



## DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent System Open Market Account holdings data, reported as of April 24, 2024. Total SOMA domestic securities holdings stood at \$6,813.6 billion, comprising \$3,873.6 billion in Treasury notes and bonds, \$195.1 billion in Treasury bills, and \$2,376.5 billion in agency mortgage-backed securities. Relative to the prior release of April 17, total holdings declined by \$3.5 billion, a modest week-over-week reduction. Participants noted that this review covers SOMA securities holdings only — total size, composition, and the change from the prior release — and does not extend to repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available; discussion was therefore confined to the holdings data at hand.

## STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.13 percent on a twelve-month basis, only slightly above the Committee's 2 percent objective. The labor market remained tight: the unemployment rate was 3.8 percent, below the estimated natural rate of 4.41 percent, and initial jobless claims were low at 212,000. The Chicago Fed National Activity Index registered 0.15, consistent with growth modestly above trend, and the Employment Cost Index reading was 162.1. M2 money supply was reported at \$20,841.2 billion. The Committee's most recent projection had placed the median expected fed funds rate at 4.6 percent, against a current target range of 5.25 to 5.50 percent.

The Beige Book characterized overall economic activity as expanding slightly, on balance, since late February, with ten of twelve Districts reporting slight or modest growth — up from eight in the prior report — and the remaining two reporting no change. Consumer spending barely increased overall, with several reports noting weakness in discretionary categories as price sensitivity remained elevated. Manufacturing activity declined slightly, with only three Districts reporting growth, while residential construction and home sales strengthened in most Districts. On the labor side, employment rose at a slight pace, with most Districts noting improvements in labor supply and applicant quality, even as shortages persisted for certain skilled positions. Wages grew at a moderate pace in eight Districts, and multiple Districts observed that annual wage growth had returned to historical averages. Price increases were modest and running at about the same pace as in the prior report; shipping disruptions in the Red Sea and the collapse of Baltimore's Key Bridge caused some delays but had not yet produced widespread price increases.

## STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions were benign and orderly. The financial stress index stood at 0.1477, a low reading indicating calm markets and no sign of distress. The VIX was 15.97, likewise



subdued, and the Baa corporate spread was 1.46, tight by historical standards and pointing to healthy credit conditions with no evident borrowing-cost strain. The 10-year/2-year Treasury yield curve remained inverted at -0.24, a persistent but not acutely worsening recession signal, while the 3-month T-bill spread of -0.125 relative to the current policy rate suggested markets anticipated some eventual easing without pricing an imminent move. On balance, the staff judged that no financial-conditions indicator was signaling either systemic stress requiring action or exuberance demanding restraint.

### **STAFF ECONOMIC OUTLOOK**

The staff outlook drew on the forward-looking quantities embedded in the reference-rule framework. The estimated real neutral rate ( $r^*$ ) of -0.489 implied that, with the target range at 5.25 to 5.50 percent and inflation near 2.1 percent, the real policy rate was running well above neutral — a meaningfully restrictive stance. Inflation momentum was estimated at -0.315, consistent with disinflation continuing to unfold rather than prices re-accelerating, while unemployment momentum was estimated at 0.0, indicating no discernible deterioration in labor conditions at present. Taken together, these figures pointed to an economy in which price pressures were easing while the labor market held steady.

Against this backdrop, three of the four reference rules — the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule — each pointed to -75 basis points, reflecting the gap between the current real rate and estimated neutral. The First-Difference rule, which responds to changes rather than levels, indicated no change. The reference rules were judged reliable for this meeting. Blending these signals, the framework's loss-minimizing recommendation was -50 basis points, a partial move toward neutral that tempered the level-based rules' larger reductions against the more cautious change-based signal and residual inflation risk. The projection thus implied that maintaining the current stance would leave policy more restrictive than conditions warranted if disinflation continued as the momentum estimate suggested.

