



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account held \$6,922.6 billion in domestic securities as of the most recent release dated March 13, 2024. Holdings were composed of \$3,942.8 billion in Treasury notes and bonds, \$205.8 billion in Treasury bills, and \$2,395.0 billion in agency mortgage-backed securities. Total holdings declined by \$3.4 billion from the prior release of March 6. Staff noted that these figures cover SOMA securities holdings only — total size, composition, and week-over-week change — and do not reflect repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as having increased slightly on balance since early January, drawing on Beige Book reporting in which eight Districts described slight-to-modest growth, three reported no change, and one noted a slight softening. Consumer spending on retail goods inched down in recent weeks, with several reports citing heightened price sensitivity and continued trading down away from discretionary goods. Leisure and hospitality varied by segment; air travel was robust, while demand for restaurants and hotels softened amid elevated prices and unusual weather in some regions. Manufacturing activity was largely unchanged and supply bottlenecks normalized further, though delivery delays for electrical components persisted and some contacts reported rising international shipping costs. Residential real estate saw a pickup in demand tied to some moderation in mortgage rates, but limited inventories held back sales; commercial real estate was weak, especially for office space, even as demand for data centers, industrial space, and large infrastructure projects was firm.

On the labor side, employment rose at a slight-to-modest pace in most Districts and labor market tightness eased further, with nearly all Districts reporting improved labor availability and retention. Difficulties persisted in filling highly skilled roles, including health-care professionals, engineers, and skilled trades. Wages grew further across Districts, though several reports indicated a slower pace of increase. The unemployment rate stood at 3.9%, below the estimated natural rate of 4.42%, and initial jobless claims were low at 217,000. Core PCE inflation was 2.14% on a twelve-month basis, modestly above the 2.0% objective. The Chicago Fed National Activity Index at -0.3 pointed to somewhat below-trend growth. The outlook among contacts remained generally positive, with expectations for stronger demand and less restrictive financial conditions over the next 6 to 12 months.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were characterized as calm. The financial stress index stood at 0.1493, a low reading, and the VIX at 13.75 indicated subdued volatility. The Baa corporate spread of 1.55 percentage points was narrow, consistent with contained corporate borrowing costs and Beige Book reports of generally healthy credit quality, stable-to-down loan demand, and only isolated reports of rising delinquencies. The 10-year/2-year Treasury spread remained inverted at -0.42, a persistent recession-risk signal, while the 3-month T-bill rate sat 12.5 basis points below the current policy rate, indicating markets anticipate modest easing ahead but not an imminent stress-driven move. The current target range for the federal funds rate was 5.25% to 5.50%.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available in the data. With the estimated neutral real rate (r^*) at -0.5%, a neutral nominal rate consistent with the 2.0% objective would sit near 1.5%, well below the current 5.25% to 5.50% range — implying that the prevailing stance is materially restrictive by this measure. Inflation momentum registered at -0.405, indicating that disinflation is actively progressing rather than stalling, while unemployment momentum at -0.05 pointed to only a modest loosening in labor conditions rather than sharp deterioration.

Reference-rule outputs were judged reliable this meeting. The Taylor rule, Balanced Approach rule, and ELB-adjusted rule each pointed to -75 basis points, reflecting inflation near target combined with a policy rate far above the estimated neutral level. The First-Difference rule, which keys off changes rather than the level of restriction, pointed in the opposite direction at +25 basis points. Weighing these against the estimated neutral rate and inflation and unemployment momentum, the deterministic policy engine produced a loss-minimizing recommendation of -50 basis points — a step toward neutral that moderates the aggressive level-based signals against the cautious change-based one. The projection implied by these quantities is one of continued gradual disinflation alongside below-trend growth and a slowly easing labor market, with policy running tighter than the reference framework judges warranted.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive discussion, all five participants converged on holding the target range at 5.25% to 5.50%, though they arrived there from distinct vantage points. The participant weighting inflation risk most heavily emphasized that core PCE at 2.14% remained above the 2.0% objective and that the prior meeting's demand for 'greater confidence' that inflation is moving sustainably to target had not been met; with unemployment at 3.9% still below the 4.42% natural rate and wages still growing across Districts, this participant judged upside inflation risk to remain asymmetric and saw no urgency to ease.



