



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$4,229.7 billion as of the July 22 release, the most recent available on or before the point-in-time-safe cutoff. Composition was split between Treasury notes and bonds at \$2,346.6 billion and agency mortgage-backed securities at \$1,749.5 billion. The portfolio rose by \$4.8 billion from the prior release of July 15, a modest week-over-week change. Staff noted that this review covers SOMA holdings only — total size, composition, and the change from the previous release — and does not extend to repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

Core PCE inflation stood at 0.98 percent on a twelve-month basis, roughly half the Committee's 2 percent objective. Labor market indicators pointed to conditions close to full employment: the unemployment rate was 5.3 percent, essentially in line with the estimated natural rate of 5.38 percent, and initial jobless claims were low at 281,000. The Employment Cost Index registered 123.6, showing no evident acceleration in labor costs. The Chicago Fed National Activity Index was -0.17, indicating growth modestly below its historical trend. M2 money supply was \$11,982.4 billion.

The Beige Book characterized economic activity in the reporting District as having increased at a moderate pace since the previous report, with most businesses citing improving sales and mostly positive plans for future activity. Residential housing conditions continued to improve at a steady pace, and commercial construction contacts noted a backlog of projects. A survey of small to medium-size District banks indicated strong growth in bank lending. Consumer spending grew at a modest pace, with most contacts reporting year-to-date sales at or above the prior year's figures; several retailers and restaurants cited sustained demand as a reason for expansion. Reports on manufacturing plans were generally positive, with firms in furniture, fabricated metal products, plastics, machinery, and transportation equipment describing plans to hire and expand, though a few chemical and primary metal producers reported planned layoffs or closures. Weakness was concentrated in natural resources and agriculture, where persistent wet weather deteriorated crop conditions and coal production continued to decline.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were broadly calm and accommodative. The financial stress index was very low at 0.075, and the VIX stood at 12.12, consistent with subdued market volatility. The Baa corporate spread was moderate at 2.87, indicating no evident widening or distress in credit markets, a reading that aligned with the Beige Book's report of strong bank lending. The 10-year/2-year Treasury yield curve



spread was positive at 1.58, showing no inversion and no term-structure signal of near-term recession. The 3-month T-bill spread relative to the current policy rate was slightly negative at -0.095, indicating that money markets were not pricing an imminent change in the policy rate.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on several forward-looking quantities. The estimated neutral real rate (r^*) was -0.5 percent, implying that the current 0.0 to 0.25 percent target range is not meaningfully restrictive and that a negative neutral real rate would continue to warrant accommodative policy simply to keep conditions at neutral. Inflation momentum was estimated at -0.08, suggesting price pressures were drifting modestly away from rather than toward the 2 percent objective in the near term. Unemployment momentum was 0.0, consistent with a labor market that had largely closed its slack but showed no further tightening pressure building.

All four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — pointed to no change in the policy rate, and the rules were judged reliable under current conditions. Taken together, these inputs implied a projected path in which policy remains near the effective lower bound in the near term, with the timing of any eventual move contingent on inflation firming toward target rather than on further labor market improvement, which appeared largely complete. The staff projection thus embodied continued accommodation with limited near-term impetus for either tightening or easing.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the meeting from distinct analytical lenses but arrived at a common near-term read. All agreed that the labor market had effectively met its side of the conditions the Committee had previously laid out for beginning to remove accommodation: the unemployment rate at 5.3 percent was essentially at the 5.38 percent estimated natural rate, and jobless claims at 281,000 signaled continued hiring strength rather than deterioration. The Beige Book's descriptions of firms adding workers, expanding operations, and opening new facilities reinforced this view of solid labor demand.

The point of shared restraint was inflation. Core PCE at 0.98 percent was roughly half the 2 percent objective, and with no evident acceleration in the Employment Cost Index, participants judged that the 'reasonable confidence' condition for inflation returning toward target had not yet been satisfied. The member most attentive to inflation risk emphasized that this discipline cuts symmetrically — the same framework that would justify tightening when inflation risk is elevated gives no basis for a preemptive move when price pressures are soft and, by the momentum estimate of -0.08, still drifting lower. That



participant characterized the prior liftoff criteria as conjunctive: labor improvement and inflation confidence, with only the former near-met. The member focused on employment made a complementary point from the other direction, noting that with no rising unemployment or slowing job growth there was no trigger for easing, and that premature tightening into sub-target inflation would needlessly risk employment gains.

The participant attentive to financial stability observed that conditions were calm rather than stressed — a stress index of 0.075, a VIX of 12.12, a moderate Baa spread of 2.87, and a positively sloped yield curve at 1.58 — and reasoned that while these conditions could absorb a first move without disruption, nothing on the stability side compelled action either way. That member cautioned that a hike with inflation under 1 percent could tighten credit spreads unnecessarily and disturb otherwise orderly markets. The market-focused participant weighted the slightly negative 3-month T-bill spread of -0.095 most heavily, reading it as clear evidence that money markets did not anticipate an imminent move, so that holding avoided a surprise while liftoff remained ahead. The data-dependent member, disclaiming any mandate bias, described the literal consensus reading as a hold: with only one of two stated conditions satisfied, a first move now would be inconsistent with prior guidance, and with growth moderate and no recession signal, there was no case for easing either.

In the subsequent discussion oriented around the loss-minimizing framework, participants found that their independent reasoning aligned with the framework's recommendation. Several noted that the estimated neutral real rate of -0.5 percent meant the current range was not especially accommodative — holding was not a matter of being behind the curve so much as recognizing that neutral itself sat below zero in real terms. The ELB-adjusted rule drew particular attention from the members attentive to inflation, stability, and market signals, who noted that near the effective lower bound with subdued inflation it confirmed that holding was optimal and that no further cut was available. Others found the Taylor and Balanced Approach rules most persuasive: with inflation far below target and unemployment near neutral, even a rule weighting the employment gap heavily prescribed no move. The convergence of all four reference rules, judged reliable this meeting, was read as corroborating rather than dictating the participants' judgment.

Across both the predictive and framework-oriented rounds, no participant was persuaded to revise. Each explicitly noted that the arguments of the others reinforced rather than altered an independently reached conclusion. Participants generally judged that the appropriate posture was patient rather than passive: preserving accommodation to support continued labor gains and orderly credit markets while awaiting clearer confirmation that inflation was moving back toward 2 percent before considering a first step in removing accommodation.

**COMMITTEE POLICY ACTIONS**

In the predictive vote on the appropriate policy action for this meeting, all five members supported no change to the target range, leaving it at 0.0 to 0.25 percent — a unanimous 0 basis point outcome. On the framework's loss-minimizing recommendation of 0 basis points, the Committee was likewise in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial support. The predictive and optimal-side outcomes thus coincided completely.