



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$3,284.6 billion as of the July 24 release, the most recent available on or before the point-in-time cutoff. Of this total, Treasury notes and bonds accounted for \$1,872.7 billion and agency mortgage-backed securities for \$1,260.9 billion, leaving the portfolio weighted toward Treasury holdings but with a substantial MBS component. Relative to the prior release of July 17, total holdings rose by \$34.7 billion, a change consistent with the continuation of the ongoing asset purchase program. Members should note that this review covers SOMA securities holdings only — total size, composition, and week-over-week change — and does not encompass repurchase or reverse repurchase operation results, for which no point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 0.79 percent on a year-over-year basis, well below the Committee's 2 percent objective. The unemployment rate was 7.6 percent, considerably above the estimated natural rate of 5.5 percent, indicating that substantial slack remained in the labor market. Initial jobless claims were 334,000, and the Chicago Fed National Activity Index registered -0.13, a reading consistent with growth running slightly below trend. The Employment Cost Index was reported at 119.5, with no sign of wage-driven cost pressure in the underlying commentary. M2 money supply stood at \$10,598.8 billion.

The Beige Book material, drawn from the First District, described economic activity as continuing to expand at a moderate pace. Retailers, tourism contacts, manufacturers, and consulting and advertising firms reported modest increases in sales, with year-over-year comparable-store retail sales gains generally ranging between 1 and 5 percent. Residential real estate contacts reported rising house prices and sales, while commercial real estate conditions were improving or holding steady depending on location. Overall prices were said to be rising at a 'modest pace, generally in line with cost increases,' and wholesale and retail prices were characterized as 'steady.' Most businesses were 'holding employment steady,' with substantial staffing changes confined to firms experiencing significant swings in sales. Europe remained a source of weakness and China a source of volatility for manufacturing exports, and one contact — a manufacturer of textile and printing equipment — observed that 'everything depends on what happens to interest rates.' Contacts generally expected the recent trend of moderate growth to continue.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as calm and accommodative. The financial stress index stood at 0.075, a very low reading indicating an absence of systemic strain, and the VIX at 13.18 pointed to subdued market volatility. The Baa corporate spread over Treasuries was 2.67, a moderate and contained level consistent with credit markets functioning normally and without elevated borrowing-cost stress. The yield curve was steeply positive, with the 10-year/2-year spread at 2.27, showing no inversion or recession signal from the term structure. The 3-month Treasury bill yield sat 10.5 basis points below the current policy rate — a minor negative spread consistent with the effective lower bound and with market pricing of no near-term change in the policy rate. Taken together, these indicators depicted ample liquidity and easy transmission of the current policy stance.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral real rate and on the momentum in the two mandate variables. The estimated r^* used in the analysis was -0.5 percent, implying that the neutral policy rate is currently below zero; against this benchmark, a target range of 0.0 to 0.25 percent is already accommodative rather than neutral or restrictive. Inflation momentum was estimated at -0.09 and unemployment momentum at -0.05, both modestly negative. The negative inflation-momentum figure suggested that price pressures were, if anything, decelerating rather than building, pointing to continued sub-target inflation in the near term absent a change in conditions. The slightly negative unemployment-momentum reading was consistent with a labor market that continues to heal only gradually.

The reference-rule battery reinforced this projection. The Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule each returned an output of 0 basis points, and the framework judged the reference rules reliable under current conditions. The convergence across rules reflected the combination of a below-zero neutral rate, an inflation rate well beneath target, and an unemployment rate well above its natural level — a configuration in which the rules recommend maintaining maximum feasible accommodation given that conventional rate cuts are constrained at the floor. The staff projection therefore implied a likely continuation of below-trend but stable growth and gradually diminishing slack, with no near-term impetus toward either tightening or, given the lower bound, feasible conventional easing.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants entered the discussion from distinct analytical vantage points but converged quickly on the appropriate near-term policy stance. The member most attentive to inflation risk observed that his usual concern — leaning against overshoots — simply did not apply given the data. Core PCE at 0.79 percent represented a deep undershoot of the 2 percent objective, and the Beige Book's



characterization of prices rising only in line with cost increases, with wholesale and retail prices steady, reinforced the absence of building pressure. He concluded that the genuine risk in the current environment was disinflation rather than overheating, and that hiking into such a reading would risk pushing inflation further from target. With the target range already at 0.0 to 0.25 percent, he saw no meaningful room to cut in conventional terms either, and no financial imbalance compelling a defensive move.

