



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that total System Open Market Account domestic securities holdings stood at \$6,509.0 billion as of October 30, 2024, the most recent release available under the point-in-time cutoff. Of this total, Treasury notes and bonds accounted for \$3,698.6 billion and Treasury bills for \$195.3 billion, with agency mortgage-backed securities making up \$2,257.9 billion. Holdings declined by \$12.6 billion relative to the prior release of October 23. Participants were reminded that these figures describe SOMA securities holdings only — their total size, composition, and week-over-week change — and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; accordingly, no discussion of those operations was undertaken.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.51 percent on a twelve-month basis, still above the Committee's 2 percent objective but continuing a gradual moderation. The unemployment rate was 4.1 percent, somewhat below the estimated natural rate of 4.41 percent, and initial jobless claims remained low at 216,000, indicating that the labor market had cooled only gently and showed no sign of abrupt deterioration. The Chicago Fed National Activity Index, at -0.28, pointed to growth modestly below trend. The current target range for the federal funds rate was 4.75 to 5.00 percent, following the prior meeting's action.

The Beige Book described economic activity as broadly flat to slightly softer across districts. Several districts reported that activity was little changed or declined slightly, with consumer spending softening and consumers described as highly price conscious. Housing conditions were mixed: home sales and prices had softened noticeably over the summer in some districts while remaining solid in others. Employment was generally flat to slightly higher, and wage growth was characterized as modest to moderate. On prices, most districts reported that selling prices increased only slightly, with pricing power softening in some areas. Manufacturing was uneven, with some contacts reporting persistently weak sales. A number of districts noted disruptions from a short-lived worker strike and from Hurricane Helene, though contacts generally remained cautiously optimistic about the outlook for late 2024 and 2025.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and orderly. The financial stress index, at 0.1316, was low, and the Baa corporate spread of 1.44 percentage points was historically tight, consistent with healthy credit availability and no evident borrowing-cost distress. The VIX, at 23.16, was moderately elevated but well below levels associated with market disorder. The 10-year/2-year Treasury spread



had turned modestly positive at 0.12 percentage point, an un-inversion that reduced the acute recession signal that had previously been present. The 3-month Treasury bill yield sat 0.405 percentage point below the current federal funds rate, indicating that money markets had already priced in further easing in the near-term path. Taken together, the staff saw no financial-market strain that would compel an abrupt policy response in either direction.

STAFF ECONOMIC OUTLOOK

The staff's projection took as its point of departure the estimate that the neutral real rate (r^*) was around -0.292 percent, implying that the current policy stance was only mildly restrictive rather than sharply so. Inflation momentum was slightly negative at -0.05, consistent with disinflation that was continuing but had slowed, while unemployment momentum was modestly positive at 0.15, suggesting some upward drift in labor-market slack that had not yet shown through in the low level of jobless claims. On this basis the staff projected that inflation would likely continue to ease gradually toward the objective and that labor-market conditions would soften only slowly, absent a shock.

The reference rules spanned a wide range and did not point in a single direction. The Taylor rule prescribed -75 basis points, reflecting heavy weight on the below-trend activity signal, while the First-Difference rule prescribed +25 basis points, reflecting the still-above-target inflation reading. The Balanced Approach and ELB-adjusted rules each pointed to -25 basis points. With reliable rules straddling zero in this manner, the loss-minimizing recommendation from the framework netted to 0 basis points — a hold — which the staff read as reflecting genuinely two-sided risk rather than a clear case for further movement at this juncture. The negative bill-rate spread was interpreted as embedding an easing path over time rather than a mandate to act at any single meeting.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion of the likely policy outcome, all five participants converged on a 25 basis point reduction, which would bring the target range to 4.50 to 4.75 percent. Participants generally agreed that the data supported a continuation of gradual normalization but did not warrant a repeat of the prior meeting's larger 50 basis point move. A recurring theme was that the prior action, together with a dissent at that meeting favoring a smaller 25 basis point step, signaled appetite within the Committee to slow the pace of easing to a standard increment.

The participant most focused on inflation emphasized that core PCE at 2.51 percent remained meaningfully above the 2 percent objective and that disinflation was not yet assured, citing housing services as an outlier concern and the Beige Book's characterization of prices as still increasing slightly and wages rising modestly. This participant weighed whether an outright hold might be warranted,



observing that low financial stress, tight credit spreads, an un-inverted yield curve, and low jobless claims meant no crisis was forcing continued easing. On balance, however, the genuine softening in activity — a Chicago Fed index of -0.28 and flat-to-declining activity across several districts — combined with the absence of any inflation re-acceleration led this participant to view a measured 25 basis point step, rather than another 50 basis point move or a hold, as the prudent minimum.

The participant most attentive to employment framed the risks as largely forward-looking. Although unemployment at 4.1 percent remained below the natural rate and claims were low, this participant pointed to flat national employment, softening activity, and below-trend growth as warning signs worth guarding against before they worsened. Even so, the participant judged that the hard labor data were not weak enough to justify an aggressive move, making a 25 basis point cut the appropriate middle path. The participant attentive to financial stability stressed that benign conditions — stress at 0.1316, a Baa spread of 1.44, a moderate VIX, and an un-inverted curve — provided no imperative to ease aggressively, while the negative bill-rate spread meant a 25 basis point cut would align with priced-in expectations and avoid a destabilizing surprise in either direction. The data-dependent participant and the market-signal participant reached the same conclusion by way of the balance of the data and the trajectory implied by the prior median projection of 4.4 percent, both reading a standard 25 basis point step as the literal consensus outcome.

The Committee then turned to the framework's loss-minimizing recommendation of a hold at 0 basis points, and here the discussion grew more nuanced. Several participants observed that their predictive vote of -25 basis points diverged from the framework's 0, and each read that divergence as evidence that the current stance was already close to neutral — with the r^* estimate near -0.29 implying only mild restriction — so that the cost of patience was low. The inflation-focused participant found the hold squarely aligned with the case for caution, noting that the First-Difference rule's +25 reading suggested recent cuts may have outrun genuine progress and that holding would let the prior 50 basis point cut transmit while confirming that inflation was truly returning to target. The financial-stability and data-dependent participants likewise came to view the hold as disciplined: with reliable rules straddling zero, no credit stress, and firm labor readings, standing pat preserved optionality without abandoning either mandate. The market-signal participant agreed that markets price a path rather than a demand to move at any given meeting, so the front-end easing signal could be honored on its own timeline.

The employment-focused participant registered the one point of genuine daylight on the framework question. This participant agreed with the direction implied by continued easing and highlighted the modestly positive unemployment momentum of 0.15 as a signal deserving weight, but ultimately judged that no labor-market break had yet materialized to force action at this specific meeting. The



participant indicated a preference for a small 25 basis point step over an outright hold, while stating a readiness to cut more decisively at a subsequent meeting should claims rise materially or unemployment momentum accelerate. Other participants acknowledged this timing concern but found that the balance of calm financial conditions, above-target inflation, and rules netting to zero supported patience at the current juncture.

COMMITTEE POLICY ACTIONS

In the predictive assessment of the likely policy decision, all five participants supported a 25 basis point reduction in the target range for the federal funds rate to 4.50 to 4.75 percent; the predictive vote was unanimous at -25 basis points. On the separate question of the framework's loss-minimizing recommendation of a hold at 0 basis points, four participants — the inflation-focused, financial-stability, data-dependent, and market-signal members — endorsed the recommendation as-is, while one participant, the employment-focused member, offered a partial endorsement, agreeing with the direction of the reasoning but preferring a 25 basis point step over a hold at this meeting. No participant declined the recommendation.