



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 is unable to report the total size, composition, or change from the prior release of the SOMA portfolio in this document. Members were reminded that this section covers SOMA holdings only; results of temporary open market operations, including repurchase and reverse repurchase transactions, are outside its scope, and no point-in-time-safe data source for those operation results currently exists. The absence of the holdings series should be read as a gap in the available reporting rather than as an indication of any change in the portfolio.

STAFF REVIEW OF THE ECONOMIC SITUATION

Core PCE inflation stood at 1.94 percent on a year-over-year basis, just under the 2 percent objective. The unemployment rate was 5.3 percent, essentially at the staff's 5.25 percent estimate of the natural rate, and initial jobless claims registered 319,000, a level consistent with a healthy labor market rather than one that is deteriorating. The Chicago Fed National Activity Index at 0.3 pointed to growth running modestly above trend. M2 stood at \$3,866.3 billion. Taken together, the incoming data described an economy operating near both of the Committee's mandates, with activity firm and inflation contained.

The most recent Beige Book, prepared before March 3, characterized district economies as continuing to expand at a relatively moderate pace. Retail sales were up in most districts from a year earlier, with several districts reporting that sales exceeded expectations. Most districts reported high levels of manufacturing activity, with only pockets of weakness. Tight labor markets still dominated in almost all parts of the country, yet wage gains generally remained moderate and price pressures reported by retail and manufacturing contacts appeared to have been temperate. Residential real estate markets were described as strong across most districts, with many citing higher year-over-year building permits, rising home sales, and increasing home prices, while commercial real estate continued to strengthen amid declining vacancy rates, rising rents, and new nonresidential construction. Loan demand was described as decidedly mixed across categories and districts. Energy extraction activity had picked up noticeably despite moderate drops in oil prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were benign across the indicators reviewed. The financial stress index stood at 0.084, a very low reading consistent with calm, well-functioning markets and no systemic strain. The Baa corporate spread over Treasuries was 1.48, a comparatively tight level suggesting healthy corporate borrowing conditions and no evident credit distress. The VIX at 21.26 was moderate, not elevated to a degree signaling acute volatility. The 10-year/2-year Treasury spread was positive at 0.5,



an upward-sloping curve carrying no recession signal. The 3-month T-bill sat 14 basis points below the current 5.25 percent funds rate, a modest negative front-end spread indicating that markets were not pricing an imminent tightening and, if anything, leaned slightly toward easing over the near term.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum readings embedded in the incoming data. With r^* estimated near 2.95 percent in real terms and core inflation running close to 2 percent, the implied neutral nominal rate is in the vicinity of 4.9 percent, placing the current 5.25 percent funds rate only mildly above neutral — a modestly restrictive but not sharply tight posture. Inflation momentum was slightly negative at -0.055 , suggesting that price pressures were easing on their own rather than accelerating, while unemployment momentum was slightly positive at 0.05 , pointing to a faint upward drift in joblessness. Neither reading indicated a strong directional pull in the near term.

The reference rules were split but clustered near neutral. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -25 basis points, reflecting the small shortfall of inflation below target and slack near zero. The First-Difference rule, which responds to changes rather than levels, indicated no change. The reference rules were judged reliable in the current configuration, and the loss-minimizing recommendation from the framework was 0 basis points. On balance, these quantities imply a likely path in which conditions remain close to their present configuration: growth a touch above trend, inflation drifting sideways near target, and the funds rate positioned close enough to neutral that no forceful adjustment in either direction is indicated by the data alone.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants entered the discussion broadly agreeing that the economy was operating near both mandates, but they divided over what the balance of risks called for. An inflation-focused participant argued for a preemptive 25 basis point increase, emphasizing that core PCE at 1.94 percent was essentially at target with risks skewed upward. In this view, the combination of tight labor markets nationwide, unemployment at the natural rate, and robust demand across residential and commercial real estate and consumer spending constituted the classic setup in which inflation pressure builds before it becomes visible in the data. This participant explicitly declined to treat the small gap below 2 percent as easing room and cautioned that waiting for wage and price pressures to break out would mean acting late.

