Record of Meeting

Federal Advisory Council and Board of Governors

Thursday, May 29, 2025

Item #1: Economic Activity

Are Council members observing among their clients and contacts any heightened concerns about their near-term economic prospects? If so, how is this affecting businesses' production, investment, or inventory management strategies? Is it causing consumers to alter the level or composition of their spending or saving? What is the Council's outlook for the pace of business and consumer spending in the second half of the year?

Council members observed increased concern among clients about near-term economic conditions, as both businesses and consumers navigate a shifting interest rate environment and ongoing uncertainty surrounding fiscal and trade policies. While many clients remain cautiously optimistic, that optimism is tempered by high operating costs, labor shortages, and policy uncertainty—particularly in the areas of trade and immigration. Overall, business leaders described current conditions as stable, though their outlook on growth has become more measured compared to 2024. One Council member noted that recent federal spending cuts in higher education, health care, biomedical research, and the nonprofit sector are starting to negatively affect the broader economy.

Businesses have largely maintained their investment and production plans, particularly in sectors benefitting from government initiatives such as manufacturing and infrastructure. Large firms, with greater access to capital and economies of scale, are expanding more aggressively than small and medium-sized companies, which are proceeding more cautiously. Across industries, firms are prioritizing strategic investments, operational efficiency, and productivity gains. Inventory levels are being managed carefully to align with anticipated demand, with some companies building inventory to get ahead of tariffs. Meanwhile, some businesses are delaying capital expenditures in hopes of a more favorable interest rate environment later in the year.

On the consumer front, spending continues to be resilient, albeit at a slower pace. Strong labor market conditions and increasing real wages have supported higher-income households, which continue to spend on travel, health care, and discretionary services. Council members noted full normalization among lower-income households, including reliance on credit and delinquencies on payments. This cohort is shifting spending patterns—opting for lower-cost alternatives and cutting back on non-essentials—as the cost of goods and services remains elevated. The stabilization of cash buffers and softening of inflation have not fully offset these pressures.

Looking ahead, Council members generally expect a modest pace of economic growth in the second half of the year. Business investment is projected to increase gradually, supported by a more accommodative policy stance and improved confidence among larger firms. Consumer spending is also expected to rise but will likely remain uneven across income groups. Overall, Council members view the outlook for business and consumer activity as stable but sensitive to interest rate developments and evolving fiscal and trade policies.

Item #2: Labor Markets

How strong is businesses' demand for labor at this point, relative to the available supply? Are there significant geographical or occupational areas of stress or slack in the market? How does the Council see the levels of employment and compensation evolving through the second half of the year?

While the overall employment market remains stable, most Council members reported a decline in labor demand over recent months. The change is primarily attributable to a shift in business and consumer sentiment due to the uncertainty around trade policy (tariffs), reduced government funding, and immigration policies. Collectively, these issues have negatively impacted both near- and medium-term economic forecasts. As a result, businesses are approaching investments and hiring with caution. Following years of a tight labor market, labor demand and supply are more balanced, approaching a one-to-one ratio of job openings to available workers.

The most common feedback from Council members concerned the lack of skilled labor across all geographic markets. Specifically, critical shortages were identified for electricians, welders, nurses, and manufacturing workers. Several Council members mentioned that the reduced availability of trade schools has led companies to invest in in-house training. Additionally, Council members cited potential labor pressures for industries dependent on immigrant labor—including agriculture, hospitality, construction, and food processing—as foreign worker levels decline and deportations increase.

Some Council members observed that businesses in the greater Washington, D.C., metropolitan area are generally taking a "wait and see" approach in response to federal workforce reductions and overall spending cuts. In addition, several Council members noted that markets such as Florida and certain areas of the Far West are experiencing upward pressure on minimum and starting wages as inflation and rising living costs—particularly for housing—are straining residents.

There is a consensus among Council members that the rate of hiring has been slowing and firms are the filling open roles at a slower pace, so job gains are expected to decline throughout the remainder of 2025. This dynamic has been slightly offset by a reduction in the rate of worker layoffs.. Overall, this could translate into stabilization of wage rates in the future.

