



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$7,837.9 billion as of March 15, 2023. The portfolio comprised \$4,543.2 billion in Treasury notes and bonds, \$283.2 billion in Treasury bills, and \$2,600.3 billion in agency mortgage-backed securities. Relative to the prior weekly release of March 8, total holdings declined by \$9.2 billion, consistent with the ongoing runoff of the portfolio. Members were reminded that these figures capture SOMA securities holdings only — total size, composition, and the week-over-week change — and do not reflect the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source is currently available; the discussion of open market operations was therefore confined to the holdings data itself.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 3.94 percent on a twelve-month basis, remaining well above the Committee's 2 percent longer-run objective. Labor market conditions continued to be tight. The unemployment rate was 3.6 percent, below the staff's estimated natural rate of 4.43 percent, and initial jobless claims were low at 211,000. The Employment Cost Index registered 155.5, and the Chicago Fed National Activity Index at 0.23 pointed to growth somewhat above trend. The M2 money supply measured \$21,267.1 billion. Taken together, the incoming data described an economy that was still expanding with a firm labor market, even as inflation remained substantially elevated relative to target.

The Beige Book indicated that overall economic activity had increased slightly in early 2023, with six Districts reporting little or no change and six reporting modest expansion. Supply chain disruptions continued to ease, and consumer spending generally held steady, though several Districts noted that high inflation and higher interest rates were reducing discretionary income and purchasing power, with some concern about rising credit card debt. Manufacturing activity stabilized following an earlier period of contraction, housing markets remained subdued and restrained by low inventory, and commercial real estate showed continued weakness in the office segment. On balance, loan demand declined, credit standards tightened, and delinquency rates edged up. Labor markets remained solid, with employment increasing at a modest to moderate pace despite scattered reports of hiring freezes and layoffs, and wage increases were described as moderate with some easing in pressures. Inflationary pressures remained widespread, though price increases moderated in many Districts, and contacts amid heightened uncertainty did not expect conditions to improve much in the months ahead.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as tighter and somewhat jittery, though short of acute distress. The financial stress index stood at 0.1943, a moderate reading, and the VIX at 26.14 reflected elevated market nervousness. Credit market pricing appeared contained: the Baa corporate spread of 2.11 percentage points indicated tighter but orderly conditions rather than a credit blowout. The Treasury yield curve was deeply inverted, with the 10-year/2-year spread at negative 0.42 percentage point — a configuration historically associated with elevated recession risk. At the short end, the 3-month T-bill spread relative to the current policy rate was modestly positive at 0.085 percentage point, consistent with market expectations of a small further increase in the policy rate. These signals aligned with the Beige Book's account of declining loan demand and tightening credit standards, suggesting that financial conditions were doing some of the work of restraint through credit channels.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on several real quantities bearing on the likely path of conditions. The estimated neutral real rate (r^*) used in the framework was negative 0.5 percent, a low reading that, when fed through level-based policy rules, implied that the current 4.5 to 4.75 percent target range already sat meaningfully above neutral. Consistent with this, the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to a reduction of 75 basis points. The First-Difference rule, which keys off the change in conditions rather than the level relative to an uncertain neutral estimate, pointed in the opposite direction, prescribing an increase of 75 basis points in light of still-elevated inflation.

Reconciling these opposing pulls, the framework's loss-minimizing output recommended an increase of 25 basis points, with reference rules judged reliable. The loss terms reflected inflation momentum of negative 0.32 — indicating that price pressures were cooling but had not reversed — and unemployment momentum of 0.0, indicating no deterioration yet in the labor market. On the strength of these inputs, the staff projection implied an economy near, but not yet past, a sufficiently restrictive stance: inflation likely to continue easing gradually rather than falling sharply, a labor market expected to remain firm in the near term, and cumulative tightening together with tightening credit conditions expected to weigh increasingly on activity over the projection horizon. The wide dispersion between the deep-cut level rules and the aggressive First-Difference rule underscored the elevated uncertainty around neutral, and argued for incremental rather than large moves in either direction.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants generally agreed that inflation remained the central problem before the Committee. All noted that core PCE at 3.94 percent was nearly double the 2 percent objective, and that the Beige Book described inflationary pressures as still widespread even as



many Districts reported moderation. Participants also observed that the labor market remained tight, with unemployment at 3.6 percent below the estimated 4.43 percent natural rate and jobless claims low. From these starting points, the member most focused on inflation risk judged that a pause was not defensible while price pressures were this far above target, cautioning that halting now could risk unanchoring inflation expectations. That member emphasized that moderation was not the same as victory and that sustained disinflation would be needed before any pause could be justified.

