



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account held \$4,234.5 billion in domestic securities as of October 21, 2015, according to the most recent release available at the point-in-time-safe cutoff. Holdings comprised \$2,346.6 billion in Treasury notes and bonds and \$1,755.2 billion in agency mortgage-backed securities, with the remainder in other domestic securities. Total holdings declined by \$2.3 billion from the prior release of October 14. The manager noted that these figures cover SOMA securities 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; those operations were therefore not reflected in the review provided to the Committee.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to an economy expanding at a moderate but uneven pace. Core PCE inflation stood at 1.09 percent on a year-over-year basis, well short of the Committee's 2 percent objective. The unemployment rate was 5.1 percent, essentially level with the estimated natural rate of 5.05 percent, and initial jobless claims remained low at 255,000. Against these signs of a firm labor market, the Chicago Fed National Activity Index registered -0.41, consistent with growth running somewhat below trend. The Employment Cost Index reading of 123.8 gave no indication of accelerating compensation costs, and M2 stood at \$12,196.2 billion.

Beige Book reports described economic activity increasing at a modest pace. Employment grew modestly, but contacts across many industries reported persistent difficulty finding and retaining workers, with manufacturers in rural areas and firms in trucking and transportation citing shortages of qualified operators and technicians. Wage and salary adjustments were reported around 2 percent, and one contact observed that workers were changing jobs to obtain higher pay. Retailers and auto dealers reported higher sales overall, though some retailers noted a slight slowdown late in the summer and reports from auto dealers were mixed. Bank loan growth remained strong but had slowed from the prior report, and real estate conditions continued to improve as home sales and permits rose in most areas. On prices, contacts noted that lower fuel prices had reduced fuel surcharges and that falling crop prices were putting downward pressure on farm incomes and on prices for agriculture-related consumer goods.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were broadly calm. The financial stress index was low at 0.105, and the VIX, at 16.7, was moderate. The Baa corporate bond spread over Treasuries was somewhat wide at 3.29, suggesting modest credit-cost caution without approaching stress-level widening. The yield curve remained



positively sloped, with the 10-year/2-year spread at 1.4, providing no recession signal from the term structure. The 3-month Treasury bill traded 0.105 percentage point below the current target range midpoint, indicating that market participants were not pricing an imminent policy move.

STAFF ECONOMIC OUTLOOK

The staff outlook pointed to continued gradual normalization pressures without near-term urgency in either direction. The estimated neutral real rate (r^*) of -0.5 percent implied that the current 0.0 to 0.25 percent target range was only modestly accommodative rather than sharply stimulative, so that holding the stance would not by itself risk overheating. Inflation momentum was slightly positive at 0.08, consistent with prices stabilizing near current low levels rather than accelerating toward target over the projection horizon; falling fuel and crop prices were expected to continue exerting near-term downward pressure. Unemployment momentum of -0.2 suggested the jobless rate was likely to edge lower still, though the below-trend reading of the Chicago Fed activity index was a caution that growth momentum could soften before feeding through to the labor market.

The reference-rule suite reinforced this reading. The Taylor, Balanced Approach, First-Difference, and ELB-adjusted rules each prescribed no change, and the rules were judged reliable this meeting. With inflation well below target and unemployment essentially at its natural rate, the rule prescriptions converged on maintaining the current range, and the negative r^* estimate implied that the effective lower bound remained a binding consideration in that calibration. The staff projection thus described a path in which conditions gradually firm but inflation returns to target only slowly, with the current stance appropriately positioned pending clearer evidence of that return.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally agreed that the labor market had reached or nearly reached full employment while inflation remained conspicuously short of the Committee's objective. Several observed that the unemployment rate at 5.1 percent sat essentially at the 5.05 percent natural-rate estimate, and that jobless claims of 255,000 pointed to continued strength rather than any deterioration. Beige Book evidence of widespread hiring difficulty—including reports from rural manufacturers and from the transportation sector—was cited as consistent with a tight labor market. At the same time, participants emphasized that core PCE inflation of 1.09 percent lay well below 2 percent, that market-based inflation compensation was described as declining, and that falling fuel and crop prices were adding to near-term disinflation.

One participant, approaching the question from an inflation-focused perspective, noted that the usual bias toward leaning against price pressure presupposed elevated inflation risk that was simply not



present in the data. This participant judged that full employment together with roughly 2 percent wage adjustments and reported hiring difficulties represented the strongest case for eventual liftoff, but characterized that as prospective rather than present inflation risk—reinforced by an Employment Cost Index reading showing no acceleration and by a Chicago Fed activity index at -0.41 signaling below-trend growth. On that reasoning the participant concluded that a hike would be premature by the Committee's own conditional standard, which requires reasonable confidence that inflation is moving back toward 2 percent, and favored holding while preserving readiness to act once inflation signals firm.

A participant weighting labor and employment risk most heavily reached the same conclusion from the other direction. With unemployment at the natural rate and claims low, this participant saw no employment shortfall to rescue and thus no basis for easing, while inflation running well under target ruled out tightening; the below-trend activity reading was flagged as a caution to watch rather than a present threat to jobs. A participant focused on financial stability likewise found no trigger for action: the stress index at 0.105 and a moderate VIX indicated calm markets, and while the Baa spread of 3.29 was somewhat wide and worth monitoring, it did not approach dysfunction. This participant cautioned that a premature hike into wider credit spreads and lingering global risks could tighten financial conditions disruptively—precisely the outcome to be avoided—and noted that the negative 3-month bill spread meant a move would surprise markets. A participant emphasizing market signals agreed, observing that if markets expected a near-term hike, short bills would trade above rather than below the current range.

Turning to the framework, participants took up the deterministic policy engine's recommendation of no change and the four reference rules—Taylor, Balanced Approach, First-Difference, and ELB-adjusted—that each returned 0 basis points and were judged reliable. Participants found the convergence of independent methods reassuring. The estimated neutral real rate of -0.5 percent was cited repeatedly as evidence that the current range was barely accommodative rather than restrictive, so that holding involved little risk of overheating given inflation momentum of only 0.08 . Different participants leaned on different rules as most persuasive—some pointing to the Taylor logic that inflation far below target keeps prescribed policy at the floor, others to the ELB-adjusted rule as the one that best respects a negative neutral rate at the effective lower bound—but all arrived at the same destination.

In the final exchange no participant was moved from the hold position. The inflation-focused participant reiterated that premature tightening into sub-target inflation risked entrenching the undershoot most to be avoided. The labor-focused participant continued to watch the below-trend



activity index for any future sign of labor weakening, while noting that unemployment momentum of -0.2 indicated the jobless rate was still edging down. The stability-focused and market-focused participants reinforced one another, agreeing that acting against market pricing and into modestly wide credit spreads offered no offsetting benefit given the absence of inflation urgency. Participants generally judged that the current stance was correctly calibrated—neither behind nor ahead of the curve—and that patience pending clearer confirmation that inflation was returning toward 2 percent was warranted.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome with no member favoring a change. On the deterministic framework's recommendation of no change, the Committee was likewise unanimous: all five members—the inflation-focused, labor-focused, financial-stability, data-dependent, and market-signal participants—endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive and optimal-side outcomes were thus in full agreement.