For the second half of 2025, employment levels are expected to remain stable across most roles. However, several Council members anticipate some softening in the labor market, along with a modest rise in the unemployment rate. The general sense among Council members is that the outcomes of the ongoing tariff and trade negotiations, as well as changes in immigration policy, could significantly impact labor market conditions during this period.

Item #3 Inflation

Have Council members noted any significant changes in price levels or pricing strategies since the last meeting? Do Council members see any outsized pressure points on pricing currently or on the horizon? How would Council members characterize businesses' and households' expectations about inflation going forward? Have Council members noted any significant changes in price levels or pricing strategies since the last meeting?

Council members generally reported no significant change in price levels at the present time. Observed price changes noted were primarily input costs for raw materials (such as steel and lumber) impacted by trade policy, although these impacts don't appear to have yet found their way to the ultimate consumer. Council members noted that this would appear to be consistent with the recently reported April headline Consumer Price Index of 2.3 percent.

However, Council members noted that there was broad uncertainty among business customers concerning the resolution of trade negotiations and resulting tariffs. Council members reported various business strategies for dealing with input cost increases: protecting margins without increasing prices by building inventories in advance of tariff increases; delaying new purchases until more clarity is achieved; implementing cost efficiency efforts; sharing arrangements between suppliers and customers; and making supplier changes.

In terms of companies raising prices, this trend was not fully reflected in first-quarter earnings estimates for the remainder of 2025. There was significant upside surprise in the first-quarter numbers (at nearly 10 percent, it was the strongest beat rate for the S&P 500 since 2020) as companies outperformed expectations, and sales estimates for the remainder of the year were not revised significantly. This could signal that analysts expect companies are willing to absorb higher costs instead of passing them on to their customers, even if it affects their profit margins. That expectation appears consistent with the current S&P 500 profit margin, which remains just 25 basis points below the all-time high of 14 percent reached in 2021.

Moving forward, many Council members' clients expect to pass along a portion of or all tariff-related cost increases and believe they can do so without significantly affecting demand. Others, particularly in discretionary consumer industries, expect resistance to higher prices and are trying to decide between higher prices and lower sales or keeping prices unchanged and compressing their margins. Given the current lack of clarity, company plans are fluid.

Do Council members see any outsized pressure points on pricing currently or on the horizon?

While general inflationary pressures, as indicated by earlier Consumer Price Index and Producer Price Index reports, are somewhat elevated relative to long-term goals, they have not prompted significant strategic action. By far the most outsized pressure on businesses' pricing decisions is responding to tariff policies. Insofar as these policies continue to shift, businesses are looking for clarity on their ultimate incidence so they can respond accordingly.

How would Council members characterize businesses' and households' expectations about inflation going forward?

Council members noted the recent surveys released showing more elevated inflation expectations by consumers, albeit at sharply different levels. The University of Michigan Survey of Consumers showed that year-ahead inflation expectations increased from 5.0 percent in March to 6.5 percent in April, while the New York Federal Reserve Bank's Survey of Consumer Expectations showed that expectations increased from 3.1 percent to 3.6 percent over the same period. Some Council members expressed concern that these heightened expectations could mute consumer spending.

Inflation expectations for businesses are also higher but do not appear to be "de-anchored" over the long term. Council members expect tariff-related price increases in the second and third quarters of 2025. Possibly weaker growth and fading tariff impacts could help lower inflation in subsequent periods.

Item #4: Bank Loans and Deposits

At the time of the February meeting, the Council expected modest growth in deposits and in most categories of loans this year, with credit quality remaining stable and banks having adequate liquidity available. How would Council members characterize the strength of loan demand relative to the available supply at this point? Are there loan categories of notable strength or weakness, or in which credit quality is shifting? Has the rate or composition of deposit inflows changed recently? What impact, if any, have economic uncertainty or financial market volatility had on loans and deposits of various types?