The participant most focused on employment described the labor market as cooling rather than collapsing — unemployment below the natural rate, jobless claims low at 217,000, and Beige Book reports of easing tightness and slower wage growth — and concluded that with no acute deterioration, patience did not yet cost employment, while leaning strongly toward near-term easing should conditions soften further. The participant attentive to financial stability observed that a low stress index of 0.1493, a calm VIX of 13.75, and a narrow Baa spread of 1.55 pointed to no systemic strain forcing action in either direction, and cautioned that a premature cut into calm markets could invite disorderly repricing. The data-dependent participant read the numbers literally as supporting a hold pending confirming inflation data, and the participant weighting market signals noted that the -0.125 T-bill spread implied markets did not expect a cut at this meeting, only a modest path lower over time. The rebuttal round reinforced rather than disturbed this consensus, and the predictive vote was unanimous for a hold.

When participants turned to the deterministic framework's -50 basis point recommendation, a more genuine divergence emerged. Several participants found the recommendation compelling. The employment-focused participant argued that direction matters more than level in the labor data and that a real rate near 3% against an estimated r^* of -0.5% left policy far above neutral; with disinflation ongoing at a momentum of -0.405 and the yield curve inverted at -0.42, this participant endorsed -50 basis points as safe insurance for jobs while stress remained low. The financial-stability participant likewise came to see the calm backdrop as precisely the moment for preemptive easing — 'insurance, not rescue' — reasoning that easing 50 basis points while spreads are tight avoids the reactive scenario of cutting into a spreading credit event later, and pointing to early credit-cycle signs in weak office CRE and isolated delinquencies. The data-dependent participant, on the numbers alone, agreed that policy appeared more restrictive than conditions warranted, describing inflation as nearly resolved at just 14 basis points above target and noting that three of four reference rules pointed to -75 basis points; this participant judged the -50 outcome a defensible compromise between the aggressive level-based rules and the cautious First-Difference rule.

Two participants did not fully align with the recommendation. The inflation-weighting participant declined to endorse a cut, arguing that the low r^* assumption mechanically inflates the easing signal from the Taylor, Balanced Approach, and ELB rules, and that he distrusted rules treating 2.14% as effectively at target; while acknowledging the level-based case that policy may be somewhat restrictive, he held that the magnitude and timing of a cut were not justified while inflation sits above target and 'greater confidence' remains unearned. The market-signals participant agreed with the direction of easing but not the size, contending that the T-bill's 12.5 basis point lead implied markets price a gradual glide rather than an immediate 50 basis point leap; this participant judged a smaller step



better matched to market-implied pricing while still acknowledging restrictiveness.

Across both strands of discussion, participants generally recognized a tension between the predictive reading — anchored in the prior meeting's inflation vigilance and the absence of any acute stress compelling action — and the framework's assessment that accumulated restrictiveness had grown relative to a low neutral rate. A couple of participants observed that the gap between a unanimous hold and a -50 basis point optimal call largely reflected caution about inflation sustainability rather than the numbers themselves, while others maintained that with inflation still above target and confidence not yet earned, that caution was itself the appropriate stance.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision for this meeting, all five participants supported maintaining the target range for the federal funds rate at 5.25% to 5.50%, a unanimous 5-to-0 outcome. On the separate question of the deterministic framework's -50 basis point recommendation, participants split: three endorsed the recommendation as-is (the labor-market-focused, financial-stability, and data-dependent participants), one declined it (the inflation-weighting participant), and one gave partial support, agreeing with the direction of easing but not its magnitude or timing (the market-signals participant).