



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account domestic securities portfolio stood at \$3,764.3 billion as of March 13, 2019, essentially unchanged from the prior week's release of March 6, when it registered a net increase of \$0.1 billion. The composition remained divided between Treasury notes and bonds, at \$2,022.7 billion, and agency mortgage-backed securities, at \$1,607.8 billion. The manager noted that this review covers SOMA holdings only — total size, composition, and the week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; accordingly, no such operational detail was reported to the Committee at this meeting.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity continued to expand in late January and February. According to the most recent Beige Book, ten Districts described slight-to-moderate growth, while two — Philadelphia and St. Louis — reported flat conditions. About half of the Districts attributed slower activity in some sectors to the government shutdown, with retail, auto sales, tourism, real estate, restaurants, manufacturing, and staffing services among those named. Consumer spending was mixed across the country, and several Districts pointed to harsh winter weather and higher credit costs as weighing on retail and auto sales. Manufacturing activity strengthened on balance, though numerous contacts voiced concern about weakening global demand, higher costs tied to tariffs, and ongoing trade policy uncertainty. Nonfinancial services expanded at a modest-to-moderate pace in most Districts. Residential construction was steady to slightly higher, but home sales were generally lower, with inventories rising slightly from historically low levels and prices appreciating at a somewhat slower pace. Agricultural conditions remained weak, and energy activity was mixed.

Labor market indicators remained strong. The unemployment rate stood at 3.8 percent, below the estimated natural rate of 4.6 percent, and initial jobless claims were low at 223,000. The Beige Book described tight labor markets across all skill levels, with notable worker shortages in information technology, manufacturing, trucking, restaurants, and construction, and it noted that shortages were restricting employment growth in some areas. Wages continued to rise for both low- and high-skilled positions, with a majority of Districts reporting moderately higher wages and about half noting increases in non-wage compensation such as bonuses and flexible arrangements. The Employment Cost Index registered 135.2. Against this backdrop of tightness, price pressures remained contained: core PCE inflation was 1.36 percent on a year-over-year basis, well below the Committee's 2 percent objective, and the Beige Book described prices as increasing at a modest-to-moderate pace, with input costs rising faster than selling prices in several Districts. The Chicago Fed National Activity Index came in at -0.43, consistent with growth running somewhat below trend.



STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and, on balance, somewhat easier than at the time of the prior meeting. The financial stress index was very low at 0.042, and the VIX stood at a subdued 13.41, indicating little market anxiety. Credit conditions showed no acute distress: the Baa corporate spread over Treasuries was moderate at 2.25. The term structure was notably flat, with the 10-year/2-year Treasury spread at just 0.16 — positive but thin — a configuration the staff flagged as a mild recession-risk signal worth monitoring. At the front end, the 3-month T-bill was only about 3.5 basis points above the current target range, indicating that market participants were pricing essentially no near-term change in the policy rate. M2 stood at \$14,465.9 billion.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on several quantities that together imply the current stance is modestly more restrictive than underlying conditions would warrant. The estimated neutral real rate (r^*) was placed at -0.5 percent; with core PCE inflation near 1.36 percent, the real policy rate implied by the current 2.25 to 2.50 percent target range sits meaningfully above that neutral benchmark. Inflation momentum was slightly negative at -0.065, pointing to price pressures that are softening rather than building, while unemployment momentum registered +0.1, a slight upward drift from an otherwise strong labor-market level. Taken at face value, these figures suggest that inflation is likely to remain below target for a time absent a policy adjustment, and that the labor market, while strong today, may be at the earliest stage of a turn.

The reference-rule outputs reinforced this reading, all pointing in the direction of easing. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed -75 basis points, driven principally by the shortfall of inflation from the 2 percent objective and the low estimated neutral rate; the First-Difference rule, which responds to momentum rather than the level of the gaps, prescribed -50 basis points. The reference rules were judged reliable for this meeting. The staff's loss-minimizing recommendation nonetheless tempered these signals to -25 basis points, reflecting that benign financial conditions and a still-low unemployment level argue against an abrupt move even as the balance of the projection leans toward accommodation.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive discussion, all five participants judged that holding the target range at 2.25 to 2.50 percent was the appropriate action for this meeting, and none was persuaded to revise that view in the subsequent round of rebuttal. The reasoning, however, ran along distinct lines that reflected each participant's characteristic emphasis. The participant most attentive to inflation risk observed that with



core PCE at 1.36 percent, well below the 2 percent objective, and with the Beige Book confirming muted price pressures despite tight labor markets, there was simply no case to tighten; at the same time, inflation only modestly soft against a very tight labor market — 3.8 percent unemployment versus a 4.6 percent natural rate — provided no warrant to ease. Holding, in this view, preserved optionality against inflation risk over the horizon.

