



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$4,222.3 billion as of March 11, 2015, unchanged from the prior release on March 4. The portfolio remained divided between \$2,346.7 billion in Treasury notes and bonds and \$1,740.3 billion in agency mortgage-backed securities. With no week-over-week change recorded, the balance sheet was effectively flat over the interval. Members were reminded that this account covers SOMA holdings only — total size, composition, and the change from the preceding release — and does not capture repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available; accordingly, the staff review of open market operations here is confined to the securities portfolio itself.

STAFF REVIEW OF THE ECONOMIC SITUATION

Labor market conditions remained firm. The unemployment rate stood at 5.5 percent, essentially at the staff's estimate of the natural rate of 5.39 percent, and initial claims for unemployment insurance held at a moderate 320,000, showing no sign of deterioration. The Chicago Fed National Activity Index at 0.13 was consistent with growth near its trend pace. On the price side, core PCE inflation registered 1.06 percent on a twelve-month basis, roughly a full percentage point below the Committee's 2 percent objective. The Employment Cost Index reading of 122.9 pointed to gradual, rather than rapid, firming in labor compensation. M2 stood at \$11,701.1 billion.

The most recent Beige Book material described economic activity in the reporting District as having increased at a moderate pace since the prior report. Retail contacts indicated that sales during the first two months of the year had stayed the same or increased relative to a year earlier, and reports from auto dealers were generally positive, with some shift toward new and higher-end vehicles. Manufacturing and service-sector reports were positive on net: producers in apparel, automobile, aerospace, and chemical industries announced hiring and expansion plans, while firms in electronic equipment, primary metals, and publishing reported layoffs or facility closures. Lending activity had increased at a sample of District banks. Over the prior three months, wages were characterized as having grown moderately, while employment and prices charged to consumers grew modestly.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm across the indicators reviewed. The financial stress index at 0.081 sat near the low end of its range, and the VIX at 16.87 pointed to subdued equity-market volatility. Corporate credit conditions appeared untroubled, with the Baa spread over Treasuries at 2.45, a moderate level showing no sign of borrowing-cost strain. The Treasury yield curve was comfortably positive, with the 10-year/2-year spread at 1.41 and no indication of inversion. At the short end, the



3-month T-bill was quoted 0.105 percentage point below the current policy rate; the staff noted that this slightly negative spread was too shallow to signal stress and, with the target range already pinned at its floor, was most naturally read as markets expecting no near-term move in policy.

STAFF ECONOMIC OUTLOOK

The staff projection took as its anchor an estimated neutral real rate (r^*) of -0.5 percent, implying that the current nominal target range of 0 to 0.25 percent was less accommodative in real terms than its level alone might suggest. With inflation momentum essentially flat at -0.005 and no sign of an emerging price acceleration, the near-term inflation path was projected to remain below the 2 percent objective absent a change in the underlying trend. Unemployment momentum of -0.15 indicated continued gradual improvement in the labor market, consistent with joblessness holding near or edging below the estimated natural rate rather than reversing course.

All four reference rules considered by the staff — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — returned an identical prescription of no change from the current range, and the staff judged these rules reliable under present conditions. Taken together, the negative neutral rate, soft-but-stable inflation momentum, still-improving labor momentum, and the effective lower bound constraint implied a path in which policy could remain at its current setting without generating either an inflation overshoot or a shortfall in labor progress over the projection horizon. The staff outlook thus pointed to conditions evolving gradually rather than requiring a shift in either direction in the period immediately ahead.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their opening assessments, participants converged quickly on the view that neither mandate leg called for action at this meeting, though they arrived there from distinct starting points. The member most attentive to inflation risk observed that, with core PCE at 1.06 percent — roughly a percentage point below target — there was simply no upside inflation threat to lean against. This member emphasized that the case for a preemptive hike would have to rest on visible wage-price pressure, and that the ECI reading of 122.9 together with the Beige Book's characterization of 'moderate' wage growth and 'modest' consumer price gains reflected only gradual firming, not an incipient breakout. Slack having largely closed, with unemployment at 5.5 percent against a 5.39 percent natural rate, built a case for future normalization but was not itself proof of overheating.

