



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

Domestic securities held in the System Open Market Account totaled \$6,340.0 billion as of March 12, 2025, unchanged from the prior release on March 5. The composition was little changed: Treasury notes and bonds accounted for \$3,607.3 billion, Treasury bills for \$195.3 billion, and agency mortgage-backed securities for \$2,195.3 billion. With the week-over-week change reported at zero, the size and mix of the portfolio were effectively flat over the period. It should be noted that this review covers SOMA holdings only — total size, composition, and the change from the prior release. It does not extend to repurchase or reverse-repurchase operation results, for which no point-in-time-safe data source currently exists; accordingly, no characterization of those operations is offered here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that inflation had continued to move toward the Committee's objective. Core PCE inflation was running at 2.06 percent on a twelve-month basis, essentially at the 2.0 percent goal and a marked improvement from the 2.8 percent core reading cited at the time of the prior meeting. The Employment Cost Index stood at 168.3, and the Beige Book characterized wage growth as modest-to-moderate, slightly slower than the previous report, with several Districts noting that wage pressures were easing. At the same time, the staff flagged upside price signals: prices increased moderately in most Districts, several Districts reported an uptick in the pace of increase relative to the prior period, and input price pressures were generally greater than sales price pressures, particularly in manufacturing and construction. Higher prices for eggs and other food ingredients were noted, and contacts across sectors expressed concern about the potential impact of looming trade policy changes and about tariffs on lumber and other materials.

Labor market indicators pointed to a solid but slightly softening picture. The unemployment rate was 4.1 percent, below the estimated natural rate of 4.32 percent, and initial jobless claims were low at 221,000. The Beige Book reported that employment nudged slightly higher on balance, with four Districts reporting a slight increase, seven reporting no change, and one reporting a slight decline; job growth was cited in health care and finance, while declines were reported in manufacturing and information technology. Labor availability improved for many sectors and Districts. Several contacts noted that rising uncertainty over immigration and other matters was influencing current and future labor demand. On activity, overall economic output rose slightly since mid-January, with six Districts reporting no change, four reporting modest or moderate growth, and two noting slight contractions; the Chicago Fed National Activity Index at -0.03 was consistent with growth near trend. Consumer spending was lower on balance, with increased price sensitivity for discretionary items among lower-income shoppers, and construction activity declined modestly. Overall expectations for activity



over the coming months were slightly optimistic.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions remained broadly accommodative of orderly market functioning, with no signs of acute stress. The financial stress index stood at 0.1299, a low reading, and the Baa corporate spread over Treasuries was contained at 1.68, indicating that credit markets were pricing modest rather than distressed risk. The 10-year/2-year yield curve spread was positive at +0.31, so the recession signal from an inverted curve had eased. The VIX, at 24.23, was modestly elevated — above calm levels and consistent with some unease tied to trade and policy uncertainty — but well below crisis territory. The 3-month Treasury bill traded 0.175 percentage point below the current target rate, suggesting that money markets anticipated some near-term easing, though of modest magnitude. Taken together, the staff judged that markets appeared to expect a gradual removal of policy restriction rather than any urgent or aggressive move.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the several quantitative reference points available. The estimated neutral real rate (r^*) was negative at -0.168, implying that with the target range at 4.25 to 4.50 percent and core inflation near 2 percent, the real policy rate stood materially above neutral — that is, policy was genuinely restrictive on this measure. Inflation momentum was negative at -0.195, indicating that price pressures were, on balance, receding rather than building, while unemployment momentum was flat at 0.0, consistent with a labor market that had not yet begun to deteriorate. On these readings, the outlook was for inflation to remain near or drift below target absent an offsetting shock, and for the labor market to hold near its current position in the near term.

The reference rules spanned a wide range. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -75 basis points, reflecting the estimated r^* near zero and inflation essentially at goal — a signal that the current stance was well above rule-implied levels. The First-Difference rule, by contrast, indicated 0 basis points, reflecting gradualism and the absence of any sharp change in conditions to date. The staff noted that the reference rules were judged reliable in the current configuration. The framework's loss-minimizing recommendation, at -25 basis points, sat between these poles: it acknowledged the restrictiveness detected by the level rules while stopping well short of the aggressive move they implied, in recognition that no crisis was forcing urgency and that the Beige Book's tariff- and input-price signals posed a live upside risk to the disinflation projection.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK



In the predictive phase of the deliberation, all five participants independently arrived at a hold at the current 4.25 to 4.50 percent range. Participants generally judged that with core PCE at 2.06 percent essentially at the 2.0 percent objective — down substantially from the 2.8 percent core reading of the prior meeting — the case for maintaining a restrictive stance to fight inflation had weakened considerably, but that the incoming data did not force an immediate move. The recurring counterweight cited across the Committee was the Beige Book's repeated flagging of tariff-driven input-price pressures, with several Districts noting an uptick in the pace of price increases and input pressures exceeding sales pressures in manufacturing and construction. Participants also observed that financial conditions offered no trigger to act, with the stress index low at 0.1299, the Baa spread contained at 1.68, and the yield curve positive at +0.31; the VIX at 24.23 was seen as mildly elevated but not distressed.

