



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent System Open Market Account (SOMA) holdings data, reported as of March 12, 2014. Total SOMA domestic securities holdings stood at \$3,904.0 billion, comprising \$2,188.8 billion in Treasury notes and bonds and \$1,570.1 billion in agency mortgage-backed securities. This represented an increase of \$7.4 billion from the prior release of March 5, 2014. Members noted that these figures capture SOMA holdings only — total size, composition, and week-over-week change — and do not include the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; accordingly, the staff review was confined to the outright holdings data above.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data on economic activity, which pointed to below-trend but broadly stable conditions distorted in the near term by unusually harsh winter weather. Core PCE inflation stood at 0.93 percent on a year-over-year basis, well below the Committee's 2 percent objective. The unemployment rate was 6.7 percent, above the estimated natural rate of 5.5 percent, indicating that meaningful labor-market slack remained; initial jobless claims at 323,000 were moderate and did not signal deterioration. The Chicago Fed National Activity Index read -0.39, consistent with growth somewhat below trend. The Employment Cost Index registered 120.1, and M2 money supply stood at \$11,011.6 billion.

The Beige Book for the Second District described economic activity as having declined modestly in the first few weeks of 2014, hampered by inclement weather. General merchandise retailers reported that sales ran below plan and well below year-earlier levels, with two major chains citing sharp declines during the first six weeks of the year attributed mainly to weather; one contact pointed to exceptionally low gift-card redemptions as a likely sign that much of the shortfall would be recovered once warmer weather arrived. New auto sales in upstate New York weakened noticeably in January but showed signs of rebounding in early February. Manufacturers reported stable activity while service-sector firms reported some weakening on balance, alongside 'some broadening of price pressures in the service sector,' even as retail prices remained mostly stable in an environment described as increasingly promotional. Labor market conditions were said to have continued to improve gradually. Banks reported some further weakening in household loan demand, little change in credit standards, and steady-to-declining delinquency rates.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as exceptionally calm. The financial stress index registered 0.0, its least-tight reading, and the VIX stood at 14.47, a low level indicating subdued expectations of near-term volatility. The Baa corporate spread was 2.37, a moderate level consistent with healthy credit conditions and no evident borrowing-cost stress. The 10-year/2-year Treasury yield curve spread was steeply positive at 2.36, with no inversion and thus no recession signal from the term structure. The 3-month T-bill spread relative to the current policy rate was -0.075, essentially flat and slightly negative, indicating that money-market pricing was consistent with continuity of the current target range rather than any near-term move.

STAFF ECONOMIC OUTLOOK

Looking ahead, the staff outlook drew on the forward-looking quantities available to the Committee. The estimated neutral real rate (r^*) was -0.5 percent, implying that the neutral stance of policy is itself deeply negative and that the current 0.0 to 0.25 percent target range, together with the ongoing balance-sheet holdings, represents genuine accommodation in real terms. Inflation momentum was slightly negative at -0.055, suggesting that price pressures were, if anything, drifting further from rather than toward the 2 percent objective in the near term. Unemployment momentum was -0.25, pointing to continued gradual improvement in the labor market rather than either deterioration or overheating.

Taken together, these readings implied a path in which slack closes only gradually and inflation remains subdued for some time, with little that would mechanically call for a change in the policy rate. All four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — returned prescriptions of 0 bps, and the rules were judged reliable in the current configuration. The convergence of independent rule outputs, combined with the negative r^* estimate and the effective lower bound, projected a near-term environment in which the loss-minimizing stance is to maintain the existing target range while conditions continue to normalize gradually.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally judged that the case for holding the target range at 0.0 to 0.25 percent was strong from every analytical vantage point represented on the Committee. The member most attentive to inflation risk observed that, with core PCE at 0.93 percent — less than half the 2 percent target — the operative risk was undershooting rather than overshooting. This member noted that wage pressures appeared muted, that the Beige Book described only 'some broadening of price pressures in the service sector' against a backdrop of stable, increasingly promotional retail pricing, and that inflation momentum at -0.055 pointed to pressures easing further. On this reading there was no elevated upside inflation risk to lean against and therefore no case for a



hike, while a cut was in any event unavailable at the effective lower bound.

The participant most focused on employment emphasized that unemployment at 6.7 percent remained well above the 5.5 percent natural rate, so that substantial labor-market slack persisted and the employment concern was real. This member nonetheless stressed that the rate was already at its floor, leaving essentially no conventional room to ease further, and that the incoming labor data — jobless claims of 323,000, gradual improvement reported in the Beige Book, and unemployment momentum of -0.25 — described a labor market that was healing rather than collapsing. On this view, holding at the floor was itself the most employment-supportive stance available through the funds rate, and the weather-driven softness in retail, autos, and the Chicago Fed index at -0.39 read as transitory rather than a fundamental deterioration warranting a policy response.

The participant attentive to financial stability reported that every relevant indicator pointed to exceptional calm: a financial stress index of 0.0, a VIX of 14.47, a Baa spread of 2.37, and a steeply positive 10-year/2-year spread of 2.36 with no inversion. This member noted the Beige Book's account of weaker household loan demand alongside little change in credit standards and steady-to-declining delinquencies, and found no evidence of spread widening, systemic strain, or market disruption that would argue for a move in either direction. The participant anchored in market signals reinforced this reading, pointing to the 3-month T-bill spread of -0.075 as evidence that short-end pricing was consistent with continuity of the current range and that markets were not pricing any near-term move. The data-dependent participant summarized the convergence: both mandate gaps — inflation below target and unemployment above the natural rate — pointed the same way, and the literal consensus reading was to hold.

When the discussion turned to the framework's loss-minimizing recommendation, participants found that their independent reasoning aligned closely with the mechanical output. Several members were most persuaded by the ELB-adjusted rule, which they judged to capture directly the binding constraint of the effective lower bound at an estimated r^* of -0.5 percent; others found the Taylor rule and Balanced Approach rule most compelling, noting that a large employment gap and sub-target inflation both pinned the prescription at the floor. Participants regarded the fourfold convergence of the reference rules, judged reliable, as a robust signal that the 0 bps call was not an artifact of any single specification. The inflation-focused member characterized the appropriate posture as watchful holding that preserved optionality to tighten once inflation genuinely climbed toward 2 percent, while the employment-focused member framed the same hold as preserving maximum accommodation given the binding lower bound.



Across both the predictive and optimal-framework rounds, no participant advanced an argument for a change in the target range, and none was persuaded to revise. Participants repeatedly cautioned against treating the weather-distorted Beige Book softness as signal rather than transitory noise, agreeing that reacting to it in either direction would be unwarranted. The recurring theme was that markets, the reference rules, and each member's distinct lens independently pointed to the same conclusion — a convergence the market-signal member described as meaningful precisely because market pricing validated the loss-minimizing math from an entirely separate direction.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members arrived independently at +0 bps, and the final predictive vote was unanimous to maintain the target range for the federal funds rate at 0.0 to 0.25 percent (5 members for, 0 against). On the framework's loss-minimizing 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 recorded optimal-side tally was thus 5 endorse, 0 decline, 0 partial, consistent with the unanimous predictive vote.