

prices remained elevated, at least in part reflecting the effects of tariffs. Some participants observed that higher fuel prices had caused a number of other prices to increase, including shipping costs and airfares. In addition to energy price increases, several participants noted that supply disruptions associated with the conflict in the Middle East had caused prices for fertilizer and some other non-energy commodities to rise. Some participants noted that recent price increases in the information technology sector had contributed to higher inflation. A few of these participants remarked that, while price increases in the software category were contributing meaningfully to the increase in core inflation, price increases in that category may not be good predictors of future overall inflation.

Most participants noted that measures of longer-term inflation expectations remained stable. Some participants observed that measures of near-term inflation expectations had risen recently, likely reflecting the recent rise in global energy prices.

Participants anticipated that high energy prices would continue to put upward pressure on overall inflation in the near term. Participants generally expected that the effects of tariffs on core goods inflation would diminish over the course of this year. Some participants noted, however, that tariff rates could be increased above present levels, leading to additional upward pressure on inflation. Several participants anticipated that higher productivity growth would put downward pressure on inflation, and a few of those participants remarked that the ongoing deceleration in housing services prices was likely to continue to be a source of disinflationary pressure. Several participants observed that price pressures associated with strong AI investment expenditures would likely raise input costs for a range of industries. Several participants highlighted the possibility that, after several years of inflation above 2 percent, elevated inflation rates could begin to have an increased effect on wage- and price-setting decisions. Almost all participants noted that there was a risk that the conflict in the Middle East could persist for an extended period or that, even after the conflict ended, the prices of oil and other commodities could remain elevated for longer than expected. In such scenarios, these participants expected continued upward pressure on inflation arising from supply chain disruptions, high energy prices, or the pass-through of higher input costs to other prices. The vast

majority of participants noted an increased risk that inflation would take longer to return to the Committee's 2 percent objective than they had previously expected.

With regard to the labor market, participants observed that the unemployment rate had been little changed in recent months, while job gains had remained low on average. Most participants judged that recent data, such as readings on the unemployment rate, layoffs, hiring, and labor force growth, suggested stabilization in the labor market. Several participants commented that the recent low rates of job growth were not necessarily indicative of labor market fragility, as they could be roughly commensurate with the recent slow growth in the labor force. A few participants, however, pointed to the possibility that the low rates of job growth were a sign of labor market fragility. Some participants noted some signs of potential softness in the labor market, including the concentration of job growth in only a few sectors, declines in recent months in survey measures of job availability, and the modest rate of wage growth.

Participants generally expected labor market conditions to remain stable in the near term. Most participants judged, however, that risks to the employment side of the Committee's dual mandate were tilted to the downside. Several participants cited evidence reported by business contacts suggesting that firms were likely to delay or reduce hiring because of overall economic uncertainty or in anticipation of adopting AI technologies. Several participants pointed to the possibility that a fall in labor demand could push the unemployment rate sharply higher.

Participants generally observed that economic activity appeared to be expanding at a solid pace. Most participants noted that business fixed investment remained robust, largely reflecting strength in the technology sector. Participants generally observed that consumer spending had been resilient. Many participants pointed to specific factors that were supporting consumer spending, including high levels of household wealth and fiscal policy. Some participants commented that higher energy prices were putting strains on households, particularly lower-income households. Several participants noted that consumer sentiment had been low. With regard to the agricultural sector, a few participants remarked that high fuel and fertilizer prices were headwinds for farmers.

Participants generally anticipated that the pace of real GDP growth would remain solid this year. Many participants pointed to specific factors supporting growth in economic activity, including AI-related business fixed investment, productivity gains, financial conditions, fiscal policy, and changes in regulatory policy. Several participants remarked that the effects on economic activity of the recent increase in oil prices may be smaller than those seen in the past, citing factors such as the relatively large amount of current domestic oil production or the relatively low share of current domestic spending on oil. Most participants remarked that the developments in the Middle East had contributed to the uncertainty surrounding the outlook for economic activity, and several of these participants also noted that business contacts had emphasized heightened uncertainty about the economic outlook.

In their discussion of financial stability, several participants noted that asset valuations remained elevated and that such conditions heightened the possibility of sharp corrections should adverse developments materialize. Many participants commented on developments in the private credit sector. Some participants noted that recent investor withdrawals from certain private credit funds did not appear to pose risks to the broader financial system, although they judged that data limitations on balance sheet exposure of many private credit vehicles made such an assessment difficult. Some participants expressed concerns that losses in this sector could spill over to other markets, causing a broad credit contraction, or that firms dependent on private credit could face challenges securing alternative financing sources should investor sentiment in the private credit sector deteriorate further. A few participants highlighted risks associated with the substantial participation of hedge funds in the market for U.S. Treasury securities, noting that the unwinding of leveraged positions by these institutions could generate broader financial market disruption. A couple of participants discussed the implications of recent proposals to revamp the regulatory framework applying to both smaller and larger banks. Many participants mentioned the importance of addressing cybersecurity risks. Several of these participants discussed cybersecurity threats associated with rapid developments in AI technologies and commented that hostile cyber intrusions at systemically important financial firms or essential market infrastructure could materially impair financial system operations. These participants also emphasized the importance of

collaborative approaches among regulatory agencies and financial institutions to mitigate cybersecurity risks. Some participants discussed ongoing and potential operational improvements related to various liquidity tools used to support the implementation of monetary policy and the stability of the financial system, including the discount window, SRP operations, and the standing liquidity swap arrangements. A few participants commented on the possibility that the Committee could consider extending the terms of swap lines beyond one year, noting that a longer extension would be beneficial for financial stability.

