



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$6,980.2 billion as of March 10, up \$21.3 billion from the prior release on March 3. The portfolio remained concentrated in Treasury notes and bonds, which stood at \$4,169.7 billion, alongside \$326.0 billion in Treasury bills and \$2,123.5 billion in agency mortgage-backed securities. The composition thus continued to reflect a predominantly longer-dated Treasury position supplemented by a substantial agency MBS holding, with the week-over-week increase consistent with the ongoing pace of purchases. It should be noted that these figures cover SOMA securities holdings only — total size, composition, and the change from the prior release — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; the staff accordingly confined its review to the securities data above.

STAFF REVIEW OF THE ECONOMIC SITUATION

Economic activity had expanded modestly since the turn of the year, according to the most recent Beige Book, with most Districts reporting only gradual improvement from January to mid-February. Consumer spending and auto sales were characterized as mixed, and conditions in leisure and hospitality remained restrained by ongoing pandemic restrictions even as a few Districts noted slight improvements in travel and tourism. Manufacturing activity increased moderately in most Districts despite continued supply chain disruptions, while nonfinancial services grew modestly on balance. Historically low mortgage rates continued to support robust demand for both new and existing homes, and home prices rose further in many areas. Commercial real estate presented a more uneven picture: conditions in the hotel, retail, and office segments deteriorated somewhat, while multifamily held steady and the industrial segment strengthened. The Chicago Fed National Activity Index stood at 0.66, consistent with growth somewhat above its historical trend.

Labor market data continued to show substantial slack. The unemployment rate was 6.2 percent, well above the estimated natural rate of 4.47 percent, and initial jobless claims remained elevated at 745,000. The Beige Book reported that employment levels rose only slowly across most Districts, with labor demand varying considerably by industry and skill level and many contacts citing difficulty attracting and retaining qualified workers; supply constraints were described as most acute among low-skill and skilled-trade positions and were linked to virus-related factors, childcare, and unemployment benefits. Several Districts reported modest wage increases for high-demand roles and noted upward pressure on wages more broadly, with wage gains expected to persist or pick up somewhat over coming months. On the price side, nonlabor input costs were reported to have risen moderately. Against this backdrop, core PCE inflation on a twelve-month basis was 1.47 percent,



remaining below the Committee's 2 percent objective; the Employment Cost Index reading was 142.4 and M2 stood at \$19,394.6 billion.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions remained accommodative and orderly over the intermeeting period. The financial stress index registered 0.1124, a low level indicating no broad tightening or systemic strain, and the Baa corporate spread of 2.16 percentage points pointed to functioning, non-distressed credit markets. The VIX, at 22.56, was modestly elevated relative to calmer periods but well short of crisis territory. The Treasury yield curve was steeply positive, with the 10-year/2-year spread at 1.37 percentage points, a configuration generally associated with growth optimism rather than recession risk. At the front end, the 3-month Treasury bill traded slightly below the current target range, with a spread of -0.075 percentage point, indicating that short-term funding markets remained well anchored and that market participants anticipated no near-term change in the policy rate.

STAFF ECONOMIC OUTLOOK

The staff's outlook pointed to a continuation of the current policy stance as the most likely path for conditions in the period ahead. The estimated neutral real rate (r^*) was deeply negative at -0.203 percent, implying that the existing target range of 0.0 to 0.25 percent was only modestly accommodative rather than markedly stimulative — leaving little scope for further reduction and no evident basis for restriction. Inflation momentum was estimated at -0.2, indicating that price pressures were decelerating rather than building even as anecdotal reports flagged rising wages and input costs; realized core inflation would therefore be expected to remain below the 2 percent objective absent a shift in these underlying dynamics. Unemployment momentum was -0.6, consistent with continued gradual improvement in the labor market, though from a level still well above the estimated natural rate.

The reference rules reinforced this reading and were judged reliable for the current meeting. The Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule all produced an output of 0 basis points, with the convergence reflecting the combination of a negative inflation gap and a wide employment gap. The ELB-adjusted rule in particular captured the constraint of the effective lower bound: unconstrained prescriptions would have pointed lower, but with the policy rate already near zero the loss-minimizing setting was to hold. Taken together, these forward-looking quantities implied a projected environment in which accommodation remains appropriate, inflation stays below target in the near term, and the labor market continues to heal only gradually — a path consistent with maintaining the current stance rather than adjusting it in either direction.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK



In their independent opening positions, all five participants arrived at the same policy conclusion — hold the target range at 0.0 to 0.25 percent — though each reached it from a distinct vantage point. Participants generally judged that neither leg of the prior guidance, which tied liftoff to reaching maximum employment and inflation of 2 percent, had been met. Core PCE inflation at 1.47 percent was well below the objective, and unemployment at 6.2 percent remained far above the 4.47 percent natural rate, with initial claims at 745,000 confirming an incomplete recovery. A recurring observation was that the rate was already at its effective floor, so meaningful further easing was not available, while the absence of any inflation overshoot or financial strain removed any case for tightening.

