



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 was therefore unable to review the total size, composition, or period-over-period change of SOMA holdings. This limitation applies to SOMA holdings only. 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 reflected in this review. Members were reminded that the absence of these figures constrains the usual accounting of open market operations, and the discussion accordingly proceeded on the basis of the economic and financial-conditions data that were available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity remained soft through October and the first half of November. Core PCE inflation stood at 1.42 percent on a year-over-year basis, well below the 2 percent objective. The unemployment rate was 5.4 percent, above the estimated natural rate of 5.07 percent, and initial jobless claims were elevated at 465,000. The Chicago Fed National Activity Index registered -0.32, consistent with below-trend growth. The current federal funds rate stood at 2.0 percent.

The Beige Book, prepared on information collected before November 19, characterized activity as generally soft, with evidence of additional slowing in most districts outweighing signs of recovery in a few. Manufacturing weakened further, with widely reported declines in production, new orders, and employment. Consumer spending was mixed: aggressive financing incentives drove automobile and light truck sales to exceptional levels, but tourism remained weak and nonauto sales were spotty, and retailers' outlook for the holiday season was uneven. Residential real estate generally held its own and residential mortgage refinancing accelerated as mortgage rates fell, while demand for commercial space eased further and business lending weakened amid softer loan demand and some tightening of lending standards. Labor markets continued to ease, with layoffs and downsizings adding to the supply of available workers and wages steady to lower. Prices were generally stable, with declines noted for automobiles, gasoline, and computers, though insurance and health care prices rose sharply.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff noted that financial conditions remained somewhat fragile but were not in an acute state of distress. The financial stress index stood at 0.1881, indicating moderately tight conditions, and the VIX was 24.08 — elevated relative to more settled periods but short of extreme readings. The Baa corporate spread of 3.15 pointed to meaningful, lingering credit stress and elevated borrowing costs for firms, a reading consistent with the Beige Book's account of weakening business lending and tightening



standards. The 10-year/2-year Treasury spread was steeply positive at 1.89, suggesting markets anticipated accommodation working through the economy over time. The 3-month Treasury bill traded 0.29 percentage point below the current funds rate, a negative spread the staff read as consistent with market expectations of further near-term easing.

STAFF ECONOMIC OUTLOOK

The staff projection drew on the forward-looking quantities available to the Committee. The estimated neutral real rate (r^*) used in the framework was 3.773, inflation momentum was negative at -0.115, and unemployment momentum was positive at 0.2. Taken together, these figures imply a trajectory of continuing disinflation alongside widening labor-market slack: inflation already below the 2 percent objective is being pulled lower rather than higher, while the unemployment rate, already above its estimated natural level, is projected to drift further from it. On that reading, the near-term risks to the outlook tilt toward additional softness rather than toward overheating.

The reference rules diverged sharply, which the staff regarded as informative in itself. The Taylor rule prescribed 75 basis points and both the Balanced Approach and ELB-adjusted rules prescribed 50 basis points, while the First-Difference rule pointed to -25 basis points. The level-based rules anchor heavily on the estimated neutral rate of 3.773 and on gap measures, and thus imply a materially higher policy rate than currently prevails. The First-Difference rule instead responds to the direction of change in inflation and unemployment, and its downward signal reflects the negative inflation momentum and positive unemployment momentum in the data. Given the substantial post-shock uncertainty surrounding the level of the neutral rate, the staff assessed that the change-based logic offered a more robust guide, and the framework's loss-minimizing recommendation accordingly landed at -25 basis points, with the reference rules judged reliable.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial independent assessments, participants converged on the view that the economy remained soft and that inflation posed no near-term obstacle to easing, though they differed on the appropriate magnitude of a cut. Four participants favored a 25 basis point reduction and one favored 50 basis points. The member most focused on inflation risk observed that, even from a hawkish vantage, there was little to defend against: core PCE at 1.42 percent sat well below target, the Beige Book described prices as generally stable with outright declines in autos, gasoline, and computers, and wages were steady to lower amid easing labor markets. With slack building and disinflation the active risk, this member judged that holding was hard to justify, while a low tolerance for over-easing argued against an outsized move.



The member most focused on the labor market pressed the case for a larger, 50 basis point cut. In this view, initial claims at 465,000 were alarmingly high and signaled accelerating rather than stabilizing weakness, unemployment above the natural rate was trending upward, and the Beige Book confirmed widespread layoffs and downsizings. With inflation contained and wages soft, this member saw ample room to front-load support and worried that a quarter-point step might prove insufficient to protect employment. The financial-stability member and the data-dependent member both acknowledged the seriousness of the claims data but resisted an emergency-sized response: the yield curve was steeply positive at 1.89, the stress index was moderate at 0.1881, and the VIX at 24.08 was elevated but not extreme — a picture of stabilization-with-softness rather than free-fall. The market-oriented participant added that if markets genuinely expected a 50 basis point move, the 3-month bill spread would likely sit well below its current level; at -0.29 the market appeared to be pricing a modest quarter-point cut, and delivering less risked a disruptive repricing.

During the rebuttal exchange, the labor-market member reiterated that market pricing describes what is expected rather than what is warranted given dominant employment risk, and declined to move to 25 basis points, though this member allowed that a quarter-point cut with a continued easing posture would still be directionally acceptable. The other four held firm. The financial-stability member emphasized that an oversized move at an already-low 2.0 percent funds rate could itself signal alarm and unsettle fragile markets, so that a measured, expected step better preserved orderly conditions. No participant was persuaded toward standing pat, and the predictive discussion closed with the four-to-one alignment intact.

Turning to the framework's optimal recommendation, participants reasoned largely from the reference-rule divergence and the momentum terms, and here the discussion moved to full agreement. Several observed that the Taylor rule's 75 basis points and the 50 basis point readings of the Balanced Approach and ELB-adjusted rules leaned on an estimated neutral rate of 3.773 that assumed a healthier economy near neutral — an assumption the credit and labor data contradicted. The First-Difference rule at -25 basis points, keyed to negative inflation momentum (-0.115) and positive unemployment momentum (0.2), was judged the most persuasive guide given how uncertain the post-shock neutral rate had become. The inflation-focused member noted that a modest cut carried no overheating risk when inflation was falling below target, and that holding could passively tighten conditions into a weakening economy given the Baa spread of 3.15 and tightening business lending.

Participants across perspectives reinforced one another on this point. The labor-market member found that the credit and labor deterioration deepened rather than diluted the case for easing, while the financial-stability member stressed that a single 25 basis point step to 1.75 percent was proportionate



— enough to cushion credit markets without signaling panic. The market-oriented participant read the -0.29 bill spread and the steeply positive curve as an efficient market judgment that the current 2.0 percent stance was modestly too tight, closed exactly by a quarter-point cut. The data-dependent member summarized the shared conclusion: with all five members and the loss-minimizing output converging on -25 basis points, the direction of travel and the literal data both supported a modest cut without overheating risk.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy action, the Committee's recorded vote was four members in favor of a 25 basis point reduction in the target federal funds rate and one member in favor of a 50 basis point reduction, the dissenting view reflecting a judgment that elevated jobless claims warranted a more forceful move to protect employment. On the framework's loss-minimizing recommendation of -25 basis points, the Committee was unanimous: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement. The two records are consistent — the framework's quarter-point call aligned with the four-member majority in the predictive vote, and every participant supported it on the optimal-side assessment.