



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that, as of the June 15 release, total System Open Market Account domestic securities holdings stood at \$2,600.4 billion, an increase of \$17.1 billion from the prior release of June 8. Holdings remained concentrated in Treasury notes and bonds, at \$1,485.7 billion, with agency mortgage-backed securities accounting for \$914.5 billion and a comparatively small \$18.4 billion in Treasury bills. Staff noted that these figures cover SOMA securities holdings only — total size, composition, and the week-over-week change — and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source is currently available. The composition and modest weekly increase were consistent with the ongoing conduct of open market purchases under the current program, which is scheduled to complete this quarter.

STAFF REVIEW OF THE ECONOMIC SITUATION

Core PCE inflation stood at 0.84 percent on a year-over-year basis, well below the Committee's 2 percent objective. The unemployment rate was 9.1 percent, far above the estimated 5.2 percent natural rate, and initial jobless claims remained elevated at 427,000. The Chicago Fed National Activity Index registered -0.45, consistent with below-trend growth. The Employment Cost Index reading of 114.7 gave little indication of wage-driven cost pressure, and M2 stood at \$8,946.0 billion.

The Beige Book described activity as sending increasingly mixed signals since the prior report. The banking sector improved moderately, led by gains in commercial and industrial lending, and tourism strengthened. Reports on District labor markets were generally positive, though employment agents noted that some manufacturing clients were cautious about hiring. Residential and commercial real estate were characterized as mixed. Manufacturing lost momentum, cooling in May after seven months of expansion; several contacts, including a coated-steel producer and a specialty-materials supplier, observed that demand had leveled off in recent weeks, and some contacts attributed disruptions in automotive deliveries to shortages of electronic components and paints following events in Japan. Retail sales generally slowed, with several firms citing higher gasoline prices; one retailer described buying behavior as 'tentative, as customers' needs were superseding their wants.' On prices, manufacturing input costs rose at a faster pace, with raw materials up notably, but pass-through was limited: finished goods rose only moderately, and firms reported customers 'strongly resisting' price increases even as they acknowledged rising commodity costs.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as calm and broadly accommodative. The financial stress index stood at 0.135, a low reading, and the VIX at 21.32 was elevated but short of levels associated with



market panic. The Baa corporate spread of 2.74 was moderate and did not signal acute credit-market distress. The 10-year/2-year Treasury spread was steeply positive at 2.6, showing no inversion and thus no near-term recession signal from the yield curve. The 3-month T-bill spread relative to the current rate was slightly negative at -0.075, consistent with market expectations of continued low policy rates near the floor and no funding-market dislocation.

STAFF ECONOMIC OUTLOOK

The staff outlook pointed to a continuation of accommodative policy at or near the current setting. The estimated neutral real rate (r^*) was low, at 0.756, implying that even a policy rate at the 0.0 to 0.25 percent range represents only modest real accommodation given subdued core inflation. Inflation momentum was essentially flat at 0.05, indicating no self-reinforcing acceleration in prices, a reading reinforced by the Beige Book's account of limited pass-through and customer resistance. Unemployment momentum was -0.3, suggesting only marginal improvement in labor-market slack from a starting point far above the natural rate.

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 reference rules were judged reliable for this meeting. The convergence reflects that both the inflation gap and the sizable unemployment gap argue for deep accommodation, while the effective lower bound caps the implied rate at its floor. The loss-minimizing recommendation from the policy engine was accordingly 0 basis points, implying that conditions were likely to warrant maintenance of the current stance rather than any near-term withdrawal of support, with the binding constraint being the lower bound rather than a preference for tighter policy.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their opening assessments, participants converged on the view that current data offered no case for a change in the policy rate in either direction. The participant most focused on inflation risk emphasized that core PCE at 0.84 percent sits well below the 2 percent target, so there was no realized above-target inflation to defend against. This participant acknowledged the commodity- and gasoline-driven pressures evident in headline prices and in manufacturing input costs, but stressed that the Beige Book was explicit that pass-through was limited — raw materials rose notably while finished goods rose only moderately, and customers were resisting increases. On that basis, and with long-term expectations reported stable, this participant judged that even a heavy weighting of inflation risk found no trigger for tightening. The participant separately noted that cutting was off the table, given rates already at the floor and the absence of any deflation threat.



The participant most attentive to the labor market underscored that unemployment at 9.1 percent remained far above the 5.2 percent natural rate, with claims elevated at 427,000 and the Chicago Fed index at -0.45 confirming below-trend growth. This participant expressed a preference for easier policy to support employment but observed candidly that the target range at 0.0 to 0.25 percent left no room for a further conventional cut; the dovish preference simply could not be expressed as a rate reduction. Similarly, the participant focused on financial stability walked through the stress indicators — the stress index at 0.135, the VIX at 21.32, the contained Baa spread of 2.74, and the steeply positive yield curve — and concluded that no acute stress signal called for action, while a premature hike into fragile, mixed conditions risked destabilizing a credit recovery that was only moderately advanced. The participant oriented to market signals noted that the slightly negative T-bill spread and calm volatility measures indicated markets were pricing neither a hike nor an emergency easing, squarely consistent with holding. The data-dependent participant read the mandate gaps as both pointing the same way — subdued inflation and large slack — with no offsetting tension between them.

In the rebuttal round, no participant was moved from an initial hold. The inflation-focused participant reiterated that a hike would require evidence of rising underlying inflation or destabilizing expectations, neither of which was present, and that softening growth data further removed any case for tightening. The labor-focused participant confirmed that the zero lower bound, not committee preference, was the operative constraint, and firmly rejected any tightening as a threat to the fragile labor recovery. The stability and market participants each found their reads reinforced rather than challenged by their colleagues' reasoning.

Turning to the framework's loss-minimizing recommendation, participants engaged directly with the reference-rule outputs and the underlying quantities. Several found the convergence of all four rules on 0 basis points, judged reliable this meeting, to be a strong and consistent signal. The inflation-focused participant found the Taylor rule logic most persuasive, observing that low inflation and a large unemployment gap both argued against tightening, and added that the Employment Cost Index reading of 114.7 pointed to no wage-price spiral, quieting a key second-round channel. The labor-focused participant leaned on the ELB-adjusted rule, noting that with r^* estimated at only 0.756 the current stance was just modestly accommodative in real terms and that unemployment momentum of -0.3 reflected insufficient improvement to justify any withdrawal of support. The data-dependent participant highlighted the Balanced Approach rule, stressing that both mandate terms push toward accommodation rather than offsetting one another. The stability and market participants each concluded that markets, rules, and the loss function all endorsed holding at the floor, with the market participant characterizing the stance as neither behind nor ahead of the curve.



Across both the predictive and optimal-framework discussions, participants generally judged that policy was appropriately calibrated: accommodative but justified by heavy slack and subdued core inflation, with no room to ease conventionally and no realized inflation risk to warrant tightening. A number of participants emphasized continued close monitoring of commodity pass-through, inflation expectations, and the trajectory of the labor market, expressing readiness to act should underlying inflation momentum build.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members favored maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-to-0 outcome for no change. On the policy engine's loss-minimizing recommendation of 0 basis points, the Committee's recorded stance was likewise unanimous: 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 no members declining and none registering only partial agreement. The predictive vote and the optimal-side outcome were therefore in full agreement, and the Committee maintained the 0.0 to 0.25 percent target range.