While loan demand was growing modestly through most of the first quarter when market expectations were focused on the pro-business policies of the new administration, Council members noted that uncertainty regarding the economic impact of an aggressive trade policy announced in April dampened the demand for credit. Commercial loan pipelines remain healthy but are largely comprised of projects that were in the planning stages prior to the current increased level of economic uncertainty. Businesses are exercising increased caution regarding new projects and investments and are ensuring ample cash reserves are on hand to mitigate potential economic volatility and uncertainty. Residential mortgage demand continues to be constrained by higher interest rates and lack of affordability. Consumer credit card demand remains stable. Council members are concerned that loan pipelines could weaken further until the economic outlook becomes clearer. Currently, new loan demand is quite weak compared to the abundant liquidity available from banks and lenders.

Council members reported some small increases and decreases in various loan categories, with no specific areas showing a material change in demand. Council members also reported some loan categories showing possible emerging credit weakness, but no areas of significant concern were identified.

Deposit flows do not appear to have been impacted by the recent economic uncertainty and financial market volatility. Modest growth for 2025 continues to be expected. Some Council members noted a modest mix shift from CDs to non-maturity products, suggesting depositors value increased flexibility and may be reacting to changing economic risk perceptions. Deposit costs continue to decline partly because of prior Federal Reserve rate cuts and rational competition.

The impact of economic uncertainty and financial market volatility on loan performance has been minimal at this point. Some Council members observed emerging signs of potential weakness in commercial real estate and consumer auto lending. Other Council members noted weakening trends in agriculture loans driven by low prices for some crops and higher input costs. To mitigate the financial impacts of tariffs, most businesses are exploring new ways of operating, such as revamping supply chains, changing business processes, and managing vendors. Similarly, consumers are responding to uncertainty by reviewing their household budgets and spending plans.

Item #5: Federal Reserve Policy

What are the Council's views on the stance of monetary policy, including portfolio activities?

Policy rate

Council members are generally supportive of the current stance of monetary policy. Actions taken to ease policy in the second half of 2024 followed by the shift to a patient approach in 2025 are considered appropriate and effective.

Trade policy through increased tariffs, fiscal deficits, and other policy changes—such as immigration reform—have meaningfully increased uncertainty and financial market volatility. Higher levels of uncertainty on long-term price stability will remain a risk until trade policy is clearer. To date, labor markets have been stable, returning to more normalized levels. As a result, the modestly restrictive and data-dependent approach appears appropriate to maintain as the Federal Open Market Committee (FOMC) awaits further clarity.

To the extent the labor market deteriorates more quickly than the expected normalization, the FOMC should stand ready to adjust monetary policy to be more accommodative.

Portfolio activities

Council members believe that the ongoing reduction of the Federal Reserve's balance sheet through quantitative tightening has been and continues to be appropriate, and the pace supports funding markets and banking system liquidity. The reduction continues to run smoothly, and bank reserve levels have been mostly stable.

Slowing the pace of balance sheet run-off in April was timely. Notably, the debt ceiling impasse may be supportive of higher reserve levels in the short term, but the reserves are expected to come under pressure as the Treasury General Account is replenished. Additionally, repurchase markets have seen wider spreads in recent months, suggesting a modest tightening of liquidity conditions.

Going forward, the Federal Reserve should watch for funding pressure in the banking system and maintain flexibility to quickly address any weakening of liquidity conditions.

Item #6: Stablecoins

What does the Council see as the use cases for stablecoins? What advantages, if any, do stablecoins have over the alternatives such as FedNow (and perhaps Fedwire)? What differential risks do stablecoins present?

While financial institutions and other companies are exploring stablecoin opportunities, the issuance of U.S. dollar stablecoins is currently dominated by just two entities: Circle (U.S.-based) and Tether (headquartered in El Salvador). Together, these entities issue more than 80 percent of the approximately $250 billion stablecoins in circulation. Tether's stablecoin comprises more than 60 percent of that market, and Circle accounts for approximately 25 percent.

Congress is considering legislation to establish a regulatory framework for stablecoin issuers. If passed, the legislation may make it easier for banks to become involved in stablecoin activities or issue their own stablecoins. The legislation generally imposes moderate levels of state or federal regulation and oversight intended to ensure stablecoin stability and provide some customer protection, though the regulation and oversight are far less than what is required for banks as a general matter. The proposed legislation presents key open questions, specifically:

(1) Can stablecoin issuers pay interest on stablecoins?
(2) Are state regulatory options subject to an appropriate floor of minimum regulatory requirements?
(3) Will stablecoin issuers and their affiliates be subject to meaningful activity restrictions?

