



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings was available for this meeting. Accordingly, the Committee is unable to report the total size, composition, or change from the prior release of SOMA holdings on this occasion. This limitation pertains to SOMA holdings only; separately, the Committee notes that no point-in-time-safe data source currently exists for the results of repurchase and reverse repurchase operations, and those results are likewise not reported here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed the incoming data as showing an economy operating close to full employment with inflation contained. Core PCE inflation stood at 1.85 percent on a year-over-year basis, modestly below the 2.0 percent objective. The unemployment rate was 5.3 percent, essentially at the estimated natural rate of 5.25 percent, and initial jobless claims of 340,000 were at moderate levels with no upward spike evident. The Chicago Fed National Activity Index registered a positive 0.27, consistent with growth somewhat above trend. M2 stood at \$3,825.8 billion.

The most recent Beige Book characterized economic activity across most Districts as moderate to strong. Retail sales were described as mixed during the survey period, with several Districts noting that unseasonably warm weather had damped sales, particularly of apparel, and some pickup reported as cooler weather arrived. Manufacturing activity accelerated or remained at high levels for most Districts, with a generally positive outlook, and commercial real estate markets continued to perform at strong levels. Labor shortages had intensified for key sectors such as high-tech and energy extraction, yet reports of increasing wage pressures were infrequent. Prices remained stable, with contacts noting that competitive factors and buyer resistance were making it difficult for producers to pass on cost increases. Commercial lending remained strong in many Districts, while consumer lending was more mixed.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described by the staff as calm and accommodative. The financial stress index stood at 0.09, a very low reading indicating no systemic tension. The Baa corporate bond spread was narrow at 1.51, pointing to smoothly functioning credit markets and low borrowing strain, and the VIX at 20.74 was moderate rather than elevated. The 10-year/2-year Treasury yield curve spread was positive at 0.6, showing no inversion and no recession signal from the term structure. The 3-month Treasury bill traded about 21 basis points below the current federal funds rate of 5.25 percent, a modest discount suggesting that markets were not pricing a near-term tightening and, if anything, leaned slightly toward eventual easing.



STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum measures embedded in the outlook. With the estimated real neutral rate (r^*) at 2.928 percent, the reference rules keyed on levels — the Taylor, Balanced Approach, and ELB-adjusted rules — each pointed to roughly 75 basis points of easing, reflecting the small inflation shortfall relative to target. The First-Difference rule, which responds to changes rather than to the level of the gaps, indicated a more modest 25 basis points of easing. Inflation momentum was essentially flat at -0.02 , giving no sign of an accelerating undershoot, while unemployment momentum was mildly positive at 0.15 , a small upward drift worth monitoring but well short of a deterioration that would demand support.

Taken together, these quantities suggested that conditions were likely to remain near equilibrium over the near term absent a fresh shock. The reference rules were assessed as reliable, but the wide divergence between the level-based prescriptions and the loss-minimizing recommendation of no change indicated that current policy was only mildly restrictive once momentum and the stability of financial conditions were weighed. The projection implied continued above-trend but not overheating growth, inflation holding just below target, and unemployment hovering close to the natural rate, with the principal watch items being any translation of intensifying labor shortages into wage acceleration and any adverse turn in jobless claims or unemployment momentum.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants entered the discussion in broad agreement that no change in the federal funds rate was warranted at this meeting, though they reached that conclusion from distinct vantage points, and the reasoning behind the shared view differed in emphasis. The member most focused on inflation risk observed that core PCE at 1.85 percent sat just under the 2.0 percent target — contained but, in this member's words, not defeated. This participant stressed that unemployment at 5.3 percent was essentially at the natural rate, that activity was moderate to strong, and that the Beige Book's report of intensifying labor shortages in key sectors was a classic precursor to wage-driven inflation. On that reading, cutting would be premature and even reckless, while a hike was not yet justified because wage acceleration had not appeared in the data; the appropriate posture was to hold with a bias toward tightening should tightness finally feed through to wages and prices.

The participant most attentive to employment risk noted that his usual instinct to lean toward easing was simply not triggered by the current data. Unemployment was barely above the natural rate, initial claims at 340,000 were moderate with no upward spike, and the Beige Book described intensifying labor shortages rather than layoffs. This member candidly judged the employment case for an immediate cut to be genuinely weak, reasoning that a dovish tilt does not justify an actual cut absent



rising joblessness, particularly with growth above trend and financial stress low. He emphasized standing ready to move quickly should claims or unemployment momentum turn adverse, but held that the data did not justify action now.

The participant focused on financial stability pointed to unambiguously calm conditions — a stress index of 0.09, a narrow Baa spread of 1.51, a moderate VIX, and a positively sloped yield curve with no inversion. From this lens there was neither strain requiring relief nor overheating requiring a preemptive move, and this member cautioned that cutting sharply into calm markets could compress spreads further, inflate risk-taking, and sow later vulnerability with no offsetting stability payoff. The member reading market pricing most heavily made a complementary point: the 3-month bill trading about 21 basis points below funds signaled a mild easing lean but nothing that demanded action, and the absence of any inversion or credit distress meant there was no need to front-run an eventual cut. The centrist among the group read the balance of data at face value — inflation slightly below target, unemployment at the natural rate, benign financial conditions — as pointing plainly to holding, noting that the opposing leans of the hawk and the dove largely neutralized toward the center.

When the discussion turned to the framework's optimal recommendation, participants engaged directly with the striking gap between the level-based reference rules, which called for roughly 75 basis points of easing, and the loss-minimizing output of no change. Several members judged that the aggressive rule prescriptions mechanically overweighted a very small inflation undershoot and, in some readings, ignored financial conditions entirely. The First-Difference rule's more modest 25-basis-point signal drew sympathy from the dove, the centrist, and the market-focused member as better respecting the near-balanced state of the economy, though most concluded that even a gentle cut lacked urgency given stable labor markets and the absence of credit stress. Participants generally interpreted the divergence between the deep-cut rules and the plus-zero recommendation as revealing that the current stance was only mildly restrictive rather than genuinely tight.

Across both the predictive and optimal-framework rounds, no participant was persuaded to shift toward easing. The inflation-focused member found that the arguments, if anything, reinforced resistance to a cut; the dove reiterated readiness to ease should labor data soften but saw no present trigger; the stability and market-signal members held that calm, accommodative conditions offered no reason to disturb the equilibrium. Inflation momentum near zero and only mild upward unemployment momentum were read as consistent with an economy near balance, and participants coalesced on the view that holding at 5.25 percent preserved optionality in both directions — to tighten if labor tightness translated into wage and price pressure, or to ease promptly if employment conditions deteriorated.

COMMITTEE POLICY ACTIONS



In the predictive round, all five members supported no change in the federal funds rate, a unanimous vote of 0 basis points ({0: 5}). On the framework's recommendation of 0 basis points, the Committee was likewise in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement (endorse 5, decline 0, partial 0). The inflation hawk, labor market dove, financial stability voice, data-dependent centrist, and market signal realist each endorsed holding the target rate at 5.25 percent.