



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed developments in the System Open Market Account. As of the most recent release on June 17, 2009, total SOMA domestic securities holdings stood at \$1,179.4 billion, an increase of \$41.9 billion from the prior release on June 10. The composition consisted of \$572.5 billion in Treasury notes and bonds, \$18.4 billion in Treasury bills, and \$456.0 billion in agency mortgage-backed securities, reflecting the ongoing balance-sheet actions supporting credit conditions. Members were reminded that these figures cover SOMA securities holdings only—total size, composition, and week-over-week change—and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; discussion of near-term liquidity operations was therefore limited to what could be documented from the holdings data itself.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed activity that remained weak across most measures. The unemployment rate stood at 9.4 percent, well above the estimated natural rate of 5.05 percent, and initial jobless claims remained elevated at 601,000. The Chicago Fed National Activity Index at -0.93 indicated that growth continued to run below trend. Core PCE inflation on a year-over-year basis was 1.42 percent, below the 2.0 percent longer-run objective, and the Employment Cost Index reading of 110.2 was consistent with subdued wage pressures. M2 stood at \$8,327.9 billion.

The Beige Book prepared on the basis of information collected on or before June 1 characterized conditions as remaining weak or deteriorating further from mid-April through May, though five Districts noted signs that the downward trend was moderating and several reported that contacts' expectations had improved, without anticipating a substantial pickup in activity through year-end. Manufacturing declined or held at low levels, though the manufacturing outlook improved somewhat in several Districts. Retail spending stayed soft as consumers concentrated on less expensive necessities, and new car purchases remained depressed amid tight credit. A number of Districts reported an uptick in home sales and indications that new home construction had stabilized at very low levels, even as commercial vacancy rates rose and financing for new commercial projects grew harder to obtain. Lending was generally described as stable or weak with mixed results across categories, and credit conditions remained stringent or tightened further. Labor markets stayed weak nationwide, with wages generally flat or falling.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions, while off crisis peaks, remained tight. The financial stress index stood at 0.5385, above levels associated with neutral conditions, and the VIX at 31.54 pointed to



persistent market anxiety well above calmer historical norms near 20. The Baa corporate spread over Treasuries at 3.67 indicated that borrowing costs and credit risk for lower-rated firms remained meaningfully elevated, consistent with the Beige Book's account of stringent credit. In the rates market, the 3-month Treasury bill spread versus the current target of 0.045 showed bills trading essentially within the prevailing range, signaling that markets priced no near-term move, while the steeply positive 10-year/2-year spread of 2.49 was consistent with expectations of eventual recovery and prolonged low short-term rates. The federal funds target range remained at 0.0 to 0.25 percent.

STAFF ECONOMIC OUTLOOK

The staff projection took as its starting point that the federal funds target range of 0.0 to 0.25 percent already sits at the effective lower bound, so that conventional policy has no further room to ease and the reference-rule outputs must be read through that constraint. All four reference rules—the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule—returned 0 basis points, and the framework flagged the reference rules as not reliable for this meeting, which places additional weight on the ELB-adjusted framing that explicitly recognizes the floor. With an estimated neutral rate (r^*) of 1.601 and inflation running well below target, the implied gap between neutral and the achievable policy rate suggests the effective conventional stance remains restrictive relative to what unconstrained rules would prescribe, leaving balance-sheet actions to carry the additional accommodation.

On the path of conditions, the momentum measures point in different directions but reinforce the same near-term reading. Inflation momentum was essentially flat at 0.02, indicating no building price pressure that would argue for withdrawing support, while unemployment momentum of 0.65 suggests that joblessness is still rising rather than stabilizing. Taken together with below-trend activity and only tentative moderation in the Beige Book, these figures imply that conditions are likely to remain weak in the near term, with the disinflation risk still live and no basis in the forward-looking quantities for anticipating an early move away from the current stance.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the meeting from distinct vantage points but converged early on the assessment that the target range should be held at 0.0 to 0.25 percent. The member most attentive to inflation risk noted that core PCE at 1.42 percent sits below the 2.0 percent objective and that inflation momentum near 0.02 shows no upward pressure to resist; with wages generally flat or falling per the Beige Book and a subdued Employment Cost Index reading, this participant judged that the usual instinct to lean against price pressures was simply not triggered. If anything, this member argued, the live risk was disinflation given enormous slack, and premature tightening would worsen credit stress



and deepen the contraction with no inflation justification to offset it.

The participant most focused on the labor market emphasized that unemployment at 9.4 percent stands more than four points above the 5.05 percent natural rate, that initial claims at 601,000 remain deeply elevated, and that unemployment momentum of 0.65 signals joblessness still rising rather than stabilizing. This member stressed that the desire for maximum accommodation runs into the reality of the effective lower bound: with the rate already at the floor, a conventional cut would require going negative and is not a practical option. On this view, holding at 0.0 to 0.25 percent is not restraint but the most accommodative stance conventional policy allows, with the asset purchase programs carrying the additional support that rate policy cannot.

The participant attentive to financial stability anchored on the stress metrics, observing that the financial stress index at 0.5385 remains above neutral, the VIX at 31.54 is elevated versus calmer norms, and the Baa spread at 3.67 shows credit risk and borrowing costs still strained. The Beige Book's account of stringent credit, weak lending, rising commercial vacancies, and difficulty financing new commercial projects reinforced this member's caution: cutting is impossible at the floor, and hiking into fragile spreads would be reckless and could abort the tentative moderation that five Districts had noted. This participant judged that the accommodative burden appropriately falls on the balance-sheet programs already deployed.

The data-dependent member took the indicators at face value and favored the most literal consensus reading, noting that all four reference rules point to 0 basis points, that low inflation gives no reason to tighten, and that deep labor slack together with still-elevated stress measures argues for maintaining accommodation rather than withdrawing it. This participant observed that the steeply positive 10-year/2-year spread of 2.49 reflects expectations of prolonged low short rates rather than any inversion signal. The member most attentive to markets reinforced the point from the pricing side: the 3-month bill spread of 0.045 shows bills trading essentially within the current band, indicating markets price no near-term move, and this member drew added confidence from the convergence of market pricing, the reference rules, and the loss function on the same outcome.

In the optimal-framework rounds, participants weighed the framework's 0 basis point recommendation against their own reasoning and found no tension. Several leaned explicitly on the ELB-adjusted rule as the honest framing given that the reference rules were flagged as unreliable this meeting, and they noted that the gap between the estimated neutral rate of 1.601 and the achievable policy rate implies the conventional stance remains restrictive relative to the unconstrained optimum—an argument for continued accommodation, not withdrawal. No participant offered a case to move in either direction; the inflation-focused member's concession that there was no case to



tighten was cited by others as removing dissent risk from the price-stability side, and the discussion closed with a shared judgment that the current stance is appropriately calibrated at the floor.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported maintaining the federal funds target range at 0.0 to 0.25 percent, a unanimous 5 to 0 outcome with no member favoring a change in either direction. On the framework's loss-minimizing recommendation of 0 basis points, the Committee was likewise in full agreement: all five members—the inflation-focused member, the labor-market-focused member, the financial-stability member, the data-dependent member, and the market-signal member—endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive vote and the optimal-side outcome were therefore fully consistent.