



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$962.5 billion as of April 22, 2009, up \$23.5 billion from the prior release on April 15. Composition remained concentrated in longer-dated Treasury securities and agency mortgage-backed securities: notes and bonds accounted for \$471.0 billion, Treasury bills for a comparatively small \$18.4 billion, and agency MBS for \$367.6 billion. The week-over-week increase reflects continued expansion of the portfolio consistent with the balance-sheet programs already in place. It should be noted that this review covers SOMA holdings only — total size, composition, and the change from the prior release. It does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available; those operations are therefore outside the scope of what can be reported here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed data pointing to a still-deep contraction in economic activity. The unemployment rate stood at 8.5 percent, well above the estimated natural rate of 5.05 percent, and initial jobless claims remained elevated at 639,000, indicating continued heavy job losses. The Chicago Fed National Activity Index at -1.61 signaled activity running substantially below trend. Core PCE inflation was 1.48 percent on a year-over-year basis, below the 2 percent objective. The Employment Cost Index registered 110.2, and M2 stood at \$8,313.2 billion.

The Beige Book, prepared on information collected on or before April 6, described overall activity as having contracted further or remained weak, though five of the twelve Districts noted a moderation in the pace of decline and several saw signs of stabilization at low levels. Manufacturing weakened broadly, nonfinancial services continued to contract, and retail spending remained sluggish with only scattered improvement. Residential real estate stayed weak, with home prices and construction still falling in most areas even as better-than-expected buyer traffic produced a scattered pickup in sales; nonresidential conditions deteriorated further, with difficulty obtaining commercial real estate financing constraining construction and investment. Bankers reported tight credit, rising delinquencies, and some deterioration of loan quality. Downward pressure on prices was reported across Districts, and wage and salary pressures eased as labor markets weakened, with many contacts citing job cuts and wage and hiring freezes.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions remained strained but off their most acute levels. The financial stress index stood at 0.7566, still elevated and indicative of markets far from normal functioning. The VIX at 38.1 pointed to persistent volatility and investor anxiety. The Baa corporate spread of 5.33 percentage points



reflected severe credit stress and wide risk premia for lower-rated borrowers. The 3-month T-bill spread relative to the current target was just 0.015, consistent with short rates sitting flush against the policy floor and no near-term policy move being priced. In contrast, the 10-year/2-year Treasury spread was steeply positive at 1.98 percentage points, a shape often associated with market expectations of eventual recovery rather than deeper near-term easing.

STAFF ECONOMIC OUTLOOK

With the target range already at 0.0 to 0.25 percent, the staff projection rested on the effective lower bound as the binding constraint on conventional policy. The estimated neutral rate (r^*) used in the framework was 1.675 percent, well above the current setting, but the loss-minimizing calculation nonetheless returned 0 basis points because the funds rate cannot be lowered further conventionally. Inflation momentum was negative at -0.24, implying continued disinflation and no near-term impetus toward the 2 percent objective from the price side. Unemployment momentum of 0.7 pointed to labor-market conditions still deteriorating rather than stabilizing, suggesting slack would remain wide in the projection period.

Each of the reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — returned 0 basis points. The staff flagged the reference rules as unreliable for this meeting, a judgment consistent with conventional rules bottoming out at the lower bound; the ELB-adjusted formulation, which explicitly recognizes that the range is pinned at zero, was the most directly applicable. Taken together, these quantities imply a path in which the policy rate remains at its floor, disinflationary pressure persists in the near term, and any additional accommodation would have to be delivered through balance-sheet channels rather than the funds rate.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the meeting from distinct vantage points but converged on the assessment that no conventional rate action was available. The member most attentive to inflation risk observed that the usual caution against easing while prices run hot was simply not triggered here: core PCE at 1.48 percent sits below the 2 percent target, inflation momentum is negative, and the Beige Book documents downward price pressure across all Districts alongside easing wage and salary pressures. In this member's reading, the risk is disinflation, not overheating, so there was no case for a preemptive hike — and with the range already at the floor, no room to cut in any event.

The participant weighting employment most heavily emphasized the severity of labor-market slack — an unemployment rate of 8.5 percent against a 5.05 percent natural rate, a gap of roughly three and a half points, with claims at 639,000 and rising unemployment momentum all pointing to continued



deterioration. This member's instinct was toward maximum accommodation, but acknowledged that the effective lower bound left no conventional space to ease further; the employment-support burden, in this view, now runs through the committed asset-purchase programs rather than the funds rate. The financial-stability participant reinforced the fragility of the backdrop, citing the elevated stress index at 0.7566, the VIX at 38.1, and a Baa spread of 5.33, together with Beige Book reports of tight credit, rising delinquencies, deteriorating loan quality, and commercial real estate financing difficulty constraining activity. From that seat, a rate increase would be indefensible and destabilizing; the appropriate stabilizing tool was continued balance-sheet support.

The data-dependent participant read the indicators at face value and stressed the unambiguous constraint: the range is pinned at the floor, disinflation points away from tightening, and deep contraction rules out a hike, so the literal consensus action is to hold. The member most focused on market pricing pointed to the near-zero 3-month T-bill spread of 0.015 as confirmation that markets price no policy change, with short rates flush against the range, while the steeply positive 10-year/2-year spread of 1.98 was read as pricing eventual recovery and validating patience rather than deeper easing.

In the rounds addressing the framework's optimal recommendation, participants worked through the reference-rule outputs and the loss-minimizing logic. Several noted that although the neutral rate of 1.675 percent sits well above the current setting, the ELB-adjusted rule's 0 basis point output was the most persuasive because it directly honors the binding lower bound; the fact that the reference rules were flagged unreliable this meeting led participants to lean on the ELB logic and, in some cases, on the stress data and market pricing as corroboration. A recurring theme was that agreement between each member's own read and the framework's 0 basis point call revealed the stance to be already maximally accommodative on the rate dimension — further easing, participants generally judged, must come through balance-sheet channels. A couple of participants acknowledged the faint positive in the Beige Book's note that five Districts saw moderation in the pace of decline, but characterized this as stabilization from a very low base rather than recovery, and too tentative to justify any shift in course.

Across both the predictive and optimal-framework discussions, no participant advanced a case for either a hike or a further conventional cut, and no argument from any member moved another to change direction — the convergence reflected shared reasoning from the same data rather than deference. Participants noted continuity with the prior unanimous decision to hold at the floor with balance-sheet support and extended-period expectations for low rates in place, and judged that conditions had not improved enough to warrant departing from that course.

COMMITTEE POLICY ACTIONS



In the predictive round, all five members projected no change to the target range, a unanimous tally of 0 basis points ({0: 5}). On the deterministic policy engine's recommendation of 0 basis points, the committee was likewise in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement (endorse 5, decline 0, partial 0). The inflation hawk, labor-market dove, financial-stability voice, data-dependent centrist, and market-signal realist each supported holding the target range at 0.0 to 0.25 percent, consistent with the binding effective lower bound and the framework's loss-minimizing call.