



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that total System Open Market Account domestic securities holdings stood at \$6,448.9 billion as of December 11, 2024, essentially unchanged from the prior release of December 4 (a reported change of \$0.0 billion). Holdings remained concentrated in Treasury coupon securities, with Treasury notes and bonds at \$3,654.6 billion, Treasury bills at \$195.3 billion, and agency mortgage-backed securities at \$2,240.9 billion. The staff noted that this account covers SOMA 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 is currently available; accordingly, no discussion of those operations was included in this review.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.52 percent on a twelve-month basis, remaining above the Committee's 2.0 percent objective though having moderated over recent readings. The unemployment rate was 4.2 percent, below the estimated natural rate of 4.41 percent, and initial jobless claims were low at 224,000. The Employment Cost Index registered 166.8, and the Chicago Fed National Activity Index at -0.4 pointed to growth somewhat below trend. M2 money supply was reported at \$21,311.2 billion. The current federal funds target range was 4.5 to 4.75 percent, with a midpoint of 4.625 percent, sitting modestly above the Committee's most recent median projected rate of 4.4 percent.

The most recent Beige Book characterized economic activity as having risen slightly in most Districts, with three regions showing modest or moderate growth that offset flat or slightly declining activity in two others. Expectations for growth rose moderately across most geographies, and business contacts expressed optimism that demand would rise in coming months. Consumer spending was generally stable, though many consumer-oriented businesses reported increased price sensitivity and, in several cases, greater sensitivity to quality. Spending on home furnishings was down, attributed to limited household mobility, and mortgage and commercial real estate lending were subdued, though contacts generally reported that financing remained available. Employment was flat or up only slightly, with subdued hiring, low turnover, and low reported layoffs; contacts expected employment to hold steady or rise slightly over the next year. Wage growth softened to a modest pace across most Districts, with entry-level positions and skilled trades a notable exception, rising robustly. Prices rose only at a modest pace, and both consumer- and business-oriented contacts reported greater difficulty passing costs on to customers, with input prices said to be rising faster than selling prices for most businesses.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were characterized as calm and accommodative. The financial stress index was low at 0.1049, and the VIX at 13.58 pointed to subdued equity-market volatility. The Baa corporate spread of 1.41 percentage points was narrow by historical standards, consistent with healthy credit availability and low default fear, and the Beige Book's report that financing remained available reinforced this reading. The 10-year/2-year Treasury yield curve spread was slightly positive at 0.11, indicating that the curve had un-inverted and that acute recession signals from the term structure had eased. The 3-month Treasury bill yield stood 0.335 percentage point below the current target-range midpoint, suggesting that short-term markets were pricing some further easing ahead, though not in a manner consistent with market stress.

STAFF ECONOMIC OUTLOOK

The staff's outlook drew on the real forward-looking quantities available. The estimated neutral rate (r^*) used in the policy engine was -0.268, a notably low figure whose fragility the staff flagged; taken literally, it implies limited additional room for accommodation before policy would reach a neutral setting. Inflation momentum was mildly positive at 0.12, indicating that price pressures were not yet clearly receding, while unemployment momentum was 0.0, pointing to a stable labor market without a deteriorating trend. Together these suggest a gently cooling economy in which inflation continues to converge only gradually toward the 2.0 percent objective and employment holds near its natural level.

The reference rules spanned a wide range. The Taylor rule prescribed -75 basis points, a reading heavily influenced by the negative r^* estimate and the below-trend activity index, while the First-Difference rule pointed to +25 basis points. The Balanced Approach and ELB-adjusted rules both indicated no change. The staff judged the reference rules reliable, and the loss-minimizing recommendation settled on 0 basis points, with the two zero-reading rules bracketing the outliers on either side. The projection implied by these figures was one of a policy stance already close to appropriate for current conditions: with inflation somewhat above target and momentum modestly positive, but with no labor deterioration and calm financial conditions, the balance of forward-looking evidence pointed toward holding rather than either aggressive easing or renewed tightening.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, four of the five participants favored a 25 basis point reduction in the target range, to 4.25 to 4.5 percent, while one participant favored holding at the current 4.5 to 4.75 percent range. Those inclined to cut pointed to several converging signals: the 3-month bill trading 0.335 percentage point below the current midpoint, indicating markets expected continued easing; the Committee's own most recent median projected rate of 4.4 percent sitting below the current midpoint; and Beige Book evidence of softening wage growth, modest price gains, and difficulty passing costs on



