



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account, reported as of 2021-06-09. Total SOMA domestic securities holdings stood at \$7,324.3 billion, comprising \$4,381.7 billion in Treasury notes and bonds, \$326.0 billion in Treasury bills, and \$2,234.4 billion in agency mortgage-backed securities. Holdings rose by \$9.8 billion relative to the prior release of 2021-06-02, a modest increase consistent with ongoing operations. Members were reminded that this review covers SOMA holdings only — total size, composition, and week-over-week change — and does not extend to repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available; nothing in the discussion should be read as reflecting activity in those facilities.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity continued to expand at a moderate pace. Core PCE inflation stood at 2.5 percent on a twelve-month basis, above the Committee's 2 percent longer-run objective. The unemployment rate was 5.8 percent, remaining above the estimated natural rate of 4.46 percent, and initial jobless claims registered 385,000 — improved relative to earlier in the recovery but still elevated by pre-pandemic standards. The Chicago Fed National Activity Index at 0.24 was consistent with growth somewhat above trend, and the Employment Cost Index reading of 143.7 accompanied broader signs of firming wage costs. M2 stood at \$20,108.6 billion.

The Beige Book characterized activity as expanding at a moderate pace, with labor markets improving and wage pressures picking up for some positions. Retail sales increased, and leisure, hospitality, and tourism activity strengthened; residential real estate demand remained strong while commercial real estate conditions were mixed. Reports across Districts emphasized cost and supply pressures: several Districts noted that demand was outpacing capacity, and price pressures were widely flagged. Dallas reported that price pressures 'intensified' and that reports of labor shortages were more widespread across sectors and skill levels than in the prior report. Minneapolis described robust demand tempered by inventory shortages and rising prices, and noted that wage growth was not well aligned with firms' concerns over labor availability. Kansas City reported that about two-thirds of firms saw a negative impact from rising material prices and lack of availability. Banking conditions were described as steady and financial conditions as improved slightly.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions remained accommodative and broadly stable. The financial stress index stood at 0.0862, a low reading indicating no signs of systemic strain, and the VIX at 17.89 pointed to subdued, orderly volatility. Credit conditions appeared healthy: the Baa corporate spread



was narrow at 1.98. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 1.34, showing no recession signal. The 3-month T-bill spread relative to the current policy rate was slightly negative at -0.105, consistent with market pricing of no near-term change in the policy rate but not indicative of any disruption to funding conditions. These readings aligned with Beige Book reports that financial conditions had improved slightly across Districts.

STAFF ECONOMIC OUTLOOK

The staff outlook pointed to conditions that were firming but still short of the Committee's employment objective. The estimated neutral rate (r^*) was low, at -0.218, implying that policy set at the current target range remained substantially accommodative in real terms even against inflation running above target. Inflation momentum registered a positive 0.485, suggesting continued upward pressure rather than a fading impulse, while unemployment momentum of -0.35 indicated the jobless rate was on a declining path — narrowing, though not closing, the gap between the 5.8 percent unemployment rate and the 4.46 percent natural rate.

The reference rules, judged reliable this meeting, spanned a meaningful range. The Taylor rule prescribed 75 basis points, reflecting inflation above target alongside a closing unemployment gap; the First-Difference rule, which responds to inflation and unemployment momentum rather than level gaps, prescribed 25 basis points; and both the Balanced Approach and ELB-adjusted rules prescribed 0 basis points, weighting remaining labor slack and the effective lower bound more heavily. The loss-minimizing framework recommendation came in at 25 basis points, situated between the momentum-driven and slack-weighted prescriptions. Taken together, these figures projected an environment in which above-target inflation and improving labor conditions were gradually building the case for removing accommodation, while the low neutral rate and residual slack argued against any abrupt adjustment.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, all participants judged that the most likely and appropriate action this meeting was to hold the target range at 0.0 to 0.25 percent. Participants generally organized their reasoning around the two-condition framework carried over from prior guidance, which requires both maximum employment and inflation on track before tightening. There was broad agreement that the employment condition remained unmet: unemployment at 5.8 percent stood well above the 4.46 percent natural rate, prior meeting material had cited a large number of jobs still below pre-pandemic levels, and initial claims at 385,000 remained elevated by historical norms. Several participants also observed that a rate cut was neither justified with inflation above target nor realistic given policy was already at the effective lower bound.



