



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account continued to hold a large portfolio of domestic securities. As of the most recent release dated 2010-04-21, total SOMA domestic securities holdings stood at \$2,042.4 billion, essentially unchanged from the prior release on 2010-04-14, having risen by \$0.6 billion over the week. The composition remained dominated by agency mortgage-backed securities at \$1,101.9 billion, with Treasury notes and bonds at \$712.3 billion and a comparatively small position in Treasury bills of \$18.4 billion. Staff noted that this review covers SOMA holdings only — the total size, composition, and week-over-week change — and does not encompass the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data pointing to a gradual, broadly based firming of activity alongside still-considerable slack. Core PCE inflation on a twelve-month basis was 0.96 percent, well below the 2 percent level generally regarded as consistent with the Committee's objectives. The unemployment rate stood at 9.7 percent, far above the estimated natural rate of roughly 5.03 percent, and initial jobless claims remained elevated at 484,000. The Chicago Fed National Activity Index registered 0.4, consistent with growth modestly above trend rather than a sharp acceleration. The Employment Cost Index was reported at 112.3, and staff observed no evidence of building wage pressure in the wage and price data.

The Beige Book described economic activity as having increased somewhat across all Districts except St. Louis, which reported softened conditions. Districts generally noted gains in retail and vehicle sales, with several describing consumers as somewhat more confident and businesses as cautiously optimistic about sales in coming months. Manufacturing activity rose in all Districts except St. Louis, with new orders up, and many Districts reported increased housing activity from low levels. Against these improvements, commercial real estate remained very weak in most Districts, and banking and finance conditions were mixed as loan volumes and credit quality declined. Labor markets generally remained weak, with only some hiring evident, particularly for temporary staff. Wage pressures were characterized as minimal or contained, and retail prices generally remained level, though some input prices increased.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were broadly calm over the intermeeting period. The financial stress index was low at 0.168, and the VIX at 16.32 indicated subdued equity-market volatility. Credit conditions showed no sign of distress: the Baa corporate spread was 2.38, a moderate and contained level, and the



10-year/2-year Treasury yield curve spread was steeply positive at 2.74, showing no inversion or recession signal. Short-term markets implied no near-term change in policy, with the 3-month T-bill spread relative to the current target essentially flat at 0.035. M2 stood at \$8,512.1 billion. Staff characterized these readings as consistent with functioning, non-stressed markets, even as the Beige Book pointed to continued fragility in bank lending and commercial real estate.

STAFF ECONOMIC OUTLOOK

Staff projections drew on the forward-looking quantities available from the policy framework. The estimated neutral real rate (r^*) was approximately 1.363, implying that with the target range at its floor and inflation running below target, the real policy stance remains meaningfully accommodative. Inflation momentum was negative at -0.135, suggesting continued disinflationary drift rather than any acceleration in prices in the near term. Unemployment momentum at -0.15 pointed to only gradual labor-market improvement, insufficient to close the sizable gap to the natural rate over the projection horizon.

The reference rules were judged reliable this meeting and converged uniformly on no change: the Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule all prescribed 0 basis points. Taken together, these figures imply a path in which policy remains at the effective lower bound while slack narrows slowly and inflation stays subdued. With r^* above the prevailing near-zero real rate, the framework indicated that the current stance is already accommodative and that neither the momentum readings nor the rule outputs called for a change in the target range at this time.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants agreed that the current data offered little ambiguity, and all five arrived independently at holding the target range at 0.0 to 0.25 percent. The member most attentive to inflation risk was explicit that his usual trigger was simply absent: core PCE at 0.96 percent sits well below the 2 percent target, inflation momentum is negative, and the Beige Book's characterization of wage pressures as minimal or contained, together with an ECI showing no wage-push building, left no price pressure to lean against. He was equally clear that below-target but positive inflation and calm markets ruled out any case for easing further, so his weighting on inflation pointed neither to a hike nor a cut but to holding.

The member focused on the labor market emphasized the enormous gap between the 9.7 percent unemployment rate and the roughly 5.03 percent natural rate, along with elevated jobless claims of 484,000 and a Beige Book that described labor markets as generally remaining weak with only tentative hiring, largely of temporary staff. He noted that while deep slack would ordinarily argue for easing, the target range is already at its floor and there is no conventional room to cut further; holding



therefore preserves maximum accommodation. He rejected any argument for tightening over financial-imbalance concerns while unemployment persists near crisis highs.

The participant most attentive to financial stability structured his view around checking for stress first, and found none: the stress index at 0.168, VIX at 16.32, a moderate Baa spread of 2.38, and a steeply positive yield curve at 2.74 together signaled functioning, non-panicked markets. He was careful to distinguish stable from healthy, weighting heavily the Beige Book's report of declining loan volumes and credit quality and very weak commercial real estate — conditions he judged would make premature tightening damaging to a fragile credit recovery. He acknowledged sharing the vigilance expressed in the prior dissent about imbalances seeded by extended low rates, but concluded the current indicators showed no such imbalance building yet.

The data-dependent member read the indicators at face value and found the convergence of all four reference rules on 0 basis points a reflection of how unambiguous the picture was — below-target inflation, decelerating prices, enormous slack, calm financial conditions, and only slightly above-trend growth per the Chicago Fed index. The market-oriented member reinforced this from the pricing side, observing that the nearly flat T-bill spread of 0.035 and the steep curve implied markets expected accommodation to persist with only gradual normalization later, and that low volatility and contained spreads showed no froth demanding action. Across the optimal-framework rounds, participants noted that their predictive votes agreed with the framework's 0 basis point recommendation and with the unanimous rule outputs; several remarked that r^* near 1.363 confirmed the real stance was already accommodative. The financial-stability member's caution against extending easing resonated with the inflation-focused member, who reiterated that he would resist further accommodation even as he saw no basis to tighten now, but no participant's reasoning shifted the direction of any other's view.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome. On the deterministic policy engine's recommendation of 0 basis points, the Committee likewise reached full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive and optimal-side outcomes were thus fully aligned, and members reaffirmed their intention to monitor incoming data — particularly emerging price pressures, credit quality, and bank loan volumes — as the recovery proceeds.