



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. As a result, the Committee is unable to report the total size of SOMA holdings, their composition across security types, or any change from a prior release. Members were advised that this gap pertains to SOMA holdings specifically; separately, no point-in-time-safe data source currently exists for the results of repurchase and reverse repurchase operations, and those results are likewise not reported here. The discussion of open market operations in this meeting therefore proceeded without the customary quantitative detail on account holdings.

STAFF REVIEW OF THE ECONOMIC SITUATION

Core PCE inflation stood at 1.49 percent on a year-over-year basis, below the 2.0 percent objective. The unemployment rate was 4.1 percent, well beneath the estimated natural rate of 5.13 percent, and initial jobless claims were low at 282,000. The Chicago Fed National Activity Index registered 0.36, consistent with growth somewhat above trend. The fed funds rate stood at 5.25 percent, and M2 was reported at \$4,580.2 billion.

The most recent Beige Book, prepared before information collected on October 25, described most districts as continuing to report strong economic growth, though some slowing was noted. Manufacturing activity advanced in almost all districts and industries. Consumer spending generally remained strong, with most retailers anticipating higher holiday sales than a year earlier, though four districts — Chicago, Dallas, Kansas City and New York — mentioned weakening sales, and the Kansas City district reported an outright decline following flat activity in prior surveys. Real estate and construction were still described as robust in most districts, with signs of some moderation. Overall loan demand remained brisk, though a softening in consumer loan demand was noted by some districts. Labor markets remained tight across the country, with numerous districts reporting continued difficulty finding and retaining qualified workers, and many districts reporting a pickup in wage increases. Overall prices were characterized as stable, with notable exceptions including some manufacturing inputs, health care, memory chips and construction materials; low prices continued to weigh on parts of the agricultural sector.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as moderate rather than stressed. The financial stress index stood at 0.2616, and the VIX was 22.7, indicating some elevated volatility but not panic-level conditions. The Baa corporate spread over Treasuries was 2.16, contained and showing no evidence of a credit crunch. The 10-year/2-year Treasury spread was slightly positive at 0.20 — a nearly flat curve, but not



inverted, and therefore not sending a recession signal from the term structure. The 3-month Treasury bill yielded 0.21 percentage point below the current funds rate, a configuration that suggests market participants were not pricing an imminent tightening. Taken together, the financial data pointed to a system with the capacity to absorb a measured policy move in either direction, without acute funding or credit-market strain.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities embedded in the reference framework. The estimated neutral rate (r^*) used was 3.629 percent, which — set against the current 5.25 percent funds rate — implies that policy is positioned above neutral and is therefore modestly restrictive. Both momentum measures were near zero: inflation momentum was 0.015 and unemployment momentum was 0.0, indicating no discernible acceleration in prices and no deterioration in the labor market over the projection horizon. On these readings, conditions appeared to be settling rather than building in either direction.

The reference rules split sharply. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to roughly 75 basis points of additional tightening, driven principally by the wide unemployment gap relative to the natural rate. By contrast, the First-Difference rule — which responds to changes rather than to the level of gaps — recommended a 25 basis point reduction, reflecting the flat momentum picture. With the reference rules judged reliable, the framework's loss-minimizing output resolved to negative 25 basis points, aligning with the First-Difference logic. The implication of these figures is that current policy is likely somewhat tighter than the flat-momentum, below-target-inflation environment warrants, and that the projected path of conditions does not, on the numbers, require the further firming that the level-based rules would suggest.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion of the likely policy outcome, participants converged, at first, on a modest tightening. All five members opened by pointing to the same overheating narrative: unemployment at 4.1 percent stood far below the 5.13 percent natural rate, jobless claims remained low, and the Beige Book confirmed tight labor markets, difficulty retaining workers, and a pickup in wage increases. Participants generally judged that core PCE at 1.49 percent, below the 2.0 percent objective, meant current inflation was not itself the problem, but that the combination of a very tight labor market and firming wages constituted a clear forward risk. The member most focused on inflation risk framed a 25 basis point move as prudent preemption — acting ahead of price data rather than waiting for pressure to appear. The employment-focused member reached the same conclusion from the opposite direction, observing no downside labor signal that would justify a supportive cut and warning that



unchecked overheating could eventually threaten the sustainability of full employment. The financial-stability member judged that contained credit spreads, a slightly positive curve, and manageable volatility left the system able to absorb a measured firming, and the centrist read the same data at face value as pointing to cautious preemption.

The one recurring hesitation, raised by nearly every participant, was that the 3-month bill sat 0.21 percentage point below the funds rate — a signal that markets were not pricing an imminent hike. Four members acknowledged this but concluded that the overheating evidence and the prior tightening trajectory outweighed it. The member who weights market-implied pricing most heavily, however, resolved the tension the other way. Having initially flagged both sides, this participant concluded in rebuttal that deference to market aggregation was the defining discipline of the role, that no financial stress compelled action, and that inflation below target left room to wait for confirmation rather than preempt against a market that disagreed. This member accordingly broke from the consensus and favored holding steady.

When the discussion turned to the framework's loss-minimizing recommendation of a 25 basis point cut, the character of the deliberation shifted markedly, because several participants had to reconcile a recommendation that ran opposite to their predictive votes. The pivot in the reasoning was the recognition that realized inflation and momentum, rather than the level of the unemployment gap, drive the loss-minimizing case. Participants noted that inflation momentum of 0.015 and flat unemployment momentum gave the First-Difference rule no impetus to tighten, and that the three level-based rules recommending 75 basis points rested on an estimated r^* of 3.629 and a wide but backward-looking gap. Several observed that the gap had simply not fed through to prices — inflation had stayed below target — which undercut the assumption embedded in the level rules that tightness must feed inflation.

The employment-focused, financial-stability, centrist, and market-signal members each endorsed the direction of the framework's call. The employment member emphasized the Beige Book's 'some slowing,' softening consumer loan demand, and weakening retail in four districts as emerging downside risks to jobs, and read the nearly flat 10-year/2-year spread as a caution worth heeding. The financial-stability member stressed that a 75 basis point move against a VIX of 22.7 risked rupturing credit conditions, and that the sub-policy bill rate and flat curve indicated markets already regarded policy as slightly restrictive. The centrist characterized the cut as the most literal reading of below-target inflation and flat momentum, describing their own predictive vote as embedding an institutional firmness premium the numbers did not validate. The market-signal member found the same conclusion best grounded in the term structure and bill spread.



The member most focused on inflation risk agreed with the direction only partially. This participant accepted that below-target inflation and near-zero momentum removed any case for tightening on realized data, and acknowledged that the inverted bill spread was the most persuasive counterweight in favor of easing. But the participant remained wary that a cut would add stimulus to an already very tight labor market where the Beige Book had flagged a wage pickup, raising the prospect of re-igniting pressures that would later have to be chased. Preferring to preserve optionality, this member favored holding steady or at most a token step rather than a full 25 basis point easing, and asked that vigilance be maintained should wage or inflation momentum turn up.

COMMITTEE POLICY ACTIONS

In the predictive vote on the likely policy outcome, the Committee recorded a tally of four members favoring a 25 basis point increase and one member favoring no change, for a result of plus 25 basis points. On the separate question of the framework's loss-minimizing recommendation of a 25 basis point reduction, the Committee recorded four endorsements and one partial concurrence, with no member declining. The employment-focused, financial-stability, centrist, and market-signal members endorsed the recommendation as-is; the inflation-focused member concurred with the direction but not the magnitude, preferring to hold steady or take at most a token step and to remain vigilant should inflation momentum turn up.