The participant most focused on inflation risk emphasized that core PCE at 2.5 percent sat a half-point above target and that the Beige Book was saturated with price pressure — intensifying pressures in Dallas, rising prices in Minneapolis, and a majority of Kansas City firms reporting a negative impact from material costs. This participant argued that demand outpacing capacity and widening labor shortages were classic preconditions for inflation to harden from transitory into persistent, and asked that the record reflect concern about whether the transitory characterization would hold. Even so, this participant concluded that the unmet employment condition and the absence of any supporting view for tightening made a hold appropriate this meeting. The employment-focused participant countered that wage pressures had picked up only for 'some positions' and that Minneapolis had described wages as still misaligned and low — evidence of healing rather than an overheating labor market or a broad wage spiral. Participants attentive to financial conditions and to market pricing reinforced that the calm environment — a stress index of 0.0862, VIX at 17.89, a narrow Baa spread of 1.98, and a positively sloped curve at 1.34 — offered no stability-based reason to move in either direction, and that the negative 3-month T-bill spread indicated markets were pricing continued patience.

When the discussion turned to the optimal-policy framework, participants engaged directly with its recommendation of 25 basis points and the divergence from their own predictive votes to hold. Several noted that this divergence was informative: it suggested current policy was running looser than the reliable reference rules prescribed, a cushion that the benign financial environment permitted. The inflation-focused participant found the Taylor rule's 75 basis point reading most consonant with the data but endorsed the framework's 25 basis points as the risk-managing compromise, arguing that a modest first step would lean cheaply against an asymmetric inflation risk that patience would only compound. The participant attentive to financial stability likewise endorsed the recommendation, judging that low stress and tight credit spreads meant the system could absorb a cautious first calibration from 0.0-0.25 percent toward 0.25-0.50 percent without disruption, though this participant flagged the negative T-bill spread as the one caution — mild and, at a quarter point, absorbable.

Other participants agreed with the direction implied by the framework but were not persuaded on its magnitude or timing. The data-dependent participant observed that the four reference rules were split nearly evenly — two prescribing a move, two prescribing a hold — so that the balance of rules did not amount to a decisive tightening consensus, and pointed to the negative bill spread and the still-unmet employment condition as concrete reasons the full quarter point felt premature. The market-focused participant made a parallel argument, finding the First-Difference logic genuinely persuasive on momentum — inflation momentum at 0.485 and unemployment momentum at -0.35 both favoring a small lean — yet weighting most heavily the front-end pricing that had not yet validated tightening, and concluding that waiting one meeting carried little downside. The employment-focused participant



alone declined the recommendation outright, holding that a preemptive step while unemployment remained 1.34 points above the natural rate risked tightening before the labor mandate was met, and that the low neutral rate of -0.218 left little justification for a positive-rate move now. Across the exchange, participants recognized a shared underlying tension: above-target inflation with real momentum argued for removing accommodation, while the persistent employment shortfall argued for patience, and the small size of the gap between a hold and the framework's 25 basis points suggested policy was close to, rather than far from, the point at which adjustment would be warranted.

COMMITTEE POLICY ACTIONS

In the predictive vote on the appropriate action for this meeting, all five participants supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent; the vote was 5 to 0. On the separate question of the optimal-policy framework's recommendation of a 25 basis point increase, participants did not reach full agreement: two participants — the member focused on inflation risk and the member focused on financial stability — endorsed the recommendation as-is; two participants — the data-dependent member and the market-signal member — offered partial support, agreeing with the direction of removing accommodation but not with the magnitude or timing of an immediate quarter-point move; and one participant — the member focused on the labor market — declined the recommendation, judging it premature while the employment condition remained unmet.