



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available from the point-in-time-safe source on or before the cutoff for this meeting. Accordingly, the Committee is unable to report the total size, composition, or change from the prior release of SOMA holdings at this time. It should be noted that this section concerns SOMA holdings only; it does not cover the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source is currently available. The absence of these figures reflects a data limitation rather than any change in the conduct of open market operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The economic data reviewed for this meeting depicted an economy carrying broad momentum with little evidence of accompanying price pressure. Core PCE inflation stood at 1.24 percent on a year-over-year basis, well below the 2.0 percent objective. The unemployment rate was 4.6 percent, materially beneath the estimated natural rate of 5.2 percent, and initial jobless claims at 321,000 were low and stable. The Chicago Fed National Activity Index registered essentially zero at -0.01, consistent with growth roughly at trend rather than a clear acceleration or slowdown. M2 stood at \$4,096 billion. The fed funds rate at the time of the meeting was 5.5 percent.

The March Beige Book, prepared before March 9, reinforced this picture of a broadly strong economy. All districts reported overall strength, though a few noted some recent moderation in their growth rates. Retail sales were generally up and exceeded retailers' expectations in many districts, aided by unseasonably mild winter weather, while auto sales were generally down apart from continued strength in pickup trucks and sport utility vehicles. Industrial activity was rising in most of the country, with orders and production up, even as most districts reported a decline in exports to Asia. The demand for labor remained strong, with nearly all districts citing shortages of entry-level and certain skilled workers, and the report judged that widespread labor market tightness had increased the degree of wage pressures relative to earlier reports. Even so, pressures on product prices were described as 'eerily calm,' with domestic competition, productivity gains, and the Asian situation cited as constraints on production costs. Residential housing markets were characterized as unseasonably hardy, commercial real estate as healthy across districts, and loan demand, especially for residential mortgages, as strong.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were generally calm and orderly. The financial stress index was low at 0.1107, indicating no systemic strain, and the Baa corporate spread of 1.69 was moderate, showing no sign of credit-market distress or a widening in borrowing costs. The VIX at 20.51 was somewhat elevated but



not at levels associated with acute volatility, a reading plausibly connected to the Asian developments noted in the Beige Book. The 10-year/2-year Treasury spread was barely positive at 0.08, a flat curve with no inversion and thus no recession signal from the term structure. The 3-month T-bill was 0.47 below the current funds rate, an indication that market participants were pricing short rates modestly below the prevailing 5.5 percent and, by extension, some easing bias in the near part of the curve without pricing an imminent move.

STAFF ECONOMIC OUTLOOK

The forward-looking quantities available to the staff pointed, on balance, toward a stance that was modestly restrictive relative to a loss-minimizing setting. With the estimated neutral rate (r^*) at 3.141 percent and the funds rate at 5.5 percent against core inflation of 1.24 percent, the implied real rate stood well above neutral, suggesting policy was exerting more restraint than the underlying fundamentals would require. Inflation momentum was slightly positive at 0.035 and unemployment momentum was negative at -0.1, indicating unemployment still edging lower and price pressures showing only a faint upward drift — a combination that argued against any near-term inflation problem while leaving room for a gradual reduction in restraint.

The reference rules bracketed a wide range and were judged reliable this meeting. The Taylor rule prescribed -75 basis points, driven mechanically by inflation below target and unemployment far beneath the natural rate; the First-Difference rule, responding to the momentum terms, prescribed -50 basis points. The Balanced Approach and ELB-adjusted rules each prescribed no change. Blending these, the deterministic policy engine recommended -25 basis points — a setting that would begin closing the gap between the current stance and neutral without embracing the aggressive easing implied by the Taylor rule, and consistent with the mild easing bias evident in the T-bill spread. The projection implied by these figures is one of continued near-trend activity and subdued inflation, with the principal open question being how durable the disinflationary offsets from Asian weakness, productivity, and competition prove to be against the backdrop of a tightening labor market.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their independent opening positions, all five participants favored holding the funds rate at 5.5 percent, and the reasoning behind that convergence was notable for spanning very different mandate priorities. Participants generally agreed on two mutually reinforcing points: there was no realized inflation to lean against, with core PCE at 1.24 percent well below target and product prices 'eerily calm,' and there was no economic weakness to justify accommodation, with unemployment at 4.6 percent below the natural rate, claims low and stable, and the Beige Book reporting broad-based strength. As one participant framing the balance from a data-dependent perspective put it, tight labor and rising



wage pressures argued against easing, while calm prices argued against tightening, leaving a hold as the literal reading of the data.