Use cases for stablecoins

The primary use of stablecoins is to facilitate the buying and selling of other cryptocurrencies. This is attributable to their widespread acceptance and fundamental design to hold a stable value in contrast to volatile cryptocurrencies. Furthermore, stablecoins offer distinct advantages for cross-border and non-U.S. transactions because they are jurisdiction agnostic. They can provide indirect exposure to U.S. dollars in countries with volatile local currency where traditional access to the U.S. dollar is limited. Although stablecoins also enable real-time, cross-border transfers, the value of these use cases is often overstated:

- Stablecoins generally must be converted back to the local fiat currency to be used in a specific country's payment system.
- While stablecoins can offer lower transaction costs than existing real-time methods, it is not clear this advantage will persist. Transaction costs for Bitcoin and other cryptocurrencies have generally been higher than initially expected, as market players build in compliance and operational costs at scale. Early proponents of Bitcoin believed that cryptocurrency could be used for micropayments, but now the fees for a single transaction (typically $1-$2) well exceed the value of any micropayment.[1] A similar erosion of touted cost savings is likely to occur with stablecoins.

Comparison to FedNow and Fedwire

Council members opined that stablecoins offer no significant advantages when compared to real-time 24/7/365 U.S. payment solutions, specifically Real-Time Payments (RTP) and FedNow. These existing systems are capable of matching stablecoins in terms of transaction speed and finality for U.S. payments. In addition, these systems are available at a low cost, and in some cases—such as with Zelle—are provided free of charge to consumers. In contrast, transactions involving stablecoins on a public blockchain incur fees, even when both the sender and recipient are located within the United States. Furthermore, customers may be subject to fees for converting between stablecoins and fiat currencies.

Regarding retail payments, stablecoin use is unlikely to be broadly adopted given that existing card systems are effective, providing rewards, purchase protection, and credit availability. In addition, stablecoins

[1] Bitcoin historical average transaction fee, *available at* https://bitinfocharts.com/comparison/bitcoin-transactionfees.html#3y.

generally lack the mature regulatory framework, robust systems, and consumer protections (under current network rules and applicable law, including the Uniform Commercial Code and Regulation E for some transactions) that traditional payment networks offer.

Stablecoin risks

As noted above, insufficient regulation of stablecoin issuers and related entities could introduce substantial risks to the financial system. Some stablecoin issuers are seeking Federal Reserve master account access, which would provide the issuers with direct and potentially destabilizing access to the U.S. payment system without the level of comprehensive regulatory supervision or commercial activity restrictions that minimize these risks and apply to existing entities with master accounts.

Moreover, stablecoins are not guaranteed to remain stable. The top five stablecoins by market cap "depegged" from the U.S. dollar more than 600 times in both 2022 and 2023, [2] and more than 20 stablecoin issuers collapsed between 2016 and 2022. Such events can trigger runs on stablecoins, potentially leading to rapid collapses and financial losses to stablecoin holders who lack the insolvency protections available for banks.

Stablecoins could divert funds from uninsured bank deposits, particularly if issuers offer interest or yield. Unlike bank deposits, funds used to purchase stablecoins are not available to fuel economic growth through loans and other banking activity because stablecoins must be backed 100 percent by high-quality reserves such as U.S. Treasuries. Rapid growth of stablecoins could create an increase in demand for Treasuries as stablecoin reserves. This could create market and financial stability risk should there be a loss in confidence in stablecoin issuers and an associated rapid drop in Treasury bill demand or a fire sale of Treasuries by an issuer trying to make its stablecoin holders whole.

Finally, it is not clear whether U.S. legislation or regulation can effectively control foreign stablecoin activities, including non-U.S. issuers of USD stablecoins such as Tether.

Item #7: Nonbanks in Payments

As nonbanks play a growing role in payments processes, what steps should regulators take to ensure proper assignment of responsibilities and accountabilities to banks and nonbanks so as to maintain the integrity of these processes, protect payers and payees, and guard against fraud and cyberattack?

