



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, and so this section cannot report a total portfolio size, its composition across securities types, or any change from a prior release. Members were advised that the absence of a reportable figure reflects a gap in the available data source rather than any suspension of open market operations. It should also be noted that this discussion covers SOMA holdings only; it does not extend to the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists. The Committee proceeded on the understanding that its policy deliberations would rest on the macroeconomic and financial-conditions data described in the sections that follow.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed information indicating that economic activity had grown slowly, on balance, in late October and early November. Business conditions were described as soft or sluggish in a number of Districts, with mixed reports in a few others and only marginal improvement noted in several. Districts that reported continued growth generally described it as slower than in the prior survey period. Consumer spending varied: gains in general merchandise sales were reported in several Districts, though these increases were slight compared with late summer and early fall, while retail sales were weak or had declined in others. Auto sales had fallen in all Districts. Service industry activity was generally sluggish, manufacturing remained soft in most Districts, and business capital spending continued to be limited across all sectors. Commercial real estate markets remained slack in all reporting Districts, while residential real estate stayed strong, with some signs of easing housing demand in a few Districts. Bank lending remained strong for residential real estate but lackluster in other categories.

On the labor side, the staff noted that the unemployment rate stood at 5.7 percent, above the estimated natural rate of 5.06 percent, and that initial jobless claims were 377,000. Labor markets continued to be soft in nearly all Districts, with the notable exception of continued strong demand for health-care workers. Wage and salary pressures were subdued, though employee health-care costs continued to rise sharply. Most Reserve Banks reported nearly steady prices at both the consumer and producer levels, the exception being shipping charges, which had risen in the wake of the West Coast port disruptions. Core PCE inflation was running at 1.53 percent on a twelve-month basis, below the 2.0 percent objective. The Chicago Fed National Activity Index at -0.59 was consistent with below-trend growth, and the Employment Cost Index reading was reported at 90.1. The current federal funds rate was 1.25 percent, and M2 stood at \$5,758.6 billion.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions presented a mixed but broadly non-crisis picture. The financial stress index was 0.1641, a level the staff characterized as moderate rather than acute. The VIX stood at 28.33, elevated but off the highs associated with periods of market disruption, suggesting lingering caution rather than panic. The Baa corporate spread was 3.35, indicating a meaningful credit premium and real borrowing-cost strain for firms, though the spread was not sharply widening. The 10-year to 2-year Treasury yield curve spread was 2.16, steeply positive and showing no inversion of the kind associated with imminent recession. The 3-month Treasury bill spread relative to the current funds rate was -0.04, essentially flat, consistent with market expectations of steady near-term policy.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities embedded in the policy framework. The estimated neutral real rate (r^*) used in the reference-rule calculations was 3.185, a comparatively high figure. Read mechanically, that estimate implies that the current stance is below neutral: the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to a funds rate of 75 basis points, well above the prevailing 1.25 percent. Taken at face value, these level-based prescriptions would imply room to tighten. The staff cautioned, however, that such rules assume inflation near target and otherwise normal conditions, and that the reliability of the 3.185 neutral-rate estimate is a material consideration when inflation is running below objective and activity is below trend.

The momentum measures point in the opposite direction. Inflation momentum was only 0.11, indicating no meaningful upward pressure on prices, consistent with the subdued wage and near-steady price readings in the District reports. Unemployment momentum was -0.15, signaling continued softening in the labor market rather than repair. The First-Difference rule, which responds to changes in conditions rather than to a contested neutral level, prescribed -25 basis points, and the framework's loss-minimizing recommendation aligned with that figure at -25 basis points. On the staff's reading, the balance of these forward-looking quantities implies a path in which growth remains below trend and inflation stays under target absent additional support, with the momentum-based signal carrying more weight in current conditions than the higher level-rule outputs.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally agreed that inflation posed no near-term threat. With core PCE at 1.53 percent, below the 2.0 percent objective, and the Beige Book confirming subdued wage pressures and nearly steady consumer and producer prices, the member most focused on inflation risk observed that his usual caution against easing simply did not bind. He noted that the economy was sluggish but not collapsing and that the funds rate at 1.25 percent was already accommodative; on that basis his initial judgment was to hold, preserving policy room while