In their consideration of monetary policy at this meeting, participants observed that inflation was elevated relative to the Committee's 2 percent longer-run objective, in part reflecting the recent increase in global energy prices. Participants generally further noted that recent indicators suggested that economic activity had been expanding at a solid pace. They also observed that job gains had remained low, on average, and that the unemployment rate had been little changed in recent months. Participants agreed that developments in the Middle East were contributing to a high level of uncertainty about the economic outlook. Against this backdrop, almost all participants supported maintaining the current target range for the federal funds rate at this meeting. Participants generally judged that the current policy rate was within the range of plausible estimates of its neutral level and that the Committee still remained well positioned to base the extent and timing of adjustments to the policy rate on incoming data, the evolving outlook, and the balance of risks. They remarked that holding the policy rate steady would allow the Committee to gather additional information on how developments in the Middle East and other factors were affecting the economic outlook before determining whether adjustments to the policy rate would be warranted. One participant preferred to lower the target range for the federal funds rate 25 basis points, noting concerns that the current policy stance was overly restrictive in a situation of downside risks to the labor market.

With regard to the outlook for monetary policy, participants generally judged that the continued elevated inflation readings together with uncertainty related to the duration and economic implications of the Middle East conflict could necessitate maintaining the current policy stance for longer than previously anticipated. Several participants highlighted that it would likely be appropriate to lower the target range for the federal funds rate once there are clear indications that disinflation is firmly

back on track or if solid signs emerge of greater weakness in the labor market. A majority of participants highlighted, however, that some policy firming would likely become appropriate if inflation were to continue to run persistently above 2 percent. To address this possibility, many participants indicated that they would have preferred removing the language from the postmeeting statement that suggested an easing bias regarding the likely direction of the Committee's future interest rate decisions. Participants noted that monetary policy was not on a preset course and that future policy decisions would be made on a meeting-by-meeting basis.

In discussing risk-management considerations bearing on the outlook for monetary policy, participants assessed that both upside risks to inflation and downside risks to employment remained elevated. Participants generally observed that the conflict in the Middle East could have significant implications for the balance of these risks and for the appropriate path of monetary policy. Several participants indicated that, in a scenario in which the conflict was resolved soon, rate reductions would be warranted later this year if the effects of higher tariffs and energy prices on inflation were to dissipate in line with their expectations. Some participants expressed concerns, however, about a scenario in which sustained elevated energy prices, combined with the effects of tariffs, could result in inflation pressures becoming embedded more broadly, potentially de-anchoring inflation expectations and creating a greater tradeoff between the Committee's employment and inflation goals.

A few participants commented on issues related to the Federal Reserve's balance sheet and policy tools, including the role of SRP operations in the implementation of monetary policy and the connection between liquidity tools, liquidity regulations, and the demand for reserves.

Committee Policy Actions

In their discussions of monetary policy for this meeting, members agreed that recent indicators suggested that economic activity had been expanding at a solid pace. They noted that job gains had remained low, on average, and that the unemployment rate had been little changed in recent months. Members agreed that inflation was elevated, in part reflecting the recent increase in global energy prices, and that developments in the Middle East were contributing to a high level of uncertainty

about the economic outlook. Members concurred that the Committee was attentive to the risks to both sides of its dual mandate.

In support of the Committee's goals, almost all members agreed to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. One member voted against that decision and preferred to lower the target range by 1/4 percentage point. Nine members agreed that in considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee would carefully assess incoming data, the evolving outlook, and the balance of risks. Three members would have preferred to provide a more two-sided characterization of the Committee's future interest rate decisions. Members agreed that the postmeeting statement should affirm their strong commitment both to supporting maximum employment and to returning inflation to the Committee's 2 percent objective.

Members agreed that in assessing the appropriate stance of monetary policy, the Committee would continue to monitor the implications of incoming information for the economic outlook. They would be prepared to adjust the stance of monetary policy as appropriate if risks emerged that could impede the attainment of the Committee's goals. Members also agreed that their assessments would take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international ...

Voting for this action: Jerome H. Powell, John C. Williams, Michael S. Barr, Michelle W. Bowman, Lisa D. Cook, Philip N. Jefferson, Anna Paulson, and Christopher J. Waller.

Voting against this action: Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting and Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who supported maintaining the target range for the federal funds rate but did not support inclusion of an easing bias in the statement at this time.,

Source: Federal Reserve Board