



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of March 9, 2022, total SOMA domestic securities holdings stood at \$8,370.5 billion, up \$3.4 billion from the prior release of March 2. Holdings remained concentrated in Treasury notes and bonds, at \$4,933.3 billion, with Treasury bills accounting for a much smaller \$326.0 billion and agency mortgage-backed securities comprising \$2,682.3 billion. The week-over-week change was small in the context of the overall portfolio. Staff noted that these figures cover SOMA 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 is currently available; accordingly, no reading on those operations is included here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that inflation remained well above the Committee's longer-run objective. Core PCE inflation stood at 4.63 percent on a twelve-month basis, more than double the 2 percent target. The labor market was tight by conventional measures: the unemployment rate was 3.8 percent, below the estimated natural rate of 4.45 percent, and initial jobless claims were low at 215,000. The Employment Cost Index registered 148.1, and the Chicago Fed National Activity Index was positive at 0.69, consistent with growth somewhat above trend. The current federal funds target range remained 0.0 to 0.25 percent, with a midpoint of 0.125 percent, while the Committee's last published median projection for the funds rate was 0.9 percent. M2 stood at \$21,840.1 billion.

The Beige Book characterized economic activity as having expanded at a modest to moderate pace since mid-January. Many Districts reported that the surge in COVID-19 cases temporarily disrupted business activity through heightened absenteeism, and some attributed a temporary softening of hospitality demand to the rise in cases; severe winter weather was also cited as a drag, leaving consumer spending generally weaker than in the prior report. Manufacturing continued to grow at a modest pace, though all Districts noted that supply chain issues and low inventories restrained growth, particularly in construction. On the labor side, employment increased at a modest to moderate pace, with widespread strong demand for workers hampered by equally widespread worker scarcity; firms continued to raise compensation and add workplace flexibility, and contacts generally expected tight labor markets and strong wage growth to persist, though a few Districts saw signs of moderation. Prices charged to customers rose at a robust pace nationally, with a few Districts reporting acceleration, and rising input costs — especially elevated transport costs — cited as a primary factor. The overall six-month outlook was described as stable and generally optimistic, though with an elevated degree of uncertainty.



STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions data pointed to elevated market volatility alongside still-contained credit conditions. The VIX stood at 32.45, a notably high level signaling meaningful investor anxiety, while the financial stress index at 0.1704 was moderate rather than acute. The Baa corporate spread was 2.35, somewhat elevated but not indicative of credit markets seizing up. The 10-year/2-year Treasury yield curve spread remained positive at 0.26, flattening but not inverted, offering no recession signal at this reading. The 3-month T-bill spread stood at 0.235 above the current target range, roughly consistent with a single 25 basis point step priced into near-term policy expectations. Consistent with the Beige Book's note of some weakening of financial conditions, banking contacts reported softer conditions even as loan demand was generally unchanged.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available this meeting. The estimated neutral real rate (r^*) was low at -0.5 percent, implying that even after tightening, nominal policy would remain accommodative in real terms given inflation running near 4.63 percent. Momentum readings suggested that current pressures were still building rather than fading: inflation momentum was positive at 0.325, while unemployment momentum was negative at -0.45, indicating joblessness still falling from an already-low level. Taken together, these figures point to a projected environment in which price pressures persist and labor market tightness deepens absent further policy action.

The four reference rules — Taylor, Balanced Approach, First-Difference, and ELB-adjusted — converged on 75 basis points and were judged reliable this meeting. That convergence, combined with a starting range of 0.0 to 0.25 percent that sits far below even the prior 0.9 percent median projection, implies that policy is substantially below the level the rules identify as appropriate. The projection accordingly is one of a widening gap between the current stance and a rules-consistent path if normalization proceeds only gradually, with the low r^* meaning that a 75 basis point move would still leave policy short of restrictive. On these mechanical grounds, the staff outlook anticipates that additional tightening beyond any single first step would be required to bring the stance into line with the rules' prescriptions.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial discussion of the appropriate policy action, participants were unanimous that a first rate increase was warranted and expected. All five judged that inflation, with core PCE at 4.63 percent, was severe and well above the 2 percent objective, and that the labor market — unemployment at 3.8 percent below the 4.45 percent natural rate, low claims, and widespread reports of worker scarcity —



offered no argument for continued accommodation. Participants observed that the prior meeting had explicitly signaled that hikes were 'soon appropriate,' making this the natural liftoff meeting; holding at the current range was viewed as indefensible from any perspective. The debate at this stage was framed as 25 versus 50 basis points rather than whether to act at all.

