



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings was available on or before the cutoff for this meeting, so the Committee was unable to review the total size, composition, or change from a prior release of SOMA holdings. This limitation applies to the securities portfolio only; separately, no point-in-time-safe data source currently exists for the results of repurchase or reverse repurchase operations, and those operations are likewise not summarized here. Members proceeded on the understanding that this section reflects an absence of available holdings data rather than an absence of activity.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data indicating that the expansion continued at a moderate pace. Core PCE inflation stood at 2.4 percent on a year-over-year basis, somewhat above the 2 percent objective. The unemployment rate was 6.5 percent, above the estimated natural rate of 5.47 percent, suggesting that some labor-market slack persisted. Initial jobless claims were 341,000, a level the staff characterized as moderate and not indicative of deterioration. The Chicago Fed National Activity Index registered 0.98, consistent with above-trend growth. M2 stood at roughly 3,570 billion dollars. The current federal funds rate was 3.25 percent.

The February Beige Book described the economy as having expanded moderately in January and February despite unusually severe weather in the East and Midwest. Weather effects were reported to have depressed consumer spending and construction, delayed shipments, and interrupted some production, while boosting selected tourism and energy markets, but these effects were judged largely temporary. Manufacturing increased across most regions and sectors, with the auto industry and its suppliers and building products showing the greatest strength. Merchants in nearly all districts expected solid sales in coming months. Real estate markets were mostly improving relative to a year earlier, with exceptions noted in southern California and Connecticut, and several districts reported that rising interest rates had slowed mortgage refinancings. Price pressures were described as limited overall: building materials, selected metals, and some chemicals were rising, but manufactured products and consumer goods generally were not experiencing upward pressure.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions remained calm and accommodative. The financial stress index was very low at 0.0444, and the VIX stood at 14.78, both consistent with subdued volatility and an absence of acute market strain. The Baa corporate spread of 1.64 was characterized as contained, showing no signs of widening credit distress. The 10-year/2-year Treasury spread was positively sloped



at 1.48, offering no recession signal from the yield curve. The 3-month Treasury bill traded 0.33 above the current 3.25 percent funds rate, a spread the staff noted was broadly consistent with market expectations of a modest near-term firming in policy.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available. With the estimated neutral real rate (r^*) at 0.75 percent, the prevailing 3.25 percent nominal funds rate was assessed as only mildly accommodative rather than deeply restrictive, implying limited urgency to move policy sharply in either direction. Both inflation momentum and unemployment momentum registered 0.0, indicating no accelerating trend in prices and no worsening in the labor market; the projection therefore did not anticipate a self-reinforcing deterioration or overheating over the near term absent new shocks.

The reference rules spanned a notably wide range. The Taylor, Balanced Approach, and ELB-adjusted rules each pointed to -75 basis points, driven largely by the roughly one-point gap between the 6.5 percent unemployment rate and the 5.47 percent natural rate. The First-Difference rule, which responds to changes rather than to the level of the gaps, pointed to +25 basis points, consistent with continuation of the recent shift away from accommodation. Reconciling these opposing signals against flat momentum, the framework's loss-minimizing recommendation was 0 basis points. The staff read this as implying that current conditions were near neutral: the level-based easing signals were tempered by the modest above-target inflation reading and the recently initiated firming, so the projected path of conditions was one of continued moderate expansion without an immediate case for either aggressive easing or further tightening.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, participants converged on an expectation of a 25 basis point increase, and their reasoning, while pointing to the same outcome, reflected genuinely different emphases. The inflation-focused member treated core PCE at 2.4 percent, above the 2 percent target, as the central fact, arguing that inflation was not yet contained given rising prices in selected materials, metals, and chemicals noted in the Beige Book, and that solid growth and the first tightening since 1989 warranted continuing to remove accommodation. The member weighting labor-market conditions most heavily emphasized that unemployment remained roughly a full point above the natural rate, signaling persistent slack, but acknowledged that above-trend growth and above-target inflation made a cut unjustified; that member accepted a modest step while cautioning against anything larger that might choke off the recovery.



The member focused on financial stability judged that the very low stress index, calm volatility, contained Baa spread, and positively sloped curve indicated markets could absorb a measured continuation of tightening, while noting that rising rates had already slowed mortgage refinancings, a reason to avoid an aggressive move that might disrupt housing credit channels. The data-dependent centrist read the prior meeting's shift and the mixed picture of above-target inflation alongside remaining slack as supporting a measured follow-through rather than a shock. The market-focused member treated the 0.33 Treasury bill spread over the current rate as the decisive signal, consistent with roughly one 25 basis point step being priced in, and saw nothing in financial conditions arguing for either a pause or a larger jump. In the rebuttal round, no member was moved from the 25 basis point view; several noted that the stability member's caution against disrupting refinancing markets and the market member's read of priced-in expectations jointly argued against a 50 basis point move, while the flat price pressures in the Beige Book cut against aggressiveness as well.

Turning to the framework's loss-minimizing recommendation of 0 basis points, participants engaged directly with the tension between that call, their own predictive votes, and the wide dispersion of the reference rules. Several observed that the Taylor, Balanced Approach, and ELB-adjusted rules all recommended -75 basis points on the strength of the unemployment gap, but that this easing signal sat uneasily with above-target inflation and, more importantly, with flat momentum in both inflation and unemployment. Participants generally found the First-Difference rule's logic persuasive: with no accelerating trend in either direction and policy only mildly accommodative given r^* at 0.75, the level rules appeared to overstate the urgency of easing. The framework's 0 basis point outcome was widely read as splitting these opposing signals, declining aggressive easing while pausing the recently begun firming.

The member weighting employment most heavily endorsed the hold as the stance closest to genuine preference, reasoning that with unemployment momentum at zero there was no acute deterioration to justify a cut, yet a wide slack gap argued firmly against adding restriction; holding avoided compounding restrictiveness prematurely while inflation remained contained. The financial-stability member likewise endorsed the hold, judging that with stress low and no credit widening, consolidating the prior first tightening preserved stability better than lurching in either direction. The data-dependent centrist endorsed 0 basis points as the literal reading of mixed evidence, persuaded by the slack argument against a further hike and by benign conditions against easing. The inflation-focused member agreed on direction, rejecting the level rules' easing while inflation ran above target, but preferred a modest 25 basis point step to a flat hold, viewing consolidation as premature given the above-target level even with flat momentum. The market-focused member similarly agreed with the rejection of easing but leaned toward firmness, noting that the Treasury bill spread embedded



expectations of continuation rather than a pause; that member characterized the disagreement as one of magnitude and timing rather than direction, and allowed that a hold was defensible.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members anticipated a 25 basis point increase in the target federal funds rate, a unanimous 5-to-0 expectation reflecting continuation of the tightening path begun at the prior meeting. On the framework's loss-minimizing recommendation of 0 basis points, the Committee did not fully agree: three members endorsed the recommendation as-is, and two registered partial agreement, concurring with the direction of declining to ease while preferring a modest firming over a flat hold on grounds of magnitude and timing. No member declined the recommendation outright.