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, and accordingly the Committee had no current reading on the total size, composition, or period-over-period change in SOMA holdings to review. This gap covers SOMA holdings only; it does not extend to the results of temporary repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists. Staff noted that in the absence of these figures, the discussion of open market operations was limited, and members proceeded on the understanding that the outstanding portfolio would be reviewed once reliable holdings data became available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that the economy continued to expand at a solid pace. Core PCE inflation stood at 2.19 percent on a year-over-year basis, modestly above the 2 percent objective. The unemployment rate was 5.8 percent, slightly above the estimated natural rate of 5.41 percent, while initial claims for unemployment insurance were 328,000, a level staff characterized as low and stable. The Chicago Fed National Activity Index registered 0.53, consistent with growth running above trend. The federal funds rate stood at 4.75 percent, and M2 was reported at $3,596.3 billion.

The most recent Beige Book, based on information collected before October 25, described economic activity as expanding in all Federal Reserve districts, with signs of acceleration in several and some slowing in one. Consumer spending generally remained strong, with auto sales described as very strong, though several districts reported flat or slackening retail sales. Manufacturing activity increased in nearly all districts. Single-family construction had declined from fairly high levels, while most districts reported gains in commercial real estate and healthy loan demand. On prices and labor, the report indicated that labor markets were tight or tightening in most districts, with a few reports of rising wages, and that prices of raw and intermediate materials continued to rise. Notably, there were increasing reports that manufacturers were passing these costs along by raising selling prices, even as most districts reported no change in retail prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as calm and accommodative of a firmer policy stance. The financial stress index stood at 0.126, a low reading indicating orderly markets, and the VIX at 16.3 pointed to subdued equity volatility. The Baa corporate spread was 1.36, a contained level suggesting no distress in business borrowing costs. The Treasury yield curve remained positively sloped, with the 10-year to 2-year spread at 0.99, giving no recession signal from the term structure. Staff drew particular attention to the 3-month Treasury bill trading 0.48 above the current funds rate, a spread consistent with market participants pricing in meaningful near-term tightening.

STAFF ECONOMIC OUTLOOK

Staff framed the forward outlook around the estimated neutral rate and the momentum readings underlying the reference rules. With r* estimated at 1.58, the several level-based rules — the Taylor, Balanced Approach, and ELB-adjusted specifications — each pointed to roughly 75 basis points of easing, reflecting an unemployment rate above the natural rate together with inflation only modestly above target. Those prescriptions, however, rested on backward-looking gaps. The First-Difference rule, which responds to recent changes rather than levels, indicated no change. Inflation momentum was slightly negative at -0.04 and unemployment momentum was 0.05, both essentially flat, implying no strong directional pressure in either the price or labor data.

Taken together, these quantities suggested that conditions were unlikely to shift decisively in the near term absent a policy move. The loss-minimizing recommendation from the framework was for no change, netting the downward pull of the level rules against the flat momentum picture and the building price pressure evident in the district reports. In staff's projection, the combination of above-trend activity, contained financial conditions, and cost pass-through argued against easing, while flat momentum argued against an aggressive tightening; the most likely path was one in which the current stance would be reassessed as incoming data clarified whether the pass-through pressure was accelerating or stabilizing.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants opened with a wide range of starting points but converged quickly on the view that the economy was expanding and that the data offered no case for easing. One participant, weighting inflation risk most heavily, emphasized that core PCE at 2.19 percent sat above the 2 percent target and that the Beige Book evidence of manufacturers passing input costs into selling prices signaled building pressure; this participant initially favored a smaller move and later revised upward, persuaded that market pricing and benign conditions warranted a larger step. A participant oriented toward labor market risk stressed that, contrary to any easing bias, the employment data offered no basis for support: unemployment at 5.8 percent was below the natural rate on the tightening-district reading, claims were low and stable, and most districts described labor markets as tight or tightening. This participant favored a firm but measured move, expressly resisting the largest options out of concern for over-tightening into an economy that was strong but not runaway.

A participant focused on financial stability observed that the stress index, the VIX, and the Baa spread were all benign and that the positively sloped curve carried no recession signal, concluding that markets could comfortably absorb a decisive move without strain. A participant giving primary weight to market signals returned repeatedly to the 3-month bill trading 48 basis points above the funds rate, reading it as a concrete, aggregated forecast of a move larger than a modest step and arguing that undershooting that expectation could itself unsettle conditions. The data-dependent participant weighed the indicators at face value — a roughly 19 basis point overshoot on inflation, unemployment not below the natural rate — and judged that while these argued against the most aggressive reaction, the T-bill spread, accelerating activity, and cost pass-through together supported a substantial hike. On the predictive question, four participants settled at 75 basis points and one at a smaller move.

The tenor of the discussion shifted when participants turned to the framework's loss-minimizing recommendation, which called for no change. Several participants noted the sharp divergence between the 75 basis point predictive vote and the framework's hold. The level-based rules all pointed to easing, driven by unemployment above the natural rate and near-target inflation, but participants generally distrusted those signals as backward-looking. The First-Difference rule, at zero, drew broad support: with inflation momentum slightly negative and unemployment momentum near zero, a couple of participants judged that aggressive moves in either direction were unwarranted and that patience was the more defensible posture.

The labor-focused participant found the hold most congenial, reasoning that with real slack remaining and momentum flat, a 75 basis point move risked choking off employment gains, while a hold neither cut into building price pressure nor slammed the labor market. The financial stability participant likewise endorsed the hold, noting that no credit or volatility stress argued for urgent easing and that holding avoided over-tightening into calm markets; this participant acknowledged that the divergence revealed the committee leaning toward preemption faster than the mechanical optimum required, but saw little near-term stability cost in that. The data-dependent participant endorsed the hold as the most literal read of flat momentum and remaining slack, characterizing the framework's rejection of the -75 easing signals as correct given building price pressure.

Two participants, however, agreed with the direction but not the magnitude. The inflation-focused participant strongly agreed that easing would be wrong but regarded a full hold as too passive against pass-through that was building rather than contained, preferring some firming. The market-signals participant argued that momentum was backward-looking while the 48 basis point forward spread already discounted tightening, and that a hold left policy behind what pricing anticipated; this participant was persuaded the direction was up, not down, and favored partial firming rather than standing pat.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy move, the Committee's final tally was 75 basis points, with four members favoring 75 basis points and one favoring a smaller move. On the framework's loss-minimizing recommendation of no change, three members endorsed the recommendation as-is — the participants oriented toward labor market risk, financial stability, and data dependence — while two members registered partial agreement, concurring with the direction against easing but judging the magnitude insufficient: the inflation-focused member, who preferred some firming against building cost pass-through, and the market-signals member, who read the forward T-bill spread as warranting partial firming rather than a hold. No member declined to support the recommendation's direction.