



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The manager reported on the composition and size of the System Open Market Account. As of the most recent release covering March 2, 2011, total SOMA domestic securities holdings stood at \$2,322.0 billion, comprising \$1,157.0 billion in Treasury notes and bonds, \$18.4 billion in Treasury bills, and \$948.9 billion in agency mortgage-backed securities. Holdings rose by \$12.7 billion from the prior release dated February 23, 2011, consistent with the ongoing asset purchase program running through the second quarter. It was noted for the record that these figures cover SOMA securities holdings only — total size, composition, and the week-over-week change — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is presently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data on activity, labor markets, and prices. Core PCE inflation stood at 0.57 percent on a year-over-year basis, well below the 2.0 percent longer-run objective. The unemployment rate was 8.9 percent, far above the 5.2 percent estimate of its natural rate, indicating substantial slack in the labor market. Initial jobless claims came in at 368,000, a level the staff characterized as still elevated. The Chicago Fed National Activity Index was positive at 0.41, and the Employment Cost Index registered 114.0, showing no evident acceleration in labor costs. M2 stood at \$8,837.7 billion.

The most recent Beige Book material, drawn from the Seventh District, described economic activity as continuing to increase in January and February, though at a pace not quite as strong as during the prior reporting period; contacts' expectations for growth in 2011 had nonetheless improved. Consumer spending rose at a slower pace, with promotions and sales still driving activity, though retailers reported some signs of improving demand, including stronger sales of luxury goods and big-ticket items and steady auto sales at a relatively high level. Business spending held steady, with added strength in equipment demand from agriculture and energy. Hiring 'picked up some,' with manufacturers adding to payrolls but again citing difficulty filling certain skilled positions. Construction activity was again subdued, though contacts anticipated an uptick in residential building, particularly multi-family, over 2011. Credit conditions continued to improve, with financing more available even for lower-quality borrowers. There was 'some pass-through' of higher commodity prices to downstream prices, and District farmers continued to benefit from higher agricultural commodity prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as calm. The financial stress index stood at 0.1332, a low reading indicating no acute systemic strain, and the VIX was 19.82, a moderate level not consistent with market



turmoil. The Baa corporate spread was 2.59, a contained level suggesting borrowing-cost pressure was not elevated. The 10-year/2-year Treasury spread was steeply positive at 2.83, showing no inversion or recession signal from the yield curve, while the 3-month T-bill spread against the current target rate was essentially flat at -0.005, indicating that markets embedded no near-term change from the prevailing 0.0 to 0.25 percent range. Consistent with the Beige Book, credit conditions were reported to be improving.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the reference-rule outputs and the momentum and neutral-rate estimates available for this meeting. The estimated neutral real rate (r^*) was 0.924, a low value implying that even a policy rate held near zero was not deeply accommodative in real terms. Inflation momentum was negative at -0.19, pointing to continued softness in underlying price pressures rather than a building acceleration, consistent with the deeply sub-target core PCE reading. Unemployment momentum was likewise slightly negative at -0.1, indicating only gradual improvement in the labor market and implying that the large gap to the natural rate would close slowly.

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 rules were judged reliable this meeting. With the target range already at its effective lower bound, the ELB-adjusted rule in particular signaled no scope for further reduction. Taken together, these quantities projected a path in which accommodation would remain appropriate for some time: subdued and softening inflation offered no near-term impetus to tighten, while slow labor-market healing argued against any early withdrawal of support. The staff flagged the commodity-price pass-through noted in the Beige Book as an upside risk to monitor, but one that had not yet registered in core inflation or in labor-cost measures.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally agreed that the incoming data left no case for changing the target range from 0.0 to 0.25 percent. The member most attentive to inflation risk emphasized that core PCE at 0.57 percent was not merely below the 2.0 percent objective but deeply subdued, with underlying inflation assessed as trending downward and inflation momentum negative. This member took the Beige Book's 'some pass-through' of higher commodity prices seriously as the one genuine upside concern from that vantage point, but judged the pass-through limited and concentrated, affecting headline more than core, and observed that the Employment Cost Index reading of 114.0 showed no sign of a wage-price spiral. On that reasoning, even under a heavy weighting of inflation risk, the data supported holding rather than any preemptive tightening — while a cut was neither warranted nor mechanically available at the floor.



The member focused on the labor market underscored the size of the slack, with unemployment at 8.9 percent against a 5.2 percent natural rate — a gap of roughly 3.7 points — as the dominant consideration. This member noted that hiring had only 'picked up some' and that jobless claims at 368,000 remained elevated, consistent with a fragile and slow recovery. While inclined toward maximum accommodation, this member acknowledged that the rate was already at its effective lower bound so that a further conventional cut was not feasible, and expressed a desire to see the ongoing asset purchases and the extended-period low-rate guidance maintained to protect the recovery. This member indicated firm opposition to any tightening but recognized that continuity at the floor was the appropriate and available course.

The member most concerned with financial stability reported that stress and credit indicators were uniformly calm: the stress index at 0.1332 was low, the VIX at 19.82 moderate, and the Baa spread at 2.59 contained, while the steeply positive 10-year/2-year spread signaled no recession risk. This member pointed to the Beige Book's account of improving credit conditions and broadening financing availability, and cautioned that an abrupt policy move — particularly a premature exit from accommodation — could destabilize a fragile but healing financial environment with no offsetting stability rationale. The commodity pass-through was noted but judged not yet a stability threat. The member weighing market signals most heavily reinforced this reading, observing that the 3-month T-bill spread of -0.005 sat essentially flat inside the current range, so that markets priced continuity, and that the steep curve reflected growth optimism without any demand for near-term tightening.

The data-dependent participant summarized the convergence, noting that both legs of the dual mandate pointed the same way: sub-target inflation removed any case for tightening, while substantial labor slack argued for continued accommodation, and the rate was already at the floor so a meaningful cut was not on the table. This participant stressed that the reference rules were unanimous and judged reliable and that disrupting the ongoing purchase program mid-course would be inconsistent with the prior accommodative stance. Across the rounds, no participant was persuaded to revise position; each reported that the arguments of the others reinforced rather than challenged their own frame.

In taking up the framework's recommendation directly, participants engaged with the loss-minimizing output. Several found the ELB-adjusted rule's logic most persuasive given the low estimated neutral rate of 0.924 and the floored policy rate, which together implied that near-zero rates were not excessively loose in real terms. The labor-focused member found the Balanced Approach rule especially resonant given the weight it places on the employment gap. The inflation-focused member reiterated that negative inflation momentum and the absence of cost pressure left no tightening trigger, while continuing to flag commodity pass-through for any core breakout. Participants generally



judged that the agreement between their own predictive assessments and the framework's recommendation reflected genuine calibration rather than coincidence — accommodation warranted by low inflation and high unemployment, with tightening premature and further easing constrained by the lower bound.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members judged that the appropriate action was to maintain the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous outcome of +0 basis points (5 of 5 members). On the framework's loss-minimizing recommendation of 0 basis points, 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 — endorsed the recommendation as-is, with none declining and none registering only partial agreement. The Committee thus supported holding the target range unchanged and continuing the ongoing accommodation.