



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The manager reported on the composition and size of the System Open Market Account as of December 4, 2019. Total domestic securities holdings stood at \$3,660.9 billion, comprising \$1,979.3 billion in Treasury notes and bonds, \$114.0 billion in Treasury bills, and \$1,423.7 billion in agency mortgage-backed securities. This represented an increase of \$11.3 billion from the prior release of November 28, 2019. It was noted that this account covers SOMA securities holdings only — 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, the present review is confined to the securities holdings described above.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed the incoming data as broadly consistent with an economy expanding at a moderate pace while inflation continued to run below the Committee's objective. Core PCE inflation was 1.22 percent on a twelve-month basis, well short of the 2 percent goal. The unemployment rate stood at 3.6 percent, below the estimated natural rate of 4.56 percent, and initial jobless claims at 213,000 pointed to continued firmness in labor demand. Against these favorable labor readings, the Chicago Fed National Activity Index at -0.71 indicated growth running below its historical trend, and the Employment Cost Index was reported at 138.0. M2 money supply stood at \$15,195 billion.

The most recent Beige Book material described activity in the Fourth District as having increased modestly, an improvement after a couple of periods of little growth. Professional and business services contacts saw strong and increasing activity and accounted for most of the net employment gains, and construction contractors reported that typical winter layoffs had been delayed. Manufacturers noted slight demand growth for the first time in several months, with domestic demand stronger than predicted even as international sales remained weak; homebuilders pointed to low mortgage rates and rising wages supporting demand for new homes, and bankers reported growing loan demand for homes and autos. Offsetting these gains, the freight sector weakened further, with long-haul trucking and rail companies reducing staffing, and a couple of steel manufacturers cut temporary workers and hours. Wages rose modestly overall, though pressure was stronger in some white-collar industries — one community banker cited a need to raise wages 10 percent to attract qualified talent — while freight firms reported little pressure. Selling prices rose modestly on balance, with much of the inflation concentrated in services firms.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were characterized as calm and accommodative across the measures reviewed. The financial stress index registered 0.066, a very low reading, and the VIX at 14.8 pointed to subdued equity-market volatility. The Baa corporate spread of 2.11 was moderate and gave no indication of credit-market strain. The 10-year/2-year Treasury spread was positive at 0.19, having moved out of inversion — a development that eased the recession signal that this measure had earlier been flashing. The 3-month T-bill spread relative to the current target range was mildly negative at -0.085, consistent with the prevailing stance and hinting at only a faint market expectation of easing rather than any near-term funding pressure.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum readings underlying the reference rules. With the estimated real neutral rate (r^*) at -0.281, the analysis implied that the current target range of 1.5 to 1.75 percent may sit modestly above neutral, leaving the stance somewhat restrictive relative to fundamentals. Inflation momentum was slightly positive at 0.095 and unemployment momentum was negative at -0.1, together suggesting that neither an inflation acceleration nor a sharp labor-market deterioration was in immediate prospect; the projected trajectory was one of gradual change rather than an abrupt turn in either direction.

The reference rules, judged reliable under current conditions, spanned a notable range. The Taylor rule, Balanced Approach rule, and ELB-adjusted rule each pointed to -75 basis points, reflecting the combined weight of the sub-target inflation reading and the wide unemployment gap. The First-Difference rule, which responds to changes in conditions rather than to level gaps, indicated -25 basis points. The loss-minimizing recommendation landed at -25 basis points, effectively discounting the aggressive level-based prescriptions in favor of the more incremental momentum-based reading. Taken together, these quantities implied a modest easing bias in the outlook — a stance closer to neutral than the level rules alone would suggest, with the persistent inflation undershoot as the principal argument for a further measured step.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their opening assessments, all five participants independently arrived at a preference to hold the target range at 1.5 to 1.75 percent, though they reached that conclusion by way of distinct concerns. The participant most focused on inflation observed that core PCE at 1.22 percent placed the balance of inflation risk firmly to the downside, removing any case for a hike even with unemployment below the natural rate, since wage growth and output-price inflation in the Beige Book were both described as modest. At the same time, this participant saw no emergency to justify a further cut following three prior reductions, and cited a preference to pause and assess whether that cumulative easing would



feed through.

The participant attentive to labor-market risk gave weight to early cooling signals — slowing job gains and declining openings noted in prior minutes, together with freight, trucking, rail, and steel layoffs in the Beige Book and the below-trend Chicago Fed reading — but judged that headline strength, with unemployment at 3.6 percent and claims at 213,000, did not yet amount to acute deterioration. This participant framed the choice as one between preemptive easing and watchful waiting, and preferred to hold while standing ready to cut quickly should the labor data clearly weaken. The participant focused on financial stability emphasized that the stress index, VIX, and Baa spread all pointed to stable, accommodative conditions with no systemic strain, and that holding would preserve policy room and avoid encouraging excessive risk-taking while conditions remained benign. The participant weighing market signals read the mildly negative T-bill spread and the un-inverted yield curve as evidence that markets had absorbed the prior cuts and were not demanding another, while the centrist participant, reading the indicators at face value, judged that a strong labor market, calm markets, and stabilizing growth left no clear case for a further cut and that sub-target inflation and the prior hawkish caution together ruled out a hike. The rebuttal round produced no changes; the predictive vote was unanimous for a hold.

The discussion then turned to the loss-minimizing framework, which recommended -25 basis points and thereby diverged from the participants' predictive hold. Participants engaged directly with the gap between the three level-based rules calling for -75 basis points and the First-Difference rule's -25 basis points, and there was broad agreement that the aggressive prescriptions overweighted the unemployment and inflation level gaps and would risk overshooting into unwarranted easing. Several participants found the First-Difference logic most persuasive precisely because it responds to changes — inflation momentum only slightly positive and unemployment momentum modestly negative — rather than reacting to a possibly mismeasured r^* of -0.281.

In reconciling the framework's call with their own predictive holds, participants converged on viewing -25 basis points as defensible insurance rather than an urgent necessity. The inflation-focused participant noted that low inflation itself removed the main objection to a cut, so that a single measured step could support soft manufacturing and business investment without inviting overheating. The labor-focused participant argued that incremental easing best hedged forward-looking employment downside, cautioning that benign stress indices are lagging while employment risk is prospective. The stability-focused participant accepted the direction as a low-risk move that would align the stance closer to a depressed neutral rate without threatening calm credit markets, and the centrist judged that persistent sub-target inflation together with genuinely below-trend activity made a proportionate



quarter-point step appropriate, while -75 would overshoot.

The participant anchored on market signals registered the one meaningful reservation. While accepting the easing direction as reasonable insurance against a 1.22 percent core PCE, this participant stressed that the T-bill spread of roughly -8.5 basis points fell well short of pricing a full quarter-point cut and that calm, loose financial conditions did not call for acting now. The resulting posture was characterized as a partial one — the direction defensible, the timing weak — distinguishing it from the fuller endorsements offered by the other four.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy decision, the Committee voted unanimously, 5 to 0, to hold the target range for the federal funds rate at 1.5 to 1.75 percent (0 basis points). On the separate question of the loss-minimizing framework's recommendation of -25 basis points, the Committee's recorded stance was four members endorsing the recommendation as-is — the participants focused on inflation, labor markets, financial stability, and the data-dependent centrist — with one member, the participant anchored on market signals, taking a partial position that agreed with the easing direction but not with the timing of acting now. No member declined the recommendation outright.