



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Manager reported on the System Open Market Account, which as of September 9, 2020 held a total of \$6,307.1 billion in domestic securities. The composition was concentrated in Treasury notes and bonds, at \$3,731.9 billion, alongside \$326.0 billion in Treasury bills and \$1,940.3 billion in agency mortgage-backed securities. Holdings rose by \$6.9 billion from the prior release of September 2, a modest change consistent with the ongoing pace of purchases. Participants were reminded that this review reflects SOMA securities holdings only — total size, composition, and the 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 is currently available to this Committee.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data showing an economy in the midst of a modest and uneven recovery that remained well short of pre-pandemic levels. The unemployment rate stood at 8.4%, far above the estimated natural rate of 4.38%, and initial jobless claims remained elevated at 881,000 in the most recent week. Core PCE inflation was running at 1.03% on a year-over-year basis, roughly a full percentage point below the Committee's 2% objective. The Employment Cost Index registered 140.7, and the Chicago Fed National Activity Index reading of 1.18 pointed to activity above its historical trend as the recovery from the trough continued. M2 stood at \$18,326.7 billion.

The most recent Beige Book characterized economic activity as increased across most Districts, though gains were generally modest and activity remained well below pre-pandemic levels. Manufacturing rose in most Districts, coinciding with greater activity at ports and among transportation and distribution firms, while consumer spending continued to pick up on the strength of vehicle sales and some improvement in tourism and retail — even as many Districts noted a slowing pace of growth. Residential construction and home sales were described as a bright spot, with prices rising amid strong demand and limited inventory, whereas commercial construction and commercial real estate remained in contraction. On the labor side, employment increased overall, but several Districts reported slowing job growth, rising hiring volatility in services, and increasing instances of furloughed workers being laid off permanently as demand stayed soft. Firms continued to report difficulty finding labor, compounded by day care availability and uncertainty over the school year and jobless benefits. Wages were flat to slightly higher, with greater pressure among lower-paying positions, and price pressures increased but remained modest, with input prices generally rising faster than selling prices.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff reported that financial conditions remained broadly accommodative despite lingering volatility. The financial stress index stood at a low 0.1401, and the 3-month T-bill spread against the current target rate was essentially flat at 0.005, indicating that short-term markets were well anchored to the prevailing 0.0% to 0.25% range and that no near-term policy move was being priced. The 10-year/2-year Treasury spread was positive at 0.57, showing no inversion and no acute recession signal embedded in the curve. Credit markets were functioning, with the Baa corporate spread at 2.67 — elevated relative to calm-market norms but well short of distress. The VIX, at 28.81, remained above typical levels, reflecting residual pandemic-related uncertainty rather than acute market dysfunction.

STAFF ECONOMIC OUTLOOK

The staff outlook pointed to a policy stance likely to remain at the effective lower bound for the foreseeable projection window. The estimated neutral real rate (r^*) was negative at -0.198, implying that even the current 0.0% to 0.25% range represents only mild accommodation relative to a very low neutral setting rather than a deeply stimulative posture. With inflation momentum negative at -0.475, the near-term price path was projected to remain subdued and below target, showing no sign of building pressure. Unemployment momentum, by contrast, remained high at 3.35, consistent with a labor market that would only heal gradually and that could see continued strain in service industries as temporary layoffs became permanent.

The reference rules were largely aligned with a hold. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each returned 0 bps, consistent with sub-target inflation and substantial labor-market slack, and the reference rules were flagged as reliable in the current environment. The First-Difference rule was the lone exception, prescribing a 75 bps increase; the staff noted this output appeared driven by momentum terms rather than by the depth of the current shortfall, and that at the effective lower bound the ELB-adjusted logic would override such a signal. Taken together, these forward-looking quantities implied that conditions were likely to warrant maintaining accommodation, with the constraint of the lower bound limiting the scope of conventional adjustment in either direction.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the meeting from distinct mandate perspectives but converged, across four rounds of deliberation, on the judgment that the target range should be held at 0.0% to 0.25%. The member most attentive to inflation risk began, as is that member's practice, by testing for any upside price threat that might justify tightening. Finding none — core PCE at 1.03% is roughly half the 2% objective, the Beige Book described price pressures as increased but modest with input costs moderate overall, and the ECI showed no wage acceleration — this participant concluded there was no inflation overshoot to fight. At the same time, with rates already at the emergency floor, there was no basis to



add stimulus by moving into negative territory. The absence of any inflation danger, in this member's view, was reinforced rather than challenged by the enormous labor slack others emphasized.