The member most focused on inflation risk emphasized that while disinflation was real and momentum negative, the unresolved upside risks from tariffs, lumber, and food-input costs were decisive against easing at this meeting, and that patience carried little cost given a solid labor market and the absence of financial stress. The member most attentive to employment entered the discussion leaning toward a cut, reasoning that policy was restrictive relative to the last median projection of 3.9 percent and that inflation at target lowered the cost of easing to protect jobs. That member noted genuine forward-looking labor risks — employment declines in manufacturing and information technology, easing wage pressures, and immigration and trade uncertainty dampening labor demand — but concluded that unemployment at 4.1 percent below the 4.32 percent natural rate and claims low at 221,000 did not yet cross the threshold for action, and that a preemptive cut risked reversal if tariffs reaccelerated inflation. The member flagged a readiness to move to a cut promptly should jobless claims or the unemployment rate begin to rise. The members attentive to financial stability and to market signals concurred that no credit or volatility trigger was present, with the market-focused participant noting that the 3-month bill spread of -0.175 implied markets anticipated modest, gradual easing rather than an imminent move.

When the discussion turned to the framework's loss-minimizing recommendation of -25 basis points, participants engaged directly with the divergence between that figure and their predictive hold. Several observed that the level rules — Taylor, Balanced Approach, and ELB-adjusted, all at -75 basis points — correctly detected that with r^* estimated at -0.168 the real policy rate was materially above neutral, but that a three-quarter-point move was far too aggressive given the live upside inflation risks and the absence of any crisis. The First-Difference rule at 0 basis points was seen as capturing the case for gradualism and the fact that nothing had yet broken. Participants generally characterized the -25 basis point recommendation as the disciplined middle ground between these signals: a modest step toward



normalization that respected the restrictiveness the rules identified without pre-committing to a path or appearing to signal alarm.

The employment-focused member came to view the quarter-point step as better serving the employment mandate than holding at a restrictive stance, judging that beginning to remove restriction now would guard jobs before slack materialized. The financial-stability member reasoned that a measured -25 basis points would preempt latent tariff-driven credit tightening before spreads widened, while moving 25 rather than 75 basis points would avoid a shock that could itself spike volatility; that member found the observation that the -0.175 bill spread aligned almost exactly with a single quarter-point cut particularly persuasive. The market-signal member, whose predictive vote had been a hold, noted that the bill spread effectively pre-priced a quarter-point move, so that a hold would fight efficiently-aggregated market pricing, and was tipped toward validating the cut. The centrist framed -25 basis points as the literal reconciliation of rule-implied restrictiveness against two-sided tariff risk. The inflation-focused member, by contrast, remained most wary: while conceding that near-target core inflation and negative momentum reduced the usual objection to easing, that member continued to weight the unresolved tariff and immigration upside risks heavily, judged the First-Difference logic of waiting one more cycle most persuasive, and could accept a modest step only as insurance while preferring, on balance, either to wait or to take a smaller move.

Across both phases, participants underscored that the divergence between their predictive holds and the framework's -25 basis point figure was narrow — a single increment — and reflected genuine two-sided risk rather than fundamental disagreement about the direction of travel. The prevailing view was that policy stood at a tipping point: restrictive enough on the r^* and rule metrics that easing was near at hand, yet uncertain enough on the tariff and input-price front to justify caution about the size and timing of any move.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision for this meeting, all five participants supported holding the target range at 4.25 to 4.50 percent, a unanimous 5-0 outcome. On the separate question of the framework's loss-minimizing recommendation of a 25 basis point cut, four members endorsed the recommendation as-is — the labor-market-focused member, the financial-stability member, the data-dependent centrist, and the market-signal member. The inflation-focused member registered a partial position, agreeing with the direction of the recommendation but not its magnitude or timing, preferring to wait a further cycle or to take a smaller step given unresolved tariff-driven upside inflation risks. No member declined the recommendation outright.