



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of October 23, 2019, total SOMA domestic securities holdings stood at \$3,584.9 billion, an increase of \$20.9 billion from the prior release of October 16. The composition was dominated by Treasury notes and bonds at \$1,960.2 billion and agency mortgage-backed securities at \$1,457.9 billion, with a comparatively small \$28.5 billion in Treasury bills. It was noted that this review is limited to SOMA holdings data — total size, composition, and week-over-week change — and does not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; accordingly, no characterization of those operations was undertaken.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that overall economic activity remained on solid footing, though with clear unevenness across sectors. Core PCE inflation was running at 1.48 percent on a twelve-month basis, well below the Committee's 2 percent objective. Labor market conditions continued to look strong: the unemployment rate was 3.5 percent, considerably below the estimated natural rate of 4.56 percent, and initial jobless claims were low at 214,000. The Chicago Fed National Activity Index at 0.1 was consistent with growth near trend, and the Employment Cost Index stood at 137.0. M2 money supply was reported at \$15,029.2 billion.

Drawing on Beige Book material, the staff described overall District activity as stable on balance, with reports varying by sector. Demand for professional and business services remained firm, boosted in part by customers seeking more consulting help amid heightened uncertainty. Home sales and auto sales rose over the period, aided by lower interest rates, while consumer spending on nondurable goods was flat. Slowing global growth and trade tensions continued to weigh on manufacturing, though output stabilized as some customers rebuilt inventories. Freight activity continued to fall. Employment was stable on balance but with mixed sector reports: some manufacturers froze hiring and reduced hours, and freight haulers cut headcounts to align resources to lower volumes, while professional and business services firms continued to add staff. Wages rose modestly amid persistently tight labor markets, and selling prices increased modestly as firms sought to offset higher labor and nonlabor costs.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and broadly accommodative. The financial stress index registered 0.078, a very low reading, and the VIX stood at 14.01, indicating subdued market volatility. The Baa corporate spread was 2.17, a moderate level that did not signal credit-market distress.



or a widening in borrowing costs. The 10-year/2-year Treasury spread had moved to a slightly positive 0.19, easing somewhat the recession signal associated with prior inversions. By contrast, the 3-month T-bill spread against the current target rate was negative at -0.255, indicating that short-end markets were pricing the policy rate below the current 1.75 to 2.00 percent range and thus anticipating further easing at this meeting.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the available momentum measures. The estimated real neutral rate (r^*) of -0.319 implied a low equilibrium policy rate, suggesting that the current stance was closer to neutral than a mechanical reading of the inflation and unemployment gaps alone would indicate. Inflation momentum was small at 0.09 and unemployment momentum at 0.05, both mild positive drifts that pointed to gradual rather than abrupt change in underlying conditions over the projection window.

The reference rules diverged in a manner the staff considered informative. The Taylor, Balanced Approach, and ELB-adjusted rules each prescribed -75 basis points, reflecting the sizable inflation shortfall relative to target and the low estimated neutral rate. The First-Difference rule, which adjusts incrementally from the current stance in response to momentum rather than to an absolute model-implied level, prescribed -25 basis points. With momentum readings mild and reference rules judged reliable, the framework's loss-minimizing recommendation settled on -25 basis points, implying that conditions were likely to evolve gradually and that a measured recalibration, rather than a large front-loaded move, was consistent with the projected path.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally agreed that the domestic economy remained fundamentally solid while facing meaningful downside risks from abroad. Core PCE inflation at 1.48 percent was repeatedly cited as running well below the 2 percent objective, and participants observed that this shortfall left room to provide accommodation without near-term inflation risk. The very tight labor market — unemployment at 3.5 percent against a 4.56 percent natural rate — was likewise a common reference point, though participants differed in what they drew from it.

The member most attentive to inflation risk offered the most distinctive read. On the merits, this participant's own preference was to hold at 1.75 to 2.00 percent: the tight labor market was the main channel through which future wage and price pressure might emerge, and adding accommodation while inflation was soft mainly because of transitory global drag risked feeding an eventual overshoot. This participant also noted that manufacturing weakness stemmed from trade tensions and



uncertainty — a supply-side shock that rate cuts address poorly. Even so, the participant acknowledged that the Beige Book showed only modest wage and price gains, with no runaway pass-through, and that the data did not display the inflation threat that would justify resisting a cut. In forecasting the Committee's likely action, this participant recognized that the easing bias, prior guidance to 'act as appropriate to sustain the expansion,' and market pricing all pointed toward a 25 basis point cut.

The participant most focused on the labor market emphasized the cracks visible beneath the strong headline: manufacturers freezing hiring and cutting hours, freight haulers reducing headcounts, and scattered reports of softer labor demand tied to trade drag. While initial claims at 214,000 confirmed no broad deterioration, this participant argued that sector-specific softening warranted precautionary insurance before it could spread, and that soft inflation gave full room to support employment. A couple of participants attentive to financial stability and to market signals reinforced the case for a measured step: the low stress index of 0.078, the calm VIX at 14.01, and the moderate Baa spread of 2.17 all argued against an emergency-scale move, while the negative 3-month T-bill spread of -0.255 indicated markets had already priced a 25 basis point cut. Delivering that cut, these participants noted, would validate expectations and avoid a disruptive repricing, whereas standing pat risked a disorderly tightening at the short end. The data-dependent participant read the balance of literal indicators — below-target inflation, negative short-end spread, and trade-driven softness against firm home and auto sales and services — as supporting a calibrated 25 basis point cut rather than either a hold or a larger move.

Turning to the optimal-policy framework, participants engaged directly with the divergence between the reference rules. Several observed that the Taylor, Balanced Approach, and ELB-adjusted rules all prescribed -75 basis points because they leaned heavily on the inflation gap and the low estimated neutral rate of -0.319, while giving little weight to the strength of the labor market. Participants generally found the First-Difference rule's -25 basis point prescription more persuasive under present conditions, since inflation momentum at 0.09 and unemployment momentum at 0.05 were both mild, favoring an incremental adjustment from the current stance rather than a large lurch to a model-implied level. The financial-stability-minded participant added that a 75 basis point cut would signal an alarm absent from the stress and credit data and could itself unsettle otherwise-calm markets, while noting that policy transmission appeared to be working, with lower rates lifting home and auto lending.

By the close of the discussion, participants had converged on the view that the low estimated neutral rate implied policy was closer to neutral than a mechanical inflation-gap reading suggested, so that only a modest recalibration was warranted. The inflation-focused participant remained unpersuaded



that easing was necessary on the merits but did not identify an inflation-side reason to resist a 25 basis point move given the soft data. No participant advanced evidence of accelerating labor deterioration or credit-market distress that would justify a larger, front-loaded cut. Participants broadly characterized the appropriate action as insurance against trade-driven global risks — insurance, not rescue — consistent with market-implied pricing and with a labor market judged to be softening at the margin but not breaking.

COMMITTEE POLICY ACTIONS

In the predictive phase of the deliberation, all five members anticipated a 25 basis point reduction in the target range, from 1.75 to 2.00 percent to 1.50 to 1.75 percent; the final predictive vote was unanimous at -25 basis points ({-25: 5}). On the optimal-policy side, the deterministic policy engine likewise recommended -25 basis points, and each of the five members recorded a stance on that recommendation at the end of the discussion. The recorded tally was full agreement: the inflation hawk, the labor market dove, the financial stability voice, the data-dependent centrist, and the market signal realist all endorsed the -25 basis point recommendation as-is, with no members declining and none registering only partial agreement (endorse: 5, decline: 0, partial: 0).