to customers. The participant most focused on employment emphasized subdued hiring, flat-to-slightly-rising employment, and low turnover as evidence of soft labor momentum, arguing that keeping policy above the Committee's own projected level risked stalling a fragile labor market even as disinflation appeared to be proceeding without a hard landing. The participant attentive to financial stability stressed that pausing would surprise markets that had priced further easing and could produce an unwanted abrupt tightening of financial conditions against an otherwise benign credit backdrop.

The dissenting participant, weighting inflation credibility most heavily, argued that with core PCE at 2.52 percent and the prior statement still describing inflation as 'somewhat elevated,' the disinflation fight was not yet won. This participant noted that unemployment at 4.2 percent sat below the 4.41 percent natural rate, that layoffs and claims were low, and that entry-level and skilled-trades wages were rising robustly — a residual inflation risk. From this vantage, loose financial conditions (VIX at 13.58, stress index at 0.1049, a tight Baa spread of 1.41) argued against, not for, a defensive cut, since there was no distress requiring accommodation and easing into already-loose conditions risked reigniting price pressures. In rebuttal, several participants acknowledged the disinflation signals as genuine while maintaining that market pricing and the Committee's prior projection, rather than any labor or credit emergency, were what pointed toward a measured cut. No participant judged a larger 50 basis point move warranted, citing low unemployment, calm markets, and inflation still above target.

When participants turned to the optimal-policy framework, which recommended holding at 0 basis points, the discussion shifted notably. Participants confronted the tension between their predictive votes and the loss-minimizing recommendation directly and, on reflection, generally judged the hold the more defensible call on the current data. Several found the Balanced Approach and ELB-adjusted rules — both reading 0 — most persuasive, observing that with unemployment below its natural rate and inflation still above target, neither mandate gap called for movement. Participants were broadly skeptical of the Taylor rule's -75 basis point prescription, attributing it to the fragile negative r^* estimate of -0.268 and judging that leaning on that figure to justify aggressive easing overreached with inflation roughly half a point above target. Inflation momentum at +0.12 and unemployment momentum at 0.0 were repeatedly cited as evidence of stable, not deteriorating, conditions.

In reconciling the two exercises, participants converged on the interpretation that their predictive leaning toward a cut reflected the momentum of the ongoing easing cycle and market-priced expectations rather than data that presently demanded added stimulus. The employment-focused participant noted that the trigger for a cut — rising claims or unemployment climbing above the natural rate — had not fired, and that holding preserved optionality to ease later if the labor data turned. The financial-stability participant emphasized that with no credit stress to address, there was 'no fire to put



out,' and that holding guarded against re-loosening conditions prematurely. The market-focused participant reasoned that the negative bill spread implied a gradual path rather than an urgent move at this meeting, so that holding would let restrictive market pricing do its work over time. The inflation-focused participant, whose predictive stance was already a hold, viewed the framework's recommendation as vindicating caution and remarked that if anything the data leaned toward tightening. Across the discussion, participants generally judged that the current stance was near-neutral and appropriately positioned, and that patience best preserved the progress made on inflation while retaining flexibility.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy action, four participants favored a 25 basis point reduction in the target range to 4.25 to 4.5 percent, and one participant favored holding at 4.5 to 4.75 percent, for a tally of 4 to 1 in favor of a cut. On the framework's loss-minimizing recommendation of 0 basis points — a hold at 4.5 to 4.75 percent — the Committee reached full agreement: all five participants endorsed the recommendation as-is, with none declining and none registering partial agreement. The inflation hawk, labor market dove, financial stability voice, data-dependent centrist, and market signal realist each endorsed the 0 basis point recommendation.