### **PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK**

In their predictive discussion of the appropriate policy for this meeting, all participants judged that maintaining the target range at 5.25 to 5.50 percent was warranted. Several participants emphasized that core PCE at 2.13 percent, while close to the objective, was not yet sustainably at 2 percent, and recalled that recent readings had earlier been described as firmer than expected and broad-based. Participants generally observed that the prior meeting had set a threshold of greater confidence that inflation was moving sustainably to target before any easing, and that this threshold had not yet been met. One participant with a focus on price stability noted that cutting now, with inflation still above target and the labor market tight, would risk reigniting price pressures before confidence was established.



Participants examined the labor market and financial conditions for any signal that might argue for a move in either direction and found none compelling. A participant weighting employment risk observed that unemployment at 3.8 percent remained below the 4.41 percent natural rate, jobless claims were low, and the Beige Book showed employment still rising, so the conditions that would activate a bias toward easing — rising unemployment or slowing job growth — were absent. A participant attentive to financial stability noted that the low stress index, subdued VIX, and tight Baa spread pointed to orderly, healthy credit conditions with no distress forcing action. Participants acknowledged the persistent 10-year/2-year inversion as a mild recession signal but generally judged that, absent widening credit spreads or a stress spike, an inversion alone did not justify preemptive easing. A participant focused on market signals added that the 3-month T-bill spread implied markets expected only eventual, not imminent, easing, so efficient aggregation of pricing pointed to patience.

In the subsequent discussion oriented around the framework's loss-minimizing recommendation of -50 basis points, participants engaged more directly with the tension between the restrictiveness of current policy and the confidence threshold they had set. Several participants noted that with estimated  $r^*$  at -0.489 and the real policy rate above 3 percent, the stance was deeply restrictive relative to neutral, and that the Taylor, Balanced Approach, and ELB-adjusted rules — all pointing to -75 basis points and judged reliable — read this gap as room to reduce restriction. The participant weighting employment risk found the framework's easing signal more persuasive than the status quo, arguing that with inflation momentum at -0.315 and the Beige Book showing employment rising only at a slight pace and manufacturing declining, holding restrictive policy risked pushing unemployment up before the Committee reacted; this participant endorsed front-running employment risk before slack appeared in the data.

Other participants agreed with the direction implied by the framework but were cautious about its magnitude. The participant focused on price stability accepted that real rates were meaningfully above neutral but held that one quarter of disinflation did not amount to sustained confidence, and judged that a -50 basis point step to roughly 4.75 to 5.00 percent eased too much, too fast, before inflation was confirmed at target. The financial-stability participant, while supporting easing to preempt a credit-conditions snap under prolonged inversion, worried that a -50 basis point move could signal an alarm markets did not currently feel and preferred a smaller, measured step to preserve orderly conditions. The data-dependent participant read the direction of easing as well-supported by restrictiveness but judged the magnitude ahead of confirmed data given labor tightness and the unmet confidence threshold. The participant focused on market signals emphasized that the T-bill spread of -0.125 embedded only a modest anticipated move rather than an aggressive step, and favored a smaller initial adjustment consistent with what short-end pricing implied.



Across the discussion, participants converged on the view that current policy was more restrictive than a mechanical reading of conditions alone would call for, and that the gap between a hold and the framework's recommendation reflected the deliberate caution embodied in the greater-confidence threshold. The First-Difference rule's no-change signal was noted as the counterweight to the level-based rules, and participants who resisted the full magnitude drew on it in arguing for gradualism. Participants generally characterized the direction of eventual easing as defensible on restrictiveness grounds, while differing on whether the timing and size the framework recommended could be reconciled with the confidence they still sought on inflation.

### **COMMITTEE POLICY ACTIONS**

In the predictive vote on the policy action for this meeting, all five participants supported maintaining the target range at 5.25 to 5.50 percent; the vote was unanimous, 5 to 0, to hold. On the separate question of the framework's loss-minimizing recommendation of -50 basis points, the Committee did not reach full agreement: one participant, weighting employment risk, endorsed the recommendation as-is, while the remaining four participants — the participant focused on price stability, the financial-stability participant, the data-dependent participant, and the participant focused on market signals — took a partial stance, agreeing with the direction toward eventual easing but not with the magnitude or timing of a -50 basis point move at this juncture. No participant declined the recommendation outright.