



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of September 9, 2015, total SOMA domestic securities holdings stood at \$4,217.0 billion, comprising \$2,346.6 billion in Treasury notes and bonds and \$1,736.7 billion in agency mortgage-backed securities. This represented no change from the prior release of September 2, 2015. The staff noted that this review covers SOMA holdings only — their total size, composition, and week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that labor market conditions had continued to firm. The unemployment rate stood at 5.1%, essentially at the estimated natural rate of 5.06%, and initial jobless claims remained low at 275,000, consistent with a stable, healthy labor market. The Chicago Fed National Activity Index registered a positive 0.34, pointing to above-trend growth in overall activity. The Employment Cost Index came in at 123.8. Inflation, by contrast, remained subdued: core PCE inflation was running at 1.06% on a year-over-year basis, well below the Committee's 2% objective. M2 money supply stood at \$12,138.3 billion.

The most recent Beige Book, drawn from the Eighth District, described economic activity as continuing to increase at a moderate pace. A survey of about 150 District businesses indicated moderate wage growth and modest gains in employment and prices; fifty-nine percent of contacts reported higher wages over the past three months while thirty-eight percent reported them unchanged, and about half reported prices charged to customers as roughly the same as a year earlier. Two-thirds of hiring managers were actively looking for employees, with one construction contact noting a limited talent pool for skilled positions. Retail and auto sales were generally at or above year-earlier levels, though many retailers observed that sales fell short of their expectations. Reports from manufacturers were mixed, banks reported increased lending activity over the past three months, and real estate conditions continued to improve at a steady pace. Agricultural and natural resource conditions remained weak, with crop conditions deteriorating and coal production declining.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions presented a mixed picture. The financial stress index was contained at 0.123, and the yield curve remained comfortably positive, with the 10-year/2-year spread at 1.48 — no sign of inversion or a near-term recession signal. At the same time, the VIX stood at an elevated 24.37, signaling meaningful market volatility and risk aversion. The Baa corporate spread over Treasuries was



moderately wide at 3.1, indicating some borrowing-cost stress without acute distress. The 3-month T-bill spread relative to the current target rate was negative at -0.095, suggesting safe-haven demand at the front end and no near-term firming priced in by markets.

STAFF ECONOMIC OUTLOOK

The staff outlook was constructed around the real forward-looking quantities available for this meeting. The estimated neutral real rate (r^*) was -0.5, implying that the current 0.0% to 0.25% target range is considerably less accommodative than its nominal level might suggest, since the neutral rate against which policy is measured is itself very low. Inflation momentum was slightly negative at -0.025, indicating that core prices were drifting away from the 2% objective rather than firming toward it — a projection consistent with the observed 1.06% core PCE reading persisting or easing further absent a new impulse. Unemployment momentum was -0.1, pointing to continued gradual absorption of remaining slack even with the unemployment rate already at the natural rate; the staff read this as ongoing labor-market healing without an accompanying acceleration in wage pressure.

All four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — prescribed a rate of 0 bps, and the rule outputs were judged reliable for this meeting. Taken together with a negative r^* and an unemployment gap that is roughly closed against a still-large inflation shortfall, these figures projected a policy path in which the effective lower bound continues to bind and no near-term tightening is warranted by the fundamentals. The staff projection thus pointed to conditions in which accommodation remains appropriate until inflation shows a durable turn toward target.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their independent opening positions, all five participants arrived at the view that the current 0.0% to 0.25% target range should be maintained, though they reached that conclusion through distinct lenses. Participants generally judged that the labor-market condition for beginning to normalize policy — some further improvement — had been largely satisfied, citing unemployment at 5.1% against a natural rate of 5.06% and low initial claims of 275,000. At the same time, they uniformly regarded the inflation condition as unmet, pointing to core PCE at 1.06%, well below the 2% objective, and to the prior meeting's conditional guidance that a move await reasonable confidence that inflation would return to target. As one participant focused on inflation risk observed, there was no upside price pressure demanding tightening and no inflation overshoot to lean against; moderate Beige Book wage growth and the observation that about half of contacts held prices flat reinforced that read.



A participant weighing employment risk most heavily emphasized that neither of the conditions that would justify easing — rising unemployment or slowing job growth — was present, so a cut was unwarranted; equally, subdued inflation and elevated volatility removed any employment-based case for a hike. A participant focused on financial stability drew particular attention to the elevated VIX at 24.37, the moderately wide Baa spread of 3.1, and the negative 3-month T-bill spread of -0.095, arguing that hiking into such conditions risked converting soft market unease into hard financial stress, even as the contained stress index and positive yield curve indicated no acute distress. A participant emphasizing market-implied pricing treated the negative bill spread as the strongest single tell that markets were not positioned to absorb a move, a point the stability-focused participant found complementary to their own concern. The data-dependent participant characterized holding as the literal, consensus-consistent reading of a mandate in which the labor side was roughly satisfied but the inflation side clearly was not.

In the rebuttal round, no participant was persuaded to revise. Each reaffirmed that the arguments of the others reinforced rather than altered their framework: the hawkish inflation read, the employment read, the stability read, the market read, and the centrist read all converged on the same +0 bps conclusion from different directions. Participants noted that the Chicago Fed index at 0.34 and the non-inverted yield curve at 1.48 confirmed the absence of any recession signal that might argue for easing, while the persistent inflation shortfall confirmed the absence of any case for tightening.

Turning to the optimal-policy framework, participants examined the deterministic engine's 0 bps recommendation and its underlying quantities. Several found the estimated r^* of -0.5 especially informative, noting that a negative neutral real rate meant the current range was barely accommodative and that the effective lower bound still effectively binds. The participant focused on inflation and the data-dependent participant were both most persuaded by the Taylor rule's logic, under which the large inflation gap dominates the roughly closed unemployment gap and keeps the prescribed rate at the floor. The employment-focused participant leaned on the Balanced Approach rule, which weights the employment gap heavily alongside inflation and nonetheless netted to holding given the deep inflation shortfall. The stability-focused participant and the market-signal participant both found the ELB-adjusted rule most compelling, consistent with a negative r^* and inflation short of target.

Across both the rebuttal on the optimal case and their final reasoning, participants stressed the clean convergence between the four reference rules — all printing 0 bps and judged reliable — the loss-minimizing recommendation, and their own predictive votes. The negative inflation momentum of -0.025 and negative unemployment momentum of -0.1 were read as indicating continued slack



absorption without wage-price acceleration, reinforcing the judgment that premature tightening would risk deepening the inflation undershoot. Participants concluded that maintaining the current stance preserved optionality to move once volatility subsided and inflation firmed toward the 2% objective, and that the alignment of fundamentals, market signals, and rule outputs made holding the appropriate call this meeting.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision, all five participants supported maintaining the target range for the federal funds rate at 0.0% to 0.25%, a unanimous 5-to-0 outcome with no participant favoring a hike or a cut. On the optimal-policy framework's recommendation of 0 bps, the Committee's recorded stance was likewise unanimous: all five members — the inflation-focused participant, the employment-focused participant, the financial-stability-focused participant, the data-dependent participant, and the market-signal participant — endorsed the recommendation as-is, with none declining and none registering only partial agreement. The predictive decision and the optimal-side outcome were therefore in full agreement.