A participant focused on financial stability and a participant reasoning as a data-dependent centrist reached the same 25 basis point conclusion by somewhat different routes. The financial-stability



participant stressed that with the stress index at 0.084, the Baa spread at 1.48, and the curve positively sloped, the system could comfortably absorb a modest, well-telegraphed move without triggering credit widening or a volatility spike, and warned that letting tight labor and strong real estate demand build into inflation could later force sharper, more disruptive tightening. The centrist read the indicators at face value and judged that while inflation was contained and at target, full employment, above-trend growth, and broadly strong demand tilted the balance of risks modestly upward, with the low-stress environment leaving little downside to a small step.

Two participants favored holding steady. The employment-focused participant argued that with unemployment essentially at the natural rate and jobless claims moderate, there was no labor softening to justify a cut, but also no case for a hike that would risk slowing job growth unnecessarily while inflation remained below target and wage gains, by the Beige Book's own account, remained moderate. A participant weighting market-implied pricing most heavily pointed to the 3-month T-bill sitting 14 basis points below the funds rate as the most direct read on expected near-term policy, arguing that markets were pricing no hike and that the positive 10y-2y spread ruled out a recession-based case for a cut. This participant contested the reading that a negative front-end spread supported tightening, holding instead that it cut against a near-term hike. The predictive discussion closed without any participant persuaded to change position; those favoring a hike were not moved by the moderate-wage and market-pricing arguments, and those favoring a hold were not moved by the preemptive-tightening logic.

In the subsequent discussion of the framework's loss-minimizing recommendation of 0 basis points, the tenor converged notably. Several participants observed that with r^* near 2.95 percent and inflation close to 2 percent, the current 5.25 percent stance was already only mildly restrictive and roughly neutral, which reduced the urgency of any move. The inflation-focused participant, while retaining a firming instinct, endorsed holding as clearly superior to easing and rejected the level rules' -25 basis point signals as a mechanical overreading of a six basis point shortfall; the First-Difference rule's counsel to hold was the logic this participant found most persuasive. The financial-stability participant likewise endorsed the hold, characterizing a cut as the genuine mistake — unnecessary stimulus into calm, strong markets and already-firm real estate — and noting that inflation momentum near zero left no urgent case to move. The centrist and the market-signal participant both endorsed 0 basis points, describing settings as appropriately calibrated with negligible momentum and no compelling directional pull.

The employment-focused participant agreed with holding over hiking but expressed reservations about the magnitude implied. In this participant's view, unemployment momentum at 0.05 signaled a



faint upward drift, and with policy mildly restrictive relative to the implied neutral rate near 4.9 percent, a hold left the stance somewhat more restrictive than the labor-market risk warranted; the direction, this participant suggested, should tilt toward easing even if a full move now would be premature given flat momentum. The gap between this participant's own predictive lean toward a hike and the reservations voiced here was noted as a reflection of weighing employment risk more heavily than the other members. Across both rounds of the optimal-framework discussion, no participant argued for the level rules' cut as the appropriate action, and the recurring theme was that patience carried little cost given benign financial conditions.

COMMITTEE POLICY ACTIONS

In the predictive vote on the likely policy action, the Committee's tally was 25 basis points, with three members anticipating a 25 basis point increase and two anticipating no change. On the separate question of the deterministic framework's recommendation of 0 basis points, four of the five members endorsed the recommendation as-is — the inflation-focused participant, the financial-stability participant, the data-dependent centrist, and the market-signal participant — while one member, the employment-focused participant, registered a partial position, agreeing with the direction of holding rather than easing or tightening but judging that the hold left policy more restrictive than the labor-market outlook warranted. No member declined the recommendation.