Several considerations pushed participants toward a measured 25 basis point step at liftoff. One participant focused on inflation acknowledged that a 50 basis point move was tempting given the overshoot but concluded that a jumbo move on the first step off the zero lower bound risked shocking fragile markets, and preferred to begin decisively while preserving flexibility to accelerate later. A participant attentive to market signals noted that the 3-month T-bill spread of 0.235 aligned almost exactly with a single 25 basis point increment, indicating markets had priced liftoff but not a larger move. Those weighing financial stability pointed to the VIX at 32.45, the moderate stress index at 0.1704, and the Beige Book's note of some weakening financial conditions as reasons to avoid destabilizing already-jittery markets, while noting that the positive 2s10s spread and contained Baa spread showed no recession alarm. The participant most focused on employment reasoned that a measured first hike protected future jobs by heading off a wage-price spiral that would otherwise force harsher tightening later. In the rebuttal round, no participant was moved off 25 basis points, and the discussion reflected a mutually reinforcing convergence on that increment.

The Committee then took up the deterministic policy framework, which recommended 75 basis points, with all four reference rules converging on that figure and judged reliable this meeting. Here a genuine divergence from the predictive discussion emerged. Some participants argued forcefully that the framework revealed the stance to be behind the curve. The inflation-focused participant found the Taylor and ELB-adjusted logic most persuasive, noting that positive inflation momentum of 0.325 meant pressures were still building and that even a 75 basis point move would reach only 0.75 to 1.00 percent, still below neutral given a low r^* of -0.5; this participant concluded the 25 basis point instinct reflected gradualist nerves rather than conviction. The data-dependent participant, reading the indicators literally, emphasized that both mandate gaps — inflation 2.6 points above target and unemployment 0.65 below natural — pointed the same direction, and that the convergence of reliable rules made 75 basis points defensible.

Other participants agreed on the direction of a larger move in principle but resisted its magnitude and timing for this initial step. The participant focused on employment, while finding no present labor-market fragility to defend, worried that a 75 basis point first move off the floor was abrupt amid elevated volatility and preferred a measured 25 basis point first step. The financial-stability participant framed the concern as one of surprise relative to pricing: with front-end markets embedding roughly 25



basis points and the VIX at 32.45, a move larger than priced risked a disorderly repricing, and this participant weighted that surprise risk more heavily than the pure inflation catch-up. The market-signal participant similarly endorsed the upward direction but declined the 75 basis point magnitude, arguing that markets — the most efficient aggregator in that participant's view — had priced roughly one step, and that jumping to three risked jolting risk assets. These participants stressed that they agreed the stance was behind the curve and that further hikes would follow, but preferred a market-consistent first step.

Across both strands of the discussion, participants shared substantial common ground: inflation was the dominant risk, the labor market was strong enough to absorb tightening, and credit conditions — contained Baa spreads, a non-inverted curve, and loan demand generally unchanged — showed no distress that would counsel inaction. The genuine disagreement concerned how fast to close the gap the rules identified, weighing the risk of entrenching inflation against the risk of destabilizing volatile markets with a move larger than expected.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy action for this meeting, all five members supported raising the target range by 25 basis points, from 0.0 to 0.25 percent to 0.25 to 0.50 percent, a tally of 5 to 0. On the separate question of the framework's 75 basis point recommendation, the Committee did not reach full agreement: two members — the inflation-focused participant and the data-dependent participant — endorsed the 75 basis point recommendation as-is, while the remaining three — the employment-focused, financial-stability, and market-signal participants — offered partial support, agreeing with the direction of tightening but not with the magnitude or timing of a 75 basis point first move. No member declined the direction of the recommendation.