



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of June 12, 2013, total SOMA domestic securities holdings stood at \$3,129.3 billion, comprising \$1,810.4 billion in Treasury notes and bonds and \$1,165.0 billion in agency mortgage-backed securities. This represented an increase of \$8.0 billion from the prior release of June 5, reflecting continued additions across both segments of the portfolio. 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.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators of economic activity, which pointed to a continuing but restrained expansion. The Beige Book characterized overall activity as increasing at a modest to moderate pace across all Federal Reserve Districts save the Dallas District, which reported strong growth. Manufacturing expanded in most Districts, though contacts in Philadelphia noted that orders and shipments had fallen somewhat and Richmond reported softer activity with only scattered improvement. Residential real estate and construction rose at a moderate to strong pace across all Districts, and this strength in housing was reported as a boon to the manufacturers supplying that industry. Consumer spending showed slight to moderate gains, vehicle sales rose moderately, tourism strengthened in several Districts, and overall bank lending increased alongside improving credit quality and largely unchanged credit standards. Against these gains, the Chicago Fed National Activity Index at -0.53 indicated growth running below its historical trend, and initial jobless claims at 346,000 were consistent with a stable but not rapidly improving labor market.

On prices and labor costs, the staff observed that inflation remained well short of the Committee's longer-run objective. Core PCE inflation was running at 0.77 percent on a year-over-year basis, far below the 2 percent target. The Beige Book described level prices to mild price increases, with some manufacturers raising prices and some input-cost increases noted. Wage pressures were reported as contained overall, though several Districts cited modest to moderate gains for selected occupations, and some contacts reported difficulty finding qualified workers. The Employment Cost Index reading of 119.0 was consistent with the absence of broad wage-driven cost pressure. The unemployment rate stood at 7.6 percent, well above the 5.5 percent estimated natural rate. Hiring was described as increasing at a measured pace in several Districts.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff reported that financial conditions remained calm and accommodative. The financial stress index registered 0.06, a very low reading indicative of well-functioning markets and the absence of systemic strain. The VIX stood at 18.59, a moderate and unremarkable level of implied volatility. The Baa corporate bond spread of 2.91 was contained, signaling orderly credit markets and manageable borrowing costs, and the Beige Book's account of rising bank lending and improving credit quality was consistent with this picture. The 10-year/2-year Treasury spread of 1.91 was comfortably positive and steeply sloped, offering no recession or inversion signal, while the 3-month Treasury bill spread of -0.075 relative to the current policy rate suggested that markets were pricing no near-term change in policy.

STAFF ECONOMIC OUTLOOK

The staff outlook was for continued gradual expansion with inflation remaining below target for some time. The estimated neutral real rate (r^*) was placed at -0.5, implying that the current target range of 0.0 to 0.25 percent leaves the stance of policy accommodative rather than restrictive, and that the effective lower bound is the binding constraint on further conventional easing. With inflation momentum estimated at -0.06 and unemployment momentum at -0.1, the near-term trajectory pointed to inflation drifting slightly lower rather than firming, and to labor-market slack narrowing only gradually. Neither momentum figure indicated an emerging pressure that would call for a shift in the policy path in the period immediately ahead.

The reference-rule benchmarks reinforced this projection. The Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule each pointed to no change from the current setting, and the framework judged these rules reliable at this meeting. Taken together, the negative neutral rate, the soft inflation and unemployment momentum, and the unanimity of the reference rules implied that maintaining the present degree of accommodation would be consistent with the projected path of activity and prices, with no mechanical basis for either tightening or further easing on the horizon captured by these measures.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants generally agreed that the appropriate action was to maintain the target range for the federal funds rate at 0.0 to 0.25 percent, and their reasoning converged from distinct starting points. A participant focused primarily on inflation risk observed that the condition that would ordinarily trigger caution about accommodation — inflation running above target — was simply absent. With core PCE at 0.77 percent, far below the 2 percent objective and, by the momentum reading, drifting lower rather than accelerating, this participant judged that there was no upside inflation to fight. The Beige Book's account of contained wage pressures and level-to-mild price increases, together with the Employment



Cost Index reading, corroborated the view that no wage-driven inflation threat was building. This participant emphasized that holding preserved the ability to tighten quickly should inflation risk actually materialize later, framing the stance as one of vigilance rather than preemptive action.

A participant weighting employment concerns most heavily stressed that unemployment at 7.6 percent remained far above the 5.5 percent natural rate, a wide gap that argued for continued strong support. This participant noted, however, that the binding constraint was mechanical: with the target range already at its floor, a conventional rate cut was not meaningfully available, and continued accommodation would therefore have to be sustained rather than deepened through the rate itself. The participant considered whether present data might warrant pushing for more aggressive easing but concluded that the evidence described a slow expansion rather than a deteriorating labor market — jobless claims were stable at 346,000 and hiring was improving at a measured pace — so there was no crisis to respond to. The concern that would trigger a call for further easing, rising unemployment or clearly slowing job growth, was not present in the data.

A participant attentive to financial stability read the stress indicators first and found them uniformly calm: a stress index of 0.06, a moderate VIX of 18.59, a contained Baa spread of 2.91, and a steeply positive yield curve. This participant judged that no financial-stability trigger was activated in either direction, and that tightening into such conditions would needlessly disturb stable credit markets while easing was unjustified with stress this low. The Beige Book's report of rising bank lending, improving credit quality, and unchanged credit standards was cited as evidence of healthy financial plumbing. A participant focused on market signals reached the same conclusion by a different route, pointing to the 3-month bill spread of -0.075 as a clean indication that markets were pricing policy continuity, with the steep 10-year/2-year spread signaling no recession fear. A participant emphasizing a data-dependent reading summarized the common ground: inflation too low to justify a hike, unemployment too high and the rate already at the floor to permit a conventional cut, and no financial strain demanding emergency action.

In turning to the framework's loss-minimizing recommendation, participants found that their independent reasoning aligned closely with the formal benchmarks. Several observed that the estimated neutral rate of -0.5 confirmed that the current stance, at the floor, was accommodative rather than excessive. The participant focused on employment and the one attentive to financial stability both found the ELB-adjusted rule most persuasive, reasoning that at the effective lower bound holding the range was the loss-minimizing constrained optimum. The inflation-focused and data-dependent participants leaned on the Taylor rule's logic, noting that large negative inflation and unemployment gaps left no room for tightening. Participants noted that the negative inflation and



unemployment momentum readings pointed to no sudden shift requiring immediate action either way.

A recurring theme across the discussion was the prior meeting's dissent citing concern about future imbalances and possible deterioration in inflation expectations. Participants took the concern seriously in principle — the inflation-focused participant expressed sympathy with guarding against future inflation, and the financial-stability participant acknowledged the longer-term worry about imbalances. But they agreed that present metrics offered no realized evidence to act on: with core inflation at 0.77 percent and softening, expectations appeared anchored, and stress indicators showed no credit froth. The consensus judgment was that vigilance, not preemptive action, was warranted, and that holding the target range preserved flexibility to respond should either inflation risk or financial imbalances actually emerge.

COMMITTEE POLICY ACTIONS

In the predictive vote on the appropriate policy action, all five members supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome with no proposals to raise or lower the range. On the framework's loss-minimizing recommendation of 0 basis points, the Committee likewise reached full agreement: all five members — the inflation-focused participant, the employment-focused participant, the financial-stability participant, the data-dependent participant, and the market-signals participant — voted to endorse the recommendation as-is, with no members declining and none registering partial agreement. The predictive vote and the optimal-side outcome were thus fully consistent.