



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings were available on or before the cutoff for this meeting, and the Committee therefore had no updated figures on the total size, composition, or period-over-period change in SOMA holdings to review. This section is limited to SOMA holdings; 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 holdings data, the desk's open market operations could not be characterized quantitatively in this document.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review described an economy expanding at an above-trend pace. The Chicago Fed National Activity Index stood at 0.38, consistent with growth somewhat above trend. The unemployment rate was 4.8%, below the estimated natural rate of 5.24%, indicating a tight labor market. Initial jobless claims at 316,000 showed no upward trend that would signal labor-market deterioration. Core PCE inflation on a year-over-year basis was 1.97%, essentially at the 2.0% objective and showing no clear acceleration. M2 stood at \$3,900.2 billion.

The Beige Book, prepared before June 9, reported that all twelve district economies expanded in May and early June, though with pockets of weakness and some evidence of capacity constraints restraining growth in particular industries. Consumer spending growth was weaker than in the prior report, with several districts noting slower retail and auto sales; sales were characterized as 'weak' in one district and as having 'downshifted' in another, while a few districts reported steady, adequate, or brisk conditions. Cool weather was cited as dampening seasonal-goods sales in several districts. Manufacturing generally remained at high levels, and construction and real estate were strong across much of the country. Labor markets tightened, leading to some wage increases. Aside from energy and some real estate prices, there were few reports of price increases, and contacts suggested that robust competition restrained upward pressure on final goods prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm and accommodative on the whole. The financial stress index was low at 0.1089, and the VIX at 20.74 was moderate rather than elevated. The Baa corporate spread over Treasuries stood at 1.51, indicating tight, healthy borrowing conditions with no evident credit-market distress. The 10-year/2-year Treasury spread was modestly positive at 0.39, showing no inversion and no recession signal from the curve. The 3-month T-bill traded 0.56 below the current 5.5% federal funds rate, a configuration consistent with market expectations of no near-term tightening.

STAFF ECONOMIC OUTLOOK



The staff's forward-looking assessment drew on the estimated neutral rate and the momentum readings embedded in the policy framework. With an estimated real neutral rate (r^*) of 2.982 and core inflation near 2%, the implied neutral nominal rate lies roughly around 5%, placing the current 5.5% funds rate only modestly above neutral — that is, mildly restrictive rather than sharply so. Inflation momentum was slightly positive at 0.025, and unemployment momentum was negative at -0.2, indicating that joblessness was still falling rather than rising. Taken together, these figures point to continued above-trend activity and a labor market that remains tight in the projection period, with only gradual rather than accelerating price pressure implied by the momentum terms.

The reference rules spanned a modest range around the current stance. The Taylor rule prescribed -25 bps, reflecting inflation sitting just under target, while the Balanced Approach, First-Difference, and ELB-adjusted rules each prescribed +25 bps, reflecting the sub-natural unemployment rate and above-trend growth. This split — one rule leaning to ease, three leaning to tighten — implies no decisive directional pull, and the loss-minimizing recommendation netted to 0 bps. The projection thus describes a stance already close to appropriate, with the balance of risks tilted toward the possibility that a persistently tight labor market could eventually feed into wages and prices, warranting attentiveness to that channel over coming meetings.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants generally judged that the data did not call for a change in the policy rate at this meeting, and all five arrived independently at that conclusion in the predictive round. The starting point common to the discussion was that core PCE inflation at 1.97% was essentially at the 2.0% objective, showing no acceleration, while unemployment at 4.8% sat well below the 5.24% natural rate. Participants noted that this combination — inflation on target alongside a demonstrably tight labor market — offered no urgent case in either direction: nothing in the readings demanded tightening to cool an inflation breach, and nothing suggested the kind of labor or credit-market weakness that would justify easing.

One participant, focused on inflation risk, laid out the strongest case for eventual tightening. In this view the tight labor market, confirmed by the Beige Book's reports of tightening conditions and some wage increases, is a classic leading indicator of future price pressure, and the negative unemployment momentum reinforced the concern that slack was still shrinking. This participant emphasized, however, that the transmission from wages to broad final-goods prices was not yet present — the Beige Book noted robust competition restraining prices and few reports of increases outside energy and real estate — and that consumer spending had softened across many districts. On that basis the participant supported holding while keeping what was described as a hawkish hold, with a clear tightening bias held in reserve should wage pressures begin feeding through.



A participant attentive to labor-market health explained that the usual trigger for easing — rising unemployment or slowing job growth — was simply absent. Unemployment was falling rather than rising, initial claims at 316,000 were moderate, and all twelve districts were expanding, so cutting into a tight labor market with inflation at target would risk stoking wage-price pressures without any employment justification. This participant acknowledged the softer consumer spending noted in the Beige Book as a mild pause but observed that it had not yet shown up as any labor-market weakness. A participant focused on financial stability reinforced the case for patience from a different angle, pointing to the low stress index of 0.1089, the tight Baa spread of 1.51, the moderate VIX, and the positive yield-curve slope as evidence of calm, orderly markets; in this view, an abrupt move in either direction risked disturbing that stability without a compelling justification. The participant most attentive to market pricing added that the 3-month T-bill trading 56 bps below the funds rate was the clearest single signal that markets expected no hike, and that the modestly positive curve priced in no recession that would justify easing.

In discussing the framework's loss-minimizing recommendation of 0 bps, participants engaged directly with the split among the reference rules. Several observed that the Taylor rule's -25 bps rested on inflation running just under target, while the Balanced Approach, First-Difference, and ELB-adjusted rules each pointed to +25 bps on the strength of the tight labor market and above-trend growth. The centrist participant characterized these opposing signals as roughly canceling, leaving a hold as the balanced center; the market-focused participant read the same symmetric disagreement as consistent with market pricing that clustered near neutral. The inflation-focused participant found the hiking rules validating of a readiness to move up rather than down, but agreed that with inflation at target and not above it, no immediate breach justified forcing a hike over the framework's hold.

Across both the predictive and optimal-framework discussions, participants converged on the view that the current 5.5% stance sits close to neutral — with r^* near 2.982 plus roughly 2% inflation implying a neutral nominal rate around 5% — and is therefore mildly restrictive rather than misaligned. The rebuttal rounds produced no shift in emphasis: no participant was persuaded to move to a cut given the absence of labor deterioration or financial distress, and no participant escalated the tight-labor concern to an active hike proposal given the contained final-price readings. Participants generally agreed that holding preserved optionality — keeping policy modestly restrictive against the tight labor market while watching whether wage pressures begin to feed into prices — and that this was the appropriate posture until the data provided a clearer directional signal.

COMMITTEE POLICY ACTIONS



In the predictive vote, all five members supported no change to the federal funds rate, leaving it at 5.5% (a tally of 5 to 0 for 0 bps). On the deterministic framework's recommendation of 0 bps, the Committee was likewise in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement. The predictive and optimal-side outcomes were thus fully consistent, reflecting a unanimous judgment that holding at 5.5% was appropriate given inflation essentially at target, a tight but non-accelerating labor market, and calm financial conditions.