



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 had no current reading on the total size, composition, or period-over-period change of the SOMA portfolio to review. This section covers SOMA holdings only; it does not encompass the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists. In the absence of the underlying holdings data, the staff offered no quantitative summary of open market operations for the intermeeting period.

STAFF REVIEW OF THE ECONOMIC SITUATION

Incoming data described an economy expanding at a pace slightly below trend, with inflation resting close to the Committee's 2 percent objective. Core PCE inflation stood at 1.96 percent on a year-over-year basis, essentially at target. The unemployment rate was 5.5 percent, modestly above the estimated natural rate of 5.32 percent, suggesting a labor market close to balance with a small measure of slack rather than one running hot. Initial claims for unemployment insurance were somewhat elevated at 384,000, a figure the staff flagged as bearing watching for signs of softening in hiring. The Chicago Fed National Activity Index at -0.14 was consistent with growth running just under its longer-run trend. The current federal funds rate was 5.25 percent, and M2 stood at \$3,690.5 billion.

The March Beige Book, released March 13, 1996, provided the qualitative backdrop through summaries of commentary across the twelve Federal Reserve Districts. The staff drew on this District-by-District material to corroborate the picture from the national indicators, namely conditions that were neither straining capacity nor deteriorating sharply. Taken together, the data pointed to an economy near equilibrium on the price side and slightly soft on the activity and labor side.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm across the measures reviewed. The financial stress index was low at 0.0705, and the VIX at 18.35 was moderate, showing no sign of market panic or heightened systemic risk. The Baa corporate spread over Treasuries at 1.71 indicated contained credit costs, with no evidence of borrowing-cost distress. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.56, carrying no recession signal from an inversion. One notable feature was the 3-month Treasury bill trading roughly 20 basis points below the current funds rate, a mild indication that market participants were pricing in the possibility of some easing rather than any tightening. On the whole, the staff characterized credit and volatility metrics as benign.

STAFF ECONOMIC OUTLOOK



The staff's forward-looking assessment rested on the neutral-rate estimate and on the momentum in the two mandate variables. With r^* estimated near 2.75 percent, the current funds rate of 5.25 percent implied a real policy rate of roughly 3.3 percent, placing the stance modestly on the restrictive side rather than clearly accommodative. Inflation momentum was slightly negative at -0.015 and unemployment momentum barely positive at 0.05 , both small enough that the staff read the near-term trajectory of prices and the labor market as broadly stable, with no accelerating pressure in either direction that would demand a policy adjustment.

The reference rules produced a revealing divergence. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed 75 basis points, all above the current setting, reflecting level-based gaps that imply room to tighten. The First-Difference rule, which reacts to changes rather than levels, prescribed 0 basis points, consistent with the flat momentum readings. The loss-minimizing framework, treating the reference rules as reliable, reconciled these into a recommendation of 0 basis points. The staff's projection therefore was for conditions to hold near their current configuration: inflation anchored close to target, the labor market drifting only marginally, and the stance neither pressing enough on activity to force easing nor loose enough to require the tightening the level rules would suggest.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants entered the discussion with a broadly shared reading of the data but differing emphases rooted in their distinct mandates. A majority judged that inflation sitting essentially at the 2 percent objective, an unemployment rate close to its natural level, and calm financial conditions together made a compelling case for holding the funds rate steady. One participant focused on inflation risk stressed that core PCE at 1.96 percent was at goal rather than comfortably below it, and that any easing risked reigniting price pressures for only marginal gains against soft growth. This participant noted that the three level-based rules all pointed above the current rate, arguing that a hold represented the dovish edge of the defensible range rather than a restrictive posture; the floor of acceptability, in this view, was no cut.

A participant attentive to financial stability arrived at the same conclusion by a different route. With the stress index low, the VIX moderate, and the Baa spread contained, this participant saw no credit-market strain or systemic signal demanding action in either direction, and cautioned that easing merely to match a mild priced expectation, absent any distress, would loosen financial conditions unnecessarily. The data-dependent participant, favoring the most literal reading of the indicators, likewise found the picture balanced: inflation on target, labor near its natural rate, growth only slightly below trend, and financial conditions stable, with no urgent case to move.



Dissenting from the hold in the predictive round were two participants who advocated a modest 25 basis point cut. One, focused on employment, read the unemployment rate above the natural rate, elevated initial claims at 384,000, and the below-trend Chicago Fed index as evidence of genuine labor-market slack and possible softening ahead. With inflation at target, this participant saw no price-pressure obstacle to acting preemptively, and argued that a calm environment was precisely the low-cost moment to make a small, cushioning adjustment rather than waiting for claims to deteriorate. The other, weighting market-implied signals most heavily, treated the 3-month bill trading 20 basis points below the funds rate as the decisive indicator, reading it together with the soft real-side data as markets pricing roughly one small cut. The hold camp acknowledged the T-bill spread as a genuine signal but judged it too mild to override a broad picture near balance, characterizing it as a market-expectation signal rather than an inflation signal.

When the discussion turned to the framework's 0 basis point recommendation, the divergence between the level rules and the outcome became the focal point. Participants across mandates converged on the First-Difference rule's logic as most persuasive here: with inflation momentum barely negative and unemployment momentum small, nothing had shifted enough to justify a move, and the 75 basis point prescriptions from the Taylor, Balanced Approach, and ELB-adjusted rules were seen as reflecting static level gaps the incoming inflation data did not confirm. The employment-focused participant, who in the predictive round had favored a cut, accepted that softening was present but not yet deep, and that a hold preserved the option to ease should claims and unemployment worsen materially. The market-signal participant similarly found that acting on the level rules' +75 would fight forward market pricing and ignore fading inflation momentum. Several participants observed that the agreement between their own judgment and the framework's output suggested the current 5.25 percent stance was already close to appropriate.

In the rebuttal exchanges no participant was moved toward a cut, and none toward a hike. The inflation-focused participant reiterated that holding was the dovish edge of an inflation-risk view given the level rules leaned toward tightening. The financial stability participant emphasized that a 75 basis point hike into calm-but-softening conditions would risk destabilizing benign credit markets to no purpose. The employment-focused participant remained vigilant but conceded the signals were not yet alarming enough to compel easing, while the positively sloped 2s10s spread offered no recession alarm to justify an urgent cut. The overall tone was one of watchful patience: hold now, preserve optionality, and let incoming inflation and labor data guide any subsequent move.

COMMITTEE POLICY ACTIONS



In the predictive round, the Committee's members split three to two: three favored no change to the funds rate, and two favored a 25 basis point cut, yielding a majority position of 0 basis points. On the framework's recommendation of 0 basis points, the Committee was unanimous: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement. The two participants who had leaned toward a cut in the predictive round concluded, on reviewing the momentum readings and the reference-rule divergence, that a hold at 5.25 percent was defensible, producing full agreement on the optimal-side outcome.