



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$7,845.3 billion as of September 15, 2021, the most recent release available on or before the deliberation cutoff. The composition was concentrated in Treasury notes and bonds, at \$4,618.4 billion, alongside \$2,504.5 billion in agency mortgage-backed securities and a comparatively small \$326.0 billion in Treasury bills. Holdings rose by \$94.4 billion from the prior release of September 8. Members were reminded that this account covers SOMA domestic securities holdings only — total size, composition, and week-over-week change — and does not encompass repurchase or reverse-repurchase operation results, for which no point-in-time-safe data source currently exists; the discussion of open market operations was therefore confined to the securities-holdings figures.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 3.14 percent on a year-over-year basis, more than a full point above the Committee's 2 percent objective. The unemployment rate was 5.2 percent, down from 5.9 percent at the time of the prior meeting but still above the estimated natural rate of 4.46 percent. Initial jobless claims were 310,000, a level the staff characterized as moderate and consistent with continued if uneven labor-market repair. The Chicago Fed National Activity Index was positive at 0.53, pointing to above-trend growth, and the Employment Cost Index reading was 144.7. M2 money supply stood at \$20,534.6 billion.

The Beige Book material described activity expanding at a modest to strong pace across the reporting districts, though generally still moderate and, in at least one district, below pre-pandemic levels. A common thread ran through nearly every report: widespread labor shortages, rising wages, and broad input-price pressures, with more firms raising or planning to raise their selling prices. Several districts noted that contacts were less optimistic that labor and supply challenges would ease soon, even as some hoped supply issues would improve in 2022. The rise of Delta variant cases was reported to have trimmed growth in some sectors and contributed to a leveling-off in tourism and a deceleration in some services activity.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as accommodative and calm. The financial stress index was very low at 0.0927, and the VIX, at 18.18, was moderate and showed no sign of market strain. The Baa corporate spread was tight at 1.87, indicating healthy credit-market functioning with no widening of stress. The 10-year/2-year Treasury spread was positively sloped at 1.1, offering no recession signal from the curve, while the 3-month T-bill spread relative to the current policy rate was slightly negative



at -0.085, indicating that short-term markets were not pricing an imminent change in the policy rate. Taken together, the staff read these measures as showing neither systemic stress warranting additional accommodation nor overheating pressures demanding restraint.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum measures that condition the reference rules. The estimated real neutral rate (r^*) was quite low, at -0.292, implying that even a meaningful step up from the current 0.0 to 0.25 percent range would leave policy accommodative in real terms rather than restrictive. Inflation momentum was positive at 0.4, suggesting that price pressures were still building rather than fading, while unemployment momentum was slightly negative at -0.05, consistent with a labor market that continues to heal, if gradually. On this basis the staff projected that, absent a policy adjustment, the gap between prevailing conditions and rule-prescribed settings would likely persist or widen rather than close on its own.

The reference rules were judged reliable for this meeting. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed 75 basis points, reflecting the size of the inflation overshoot relative to target. The First-Difference rule, which adjusts incrementally from the current stance and keys off momentum, prescribed a smaller 50 basis points. The framework's loss-minimizing recommendation settled at 50 basis points, between the level-based rules and the more gradualist First-Difference reading. The projection implied by these quantities is one in which a low neutral rate tempers how far policy ultimately needs to travel, but in which continued above-target inflation leaves the current stance materially looser than the rules would prescribe.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, all five participants converged on holding the target range at 0.0 to 0.25 percent. The common reasoning centered on the Committee's prior guidance, which ties the removal of accommodation to two conditions being met — maximum employment and inflation on track to moderately exceed 2 percent. Participants generally judged that, with unemployment at 5.2 percent still above the 4.46 percent natural rate, the employment leg of that test had not been satisfied, and that raising rates without prior communication preparing markets would be disorderly. The participant most focused on inflation risk registered the strongest reservation, noting that core PCE at 3.14 percent and the broad, persistent price and wage pressures in the Beige Book fit the profile of inflation proving less transitory than assumed; even so, this participant concluded that hiking now would break the Committee's own stated conditions and instead signaled a lean toward firmer policy at upcoming meetings should inflation not moderate.



The participant weighting employment most heavily emphasized that the labor market was improving rather than deteriorating — unemployment down from 5.9 percent, contained jobless claims at 310,000, and widespread labor shortages — and observed that no easing tool was available below the current floor in any case. The participants attentive to financial conditions and to market pricing reinforced the hold from their own vantage points: stress measures were benign, the curve was positively sloped, and the slightly negative T-bill spread indicated markets expected no move. A couple of participants also cautioned that an abrupt surprise hike into calm conditions could itself introduce volatility with no offsetting benefit. The predictive discussion thus reflected genuine agreement on the near-term action even as the underlying emphases — inflation risk, labor slack, stability, market signals — differed.

The tenor of the discussion shifted when participants turned to the framework's optimal recommendation of 50 basis points against reference rules judged reliable. Here the tension between the expected action and the rule-based prescription became explicit. The inflation-focused participant found the Taylor and Balanced Approach logic most persuasive and read the gap between a hold and the recommended firming as validation that the current stance was too loose, warning that holding at zero risked letting inflation expectations un-anchor. The data-dependent participant, taking the indicators at face value, judged that above-target inflation, a narrowing unemployment gap, and calm markets no longer justified emergency lower-bound settings, and endorsed 50 basis points as the disciplined middle between the 75-basis-point level rules and the more gradual First-Difference reading. Both leaned on the observation that, with r^* estimated at -0.292 , even a 50-basis-point move would leave policy accommodative in real terms.

The employment-focused participant worked through the same reconciliation and ultimately endorsed the framework's direction, reasoning that unemployment momentum was still negative — the rate falling, not rising — so the caution against restrictive policy that would normally guard the recovery did not activate, and that a 50-basis-point step keyed to momentum via the First-Difference rule would remove only emergency-level accommodation without choking off hiring. Two participants, however, agreed with the direction while resisting the magnitude. The participant attentive to financial stability weighed a distinctive concern: while prolonged ultra-low rates could fuel latent asset mispricing, a full 50-basis-point move against markets pricing no change — the -0.085 T-bill spread — risked a disorderly repricing that would itself be destabilizing, so this participant favored beginning normalization with a smaller step. The market-focused participant made a parallel argument, accepting that the stance was falling behind a 3.14 percent overshoot but rejecting the abrupt magnitude as inconsistent with what markets were pricing and with the still-prevalent transitory-inflation read that firms hoped supply issues would ease in 2022.



Across both the predictive and optimal-framework rounds, then, the discussion revealed a Committee unanimous on the near-term hold but divided, in the optimal-policy frame, over how far to lean. Several participants treated the divergence between the expected hold and the 50-basis-point recommendation as a measure of accommodation the Committee was deliberately extending beyond what the reliable rules prescribed; others treated the same divergence as appropriate patience anchored in market pricing and the incomplete labor recovery.

COMMITTEE POLICY ACTIONS

In the predictive vote on the near-term policy decision, all five participants supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome. On the deterministic framework's recommendation of a 50-basis-point increase, the Committee did not reach full agreement: three participants — those emphasizing inflation risk, employment, and data-dependent neutrality — endorsed the recommendation as-is, while two participants — those attentive to financial stability and to market signals — took a partial stance, agreeing with the direction of firming but not with the magnitude or timing of a 50-basis-point move against markets pricing no change. No participant declined the recommendation outright. The recorded optimal-side tally was thus three endorse and two partial, with none declining.