The participant weighting employment most heavily emphasized that the unemployment rate of 7.6 percent stood 2.1 points above the 5.5 percent natural rate, a gap he regarded as substantial slack demanding maximally accommodative policy. He stressed that with the funds rate already at its floor, no conventional cut was available, so a decision to hold at the range meant holding at the floor together with the continuing asset purchase program — the most supportive stance realistically on the table. He drew support from the inflation-focused member's concession that there was no live case to tighten, and pointed to Beige Book firms 'holding employment steady' as evidence that hiring had not accelerated. His principal reservation was one of tone: he indicated he would resist any signal of near-term withdrawal of accommodation, even as he agreed the rate decision itself was clear.

The member focused on financial stability reviewed the stress indicators first and found no systemic strain to act against — a financial stress index of 0.075, a VIX of 13.18, a contained Baa spread of 2.67, and a steeply positive yield curve at 2.27 all pointed to calm, orderly conditions. He acknowledged a residual concern that a sustained period of very low volatility and compressed spreads could, over time, foster complacency and a buildup of imbalances under prolonged accommodation. But he was careful to distinguish this as a forward watch item from a present justification for action: current readings showed no active froth or credit widening, and a hike would needlessly tighten conditions against no inflation or stability rationale. He also cited the Beige Book contact who warned that 'everything depends on what happens to interest rates' as a reminder that abrupt moves could rattle borrowing.

The data-dependent participant read both mandate legs as pointing the same direction — sub-target inflation removing any tightening case and above-natural unemployment removing any labor-market trigger — while jobless claims of 334,000 and a Chicago Fed index of -0.13 depicted below-trend but stable activity consistent with holding. The market-oriented participant anchored on price signals: the 3-month bill trading 10.5 basis points below the current rate indicated markets priced no near-term hike, while the steep curve ruled out any recession-driven case for further easing. When the deliberation turned to the framework's loss-minimizing recommendation, participants engaged directly with the reference-rule outputs and the estimated r^* of -0.5. Several found the ELB-adjusted rule most persuasive given that the neutral rate lies below zero and rates are pinned at the floor; the



inflation-focused and data-dependent members leaned instead on the Taylor rule as balancing slack against sub-target inflation. Momentum readings of -0.09 for inflation and -0.05 for unemployment were cited as confirming no acceleration on either side warranting a shift.

Across both the predictive and the optimal-framework rounds, no participant advanced a case for deviating from a hold, and the rebuttal rounds surfaced no argument that moved any member off that view. The inflation-focused member reiterated that below-target inflation gave him no live tightening argument; the labor-focused member reiterated that a hike would be actively harmful to employment with r^* negative; the stability-focused member reiterated that his imbalance concern was prospective rather than immediate. Participants generally judged that the current stance was appropriately accommodative — inflation too low to justify a hike and rates already too low to permit a conventional cut — and that the alignment among market pricing, the reference rules, and the incoming data was unusually clear.

COMMITTEE POLICY ACTIONS

In the predictive vote on the near-term policy decision, all five members supported no change to the federal funds target range, leaving it at 0.0 to 0.25 percent — a tally of 5 to 0 for +0 basis points. On the deterministic framework's loss-minimizing recommendation of 0 basis points, 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 no members declining and none registering only partial agreement. The predictive decision and the optimal-side outcome therefore coincided, both pointing to maintaining the current target range.