A recurring theme across participants was the tension between still-high inflation and accumulating signs of credit stress. The member weighting financial stability most heavily characterized the signals as mixed but not acute: the financial stress index at 0.1943 was moderate and rising, the VIX at 26.14 reflected nervous markets, but the Baa spread of 2.11 remained contained. That member, together with others, pointed to the Beige Book's account of declining loan demand, tightening credit standards, and delinquency rates edging up as evidence that credit conditions were quietly deteriorating and were already doing part of the Committee's work. Several participants drew the same conclusion from this: while these signals argued against a pause, they argued equally against a larger 50 basis point move that could amplify the tightening already underway and destabilize fragile conditions.

The member most attentive to employment risk framed the decision around whether the labor market was currently at risk, and concluded it was not — employment continued to grow at a modest to moderate pace and there was no realized deterioration in the data. That member nonetheless flagged prospective warning signs, including hiring freezes, scattered layoffs, easing wage pressures, and the deeply inverted 10-year/2-year spread of negative 0.42, all of which pointed to possible weakening ahead. On that basis the member said a cut was premature but that a large hike would be unwise, and expressed a preference to resist further increases should claims rise or employment momentum turn negative. The member attentive to market signals reinforced this reading, noting that the modestly positive 3-month T-bill spread of 0.085 priced in roughly one more small step, while the inverted long end suggested markets saw policy near terminal — a short-end/long-end tension that triangulated on a single, near-terminal 25 basis point move rather than a pause or an acceleration.

In the optimal-framework phase of the discussion, participants engaged directly with the wide dispersion of reference-rule outputs. Several noted that the Taylor, Balanced Approach, and ELB-adjusted rules all called for a 75 basis point cut, but observed that these rested on the negative 0.5 percent estimate of r^* , which participants across mandates regarded as fragile and uncertain given inflation near 4 percent. Multiple participants found the First-Difference rule's logic — adjusting incrementally from the current stance rather than anchoring on an uncertain neutral level — the more persuasive reference, even as they judged its 75 basis point increase too aggressive in light of negative



inflation momentum of negative 0.32 and the credit tightening already evident. Participants generally concluded that the framework's 25 basis point recommendation threaded these opposing pulls, and read the gap between the deep-cut level rules and the recommended small hike as an indication that policy was near, but not yet past, a sufficiently restrictive stance. The data-dependent member described the 25 basis point step as the literal, face-value reading of the indicators, consistent with prior guidance of ongoing increases and with the prior 5.1 percent median projection sitting above the current range.

In the rebuttal exchanges, no participant reported being moved from their initial position; rather, they described the various arguments as mutually reinforcing. Participants concerned with inflation, employment, financial stability, data, and market signals each arrived at the same measured step from distinct vantage points, and several remarked that this convergence from different mandates strengthened their confidence. At the same time, participants attached forward-looking conditions to their support: the employment- and stability-focused members indicated they would resist further hikes if credit stress or labor-market momentum worsened materially, characterizing the move as likely near the final increment of the tightening cycle, while the inflation-focused member reiterated that continued firming toward the 5.1 percent prior projection remained warranted until disinflation proved durable.

COMMITTEE POLICY ACTIONS

In the predictive phase of the deliberation, all five members forecast an increase of 25 basis points in the target range, a unanimous 5-to-0 outcome ({25: 5}), consistent with a move from the current 4.5 to 4.75 percent range to 4.75 to 5.0 percent. On the optimal-framework side, the deterministic policy engine recommended a 25 basis point increase, and every member endorsed that recommendation as-is: the final tally was 5 endorse, 0 decline, 0 partial, with the inflation hawk, labor market dove, financial stability voice, data-dependent centrist, and market signal realist each recording an endorsement. The predictive forecast and the optimal-side outcome were therefore in full agreement, with no dissents recorded on either.