

unsecured money market rates. Year-end pressures in short-term funding markets were subdued; conditions were supported by additional liquidity resulting from RMPs and a smaller TGA, increased take-up of standing repo operations, and some dealers locking in financing ahead of year-end.

...Participants' Views on Current Conditions and the Economic Outlook

Participants observed that overall inflation had eased significantly from its highs in 2022 but remained somewhat elevated relative to the Committee's 2 percent longer-run goal. Participants generally noted that these elevated readings largely reflected inflation in core goods, which appeared to have been boosted by the effects of tariff increases. In contrast to prices for core goods, some participants commented that disinflation appeared to be continuing for core services, particularly for housing services.

Regarding the outlook for inflation, participants anticipated that inflation would move down toward the Committee's 2 percent objective, though the pace and timing of this decline remained uncertain. Participants generally expected that the effects of tariffs on core goods prices would likely start to diminish this year. Several participants remarked that the ongoing moderation in inflation for housing services was likely to continue to exert downward pressure on overall inflation. Several participants also expected higher productivity growth associated with technological or regulatory developments to put downward pressure on inflation. Consistent with that view, a few participants mentioned reports from business contacts that firms were automating more operations and using other measures to help offset cost increases, which would reduce the need to pass those increases on to consumer prices or to reduce margins. Most participants, however, cautioned that progress toward the Committee's 2 percent objective might be slower and more uneven than generally expected and judged that the risk of inflation running persistently above the Committee's objective was meaningful. Some of these participants cited reports from business contacts who expected to increase prices this year in response to cost pressures, including those related to tariffs. Several participants also raised the possibility that sustained demand pressures could keep inflation elevated relative to the Committee's 2 percent objective.

Participants noted that most measures of longer-term inflation expectations remained consistent with the Committee's 2 percent objective. In addition, several participants highlighted the fact that market- and survey-based measures of near-term inflation expectations had declined from their peaks in the spring of last year.

With regard to the labor market, participants observed that the unemployment rate had held steady, on net, in recent months, while job gains had remained low. Most participants noted that recent data readings such as those for the unemployment rate, layoffs, and job openings suggested that labor market conditions may be stabilizing after a period of gradual cooling. Almost all participants observed that while the level of layoffs remained low, hiring remained low as well. Consistent with that observation, several participants noted that their business contacts continued to express caution in hiring decisions, reflecting uncertainty about the economic outlook and the effect of AI and other automation technologies on the labor market. Some participants pointed to supply factors, such as lower net immigration, as contributing to the low pace of job gains.

While participants generally assessed that, under appropriate monetary policy, the labor market likely would stabilize and then improve this year, they continued to note that the outlook for the labor market remained uncertain. The vast majority of participants judged that labor market conditions had been showing some signs of stabilization and that downside risks to the labor market had diminished. Some participants, however, noted that even though the labor market was showing signs of stabilization, some indicators such as survey measures of job availability and the share of those working part time for economic reasons continued to suggest softening of conditions. In addition, most participants noted that downside risks to the labor market remained. In particular, some participants pointed to the possibility that a further fall in labor demand could push the unemployment rate sharply higher in a low-hiring environment or that the concentration of job gains in a few less cyclically sensitive sectors was potentially signaling heightened vulnerability in the overall labor market.

Participants observed that economic activity appeared to be expanding at a solid pace. Participants generally noted that consumer spending had been resilient, importantly supported by gains in household wealth. While aggregate consumption

was seen as resilient, several participants cited reports from business contacts or recent analysis indicating a disparity between strong sales to higher-income consumers and soft sales to lower-income consumers. Participants observed that business fixed investment remained robust, particularly in the technology sector. In the agricultural sector, a couple of participants remarked that the crop sector had remained weak, while the livestock sector had stayed strong.

Participants generally anticipated that the pace of economic growth would remain solid in 2026, though uncertainty about the outlook for growth remained high. Most participants expected growth to be supported by continued favorable financial conditions, fiscal policy, or changes in regulatory policy. Moreover, in light of the strong pace of AI-related investment as well as the higher productivity growth of recent years, several participants judged that ongoing gains in productivity would be supportive of economic growth.

In their discussion of financial stability, several participants commented on high asset valuations and historically low credit spreads. Some participants discussed potential vulnerabilities associated with recent developments in the AI sector, including elevated equity market valuations, high concentration of market values and activities in a small number of firms, and increased debt financing. A few participants commented that the financing of the AI-related infrastructure buildout in opaque private markets warranted monitoring. Several participants highlighted vulnerabilities associated with the private credit sector and its provision of credit to riskier borrowers, including risks related to interconnections with other types of nonbank financial institutions, such as insurance companies, and banks' exposure to this sector. Several participants commented on risks associated with hedge funds, including their growing footprint in Treasury and equity markets, rising leverage, and continued expansion of relative value trades that could make the Treasury market more vulnerable to shocks. A couple of participants commented that although consumer credit quality remained solid in the aggregate, there were signs of weakness in the financial positions of low- and medium-income households. A few participants noted the need to monitor potential spillovers from volatility in global bond markets and foreign exchange.

In their consideration of monetary policy at this meeting, participants noted that inflation had remained somewhat elevated and that available indicators suggested that economic activity had been expanding at a solid pace. They observed that job gains had remained low and that the unemployment rate had shown some signs of stabilization. Against this backdrop, almost all participants supported maintaining the current target range for the federal funds rate at this meeting, while a couple of participants preferred to lower the target range. Those who favored maintaining the target range generally viewed that, after the 75 basis point lowering of the target range last year, the current stance of monetary policy was within the range of estimates of the neutral level. They commented that maintaining the current target range of the federal funds rate at this meeting would leave policymakers well positioned to determine the extent and timing of additional adjustments to the policy rate, with these judgments being based on the incoming data, the evolving outlook, and the balance of risks. Those who preferred to lower the target range at this meeting expressed concerns that the current stance of the policy rate was still meaningfully restrictive and viewed downside risks to the labor market as a more prominent policy concern than the risk of persistently elevated inflation.

In considering the outlook for monetary policy, several participants commented that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation were to decline in line with their expectations. Some participants commented that it would likely be appropriate to hold the policy rate steady for some time as the Committee carefully assesses incoming data, and a number of these participants judged that additional policy easing may not be warranted until there was clear indication that the progress of disinflation was firmly back on track. Several participants indicated that they would have supported a two-sided description of the Committee's future interest rate decisions, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation remains at above-target levels. All participants agreed that monetary policy was not on a preset course and would be informed by a wide range of incoming data, the evolving economic outlook, and the balance of risks...

Source: Federal Reserve Board