



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$4,011.5 billion as of the April 23 release, the most recent available on or before the point-in-time-safe cutoff. Of that total, Treasury notes and bonds accounted for \$2,232.0 billion and agency mortgage-backed securities for \$1,639.1 billion. Holdings rose by \$10.6 billion from the prior release of April 16, reflecting the continued measured accumulation of securities. The staff noted that these figures describe SOMA holdings only — the total size, composition, and week-over-week change — and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; discussion in this section was accordingly confined to the outright holdings data.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity appeared to be firming after the disruptions of the winter. Core PCE inflation on a twelve-month basis stood at 1.08 percent, well short of the Committee's 2 percent objective and consistent with a period of persistently soft price pressures. The unemployment rate was 6.7 percent, above the estimated natural rate of 5.5 percent, indicating that meaningful slack remained in the labor market. Initial jobless claims of 304,000 were relatively low, and the Chicago Fed National Activity Index at 0.2 pointed to growth modestly above trend. The Employment Cost Index was reported at 120.1 and M2 money supply at \$11,160.8 billion.

The most recent Beige Book, drawn from the Second District, described a rebound in activity as harsh winter weather abated. Prices of finished goods and services were characterized as generally stable, though businesses across a broad range of sectors reported upward pressure on input prices. Manufacturers and, especially, service-sector firms said activity had picked up in recent weeks, and labor market conditions showed signs of firming in both sectors. General merchandise retailers and auto dealers reported that sales had rebounded strongly in March following a weather-related slump earlier in the year, with several contacts noting same-store or new-vehicle sales at or close to plan and up from comparable 2013 levels. Housing and commercial real estate markets were described as mixed but somewhat improved on balance. Banks reported increased loan demand from the commercial sector, little change in credit standards, and across-the-board declines in delinquency rates.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and accommodative. The financial stress index stood at 0.024, near the low end of its range, and the VIX at 13.27 pointed to subdued market volatility. The Baa corporate spread of 2.15 indicated tight credit conditions and ready access to borrowing, and the 10-year/2-year Treasury spread of 2.27 was steeply positive, offering no signal of recession from



the shape of the yield curve. The 3-month T-bill spread relative to the current policy rate was -0.095, a small negative gap consistent with market expectations of no near-term change in the target range. Taken together with the Beige Book's report of rising loan demand and falling delinquencies, the financial picture showed no sign of systemic strain or credit dislocation.

STAFF ECONOMIC OUTLOOK

The staff outlook pointed to a continuation of the gradual improvement evident in the incoming data rather than to any abrupt shift in conditions. The estimated neutral real rate (r^*) of -0.5 percent implied that the current 0.0 to 0.25 percent target range represents only modest accommodation relative to a deeply negative neutral level, so the existing stance was unlikely to prove overly stimulative on its own terms. Inflation momentum of -0.025 suggested that price pressures were drifting slightly lower rather than converging toward the 2 percent objective, indicating that any return of inflation to target would likely be slow. Unemployment momentum of -0.15 pointed to continued but gradual reduction of labor market slack, consistent with the firming described in the Beige Book but not with a rapid closing of the gap to the 5.5 percent natural rate.

The reference rules reinforced this reading. The Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule each output 0 basis points, and the rule set was judged reliable this meeting. The unusually clean convergence across rules that weight the mandate gaps differently suggested that, under a range of reasonable specifications, the projected path of conditions did not call for a change in the policy rate. On these inputs, the staff projection implied a likely continuation of soft-but-stable inflation and slowly narrowing labor slack, with the effective lower bound binding on the downside and no near-term basis for tightening.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their independent opening assessments, all five participants arrived at the same predictive conclusion — no change to the 0.0 to 0.25 percent target range — though each reached it through the lens of a different mandate priority. The participant most attentive to inflation risk observed that, while overheating is typically the concern, the risk here ran clearly to the downside: with core PCE at 1.08 percent, nearly a full point below target, there was no case for a hike, and with the rate already at its floor, no conventional room to cut. The participant focused on the labor market noted that unemployment at 6.7 percent still exceeded the 5.5 percent natural rate, leaving substantial slack, but emphasized that the data showed labor healing rather than deteriorating — jobless claims were low at 304,000 and the Beige Book reported firming conditions across manufacturing and services — so the usual impulse toward further easing had no basis, particularly with the rate lever already exhausted at the floor.



The participant attentive to financial stability found no systemic strain to act against: the stress index at 0.024 and the VIX at 13.27 signaled calm, tight Baa spreads pointed to easy credit, and the steeply positive yield curve gave no recession warning. This participant did flag, as a watch item rather than a trigger, that very low volatility and tight spreads can reflect complacency that becomes a stability concern over time — but stressed that complacency is not stress and did not warrant a move now. The participant weighing market signals most heavily pointed to the slightly negative 3-month T-bill spread as evidence that markets anticipated no near-term policy change, and to the non-inverted curve as evidence of no urgency to cut. The centrist read the indicators at face value and found that both mandate gaps pointed the same way — toward continued accommodation and against any hike.

In the rebuttal round, no participant was moved from the initial position; instead, several observed that the others' arguments reinforced rather than challenged their own reading. The inflation-focused participant noted that the downside inflation risk removed any case for tightening, the labor participant that the collective evidence of firming removed any basis for pressing further easing, and the financial-stability participant that the convergence of the other four on holding was consistent with a benign, non-frothy financial picture. The predictive vote closed unanimously at 0 basis points.

When the discussion turned to the framework's optimal recommendation, the participants' independent reasoning again converged on holding. The framework's 0 basis point recommendation rested on an r^* of -0.5 percent, inflation momentum of -0.025, unemployment momentum of -0.15, and the four reference rules all reading 0 basis points. Different participants found different rules most persuasive: the inflation-focused member was drawn to the Taylor rule's symmetric balancing of the inflation gap and employment slack, arguing that both gaps counseled against tightening and that hiking into a 1.08 percent inflation reading would risk overtightening. The labor participant and the market-signal participant both found the ELB-adjusted rule most directly relevant, since it recognized the binding lower bound and the absence of any conventional easing still available. The centrist highlighted the Balanced Approach rule as matching a stance with no lean toward either mandate side, and treated the clean convergence of all four rules as itself a strong signal.

Across the optimal-framework rounds, participants also connected the low r^* to the character of the current stance, noting that a deeply negative neutral real rate means the 0.0 to 0.25 percent range is only modestly accommodative rather than aggressively so. The inflation-focused participant reiterated a forward-looking caution — the Beige Book's report of upward input-price pressure and firming labor was something to watch, and if inflation began climbing toward 2 percent alongside a tightening labor market, this member indicated a readiness to push for tightening sooner than most. The financial-stability participant repeated the mild watchfulness about froth beneath calm markets. But no



participant treated either concern as a present trigger, and each concluded that a rate move now would be gratuitous, injecting needless uncertainty into orderly markets with no stress to soothe and no overheating to cool.

COMMITTEE POLICY ACTIONS

The Committee's predictive vote was unanimous: all five participants supported holding the target range for the federal funds rate at 0.0 to 0.25 percent, a tally of 5 to 0. On the framework's 0 basis point recommendation, the outcome was likewise full agreement — the inflation hawk, labor market dove, financial stability voice, data-dependent centrist, and market signal realist each endorsed the recommendation as-is, with no members declining and none registering partial agreement, for a final optimal-side tally of 5 endorse, 0 decline, 0 partial.