The member focused on employment approached the question from the opposite side, looking first for any sign of labor-market deterioration that might warrant support. Finding none — unemployment near the natural rate, claims steady at 320,000, and Beige Book hiring and expansion plans across



manufacturing and services with layoffs confined to a few sectors such as electronics, primary metals, and publishing — this participant concluded there was no basis to ease further, particularly with the target range already at its floor. The employment-focused logic, this member noted, actually pointed toward holding: policy remained supportive of continued labor gains, and there was no weakening that would require additional accommodation. The member attentive to financial stability reinforced this reading, noting that every relevant indicator — a stress index at 0.081, a VIX at 16.87, a Baa spread of 2.45, and a positively sloped curve at 1.41 — signaled calm rather than strain, so that no systemic condition demanded emergency action in either direction. This participant cautioned specifically that a surprise hike into soft inflation could tighten currently untroubled credit conditions against market expectations.

The member weighing market-implied pricing drew particular attention to the 3-month T-bill sitting 0.105 percentage point below the current rate, reading it as markets pricing no near-term move; with rates already at the floor, the negative spread was too shallow to imply either stress or easing expectations. The centrist member, favoring the most literal reading of the indicators, found the data sitting squarely between the mandates — soft inflation removing the case to tighten, a firm labor market removing the case to ease — and judged a patient hold the most data-supported outcome. Across the predictive rounds no participant was moved off this position; the several lenses reinforced rather than challenged one another, and the group's rebuttals largely restated why the symmetry of soft inflation and firm employment left no pull toward action.

When the discussion turned to the optimal-policy framework, participants found their independent judgments confirmed by the mechanical rules and the loss-minimizing recommendation, all of which pointed to no change. Several members singled out the ELB-adjusted rule as most persuasive: with the range pinned at the effective lower bound, conventional easing was not available regardless of inflation softness, so holding was optimal by construction. The estimated neutral rate of -0.5 percent featured prominently in the reasoning — participants noted that a negative real neutral rate meant the current stance was already accommodative relative to neutral and less loose than its nominal level implied. Inflation momentum at -0.005 was read as flat-to-falling, removing any argument for preemptive tightening, while unemployment momentum of -0.15 confirmed continued improvement without overheating. The inflation-focused member reiterated that a firming of inflation toward 2 percent alongside accelerating wages would prompt a push for a first move at a subsequent meeting, but saw no such trigger now.

Participants generally judged that the convergence of their differing frameworks on the same conclusion strengthened rather than merely echoed the case for patience. The employment-focused



member stressed that hiking would risk the very labor gains being prioritized, while cutting was both impossible at the floor and unwarranted given firm data. The stability-focused member and the market-signal member each concluded that holding avoided shocking calm, patiently priced conditions. In the final rebuttals, no participant reported a changed emphasis; each described the others' arguments as reinforcing their own read. The prevailing sense was that the current 0 to 0.25 percent stance remained appropriately calibrated — accommodative enough given below-target inflation and the lower-bound constraint, yet not so loose as to stoke financial excess — while the Committee awaited clearer evidence of inflation returning toward its objective.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members supported maintaining the target range at 0 to 0.25 percent, a unanimous vote recorded as 5 to 0 for no change. On the framework's loss-minimizing recommendation of 0 bps, the Committee was likewise in full agreement: all five members — the inflation-focused member, the employment-focused member, the financial-stability member, the data-dependent centrist, and the market-signal member — endorsed the recommendation as presented, with none declining and none registering only partial agreement. The predictive judgment and the optimal-side outcome thus coincided exactly, and the Committee agreed to maintain the existing target range.