The member most attentive to inflation risk emphasized that there was no current overshoot to counter and that inflation momentum was decelerating, so a hike would be unjustified. This participant nonetheless drew attention to the Beige Book signals — broad wage pressures, labor supply shortages among low-skill and skilled-trade occupations, wages expected to persist or pick up, and moderately rising nonlabor input costs — as well as the large expansion in M2, describing these as early embers worth watching closely. The distinction stressed was that these were anecdotal and forward-looking rather than present in realized core PCE, warranting monitoring rather than action; the member also registered a bias to withdraw accommodation faster than colleagues should those pressures show through, and stated firm opposition to any cut given calm financial conditions.

The participant focused on the labor market underscored the roughly 1.7-point gap between unemployment and its natural rate and characterized employment gains in the Beige Book as slow and uneven. This member's instinct would ordinarily have been to push harder for support, but noted candidly that with rates already at the floor there was no room to cut in a way that would help — a hold reflected the constraint of the lower bound, not satisfaction with the recovery. In response to the inflation-focused concern, this participant argued that the wage pressures reported were localized to high-demand roles rather than broad, and therefore did not justify leaning restrictive. The financial stability voice, reviewing stress indicators before mandate arithmetic, found no systemic pressure requiring a response in either direction: the stress index at 0.1124, the Baa spread at 2.16, the VIX at 22.56, and the positively sloped curve all pointed to orderly, accommodative conditions. This member cautioned that the principal risk lay in premature action rather than inaction, since a hike could widen spreads and disrupt the still-fragile hospitality and commercial real estate sectors, while holding would sustain the robust mortgage demand and credit availability the Beige Book cited. The data-dependent centrist weighed the indicators at face value and read the tight convergence across perspectives as mutual reinforcement, while the market-signal participant pointed to the -0.075 T-bill spread and the steep curve as evidence that markets had priced no near-term move and viewed the stance as appropriately accommodative.



When participants turned to the framework's recommendation, their reasoning deepened but did not shift. All noted that the four reference rules converged on 0 basis points and that the rules had been judged reliable for this meeting. Several found the ELB-adjusted rule most persuasive given the zero-bound setting, observing that with r^* estimated at -0.203 the current range was barely accommodative and that unconstrained rules would have prescribed lower rates. The inflation-focused member found the Taylor rule most directly relevant, since it incorporated the still-negative inflation gap. Participants generally treated the negative inflation momentum (-0.2) and improving but incomplete unemployment momentum (-0.6) as confirmation that conditions were neither forcing a move nor overheating.

In the concluding exchange, no participant was moved from the hold position. The inflation-focused member reiterated that soft realized inflation made a hike unjustified while restating watchfulness over the Beige Book wage and input-cost signals and firm opposition to any cut. The labor-focused member maintained that the wide employment gap demanded at least the current level of accommodation and that the localized nature of wage gains gave no reason to tighten. The financial stability voice noted that the market-signal member's front-end and curve analysis had added confidence without shifting emphasis, and the centrist and market-signal participants each concluded that every dimension examined — inflation, employment, financial conditions, and market pricing — pointed in the same direction. Participants characterized the resulting posture as genuinely settled: neither too tight nor too loose given the constraint of the lower bound.

COMMITTEE POLICY ACTIONS

In the predictive phase of the deliberation, all five participants supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, producing a unanimous 5-0 vote for no change. On the framework's recommendation of 0 basis points, the Committee likewise reached full agreement: all five members — the inflation-focused member, the labor-market-focused member, the financial stability voice, the data-dependent centrist, and the market-signal member — endorsed the recommendation as-is, with none declining and none registering partial agreement. The two phases were therefore fully aligned, reflecting a shared judgment that with inflation below target, substantial labor market slack, a deeply negative neutral real rate, and calm financial conditions, holding at the effective lower bound was the appropriate and consistent course.