The participant most attentive to inflation risk pressed the forward-looking case with the greatest emphasis, observing that unemployment far below the natural rate together with widespread wage pressures across nearly all districts represented the classic precursor to future inflation. This participant stressed that the forces holding product prices calm — Asian weakness, productivity gains, and domestic competition — might prove temporary, and that if they faded, wage pressure could feed through to prices. At the same time, this participant acknowledged that realized inflation gave no case for a hike at present, and found persuasive the point raised from the financial-stability seat that tightening amid Asian fragility, with no inflation justification, risked destabilizing calm credit conditions. The participant weighting employment risk reached the hold conclusion from the opposite direction: with the labor market plainly strengthening rather than deteriorating, the case for an employment-supporting cut simply was not present, and preemptive tightening would needlessly threaten hiring gains. The participant most focused on market pricing noted that the T-bill spread and the flat yield curve implied steady policy near term with only a slight easing bias further out, and saw no basis to move against efficient pricing.

When the discussion turned to the framework's -25 basis point recommendation, the character of the deliberation shifted from whether to act now to how to reconcile a modestly restrictive stance with the participants' near-term hold instincts. Several participants observed that the implied real rate — roughly 4.26 percent against an r^* of 3.141 — indicated policy was tighter than a loss-minimizing setting would call for. The participant weighting labor risk argued that this accumulating restrictiveness, though not yet visible in employment, would over time threaten the very hiring and wage gains the mandate seeks to protect, and endorsed a modest first step toward neutral as preemptive insurance. The financial-stability participant found the First-Difference rule's gradualism most persuasive, judging that a measured quarter-point adjustment would ease the mildly restrictive gap without shocking the hot housing and mortgage markets, while guarding against Asia-transmitted credit tightening. The market-signal participant read the T-bill spread as the effective tiebreaker, noting that markets had already priced roughly a quarter-point of easing, and that -25 basis points aligned precisely with that pricing — enough to correct a stance a touch too tight, but far short of the 75 basis points the Taylor rule demanded.

Participants generally distrusted the full Taylor prescription, viewing it as mechanically excessive given a still-strong, tight economy at roughly trend growth. The data-dependent participant characterized -25 basis points as the defensible middle ground — a single modest recalibration justified mainly by



persistently sub-target inflation — and cautioned against getting ahead of the data given rising wage pressures. The inflation-focused participant remained the dissenting voice on the framework's easing math. While conceding that low realized inflation made a hold, rather than a hike, the prudent floor, this participant maintained that cutting into a tight labor market could unleash precisely the wage-price dynamic of greatest concern, and that with no financial crisis forcing the Committee's hand, the Balanced Approach and ELB rules at zero were closest to the appropriate posture. Even this participant, however, acknowledged that the framework's own reluctance to embrace the full Taylor cut respected the same overheating risk being emphasized.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision expected at this meeting, all five participants supported holding the target funds rate at 5.5 percent; the tally was unanimous at 5 to 0 for no change. On the separate question of the deterministic framework's -25 basis point recommendation, the Committee did not reach full agreement. Four participants — those weighting labor-market risk, financial stability, data-dependence, and market signals — endorsed the recommendation as-is, judging a modest quarter-point reduction the loss-minimizing step toward neutral given sub-target inflation and market pricing already leaning toward easing. One participant, the member weighting inflation risk most heavily, declined to support the recommendation, holding that latent inflation risk from a tight labor market and rising wage pressures made a cut unwarranted at this time. There were no partial endorsements.