monitoring whether soft conditions deteriorated further. Several other participants reached the same hold conclusion by different routes. One emphasized that prior easing likely had not fully worked through the economy and that a wait-and-see posture was warranted given the absence of both inflation urgency and any acute crisis trigger. Another, weighing financial conditions, argued that the moderate stress index, the steeply positive yield curve, and the elevated but off-peak VIX did not present a systemic-risk signal strong enough to compel action, and that cutting now would deplete policy room without a clear financial-stability justification.

A dissenting view was pressed by the participant most attentive to labor-market slack. He pointed to unemployment at 5.7 percent, well above the 5.06 percent natural rate, to elevated initial claims at 377,000, and to the Chicago Fed index at -0.59 as evidence of persistent below-trend growth. In his assessment the risks were asymmetric: with inflation muted, the danger of doing too little on employment outweighed the danger of over-easing, and a modest 25 basis point cut represented prudent insurance against deepening slack. In the rebuttal round he acknowledged the force of the policy-lag and market-pricing arguments raised by others but maintained that none of them directly addressed his central worry, namely that labor slack could widen while the Committee waited and that a steep curve and moderate stress index established the absence of crisis without establishing that the labor market would heal on its own.

The participant most focused on market signals framed his hold as a reading of market equilibrium rather than complacency. He stressed that the 3-month Treasury bill spread at -0.04 indicated markets expected no near-term move, that the steeply positive 10-year to 2-year spread at 2.16 was inconsistent with a demand for emergency accommodation, and that credit stress, while real in the 3.35 Baa spread, was strained rather than seized. The data-dependent participant, reading toward the consensus, likewise judged that the data showed slow deterioration rather than a sharp downturn demanding fresh easing while prior cuts remained in the pipeline. On the predictive question, four participants favored holding and one favored a cut.

When the discussion turned to the framework's loss-minimizing recommendation of -25 basis points, the character of the conversation shifted. Participants examined why the recommendation diverged from the level rules. The Taylor, Balanced Approach, and ELB-adjusted rules all pointed to 75 basis points, but participants across perspectives discounted those outputs on the ground that they leaned on the high 3.185 neutral-rate estimate, which the soft real-time data and the market's own pricing suggested overstated true neutral. The First-Difference rule, at -25 basis points, drew broad agreement as the most persuasive because it responds to the direction of change: inflation momentum at 0.11 and unemployment momentum at -0.15 both argued against tightening and toward marginal



easing. The inflation-focused member concluded that soft, below-target inflation removed his objection and that a small cut was the loss-minimizing optimum; the labor-focused member found the recommendation squarely consistent with his employment priorities; and the participant weighing financial stability judged that a cut would cushion strained credit markets without inflation risk.

The two participants who had emphasized market pricing and consensus data read the divergence more cautiously. Each accepted that the direction of policy was downward and that there was no case whatever for tightening, but each questioned the magnitude and timing of a full 25 basis point step this meeting. The market-signal participant argued that the flat T-bill spread and steep curve showed no urgency and that the gap between a hold and a cut was better understood as marginal insurance the market had not yet priced but would not resist, rather than a move conditions demanded now. The data-dependent participant similarly judged that while the data tilted modestly toward easing, a 25 basis point step overshoot in the absence of any signal of urgency, with the steep positive curve suggesting recovery was expected. Both supported the easing direction while resisting the immediate full-size move.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy action at this meeting, the Committee's vote was to maintain the current stance, with four members favoring no change and one member favoring a 25 basis point reduction, a tally of 0 basis points. Turning to the deterministic framework's loss-minimizing recommendation of -25 basis points, three of the five members endorsed the recommendation as-is: the member most focused on inflation risk, the member most focused on labor-market slack, and the member weighing financial stability. The remaining two members, the data-dependent participant and the market-signal participant, registered partial agreement, supporting the downward direction of the recommendation but not its magnitude or timing at this meeting. There were no members declining the recommendation outright.