un-inverted at +0.12, and the VIX moderately elevated at 23.16 but well short of distress.

On the question of what the real Federal Reserve is likely to do, all five members converged cleanly on a 25 bps cut, bringing the target range from 4.75-5.00% to 4.50-4.75%. The reasoning was consistent across perspectives: the prior meeting's 50 bps cut, together with a dissent that had preferred a smaller step, signaled an appetite to slow the pace to a standard increment; the 3-month T-bill trading 40.5 bps below the current rate indicated markets have already priced roughly one 25 bps move; and the prior median projection near 4.4% implied a gradual continuation of easing rather than another large step. Participants who weight inflation most heavily accepted the cut as the prudent minimum given genuine softening in activity and no sign of price re-acceleration, while resisting any case for a larger 50 bps move. Those focused on employment saw a measured step as insurance against softening before it worsens, and those attentive to financial stability judged that delivering the priced-in cut avoids destabilizing conditions in either direction.

The Committee's own deterministic framework reached a different conclusion, recommending 0 bps, and the reasoning behind that hold was given equal weight in deliberation. The reference rules straddled zero rather than pointing one way: the Taylor rule prescribed -75 bps, the balanced-approach and ELB-adjusted rules each -25 bps, but the first-difference rule pointed to +25 bps, reflecting a judgment that recent cuts may have outrun genuine progress. With reliable rules bracketing zero and inflation momentum only marginally negative, the loss function netted to a hold. Members reconciling this with their predictive votes read the divergence as a statement that policy already sits close to neutral: the estimated r* of -0.292 implies the current stance is only mildly restrictive, so the cost of waiting is low. Several judged the Taylor rule's -75 bps an outlier here, overweighting the sub-trend activity signal without respecting the benign financial backdrop or the smooth path markets already price.

Weighing both conclusions, the Committee affirmed its predictive expectation of a 25 bps cut while endorsing the framework's judgment that holding at 4.75-5.00% would be the loss-optimal choice this meeting. The case for patience rested on letting the prior 50 bps cut transmit before easing further, confirming that inflation truly returns to 2% before adding stimulus, and honoring the market-implied easing path on its own timeline rather than acting at every meeting. Participants generally agreed that the direction of policy is toward further easing; the tension is one of timing, not destination, and calm markets meant standing pat carried little cost while protecting hard-won disinflation credibility.

COMMITTEE VOTE	The predictive vote was unanimous, 5-0, for a 25 bps cut to 4.50-4.75%. On the framework's 0 bps recommendation, the Committee's optimal-side deliberation landed 4 endorse, 0 decline, 1 partial.
NOTES	*The lone departure on the optimal side came from the employment-focused member, who agreed with the framework's easing direction but would have preferred a small 25 bps step over an outright hold, citing the +0.15 upward drift in unemployment momentum and below-trend activity, while conceding that low claims and no labor break made a pause defensible for this meeting.*