



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account, which as of April 27, 2022 showed total domestic securities holdings of \$8,399.7 billion. The composition consisted of \$4,946.3 billion in Treasury notes and bonds, \$326.0 billion in Treasury bills, and \$2,706.1 billion in agency mortgage-backed securities. Relative to the prior release of April 20, 2022, total holdings declined. Participants were reminded that this review covers SOMA securities holdings only — total size, composition, and the week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as continuing to expand at a moderate pace. The labor market remained notably tight: the unemployment rate stood at 3.6%, below the estimated natural rate of 4.44%, and initial jobless claims were very low at 184,000. The Employment Cost Index registered 148.1, and the Chicago Fed National Activity Index at 0.44 pointed to above-trend growth. On the price side, core PCE inflation was running at 4.31% on a year-over-year basis, more than double the Committee's 2% objective. The M2 money supply measured \$21,809.7 billion.

The Beige Book information reinforced this picture. Activity expanded at a moderate pace across Districts, with consumer spending accelerating as COVID-19 cases tapered and manufacturing described as solid overall. At the same time, supply chain backlogs, labor market tightness, and elevated input costs continued to constrain firms' ability to meet demand, and vehicle sales remained limited by low inventories. Employment increased moderately, but hiring was held back by a lack of available workers, with many firms reporting significant turnover as workers left for higher wages and more flexible schedules; a few contacts noted early signs that the pace of wage growth had begun to slow. Inflationary pressures remained strong, with firms passing swiftly rising input costs through to customers. Contacts, particularly in manufacturing, reported steep increases in raw materials, transportation, and labor costs, and several noted spikes in energy, metals, and agricultural commodity prices following the Russian invasion of Ukraine as well as renewed supply chain disruptions from COVID-19 lockdowns in China. Outlooks for future growth were clouded by geopolitical uncertainty and rising prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions showed a mix of elevated volatility alongside contained credit-market stress. The VIX stood at 31.6, indicating meaningful market jitters and risk aversion, while the broader financial stress index at 0.1923 was judged moderate rather than acute. Credit markets remained orderly: the



Baa corporate spread over the 10-year Treasury was 2.06, showing no evidence of a funding blowout or systemic financing strain. The 10-year/2-year Treasury yield curve spread was positive but flat at 0.24, offering no acute recession signal while suggesting some caution about overtightening. The 3-month T-bill spread over the current policy rate was 0.465, implying that markets had already priced in a sizable degree of near-term tightening above the current midpoint.

STAFF ECONOMIC OUTLOOK

The staff projection drew on the forward-looking quantities available. With the neutral real rate (r^*) estimated at -0.5 , the current target range of 0.25% to 0.5% implies a real policy stance that is sharply negative — considerably more accommodative than the nominal level alone would suggest. Inflation momentum was estimated at a positive 0.415, indicating that price pressures were still building rather than fading, while unemployment momentum at -0.2 signaled that the labor market was continuing to tighten. Taken together, these figures point toward conditions in which demand pressures remain firm and inflation is unlikely to recede on its own in the near term absent a meaningful move toward a less accommodative policy stance.

The reference rules reinforced this reading. The Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule all prescribed 75 basis points of tightening, and the rules were judged reliable in the current environment. This unusual unanimity across differently-constructed rules reflected the large inflation gap against the 2% objective combined with a negative unemployment gap. The projection implied that policy would need to move substantially further to approach neutral, and that front-loading while credit markets remained benign could reduce the risk of a more disorderly catch-up later.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants agreed that inflation was the dominant risk facing the Committee. Core PCE at 4.31% was widely cited as more than double the 2% objective, and participants pointed to the Beige Book's account of broadening pressures — steep increases in raw materials, transportation, energy, metals, and agricultural commodities, together with strong wage growth passed swiftly through to customers — as evidence that price pressures were not narrowly concentrated. Several noted that the current 0.25% to 0.5% target range was deeply accommodative against this backdrop, and that the prior median projection of 1.9% implied substantial catch-up ahead. A member weighting employment risk most heavily observed that the labor market offered no reason to hold back: unemployment at 3.6% was well below the 4.44% natural rate, initial claims at 184,000 were very low, and the Beige Book confirmed strong, persistent labor demand with widespread worker shortages, while noting the early signs that wage growth might be starting to slow as something to watch closely going forward.



In the predictive discussion, all five participants converged on a 50 basis point move, though from differing lenses. A member attentive to market signals emphasized that the 3-month T-bill spread of 0.465 implied a sizable degree of tightening priced above the current midpoint — consistent with a 50 basis point step rather than 25 — and argued that moving with market expectations avoided a destabilizing surprise. A participant focused on financial stability flagged the VIX at 31.6 as a genuine caution against a larger, jarring move, but observed that the credit indicators most central to that concern were contained: the Baa spread at 2.06 showed no credit blowout and the stress index at 0.1923 was moderate. Participants generally agreed that a 25 basis point step would look timid against 4.31% core PCE and risk unanchoring inflation expectations, while a 75 basis point move risked disorderly conditions amid elevated volatility. The result was consensus on 50 basis points, moving the target range to 0.75% to 1.0%.

When the discussion turned to the framework's optimal recommendation, participants engaged with the fact that all four reference rules prescribed 75 basis points and were judged reliable. Several found the alignment across differently-constructed rules compelling. The participant most focused on inflation acknowledged that his own 50 basis point predictive vote reflected sequencing prudence, but concluded that the gap to the rules' 75 basis points confirmed policy remained behind the curve, and that with r^* at -0.5 the real stance was more stimulative than nominal levels suggested. The employment-focused member reasoned that with unemployment momentum at -0.2 and no sign of labor softening, his usual caution against restrictive policy was simply not triggered; he added that entrenched inflation would eventually force harsher tightening — the true threat to employment — so front-loading now while the labor market was strong was defensible even from his lens. The financial-stability participant likewise concluded that, absent credit-spread widening, VIX alone did not trigger his brake, and that a disorderly late catch-up posed the greater stability risk than orderly front-loading while spreads were benign.

A dissenting emphasis came from the participant who weights market-implied pricing most heavily. He agreed that the direction of a larger-than-25-basis-point step was correct and that tightening must accelerate, but argued that the T-bill spread of 0.465 pointed closer to 50 basis points than to 75, and that no market-pricing evidence indicated a full 75 basis points was anticipated. Exceeding what markets had priced, in his view, risked the disorderly volatility he most guarded against amid a VIX of 31.6. He noted that while the rules said 75, markets said roughly 50, and that he trusted market aggregation more on the question of magnitude. Other participants took the reference-rule signal more nearly at face value, judging that benign credit conditions and muted recession signals — a positive if flattening yield curve at 0.24 and contained Baa spreads — did not justify holding back from the optimal pace.

**COMMITTEE POLICY ACTIONS**

In the predictive vote on the policy action, all five members supported a 50 basis point increase, moving the target range from 0.25% to 0.5% to 0.75% to 1.0% (5 to 0). On the framework's optimal recommendation of 75 basis points, four members — the participants emphasizing inflation, employment risk, financial stability, and data dependence — endorsed the recommendation as-is, while one member, the participant weighting market-implied pricing, took a partial stance, agreeing with the direction of a larger move but not with the 75 basis point magnitude given that market pricing corroborated closer to 50 basis points. There were no members declining the recommendation outright.