The participant focused on the labor market reached the same conclusion by a different route. Employment showed no deterioration to react to: jobless claims at 223,000 were low, the Beige Book reported worker shortages across skill levels and broad wage gains, and employment rose in most Districts. This participant emphasized that the discipline of the mandate was to ease when jobs are genuinely at risk, and that trigger had not appeared; waiting preserved the flexibility to move decisively if claims or job growth turned. The participant attentive to financial stability likewise stressed that stress indicators were benign — the stress index at 0.042, the VIX at 13.41, and the Baa spread at 2.25 — and cautioned that a surprise cut into calm markets could itself prove destabilizing by signaling an alarm the data did not support. The data-dependent participant read the indicators literally and found nothing sharp enough to move in either direction, while the participant oriented to market signals noted that the near-flat T-bill spread and the thin 10-year/2-year spread priced neither a hike nor an imminent cut. Several participants noted as countervailing cautions the CFNAI at -0.43, the flat yield curve, the shutdown drag, and weakening global demand — real signs of growth softness, but not, in their predictive judgment, grounds for action.

When the discussion turned to the deterministic framework's loss-minimizing recommendation of -25 basis points, participants engaged seriously with why an easing step could be optimal even as they expected the Committee to hold. The inflation-focused participant reframed the analysis around downside risk: with inflation below target and momentum negative, and with prior minutes having flagged inflation compensation slipping, the binding concern became the possibility of expectations un-anchoring below 2 percent rather than overheating. On that framing, standing pat at a restrictive stance carried its own risk, and a single quarter-point move read as a measured insurance step rather than the lurch implied by the -75 basis point rules. The labor-focused participant highlighted the +0.1 unemployment momentum as precisely the kind of early drift that, beneath a strong headline, warrants a preemptive rather than reactive response, noting that with r^* near -0.5 percent the current real rate near 1 percent left the stance meaningfully tight.

Participants generally agreed on why the framework tempered the aggressive rule signals to a modest step. The financial-stability participant found the ELB-adjusted logic persuasive in principle — cushioning downside given a negative neutral rate — but insisted that benign markets made a -75 basis



point move jarring and unwarranted, so that a gentle quarter-point correction threaded the need to address excess restriction without shock. The market-signal participant favored the First-Difference logic, tempered downward by calm conditions, arguing that the deep-cut rules overweighted the large unemployment gap when muted inflation showed that gap was not feeding price pressure. The data-dependent participant characterized the gap between the Committee's hold and the framework's -25 basis points as exactly one increment — small, defensible, and consistent with a posture of patience in which the data justify easing but the case is not yet urgent.

Across the two strands of the discussion, a common thread emerged: participants viewed the current stance as modestly, but not acutely, too tight relative to fundamentals. Their predictive preference to hold reflected the absence of any realized deterioration or market stress that would force a move now, together with a reluctance to disturb calm conditions. Their analysis of the optimal framework, by contrast, acknowledged that sub-target inflation, negative inflation momentum, a slight upward drift in unemployment, a near-flat curve, and a low neutral rate all pointed in the direction of easing. Participants reconciled these by understanding the -25 basis point recommendation as a restrained, risk-managed correction — deep enough to begin addressing the mild restrictiveness the rules and the curve identified, shallow enough to respect the benign financial and labor readings that argued against alarm.

COMMITTEE POLICY ACTIONS

In the predictive vote on the action for this meeting, all five participants supported maintaining the target range for the federal funds rate at 2.25 to 2.50 percent; the vote was 5 to 0 to hold. Separately, on the deterministic framework's loss-minimizing recommendation of a 25 basis point cut, all five participants endorsed the recommendation as-is — a tally of five endorse, zero decline, and zero partial. The Committee thus recorded unanimity both in its predictive preference to hold at this meeting and in its judgment that, on the framework's loss-minimizing terms, a measured quarter-point easing represented the appropriate direction and magnitude given below-target inflation, a low estimated neutral rate, and benign financial conditions.