



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available on or before the point-in-time-safe cutoff for this meeting, and the desk is therefore unable to report a total size, composition, or change from the prior release. This section covers SOMA holdings only; it does not encompass repurchase or reverse repurchase operation results, for which no point-in-time-safe data source currently exists. Members were advised that this gap reflects data availability rather than any interruption in operations, and that reporting will resume once a compliant source can be confirmed.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data as broadly consistent with continued above-trend activity alongside inflation running modestly above the 2.0 percent objective. Core PCE inflation stood at 2.17 percent on a twelve-month basis. The unemployment rate was 5.7 percent, somewhat above the estimated natural rate of 5.36 percent, implying a small margin of labor-market slack. Initial jobless claims registered 353,000, a level the staff characterized as moderate rather than indicative of sharp deterioration. The Chicago Fed National Activity Index at 0.74 pointed to growth running above its historical trend. The current federal funds rate was 5.75 percent, following the prior meeting's 25 basis point reduction, and M2 money supply stood at 3,710.8 billion dollars.

The most recent Beige Book, released August 9 and summarizing commentary through July, was available to the staff only in its summary and table-of-contents form, without accompanying district-level narrative detail. The staff accordingly drew no specific regional signal from it and noted that it offered no evidence of abrupt labor-market weakening or of accelerating price pressures. On balance, the quantitative indicators depicted an economy expanding at a solid pace with inflation slightly elevated and labor conditions close to, but modestly softer than, estimates of full employment.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as calm and accommodative. The financial stress index stood at 0.09, a very low reading indicating an absence of systemic tension, and the VIX at 12.35 pointed to subdued equity volatility. The Baa corporate spread of 1.7 percentage points was moderate and showed no sign of widening, suggesting benign credit conditions and unstressed borrowing costs. The 10-year/2-year Treasury spread was positive at 0.46 percentage point, carrying no recession signal from an inverted curve. The 3-month Treasury bill yield sat 0.3 percentage point below the current funds rate, a configuration the staff read as consistent with market expectations of a modest downward drift in the policy rate over the near term rather than with any pricing of acute distress.

STAFF ECONOMIC OUTLOOK



The staff's forward-looking assessment drew on the estimated neutral rate and on the momentum measures embedded in the policy framework. With the estimated real neutral rate (r^*) at 2.428 percent and core PCE inflation near 2.17 percent, the implied neutral nominal rate places the current 5.75 percent funds rate at a modestly restrictive setting. Inflation momentum was slightly negative at -0.055, suggesting price pressures are edging lower on their own rather than building, while unemployment momentum at 0.15 indicated a mild upward drift in joblessness that bears watching but does not signal rapid labor-market erosion.

The reference rules diverged sharply, which itself informed the projected path. The Taylor rule, Balanced Approach rule, and ELB-adjusted rule each prescribed -75 basis points, driven by labor slack and inflation near target, whereas the First-Difference rule prescribed +25 basis points, reflecting inflation still sitting above objective. The framework judged the reference rules reliable and reconciled this tension into a loss-minimizing recommendation of no change. The projection that follows from these inputs is one of gradual convergence: with disinflation momentum mildly favorable, growth above trend, and only slight labor slack, conditions appear likely to evolve without requiring an abrupt move in either direction, leaving the recent 25 basis point reduction to work through the economy before further adjustment would be warranted.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached current conditions from distinct vantage points, and the discussion in the predictive rounds reflected genuine disagreement over whether the prior meeting's easing should be followed by a further step. A majority favored holding the funds rate at 5.75 percent. The member most focused on inflation stressed that core PCE at 2.17 percent remained above the 2.0 percent objective and that inflation was not yet decisively contained; in this view, back-to-back cuts would signal a more aggressive easing path than the data justified and would risk credibility, particularly with activity above trend and no crisis at hand. The member attentive to financial stability reached the same conclusion by a different route, emphasizing that a stress index of 0.09 and a VIX of 12.35 described unusually calm, complacent markets, and cautioning that easing into such conditions risks encouraging excess risk-taking and asset froth rather than addressing any credit-market strain. The data-dependent member read the indicators at face value and found no urgency in either direction: inflation modestly above target, labor slack slight, growth solid, and markets benign together supported patience while the prior cut's effects were assessed.

Two members leaned toward a further 25 basis point reduction. The member weighting labor-market risk most heavily pointed to unemployment at 5.7 percent above the 5.36 percent natural rate as evidence of real slack, and to jobless claims near 353,000 as a leading hint of gradual softening; from an



employment-protective standpoint, the absence of financial stress was read not as a reason to hold but as an assurance that easing could proceed without destabilizing markets. This member nonetheless acknowledged that above-trend growth and the recently delivered cut argued against moving in consecutive meetings, and explicitly declined to entertain a larger step. The member most attentive to market pricing emphasized the 3-month bill sitting 0.3 percentage point below the funds rate as evidence that markets had digested the same data and still leaned toward roughly one incremental cut — not a hold and not an aggressive move — and argued that a single 25 basis point step would merely validate what was already priced rather than stoke reckless risk-taking.

The rebuttal exchange did not move members from their positions. Those favoring a hold maintained that no argument for easing rested on a financial-stability or credit-stress rationale, that the labor slack in question was small, and that the mildly negative inflation momentum did not yet constitute a convincing disinflation trend. The member focused on employment conceded that the strongest counterweight to acting was the recognition that the prior modest cut was still working through the economy, while continuing to view rising unemployment as a reason to stand ready to ease promptly if labor data weakened further. The market-focused member conceded that a single cut consistent with prior 'modest' easing did not amount to the kind of accommodation the stability voice feared, but held that the bill spread remained the dominant signal.

When the discussion turned to the optimal-policy framework, participants engaged directly with the sharp divergence among the reference rules. Several observed that the -75 basis point prescriptions from the Taylor, Balanced Approach, and ELB-adjusted rules were driven by labor slack and near-target inflation but did not account for the easing already delivered or for prevailing financial conditions, and that mechanically following them would over-ease into calm, loose markets. The First-Difference rule's +25 basis points was seen as reflecting inflation still above target, but with inflation momentum only slightly negative a hike was judged equally unwarranted. Members found the loss-minimizing reconciliation at no change persuasive precisely because it rejected both extremes: it neither validated renewed easing nor tightened abruptly while activity stayed above trend. The member weighting employment noted that the framework's outcome, sitting between the level-based rules and the change-based rule, suggested policy was already near neutral following the cut.

By the close of the discussion, participants broadly characterized the current 5.75 percent stance as roughly appropriate — modestly restrictive relative to the estimated neutral nominal rate, but with easing already in the pipeline. With r^* at 2.428 percent, core PCE near target, a small margin of labor slack, and no market distress, the consensus favored watchful waiting: holding to observe whether the prior cut's effects and the mild inflation overshoot resolved, while remaining prepared to respond



should labor conditions deteriorate or credit spreads widen.

COMMITTEE POLICY ACTIONS

In the predictive round, the Committee's final vote favored no change to the target federal funds rate, with three members supporting a hold at 5.75 percent and two members favoring a 25 basis point reduction. On the optimal-policy framework's recommendation of no change, the Committee was unanimous: all five members — the inflation-focused member, the labor-market member, the financial-stability member, the data-dependent member, and the market-signal member — endorsed the recommendation as-is, with none declining and none registering partial agreement. The Committee thus recorded a full endorsement of holding the target rate at 5.75 percent.