



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available on or before the point-in-time-safe cutoff for this meeting, so the Committee's usual review of the total size, composition, and period-over-period change in SOMA holdings could not be conducted from a verifiable source. Accordingly, no figures for portfolio size or maturity composition are reported here. It should be noted that this section addresses SOMA holdings only; it does not encompass the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists. The Committee proceeded without this input and relied on the broader financial-conditions and economic material described below.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as continuing at a moderate-to-strong pace. Core PCE inflation stood at 1.26 percent on a year-over-year basis, well below the 2.0 percent objective. The unemployment rate was 4.3 percent, considerably below the estimated natural rate of 5.19 percent, and initial jobless claims at 306,000 remained low, both consistent with a tight labor market rather than one showing signs of loosening. The Chicago Fed National Activity Index at 0.28 pointed to growth somewhat above trend, and M2 stood at \$4,125.3 billion. The current federal funds rate was 5.5 percent.

The most recent Beige Book, prepared before April 27, reported that expansion was occurring in nearly all Districts, with consumer spending generally robust and manufacturing activity advancing. Real estate markets were generally strong, while agricultural conditions and lending activity were mixed, and oil drilling and mining had eased. Retail sales rose broadly in April, with gains exceeding merchants' expectations in New York, Cleveland, Chicago, and Dallas, though several Districts cautioned that a late Easter may have lifted results above trend and that auto sales had slipped in a number of Districts. Labor markets continued to be tight, with some evidence of increased wage pressures in service industries and for computer and technical professionals. Despite rising labor costs, contacts indicated that competitive pressures were holding most goods prices in check, though some service-price increases were noted in the Dallas and San Francisco Districts. Dallas reported some recent signs of slowing growth, and Minneapolis noted some weakening in parts of that District.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were broadly calm. The financial stress index registered 0.1227, a low reading indicating no systemic strain, and the VIX at 20.98 was moderate rather than elevated. The Baa corporate bond spread of 1.64 percentage points was contained, showing no widening of credit-market distress. The 10-year/2-year Treasury spread was barely positive at 0.11 percentage point, a near-flat



curve that carried no inversion and no acute recession signal. The 3-month Treasury bill traded 0.51 percentage point below the current funds rate, suggesting that the front end of the market was not pricing near-term tightening and, if anything, leaned toward the expectation of easier policy ahead. Taken together, these readings depicted markets that were accommodative and stable, with the flat curve and below-funds bill rate as the only soft cautionary signals worth monitoring.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available to the policy framework. With the estimated neutral real rate (r^*) near 3.17 percent, a nominal neutral setting would sit well below the current 5.5 percent funds rate; measured against core PCE inflation of roughly 1.26 percent, the prevailing real rate is meaningfully positive, implying that policy is currently somewhat restrictive relative to neutral. Inflation momentum was negative at -0.105 , indicating that price pressures were drifting lower rather than building, while unemployment momentum was flat at 0.0 , consistent with a labor market that is tight but not deteriorating. These readings together suggest that, absent a change, the below-target inflation picture would tend to raise real rates passively over time, quietly increasing the degree of restriction.

The reference rules spanned a wide range, which the staff read as a sign of genuinely mixed conditions rather than a clear directional mandate. The Taylor rule prescribed -50 basis points, weighing heavily the below-target inflation shortfall; the First-Difference rule prescribed -25 basis points, adjusting gradually from the current stance; and both the Balanced Approach and ELB-adjusted rules prescribed $+25$ basis points, reflecting the large gap between the unemployment rate and its natural rate. With the reference rules judged reliable, the loss-minimizing recommendation came in at -25 basis points, aligned with the gradualist First-Difference logic and situated between the easing implied by low inflation and the tightening implied by labor-market tightness. The projection implied by these figures is one of continued moderate growth and subdued, gently declining inflation, with the principal upside risk being pass-through from tight labor and emerging service and technical wage pressures into broader prices.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, all five participants independently arrived at a hold at 5.5 percent. The common thread across the differing lenses was a recognition that current inflation gave no urgency to tighten while a tight labor market and strong demand gave no case to ease. The participant most attentive to inflation risk emphasized that core PCE at 1.26 percent, well below the 2.0 percent objective, made a hike premature, but that unemployment at 4.3 percent against a 5.19 percent natural rate, together with the Beige Book's reports of wage pressures in services and for technical



professionals, constituted a genuine upside inflation risk that argued firmly against any cut. The participant focused on employment observed that with claims low at 306,000 and no sign of labor-market deterioration, the premise for a dovish tilt was simply absent. The participant weighing financial stability noted that the stress index at 0.1227, a moderate VIX, and a contained Baa spread showed no strain in either direction, so that a surprise move of any kind risked disturbing calm conditions unnecessarily.

The data-focused centrist framed the tension plainly: sub-target inflation removed the case for tightening, while a tight labor market removed the case for easing, leaving a wait-and-see stance as the most literal reading. The participant attentive to market signals underscored that the 3-month bill trading 51 basis points below the funds rate and a near-flat curve pointed to steady policy, with markets pricing no tightening. In the rebuttal round none of the participants was moved; the arguments were described as mutually reinforcing rather than merely coincidental, and the first-round convergence on hold held firm.

The discussion shifted in character when participants turned to the framework's loss-minimizing recommendation of -25 basis points. Here a real gap opened between what participants expected policy to be and what the framework judged optimal. Several participants reasoned that with r^* near 3.17 percent, current policy sat above neutral and was therefore modestly restrictive, and that negative inflation momentum meant holding would let real rates drift tighter still. The employment-focused participant reframed a small cut as pre-emptive insurance against future job losses, arguing that easing gently now beat waiting for claims to rise. The financial-stability participant found -25 defensible as a way to relieve the flat curve and below-funds bill rate before any credit strain could emerge, while stress was still low and a move would not be destabilizing. The centrist and the market-signal participant both settled on the First-Difference rule's -25 as the right anchor, discounting the Taylor rule's -50 as too aggressive given no labor slack and the +25 rules as over-weighting labor tightness that competition was holding out of prices.

The participant most concerned with inflation registered the one point of genuine reservation. While acknowledging that subdued current inflation made -25 basis points defensible, this participant maintained that unrealized inflation risk from a hot labor market still outweighed a single low print, that none of the colleagues had addressed why easing into tight labor would not reignite the very wage pressures at issue, and that a near-flat curve showed too little recession alarm to justify urgency. The stance was to lean toward holding and to accept, at most, only a smaller move if any. Others granted that this wage-to-price risk was real but noted that the Beige Book showed competitive pressures still restraining goods prices and that the risk was not present in the market pricing they weighted most



heavily.

COMMITTEE POLICY ACTIONS

On the predictive question of the likely policy decision, the Committee's vote was unanimous for no change to the federal funds rate, 5 members to 0 in favor of holding at 5.5 percent. On the separate question of the framework's loss-minimizing recommendation of -25 basis points, four participants endorsed the recommendation as-is -- the participants oriented toward employment, financial stability, the data-literal reading, and market signals -- while one participant, the member weighting inflation risk most heavily, took a partial position, agreeing with the direction toward neutral but not committing to a cut while the labor market ran this hot. There were no participants who declined the recommendation outright.