



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 the Committee therefore had no reliable measure of the total size, composition, or period-over-period change in SOMA holdings to review. This absence pertains to SOMA holdings specifically. Separately, the manager noted that no point-in-time-safe data source currently exists for the results of repurchase and reverse repurchase operations, so those figures are likewise not reflected here. In the absence of these data, the discussion of open market operations was necessarily limited.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that district economies generally continued to expand at a moderate rate through March and April, according to the Beige Book prepared on the basis of information collected before April 28. Most districts reported retail sales above year-ago levels, though the pace varied: Boston and Richmond noted strong growth while the New York district reported considerable slowing. Light vehicle sales tapered off from very high March levels across most of the nation. Housing and construction remained strong, with commercial construction outpacing residential in most districts, and manufacturers were operating at very high levels, with new orders increasing significantly in some areas. The Chicago Fed National Activity Index stood at 0.22, consistent with growth somewhat above trend.

On prices and labor, the staff noted that core PCE inflation was running at 1.9 percent on a twelve-month basis, just below the 2.0 percent objective. The unemployment rate was 4.9 percent, below the estimated natural rate of 5.24 percent, and initial jobless claims were 318,000. The Beige Book characterized labor markets as tight in most districts, with a few new reports of upward wage pressures. Retail prices were reported as relatively flat across virtually all districts, while reports on raw and intermediate goods were mixed. Most districts reported a pickup in business lending, with some noting fierce competition and credit standards being lowered to attract business loans; demand for mortgage and consumer loans was mixed, and a few districts reported tightened credit card standards. Energy prices continued to drop in most regions even as industry production remained strong.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm and accommodative on the staff's reading. The financial stress index stood at 0.1113, a low level indicating well-functioning markets with no acute strain. The VIX was 20.81, a moderate reading without evidence of embedded panic pricing, and the Baa corporate spread was 1.48, tight enough to suggest credit markets were demanding little additional risk premium. The



10-year/2-year Treasury spread was positive at 0.41, showing no yield-curve inversion or recession signal. The 3-month Treasury bill yielded 0.4 below the current federal funds rate of 5.5 percent, consistent with market expectations of a roughly flat near-term policy path and no priced-in additional tightening. M2 stood at \$3,882.4 billion.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and on measures of momentum in the two mandate variables. With the estimate of the neutral real rate (r^*) at 2.959 percent and inflation running near 2 percent, the current 5.5 percent federal funds rate implied a stance that was modestly restrictive rather than sharply so. Inflation momentum was slightly positive at 0.04 and unemployment momentum was marginally negative at -0.05, both small enough to suggest that conditions were likely to evolve gradually rather than accelerate in either direction over the projection horizon. Taken together, these figures pointed to a path in which inflation would continue to sit near the objective while the labor market remained tight.

The reference rules were judged reliable in the current environment. The Taylor rule prescribed a modest easing of -25 basis points, reflecting inflation running slightly under target together with unemployment below the natural rate, while the Balanced Approach, First-Difference, and ELB-adjusted rules each pointed to no change. The clustering of three of the four rules at 0 basis points, with only a marginal easing signal from the Taylor rule, was consistent with a projection in which a modestly restrictive stance allowed inflation to continue converging toward target without imparting further restraint to an expansion that showed no signs of slowing. The staff's loss-minimizing framework accordingly indicated 0 basis points as the recommendation.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial round of discussion, participants weighed a labor market clearly running tight against inflation readings that were, if anything, slightly soft. All members observed that unemployment at 4.9 percent sat below the 5.24 percent natural rate and that the Beige Book described tight labor markets with a few new reports of upward wage pressures. The member most attentive to inflation risk opened by favoring a 25 basis point increase, reasoning that a tight labor market, high manufacturing activity with rising orders, and business lending picking up amid loosened credit standards together pointed to a buildup of pressure worth insuring against, even with benign current readings. Other participants, while acknowledging the same conditions, did not draw the same conclusion.

The member focused on employment noted that neither of the conditions that would justify a cut — rising unemployment or slowing job growth — was present, with claims at 318,000 showing no



deterioration; the concern here was overheating rather than weakness, but not to the point of tightening into strong job outcomes without clear evidence of runaway inflation. The member attentive to financial stability described markets as calm and functioning normally, flagging the loosened lending standards and fierce competition noted in the Beige Book as a vigilance item rather than a stress event demanding action. The data-dependent member emphasized that core PCE at 1.9 percent showed no overshoot and that retail prices were flat across nearly all districts, arguing for a wait-and-see hold to assess the effects of the recent move to 5.5 percent. The member weighting market signals pointed to the 3-month bill sitting 0.4 below the funds rate as evidence that markets were not pricing further near-term tightening.

In the rebuttal round, these arguments converged. The inflation-focused member was persuaded to revise from a proposed hike to a hold, weighing the hard data on its own terms: core PCE below the 2.0 percent target, flat retail prices, and wage reports characterized as only 'a few new reports' rather than a broad-based acceleration. That member stressed continued vigilance and expressed no comfort with any easing, but judged a preemptive hike difficult to justify against the risk of over-tightening. The others reaffirmed their hold positions, none finding grounds either to cut into a strong labor market or to tighten into calm credit conditions with inflation near target.

Turning to the framework's loss-minimizing recommendation, participants engaged directly with the divergence between the Taylor rule's -25 basis point signal and the three rules clustering at 0. Several found the Balanced Approach rule most persuasive as the one that weighed both mandate sides given near-target inflation and a tight labor market; the market-focused member instead leaned on the First-Difference rule's logic that no change is warranted absent momentum in inflation or unemployment. Participants generally treated the Taylor rule's easing tilt as marginal and, in the view of the financial stability member, as ignoring credit dynamics — a cut would be procyclical into loose credit and aggressive lending competition. The employment-focused member made a parallel point, that cutting now could overheat an already-tight labor market and risk wage-price pressure that would ultimately hurt workers. With r^* estimated at 2.959, members read the current 5.5 percent stance as modestly restrictive, appropriate insurance against inflation risk without punishing employment.

By the close of discussion, no participant had been moved from a hold. The loosened credit standards noted in the Beige Book were repeatedly cited, but participants agreed they argued against a cut rather than for one. Momentum in both mandate variables was minimal, and financial conditions showed no trigger for action. The clean convergence of predicted policy, the framework recommendation, and three of four reference rules was taken as confirmation that the stance was well-calibrated: hold at 5.5 percent, let the recent tightening propagate, and remain alert to whether wage pressures broaden into



actual price acceleration or loosened lending escalates into genuine systemic risk.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported no change in the federal funds rate, leaving it at 5.5 percent, for a tally of 5 to 0. On the deterministic framework's recommendation of 0 basis points, the Committee was likewise unanimous: all five members — the inflation-focused member, the employment-focused member, the financial-stability member, the data-dependent member, and the market-signals member — endorsed the recommendation as-is, with none declining and none registering partial agreement. Predicted and optimal policy thus coincided at 0 basis points.