The participant weighting employment risk most heavily described the labor picture as undeniably grim: unemployment at 8.4%, nearly double the 4.38% natural rate, jobless claims still at 881,000, and a Beige Book flagging permanent layoffs replacing furloughs alongside slowing service-sector hiring. That member's mandate argued for maximal accommodation. But the rate lever was judged effectively exhausted at the lower bound, and a further cut into negative territory — which no participant supported — was seen as carrying money-market destabilization risk with little offsetting benefit for employment. The strongest expression of an employment-first stance, this participant concluded, was to hold at the floor while continuing to emphasize support for the labor market rather than to attempt an infeasible cut.

The member focused on financial stability read the current environment as calm and functioning but still fragile. The financial stress index at 0.1401, the near-zero T-bill spread, and a positively sloped curve at 0.57 signaled no acute systemic dislocation, while the VIX at 28.81 and the Baa spread at 2.67 pointed to lingering anxiety and moderate but contained credit stress. From this vantage, a surprise move in either direction risked disrupting short-term funding markets: cutting further toward or below zero could destabilize money markets at the bound, while hiking would tighten conditions prematurely and threaten credit markets still absorbing the pandemic shock. The data-dependent participant reached the same conclusion through a literal reading of the indicators, noting that no data supported a hike and there was no meaningful room to cut, while the market-focused participant stressed that market pricing itself — the T-bill sitting right at the floor — pointed squarely to no change.

In the later rounds, participants turned to the optimal-policy framework and examined how it squared with their own reasoning. The framework's loss-minimizing recommendation of 0 bps was noted to match the Taylor, Balanced Approach, and ELB-adjusted rules, all of which returned 0 bps. Participants discussed the First-Difference rule's outlier reading of 75 bps and generally judged it to be driven by backward-looking momentum rather than by genuine inflation danger or the depth of current slack; several observed that hiking against 8.4% unemployment and 1.03% inflation would be indefensible, and that at the effective lower bound the ELB-adjusted logic properly overrode such a signal. The negative estimated r^* of -0.198 was cited repeatedly as confirmation that the neutral rate itself was below zero, so that holding at the current range was appropriately accommodative rather than restrictive. Negative inflation momentum (-0.475) and elevated unemployment momentum (3.35) were read as reinforcing the case for maintaining support.



Across both the predictive and the framework-based discussions, participants emphasized that the broad convergence itself carried information: with market pricing, the reference rules, and the loss function all aligning at 0 bps, several concluded that policy was neither behind nor ahead of the curve and that accommodation was already maxed out under the constraint of the lower bound. Different members found different rules most persuasive — some the Taylor rule for its direct balancing of inflation against slack, others the ELB-adjusted rule for recognizing that rates are pinned at the floor — but none was moved off the judgment that holding was correct. Participants generally judged that conditions had not changed materially since the prior unanimous hold, and that continuity best preserved both stable financial conditions and support for a modest, uneven recovery amid persistent pandemic uncertainty.

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%, a unanimous 5-to-0 outcome with no member favoring a change. On the optimal-policy framework's recommendation of 0 bps, the Committee was likewise in full agreement: all five members — the inflation-focused member, the employment-focused member, the financial-stability member, the data-dependent member, and the market-signal member — endorsed the recommendation as-is, with none declining and none registering only partial agreement. The predictive judgment and the framework-based outcome thus fully coincided.