



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed data on the System Open Market Account as of March 3, 2010, the most recent release available under the point-in-time-safe cutoff. Total SOMA domestic securities holdings stood at \$1,965.4 billion. The composition was concentrated in agency mortgage-backed securities, at \$1,026.8 billion, alongside \$708.9 billion in Treasury notes and bonds and a comparatively small \$18.4 billion in Treasury bills. Relative to the prior release of February 24, total holdings declined by \$4.8 billion. Staff noted that this review covers SOMA holdings only — total size, composition, and the week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

Staff reviewed incoming data on the real economy and the most recent Beige Book, prepared on the basis of information collected on or before February 22. Core PCE inflation stood at 1.14 percent on a year-over-year basis, well below the Committee's 2 percent objective. Labor market conditions remained weak: the unemployment rate was 9.7 percent, far above the estimated natural rate of 5.04 percent, and initial jobless claims were still elevated at 469,000. The Employment Cost Index registered 111.8, with no sign of accelerating labor-cost pressure. Broader activity readings were mixed but tilted toward gradual expansion, with the Chicago Fed National Activity Index at 0.48 and M2 at \$8,463.3 billion.

The Beige Book reported that economic conditions continued to expand since the prior report, though severe early-February snowstorms restrained activity in several Districts. Nine Districts described activity as improved, in most cases only modestly; conditions were characterized as mixed in the Atlanta and St. Louis Districts, and Richmond reported that activity slackened or remained soft, importantly reflecting the region's harsh February weather. Consumer spending improved slightly in many Districts, and manufacturing strengthened in most regions, particularly in high-tech equipment, automobiles, and metals. Residential real estate improved in a number of Districts but softened or stayed weak in others owing partly to weather, while commercial real estate and construction were generally described as weak or declining further, with only scattered signs of modest stabilization. Loan demand remained weak and lending standards remained tight across the country. Price pressures were described as mostly limited.

STAFF REVIEW OF THE FINANCIAL SITUATION

Staff characterized financial conditions as broadly stabilized and accommodative. The financial stress index stood at 0.216, a moderate reading that pointed to no acute systemic strain, and the VIX at 17.92



reflected relatively calm equity markets well removed from crisis-era levels. The Baa corporate spread of 2.61 indicated residual but contained borrowing-cost stress. The 10-year/2-year Treasury yield curve spread was steeply positive at 2.82, showing no inversion and thus no near-term recession signal from the term structure. At the front end, the 3-month Treasury bill spread relative to the current target rate was essentially flat at 0.025, consistent with market expectations of no near-term change in the policy rate.

STAFF ECONOMIC OUTLOOK

The forward-looking staff assessment drew on the real neutral-rate estimate and the momentum readings available for this meeting. With r^* estimated at 1.414 and core inflation running near 1.14 percent, the implied neutral nominal rate is on the order of 2.5 percent, leaving the current target range of 0.0 to 0.25 percent well below neutral. Even so, no reference rule called for a move away from the floor: the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule each produced an output of 0 bps, and the rules were judged reliable this meeting.

The momentum terms suggested that the underlying trajectory of conditions would change only slowly. Inflation momentum of 0.055 pointed to no building price pressure and, if anything, kept disinflation rather than overheating as the nearer-term concern given inflation already running below target. Unemployment momentum of 0.1 implied only glacial improvement in the labor market, consistent with an unemployment rate expected to remain far above its estimated natural rate for some time. Taken together, these figures projected a path in which slack persists and inflation stays subdued, so that the loss-minimizing stance remains at the effective lower bound absent a material shift in the data.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged on the view that neither inflation risk nor financial strain justified a change in the policy rate, and that the effective lower bound in any case constrained the direction of any easing. The member most attentive to inflation risk observed that core PCE at 1.14 percent sat well below the 2 percent target rather than above it, that the Beige Book described price pressures as mostly limited, and that wage measures showed no acceleration. On that reading, the usual hawkish bias against accommodation was simply not triggered; with enormous slack — an unemployment rate of 9.7 percent against a natural rate near 5 percent — cost-push pressures were suppressed, and there was nothing to lean against. This member emphasized that holding the range was not an act of fresh accommodation but the maintenance of an existing floor.



The participant most focused on employment stressed that the roughly 4.7-point unemployment gap and still-elevated jobless claims signaled a labor market that had stabilized but not healed. For this member, a hold was the most supportive stance mechanically feasible at the floor, and continued accommodation was warranted until slack visibly narrowed. The member attentive to financial stability reinforced the case against premature tightening from a different angle, pointing to the Beige Book's finding that loan demand remained weak and lending standards remained tight across the country; withdrawing support into that backdrop, this member argued, would compound the credit squeeze and represented the more salient stability risk. At the same time, this participant noted that the stress index at 0.216, the VIX at 17.92, and the Baa spread at 2.61 showed no acute distress demanding further easing either.

The data-dependent participant read the numbers at face value and found the case unusually clean: subdued inflation gave no basis to tighten, deep labor slack argued for continued accommodation, and financial indicators showed neither crisis nor exuberance. The market-focused participant added that the 3-month bill spread of 0.025 against the current range implied that markets were pricing essentially no near-term move, while the steep positive curve at 2.82 reflected eventual normalization expectations without imminent front-end tightening pressure. Several participants observed that a prior hawkish dissent on the timing of exit was not supported by present data, given 9.7 percent unemployment and core inflation nearly a point under target.

Turning to the framework's recommendation, participants noted that all four reference rules — Taylor, Balanced Approach, First-Difference, and ELB-adjusted — converged on 0 bps and were judged reliable this meeting. The inflation-focused member found the Taylor rule logic most persuasive, concluding that even under a heavy weight on inflation the large unemployment gap dominated and disinflation, not inflation, was the live concern. The employment- and stability-focused members were most drawn to the ELB-adjusted rule, whose logic — that unconstrained rules would prescribe cutting further but the floor binds — best captured why zero remained optimal amid persistent slack. A couple of participants remarked that the agreement between their own predictive judgment and the framework indicated the current stance was already appropriately calibrated rather than in need of adjustment.

The one reservation voiced came from the inflation-focused member, who flagged the eventual timing of exit as a matter to monitor, while conceding that with core PCE running well below target that debate was premature. No participant identified a market-based or fundamental argument to diverge from holding, and the rebuttal rounds served largely to reinforce, rather than shift, the emphases each member had brought to the discussion.



COMMITTEE POLICY ACTIONS

In the predictive round, all five members judged the appropriate action to be no change, maintaining the target range at 0.0 to 0.25 percent; the recorded vote was 5 to 0 for a hold (0 bps). On the deterministic optimal policy engine's recommendation of 0 bps, the Committee was likewise in full agreement: all five members — the inflation hawk, the labor market dove, the financial stability voice, the data-dependent centrist, and the market signal realist — voted to endorse the recommendation as-is, with none declining and none registering partial support. The two votes were thus fully aligned, both affirming maintenance of the 0.0 to 0.25 percent target range.