Nonbank entities, including financial technology companies, payment service providers, and digital wallet operators, are playing an increasing role in the payments ecosystem through various offerings, including payments, peer-to-peer transfers, and cryptocurrency transactions. And Council members believe that the emergence of nonbanks in payments processes introduces potential risks to customers, the payments system, and the safety of the financial system. Because nonbanks that engage in payment activities are subject to different regulatory requirements and supervision than banks, they typically have less mature compliance and risk frameworks, which can result in inconsistent treatment for consumers and undermine trust and security in the payments system. Certain large nonbank fintech companies also introduce additional risks due to their size and scale, limited oversight, and lack of supervision. The limited regulatory visibility into their payment activities, processing volumes, and other incremental risks (e.g., concentration, tech, and cybersecurity risks) could pose stability concerns to the broader financial ecosystem. These examples highlight the need for greater regulatory requirements and supervision for nonbanks engaging in payment activities. Essentially, if nonbanks participate in the same payment activities as banks, nonbanks should be subject to the same requirements and regulatory oversight as banks to ensure safety, soundness, and consumer protection.

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[2] Moody's, *Large fiat-backed stablecoins depegged 600+ times in 2023*, Nov. 1, 2023, *available at* https://www.moodys.com/web/en/us/insights/banking/moody-launches-new-digital-asset-monitor-to-track-risk.html.

Regulators should collaborate across agencies and states to implement a comprehensive regulatory framework that monitors and governs nonbank activities, ensuring compliance with standards that protect the financial system. This framework should include the development of detailed guidelines that outline the responsibilities of nonbank entities to ensure accountability for compliance, risk management, and consumer protection. These guidelines should include the following:

- **Licensing and registration:** Nonbank entities should be required to obtain proper licensing and registration to operate within the payments industry. This process would ensure vetting and adherence to established standards.
- **Risk management protocols:** Nonbanks must implement robust risk management protocols that identify, assess, and mitigate potential risks. Regular reporting and audits should be mandated to ensure compliance.
- **Consumer protection and education measures:** Guidelines must emphasize the protection of consumer data and privacy. Nonbanks should be obligated to follow strict data security practices and provide transparent communication regarding their data usage policies.
- **Operational transparency:** Nonbank entities should maintain operational transparency, providing clear information on fees, transaction processes, and dispute resolution mechanisms. Regular disclosures and updates should be a standard requirement.
- **Compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) standards:** To prevent illicit activities, nonbanks must adhere to AML and CTF regulations, which includes implementing customer identification programs and monitoring transactions for suspicious activities.
- **Enhanced oversight of bank-fintech partnerships:** Regulators should provide guidance on the oversight of bank-fintech partnerships, including clarifying the extent of a bank's responsibilities in managing third-party risks and ensuring that fintech partners comply with applicable regulations.
- **Implementation of reliable oversight mechanisms:** Mechanisms for continuous oversight and assessment of nonbank operations should be created, guaranteeing adherence to regulatory standards.
- **Strengthened cybersecurity and fraud prevention measures:** Regulators should mandate robust cybersecurity protocols and fraud prevention strategies for all payment service providers. These measures should include regular assessments, incident response planning, and information sharing among stakeholders to enhance the overall security posture of the payments ecosystem.

Overall, nonbanks engaging in bank-like activities, including payments activities, should be subject to the equivalent supervision as banks. The integration of nonbank entities into the payments industry requires comprehensive measures for appropriate risk-based oversight and regulation to promote financial stability and to protect stakeholders.

Item #8: Regulatory Priorities

Given the broad array of open regulatory issues and uncertainties surrounding them, what are the three most important measures the Council recommends prudential regulators take to help move the industry forward to better serve customers and communities?

To help the banking industry navigate a complex regulatory landscape and better serve customers and communities, Council members respectfully offer three priority measures for consideration: (1) reforming supervision to be risk-focused, transparent, and proportional; (2) modernizing and streamlining the regulatory framework; and (3) promoting competitive equality and responsible innovation across the financial ecosystem. These recommendations reflect a shared commitment to safety and soundness as well as a belief that regulation, when aligned with risk and tailored to institutional complexity, can enable responsible growth, innovation, and broader financial inclusion.

