



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account continued to expand over the intermeeting period. As of the most recent release, dated March 13, total domestic securities holdings stood at \$2,893.7 billion, comprising \$1,680.4 billion in Treasury notes and bonds and \$1,060.9 billion in agency mortgage-backed securities. This represented an increase of \$52.9 billion from the prior release of March 6, consistent with the ongoing pace of asset purchases. The staff noted that these figures cover SOMA securities holdings only — their total size, composition, and week-over-week change — and do not encompass repurchase or reverse-repurchase operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff's review described an economy continuing to expand at a moderate but uneven pace. Core PCE inflation was running at 0.95 percent on a twelve-month basis, well below the Committee's 2 percent objective. The unemployment rate stood at 7.7 percent, still considerably above the estimated natural rate of 5.5 percent. Initial jobless claims were at 340,000, a level the staff characterized as moderate and not indicative of decisively strengthening hiring. The Chicago Fed National Activity Index registered -0.32, pointing to growth somewhat below trend. The Employment Cost Index reading of 118.4, together with reports of stable prices, suggested little in the way of labor-cost pressure feeding into inflation. M2 stood at \$10,439.5 billion.

The Beige Book material, drawn from the First District, reinforced this picture of slow expansion. Most contacted retailers, but only about half of responding manufacturers, reported higher sales than a year earlier, though manufacturers generally remained upbeat about 2013. Staffing firms cited a pick-up in business while some software and IT services firms reported results below expectations. Residential real estate markets showed robust sales growth and modest price increases, while commercial fundamentals were largely unchanged. Across sectors, vendor prices and selling prices were reported as generally stable, wholesale prices as holding steady, and headcount changes as fairly modest in either direction. Several retail contacts attributed some softening in February sales to consumer uncertainty about job creation, budget deficits, and possible sequestration, as well as weather effects on store traffic. Respondents broadly continued to anticipate a low-growth economy and a somewhat wary consumer over the year.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions remained notably calm and accommodative over the period. The financial stress index stood at 0.072, a very low reading, and the VIX at 11.83 reflected unusually subdued



equity-market volatility. The Baa corporate spread of 2.85 was moderate, consistent with credit markets that were functioning normally rather than showing signs of strain. The 10-year/2-year Treasury spread was comfortably positive at 1.77, offering no recession signal from the term structure. The 3-month T-bill spread relative to the current policy rate was essentially negligible at -0.025, indicating that money markets were aligned with the prevailing target range and that market participants anticipated no near-term change in policy.

STAFF ECONOMIC OUTLOOK

The staff's outlook pointed toward a continuation of prevailing conditions rather than any near-term turning point. The estimated neutral real rate of interest, at -0.5 percent, implied that even a nominal policy rate held near zero would remain only mildly accommodative in real terms, giving little indication of an economy at risk of overheating. Inflation momentum was negative, at -0.19, suggesting prices were drifting further from rather than back toward the 2 percent objective in the near term; unemployment momentum was flat at 0.0, consistent with a labor market that was not yet improving decisively.

Against this backdrop, the reference rules the staff consults were judged reliable this meeting, and all four — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — pointed to holding the policy rate unchanged. With the target range already at the effective lower bound, the ELB-adjusted rule in particular captured the constraint that no further conventional easing was available. Taken together, these forward-looking quantities implied a path in which substantial labor-market slack and below-target inflation would persist for some time, arguing for the maintenance of the current degree of accommodation rather than any adjustment in either direction.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged on the view that neither leg of the dual mandate argued for a change in the policy rate. All noted that core PCE inflation at 0.95 percent was less than half the 2 percent objective, and that unemployment at 7.7 percent remained far above the 5.5 percent natural rate — a gap of roughly 2.2 percentage points. Several participants observed that the 6.5 percent unemployment threshold referenced in existing guidance remained well out of reach. On this reading, the data pointed the same direction from both sides: below-target inflation and elevated unemployment together supported continued accommodation and offered no basis for a shift in either direction.

The member most attentive to inflation risk was notably candid that his usual instinct toward tightening simply was not triggered by the data. He emphasized that core PCE was running well below target, that



the Beige Book described vendor and selling prices as generally stable and wholesale prices as holding steady, and that the Employment Cost Index and modest reported headcount changes gave no sign of labor costs pushing into inflation. His conclusion was that, absent elevated inflation risk to lean against, there was no case for a hike, while the effective lower bound and soft inflation together ruled out any interest in a cut. Other participants found this candor persuasive as confirmation that the consensus reflected the data rather than a reluctance to act.

The participant focused on labor-market conditions stressed that substantial slack persisted and that jobless claims at 340,000 and a Chicago Fed index of -0.32 signaled only tepid hiring and below-trend growth. He was explicit that his preference to support employment aggressively could not be expressed through the target range, which was already at the floor; a conventional cut would push into negative territory and was not a realistic option. He therefore located the accommodative burden in the ongoing asset purchases and existing guidance, and stated firmly that he would oppose any tightening given labor weakness and negative inflation momentum. The participant most attentive to financial stability raised the one genuine note of caution in the discussion: the very low VIX of 11.83 and financial stress index of 0.072 could, over a longer horizon, reflect complacency and seed future imbalances — a concern he tied to a prior dissent on the risks of prolonged accommodation. He was careful, however, to frame this as a matter for continued vigilance rather than present action, arguing that tightening abruptly against calm markets and soft inflation would itself risk destabilizing conditions and would run counter to his mandate to avoid unnecessary disruption.

The data-dependent and market-oriented participants rounded out the discussion. The former read the confluence of below-target inflation, elevated unemployment, benign financial conditions, and a positively sloped yield curve as an unusually clean case for holding steady, noting that no reference rule dissented. The latter emphasized that the negligible T-bill spread of -0.025 placed money-market pricing right at the current range and that the calm across the VIX, the stress index, and the Baa spread of 2.85 indicated markets expected continuity, with the term structure offering no recession alarm. When the discussion turned to the optimal-policy framework, participants generally found that their independent reasoning aligned with the framework's recommendation of no change. Several singled out the estimated neutral real rate of -0.5 percent as important context, observing that it meant even a nominal rate near zero was only mildly accommodative in real terms — reinforcing that there was no overheating to counter. The convergence of all four reference rules on holding, together with negative inflation momentum and flat unemployment momentum, was read as confirmation that the current stance was appropriately calibrated: neither too tight nor requiring further easing at the target-range level.



In the rebuttal round, no participant was moved to revise. The financial-stability caution on complacency was reiterated but consistently characterized by others as a monitoring point rather than an action signal, given the absence of any current credit stress or spread widening. Participants generally judged that acting preemptively against benign conditions would be premature and, in the view of some, counterproductive. The overall sense of the discussion was that markets, the reference rules, and both mandate gaps pointed in the same direction, and that maintaining the existing degree of accommodation was the loss-minimizing course.

COMMITTEE POLICY ACTIONS

In the predictive vote on the appropriate policy action, all five members supported maintaining the federal funds target range at 0.0 percent to 0.25 percent, a unanimous outcome of 5 to 0 for no change. On the optimal-policy framework's recommendation of 0 basis points, the Committee likewise reached full agreement: all five members — the inflation-focused member, the labor-market-focused member, the financial-stability-focused member, the data-dependent centrist, and the market-signal-oriented member — endorsed the recommendation as-is, with none declining and none registering only partial agreement. The two votes were therefore fully consistent, reflecting a coherent judgment across both the predictive and optimal-framework deliberations that holding steady was warranted.