



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that total System Open Market Account domestic securities holdings stood at \$5,935.6 billion as of June 3, 2020, an increase of \$25.5 billion from the prior release of May 27. The composition was dominated by Treasury notes and bonds at \$3,496.9 billion, alongside \$326.0 billion in Treasury bills and \$1,826.5 billion in agency mortgage-backed securities. The staff noted that these figures reflect SOMA holdings only — the size, composition, and week-over-week change of the portfolio — and do not encompass the results of repurchase or reverse-repurchase operations, for which no point-in-time-safe data source is currently available. The modest weekly change, set against the very large overall balance, was described as consistent with a portfolio that had expanded substantially in prior weeks and was now settling into a steadier pace of accumulation.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review described an economy in severe contraction. Core PCE inflation stood at 0.66 percent on a twelve-month basis, well below the Committee's 2 percent objective. The unemployment rate was 14.7 percent, far above the estimated natural rate of 4.43 percent, and initial jobless claims were still running at roughly 2.12 million per week. The Chicago Fed National Activity Index at -16.74 signaled activity far below trend, indicating a shortfall without recent precedent in the available data. The Employment Cost Index was reported at 140.0 and M2 money supply at \$17,177 billion.

The Beige Book confirmed the picture drawn by the aggregate data. Economic activity declined in all Districts, falling sharply in most, reflecting disruptions tied to the pandemic. Consumer spending fell further amid mandated closures, with especially severe declines in leisure and hospitality and very little activity at travel and tourism businesses; auto sales were well below a year earlier, though several Districts noted recent improvement. Manufacturing dropped sharply, with notable weakness in auto, aerospace, and energy-related plants, and residential home sales plunged in part on fewer listings and showing restrictions. Commercial real estate contacts reported that many retail tenants had deferred or missed rent payments, and bankers noted strong demand for PPP loans. Employment continued to fall in all Districts, with steep losses concentrated in retail and in leisure and hospitality, while contacts cited difficulty bringing workers back owing to health concerns, limited childcare, and unemployment benefits. Wage pressures were mixed, and pricing pressures were characterized as steady to down modestly on balance, with weak demand weighing on selling prices. Most contacts remained pessimistic about the pace of any recovery, even as some expressed hope that activity would pick up as businesses reopened.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were described as having stabilized considerably from the peaks of stress seen earlier in the episode, though pockets of strain remained. The financial stress index stood at a relatively contained 0.147, and the VIX had eased to 25.66 — elevated relative to calm periods but well off crisis highs. The Baa corporate spread over Treasuries was 3.11, still elevated and indicative of meaningful borrowing-cost stress for weaker corporate issuers, but not at the extreme dislocation levels of the acute phase. The 3-month Treasury bill spread relative to the current policy rate was just 0.025, essentially flat, indicating that money markets were pricing the current target range as stable with no near-term move embedded. Taken together, the staff read these indicators as consistent with markets that had calmed but whose stability appeared to rest on the continuation of accommodative policy and credit support.

STAFF ECONOMIC OUTLOOK

The staff projection took as its starting point an estimated neutral real rate (r^*) of -0.215 , implying that a neutral policy stance would itself lie below zero and that the current 0.0 to 0.25 percent target range, while at its floor, is not deeply stimulative in real terms. Inflation momentum was estimated at 0.0, giving no indication of upward price drift that would threaten a breakout from the current sub-target readings; the projection therefore did not anticipate inflation pressures building over the near term. Unemployment momentum, by contrast, was estimated at $+0.4$, pointing to labor-market conditions that were still deteriorating rather than stabilizing, and suggesting that the shortfall relative to the natural rate could persist or widen before improving.

The reference rules were judged reliable and converged on a single prescription: the Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule all returned 0 basis points. The staff noted that the unconstrained rules, given negative r^* and depressed inflation, would in principle call for a policy rate below zero, but that the effective lower bound binds and the ELB-adjusted rule accordingly recognizes 0 basis points as the appropriate constrained outcome. On this projection, the likely near-term path of conditions is one in which the policy rate remains at its floor, inflation stays well below target with no momentum to lift it, and unemployment remains elevated with the risk of further near-term increases — an outlook in which sustained accommodation, rather than any rate adjustment, is the operative support.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants broadly agreed that the current target range of 0.0 to 0.25 percent should be maintained, and their reasoning converged from distinct starting points. All emphasized that the policy rate was already at its effective lower bound, leaving no room to ease further through conventional means without entering negative territory — a step the Committee had not signaled openness to. The member



most attentive to inflation risk observed that his usual caution against cutting was simply not tested here: with core PCE at 0.66 percent, far below the 2 percent objective, and the Beige Book reporting selling prices steady to down modestly amid weak demand, there was no inflation pressure to lean against. He judged that hiking into a contraction of this depth would risk deepening deflationary pressure and would have no justification under his own framework, while holding satisfied his preference against cutting by default.

The participant most focused on employment described the labor data as the most severe in the available record — unemployment at 14.7 percent against a natural rate of 4.43 percent, initial claims still near 2.12 million weekly, and the Chicago Fed activity index at -16.74. Everything in his mandate, he said, called for maximum accommodation. But he accepted that weighting employment heavily could not create rate space that did not exist, and he found the financial-stability argument decisive on the mechanics: a cut into negative rates could disrupt money market funds and impair bank funding, damaging the very credit transmission channel on which employment recovery depends and hurting the households and small businesses the Beige Book flagged as most vulnerable. His conclusion was that the right way to support employment now lay in maintained accommodation, not in additional rate cuts.

The participant attentive to financial stability grounded her view in credit conditions. She noted that the Baa spread at 3.11 still signaled real borrowing-cost stress for weaker issuers and that the relative calm reflected in the financial stress index of 0.147 and a VIX of 25.66 appeared to depend on continued accommodation. Tightening now, she argued, would risk re-widening spreads and re-igniting stress, undoing a fragile stabilization; she also pointed to latent strain in the Beige Book, including deferred and missed commercial rent payments and heavy PPP loan demand. The data-dependent participant read the indicators at face value and arrived at the same place, stressing that with r^* estimated at -0.215 the neutral rate was itself negative, so conventional cuts were exhausted at zero and 0 basis points was the binding floor. The market-oriented participant added that the 3-month bill spread of 0.025 showed markets pricing no move, and that a cut below zero would be read as panic inconsistent with stabilizing conditions.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported no change to the target range, holding it at 0.0 to 0.25 percent, for a tally of 5 to 0 (0 basis points, {0: 5}). On the framework's loss-minimizing recommendation of 0 basis points, the Committee was in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement. The inflation hawk, the labor-market dove, the financial-stability voice, the data-dependent centrist, and the



market-signal realist each endorsed the 0 basis point recommendation, so the predictive vote and the optimal-side outcome coincided cleanly.