



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of April 24, 2013, total SOMA domestic securities holdings stood at \$3,032.4 billion, comprising \$1,744.1 billion in Treasury notes and bonds and \$1,136.0 billion in agency mortgage-backed securities. This represented an increase of \$20.9 billion from the prior release of April 17, consistent with the continued pace of asset accumulation under the existing purchase program. It was noted 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 currently available. The reported change reflects settled holdings rather than any assessment of near-term liquidity operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data on activity, labor markets, and prices. Core PCE inflation stood at 0.94 percent on a twelve-month basis, less than half the Committee's 2 percent objective. The unemployment rate was 7.6 percent, well above the estimated natural rate of 5.5 percent, and initial jobless claims registered 352,000, a level the staff characterized as moderate — neither signaling sharp deterioration nor pointing to a marked acceleration in hiring. The Chicago Fed National Activity Index was -0.23, indicating growth somewhat below its historical trend. The Employment Cost Index reading was 119.0, and M2 money supply stood at \$10,447.4 billion.

The Beige Book material available to the Committee, drawn from the First District, described economic activity as continuing to expand modestly, though conditions were mixed across individual firms. Retailers generally cited slower than expected sales and softer tourism, with some of the softness attributed to unseasonal weather; one contact reported year-over-year comparable store sales up 2.5 to 2.6 percent while others reported slower results. More than half of responding manufacturers noted improved demand in the first quarter, with the strongest reports coming from health care-related producers. Commercial real estate reports were more positive than in the prior round, and in the residential sector limited inventory was said to be constraining sales even as median home prices rose modestly. Hiring was described as tracking demand growth, with few firms adding substantially to headcount outside consulting. The staff noted that price pressures were characterized as minimal and any price increases as moderate, and that most respondents expected modest-to-moderate growth to continue into the second half of the year.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were described by the staff as calm and accommodative. The financial stress index stood at 0.057, a very low reading indicating little acute tightness in funding or credit markets. The VIX was 13.61, a subdued level consistent with limited market anxiety. The Baa corporate spread over Treasuries was 2.8 percentage points, a moderate level that the staff did not view as signaling credit distress. The 10-year/2-year Treasury yield curve spread was positive at 1.5 percentage points, with no inversion and no recession signal emanating from the term structure. The 3-month T-bill spread relative to the current policy rate was -0.075 percentage point, a small negative reading implying that near-term market pricing was slightly below the prevailing rate and consistent with no expected near-term increase. Taken together, the indicators pointed to functioning credit markets and financial conditions that were accommodative but not disorderly.

STAFF ECONOMIC OUTLOOK

The staff outlook, drawing on the forward-looking quantities available, pointed to a continuation of the current configuration rather than an imminent shift. The estimated neutral real rate (r^*) was -0.5 percent, implying that a nominal policy rate held in the 0.0 to 0.25 percent range is less accommodative in real terms than its nominal level alone would suggest, and that little conventional room remains to provide additional stimulus through the policy rate. Inflation momentum was estimated at -0.17, indicating that price pressures were decelerating rather than building, so the projection embedded a continued risk that inflation would remain below the 2 percent objective in the near term rather than converge toward it quickly. Unemployment momentum was -0.1, consistent with only gradual improvement in labor market slack from its current wide gap.

The reference-rule outputs reinforced this projected path. The Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule each prescribed 0 basis points, and the rules were judged reliable for this meeting. With a negative neutral rate and inflation well below target, the standard rules floored at the effective lower bound, and the ELB-adjusted rule confirmed both the absence of room to ease further and the absence of a case to tighten. On these inputs, the staff projection was for conditions to evolve slowly — a gradually narrowing but still substantial employment gap, subdued and slightly softening inflation, and a stable financial backdrop — with policy appropriately held at its floor absent a material change in the incoming data.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged from the outset on maintaining the federal funds target range at 0.0 to 0.25 percent, though they arrived there through distinct lenses. The participant most attentive to inflation risk observed that core PCE at 0.94 percent was less than half the 2 percent objective and that the Beige Book explicitly reported minimal price pressures, so the usual



disposition to lean against inflation simply did not trigger; the active risk, this participant judged, was disinflation rather than inflation. That view was reinforced in later rounds by the negative inflation momentum reading of -0.17 , which was taken to mean that price pressures were decelerating, not accumulating. This participant was candid that a hawkish framework requires elevated inflation risk to act on, and that condition was plainly absent.

The participant focused on the labor market emphasized the wide gap between the 7.6 percent unemployment rate and the 5.5 percent natural rate — some 2.1 percentage points — as the dominant concern of the meeting. This participant noted a preference for additional accommodation to support employment but stressed the binding constraint that the policy rate was already at its effective lower bound, leaving no conventional room to ease. Holding at 0.0 to 0.25 percent was therefore characterized not as a restrictive choice but as maximum rate accommodation given the floor, delivered alongside ongoing asset purchases and the existing guidance tied to the 6.5 percent unemployment threshold. The below-trend Chicago Fed reading of -0.23 and the modest tone of the Beige Book were cited as reasons that withdrawing support would be premature.

The participant most concerned with financial stability read the stress and spread indicators as uniformly benign: a stress index of 0.057, a VIX of 13.61, a Baa spread of 2.8, and a positively sloped yield curve at 1.5. On this reading, there was neither a stress case for tightening nor a crisis case for further easing, and premature tightening into calm-but-not-euphoric conditions could unnecessarily destabilize functioning credit markets. Several participants engaged with the concern, carried over from the prior meeting's lone dissent, that prolonged accommodation could breed future imbalances. Participants generally judged that this risk was prospective rather than present — low stress readings and contained spreads showed no imbalance yet materializing — so acting on it now would be premature, though a couple of participants indicated they took the longer-run concern seriously and would watch for any signs of froth or accelerating inflation.

The centrist participant framed the decision around the two mandate gaps, noting that inflation too low and unemployment too high pointed in the same direction toward continued accommodation, and drew confidence from the unusual unanimity of the four reference rules, all printing 0 basis points and judged reliable. The participant weighting market signals most heavily pointed to the 3-month T-bill spread of -0.075 as evidence that markets expected no near-term increase and to the positively sloped curve as evidence of no recession pricing that would force emergency cuts; on this view markets had already priced the current range as appropriate. Across the rebuttal rounds, no participant reported being moved off an initial assessment. Rather, each described the others' reasoning as reinforcing a shared conclusion arrived at independently: inflation soft, slack wide, financial conditions calm, the



neutral rate negative at -0.5 , and the policy rate pinned at its floor.

In reconciling their predictive read with the framework's optimal recommendation, participants noted broad alignment between what their individual lenses implied and what the reference rules and loss-function inputs prescribed. Each identified a rule they found most persuasive — the Taylor rule for its direct weighting of both gaps, and the ELB-adjusted rule for its recognition that a negative r^* leaves no room below the floor — but all agreed the rules pointed the same way. Participants concluded that the current stance was neither too tight nor too loose given the data in hand, that no move in either direction was warranted this meeting, and that the appropriate course was to hold and continue the existing asset-purchase program while remaining attentive to the incoming data.

COMMITTEE POLICY ACTIONS

In the predictive phase of the deliberation, all five participants supported maintaining the federal funds target range at 0.0 to 0.25 percent, yielding a unanimous 5-0 result with no participant favoring a change in either direction. On the framework's recommendation of 0 basis points, the Committee likewise reached 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 presented, with none declining and none registering only partial agreement. The predictive vote and the optimal-side outcome were thus fully consistent, both reflecting a decision to hold the target range unchanged and to continue the existing asset-purchase stance.