



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of April 18, 2012, total SOMA domestic securities holdings stood at \$2,613.6 billion, up \$8.4 billion from the prior release of April 11. The composition remained heavily weighted toward Treasury notes and bonds, which accounted for \$1,577.4 billion, alongside \$18.4 billion in Treasury bills and \$855.4 billion in agency mortgage-backed securities. It was noted that this material 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; accordingly, no representations were made about those operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to a moderate but uneven pace of activity. Core PCE inflation was running at 1.58 percent on a year-over-year basis, below the 2.0 percent objective. The unemployment rate stood at 8.2 percent, well above the estimated 5.5 percent natural rate, and initial jobless claims were at 380,000. The Chicago Fed National Activity Index registered -0.09, consistent with growth slightly below trend. The Employment Cost Index reading of 116.8 showed no evidence of accelerating labor-cost pressures, and M2 stood at \$9,821.4 billion.

The Beige Book material for the First District described activity continuing to expand at a moderate pace, with most contacted retailers, manufacturers, and consulting and advertising firms reporting higher revenues than a year earlier. Residential contacts cited rising sales and declining prices, while commercial real estate was mostly unchanged. Hiring was generally described as modest or absent, with a few firms mentioning small layoffs and one consulting firm unable to meet very strong demand without aggressive hiring. Retailers characterized year-to-date performance as strong, aided by mild winter weather and improving sentiment, with February year-over-year comparable-store sales ranging from low to high single digits apart from one retailer citing a 23 percent rise. The travel and tourism sector expected a strong 2012, with hotel revenues up nearly 10 percent in January and February on improved occupancy. A recurring theme was concern that rising gasoline and energy costs could damp consumer willingness to spend, though manufacturing contacts acknowledged higher input costs while saying they were 'not a problem,' and paper-based products were expected to see only 3 to 4 percent price increases.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as broadly calm and accommodative. The financial stress index stood at 0.132, a low reading indicating the absence of systemic distress, and the VIX at 18.64 was



moderate, consistent with markets that were composed rather than fearful. The Baa corporate spread over Treasuries was 3.15, somewhat elevated but reflecting lingering caution rather than crisis-level borrowing costs. The 10-year/2-year yield curve spread was positive at 1.73, with no inversion to signal near-term recession, and the 3-month T-bill spread relative to the current rate was slightly negative at -0.045, a negligible reading consistent with stable funding markets and market expectations of no near-term change in the policy rate.

STAFF ECONOMIC OUTLOOK

The staff projection drew on the forward-looking quantities available at this meeting. The estimated neutral real rate was essentially zero, at -0.006, implying that a target range of 0.0 to 0.25 percent already delivers a stance close to neutral in real terms and leaves little conventional room for further accommodation. Inflation momentum was flat at 0.02, suggesting no build-up of price pressure beneath the surface despite the energy-cost concerns noted in the district material; the energy-driven component of headline inflation was expected to remain a watch item rather than a source of broadening core pressure over the medium term. Unemployment momentum at -0.15 pointed to gradual improvement in the labor market, though from an elevated level and at a pace consistent with the still-soft claims and hiring readings.

All four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — returned an output of 0 basis points and were judged reliable in the current environment. Taken together with the negative estimated neutral rate, these outputs implied that the prevailing stance was likely to remain appropriate absent a material change in the data: below-target inflation and a wide unemployment gap both argued for continued accommodation, while the effective lower bound and the near-zero neutral rate constrained any further easing. The projected path was therefore one of steady conditions, with the loss-minimizing stance pinned at the floor.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants broadly agreed that the constellation of data supported holding the target range unchanged, though they arrived at that conclusion from distinct vantage points. The member most focused on inflation risk emphasized that core PCE at 1.58 percent sits below, not above, the 2.0 percent objective, and that inflation momentum near 0.02 showed no acceleration building. This participant acknowledged that elevated gasoline and energy prices bear watching, but pointed to the Beige Book characterization of manufacturing cost pressures as manageable — contacts describing them as 'not a problem' — and to the absence of wage-driven pressure in the Employment Cost Index reading of 116.8. With substantial slack implied by 8.2 percent unemployment against a 5.5 percent natural rate, the case for preemptive tightening was judged not to have been made; equally, this



participant saw no basis for easing.

The member most attentive to the labor market treated the roughly 2.7-point gap between unemployment and the natural rate as the dominant consideration, describing the recovery as fragile and incomplete in light of the 380,000 initial claims reading, the modest or absent hiring reported in the district material, and a Chicago Fed National Activity Index of -0.09 indicating slightly below-trend growth. This participant would have preferred additional accommodation but recognized that with the range already at its 0.0 to 0.25 percent floor, a conventional cut was not mechanically available. Holding was thus characterized as the maximally accommodative choice feasible at the lower bound, with below-target inflation providing ample room to maintain support and no reason to withdraw it.

The participant focused on financial stability read the stress indicators as signaling calm rather than distress: a financial stress index of 0.132, a moderate VIX of 18.64, a positively sloped yield curve at 1.73, and a Baa spread of 3.15 that was somewhat elevated but reflective of caution rather than crisis. From this vantage, the concern was that any surprise move — in either direction — could unsettle currently stable credit markets unnecessarily, and stability was best preserved by maintaining the accommodative stance. The member weighing market signals most heavily reinforced this view, noting that the slightly negative 3-month T-bill spread of -0.045 and the non-inverted curve embedded expectations of no near-term change, so that a hold was the stance markets already anticipated. The data-dependent participant, favoring a literal reading of convergent evidence, observed that below-target inflation and high unemployment argued against tightening while stable conditions and the lower bound argued against further action, leaving the current range well-calibrated.

When the discussion turned to the framework's loss-minimizing recommendation, participants found their independent readings reinforced. Several noted that the estimated neutral rate of -0.006 implied the floor was already close to neutral in real terms, so that even holding delivered only limited accommodation given the slack. The inflation-focused member found the Taylor rule most persuasive, observing that below-target inflation combined with a wide unemployment gap still floored the prescription at zero. The labor-focused member and others gravitated toward the ELB-adjusted rule, which they read as capturing the practical constraint directly — a desire for more accommodation checked by the impossibility of cutting below zero. Participants generally judged that the convergence of all four reference rules, market pricing, and the underlying data on a single outcome was itself confirming, and none surfaced a credit-market, inflation, or labor argument that would justify departing from the prevailing stance at this meeting.

A recurring caveat concerned the durability of the current calm. The inflation-focused member remained watchful for signs that energy costs might feed into medium-term inflation expectations,



indicating that a stronger case for tightening could emerge at a future meeting if such broadening materialized, while stressing that this was a forward concern rather than a basis for action now. A couple of participants also observed that the prior dissent had objected to the duration of the extended low-rate guidance rather than to the level decision at hand, and thus did not bear on this meeting's choice on the range itself.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members supported maintaining the federal funds target range at 0.0 to 0.25 percent, yielding a unanimous vote of five in favor of no change. On the optimal-policy framework'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 therefore fully consistent, both affirming that the current stance is appropriately calibrated at the effective lower bound given below-target inflation, persistent labor-market slack, and calm financial conditions.