



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. The staff reported on total SOMA domestic securities holdings, comprising Treasury notes and bonds and agency mortgage-backed securities, noting a modest increase from the prior release consistent with the ongoing pace of agency MBS accumulation. It was 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; accordingly, this review is confined to the holdings data on hand.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that the pace of economic activity remained subdued. Core PCE inflation was running at 1.44 percent on a twelve-month basis, well below the Committee's 2 percent objective. The unemployment rate stood at 7.8 percent, far above the estimated natural rate of 5.4 percent. Initial jobless claims were 339,000, and the Chicago Fed National Activity Index registered -0.87, a reading consistent with below-trend growth. The Employment Cost Index at 117.8 showed no evident acceleration in labor compensation, providing no signal of building wage pressure.

The Beige Book material, drawn from the Second District, described economic activity as having held steady since the prior report, with prices of finished goods and services generally stable. The labor market showed further signs of softening: fewer business contacts reported adding workers, and a major employment agency characterized hiring as sluggish. Retailers, including auto dealers, noted some leveling off in sales following earlier increases, and one major retail chain reported sales running well below year-earlier levels, with some of the weakness attributed to unseasonably mild weather. The pricing environment was described as 'quite promotional', with acquisition costs mostly stable to declining modestly. Residential real estate showed further signs of improvement, office markets slackened somewhat while industrial markets picked up modestly, and bankers reported increased loan demand except on consumer loans, steady-to-tighter credit standards, and lower delinquency rates on commercial loans and mortgages. Tourism held steady at a fairly robust level despite hints of softening in mid-September.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and orderly. The financial stress index stood at 0.075, a very low reading, and the VIX at 15.07 indicated subdued equity-market volatility. The Baa corporate spread of 2.77 was moderate and gave no indication of acute borrowing-cost stress. The 10-year/2-year Treasury yield curve spread was positively sloped at 1.53, showing no inversion and no



recession signal from the term structure. The 3-month T-bill spread relative to the current target rate was -0.035 , essentially at the floor, consistent with stable short-term funding markets and no evident dislocation. Taken together, these readings suggested that markets had absorbed the accommodation already in place without stress.

STAFF ECONOMIC OUTLOOK

The staff projection took as its point of departure the estimate of the neutral real rate, r^* , at -0.483 — a deeply negative value implying that a neutral setting of policy would require a nominal rate below the current 0.0 to 0.25 percent range. Because the funds rate is pinned at its effective lower bound, the projection recognized that conventional rate policy cannot fully reach the setting the estimated neutral rate would otherwise call for; the gap is a measure of accommodation that must be delivered by other means. Inflation momentum was essentially flat at -0.005 , indicating no upward drift in price pressures over the projection window, while unemployment momentum at $+0.05$ pointed to labor-market conditions drifting marginally in the wrong direction rather than improving.

Against this backdrop, all four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — returned 0 bps, and the framework judged these rule outputs reliable for the current meeting. The staff interpreted this convergence as reflecting the binding lower-bound constraint rather than an economy near balance: with both mandate gaps pointing the same way and neutral estimated to be negative, unconstrained rules would counsel easier policy, but zero is the feasible answer. The projection therefore implied that conditions were likely to remain subdued but stable, with inflation staying below target and unemployment easing only slowly, and with the burden of any further accommodation falling on the asset-purchase program already underway rather than on the funds rate.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants agreed that the appropriate course for the funds rate was to hold the target range at 0.0 to 0.25 percent. The member most focused on inflation risk observed that core PCE at 1.44 percent sits well below the 2 percent objective, that inflation expectations were described as stable and below target, and that the Employment Cost Index gave no sign of wage pressure. On that reading there was no live inflation trigger to lean against; the usual caution this member brings against easing had, in his words, no fuel, and there was certainly no basis to hike into below-target inflation with softening labor data. The Beige Book's promotional, disinflationary pricing environment reinforced this assessment.



The member most attentive to employment weighted the labor picture heavily and did not disguise his discomfort. Unemployment at 7.8 percent stands a full 2.4 points above the 5.4 percent natural rate, and unemployment momentum at +0.05 suggested conditions drifting the wrong way rather than mending. He pointed to the Beige Book's further softening, sluggish hiring, and fewer contacts adding workers, alongside the Chicago Fed index at -0.87 and claims at 339,000, as evidence that the economy plainly needed support. His instinct favored maximum accommodation for jobs. But he acknowledged the constraint squarely: with the rate already at the floor and r^* estimated at -0.483, there is no conventional room to cut, and the additional support employment calls for must come through continued asset purchases rather than the funds rate. Several participants found the Balanced Approach rule instructive on exactly this point — it weights the large unemployment gap heavily yet still lands at zero because the lower bound binds.

Participants concerned with financial stability and with market signals emphasized that conditions were calm and that this argued against any abrupt adjustment. The financial stability member reviewed the stress index at 0.075, the VIX at 15.07, the Baa spread at 2.77, and the positively sloped curve at 1.53, and concluded there was neither stress to respond to nor froth to lean against; he cautioned that changing the range into such calm conditions would risk introducing volatility unnecessarily. He also noted signs that existing accommodation was already working through credit and mortgage channels — improving residential real estate, rising loan demand, and falling delinquencies in the Beige Book. The member anchored on market pricing made a complementary point: the 3-month T-bill spread at -0.035 showed markets anticipating no move, arguably leaning toward continued accommodation, and the un-inverted curve priced no imminent recession forcing emergency action. In his view markets had digested the asset-purchase program without dislocation and were pricing a steady hand.

The data-dependent member drew the threads together, reading the data at face value: both mandate gaps point the same direction — below-target inflation and above-target unemployment — yet neither justifies a rate move, because a hike is unsupported by subdued prices and a cut is not feasible at the floor. He stressed that the unanimity of the reference rules was strong evidence the loss-minimizing call was zero, and that this reflected the binding constraint rather than any disagreement about direction; the rules would cut if they could. Across both the predictive rounds and the optimal-framework discussion, no participant was moved to revise. A recurring theme was that the prior meeting had only recently deployed additional accommodation through the ongoing agency MBS purchases, which was still being assessed and working through the system, so no further rate action was warranted now. Participants generally judged that the funds-rate lever was exhausted at the lower bound and that holding steady, while continued asset purchases carried the load of any additional support, was the coherent path given weak employment, contained inflation, and orderly financial



conditions.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported holding the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome with no member favoring any change. On the framework'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 — endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive and optimal-side outcomes were therefore fully consistent, reflecting a shared judgment that the effective lower bound binds the rate lever and that holding steady was the appropriate action.