Council members encourage prudential regulators to reform supervision in a way that is risk-focused, transparent, and proportional to institutional complexity and risk profile. Supervisory frameworks would benefit from emphasizing material financial risks—such as capital, liquidity, and credit—over procedural or subjective elements that may not directly support safety and soundness. Components such as the "Management" rating within CAMELS or the governance and controls element of the large financial institution rating system could be recalibrated to reflect more objective and risk-based measures. Banks are committed to strong governance and risk management, and more predictable supervisory standards would help institutions focus on aligning management attention with strategic and compliance objectives.

To reduce compliance friction while preserving regulatory rigor, Council members encourage streamlining and standardizing supervisory processes, particularly where duplicative exams, expansive horizontal reviews, or inconsistent Matter Requiring Attention/Matter Requiring Immediate Attention standards introduce inefficiencies. Institutions are actively engaging with regulators to foster a constructive environment that balances compliance with forward-looking business planning. Improvements such as enhanced transparency, access to benchmarking data, and independent appeals processes would promote more equitable supervision—especially when calibrated to the size and complexity of each institution.

Supervision should also reflect the diversity of banking models across the industry. A tailored approach to exam documentation, scope, and response timelines would allow banks of all sizes to more effectively meet expectations while preserving operational agility. Council members support supervisory approaches that are aligned with core financial risks and adaptable to the evolving structure of the banking system.

Council members recommend that prudential regulators modernize and streamline the regulatory framework to improve its relevance, clarity, and scalability. Many longstanding regulatory thresholds, such as those predicated on asset size or reportable activities, remain fixed in nominal dollar amounts and no longer reflect the banking industry's actual growth. Indexing these thresholds to inflation or to the aggregate size of the banking industry would help ensure that compliance obligations are appropriately scaled and do not unduly hinder growth or investment—particularly for institutions with stable risk profiles.

To promote consistency and reduce uncertainty, Council members also suggest enhancing interagency coordination and improving the accessibility of regulatory guidance. Tools such as annotated rule summaries, model implementation examples, and periodic status updates on rulemakings would be especially useful in complex areas such as Community Reinvestment Act reform, AML/CFT threshold updates, and small business data reporting under Section 1071. Clearer communications would help institutions manage system investments and ensure readiness without prematurely overcommitting resources.

As part of this modernization effort, Council members believe it is worth revisiting the design of the deposit insurance framework. Targeted expansion of coverage for certain transactional or operational accounts—particularly those supporting small businesses, nonprofits, and municipalities—could strengthen depositor confidence during periods of stress. Any changes should be carefully calibrated to ensure they address policy goals without creating unintended risk or competitive distortions.

Council members encourage regulators to promote competitive equality and responsible innovation across the financial ecosystem by ensuring that capital, liquidity, and technology-related oversight are aligned with risk and support a diverse, resilient banking sector. Refining elements of the capital framework, such as the supplementary leverage ratio, community bank leverage ratio, and capital treatment of mortgage servicing assets, could reduce disincentives for low-risk activities and enhance banks' ability to serve customers. And finalizing the Basel III Endgame in a timely and pragmatic way would provide needed clarity for balance sheet and lending decisions.

On liquidity policy, Council members appreciate steps taken to enhance the utility and reduce the stigma associated with the Federal Reserve's discount window. Addressing inconsistencies between the liquidity coverage ratio, internal liquidity stress testing, and resolution planning could help ensure that contingency funding tools are both accessible and effective. Further clarity around collateral management and coordination with the Federal Home Loan Banks could improve liquidity responsiveness, especially for mid-sized and regional banks.

In the innovation space, Council members encourage a shift away from implicit "supervisory non-objection" practices to clearly defined regulatory expectations and safe harbors for the use of AI, machine learning, and digital assets. They also believe that product-level regulatory parity is essential: financial products such as deposit accounts or mortgages should face equivalent standards regardless of the provider's charter. Regarding emerging payment technologies, Council members note that existing systems such as RTP and FedNow offer the same benefits as stablecoins—speed, finality, and low cost—without the added complexities, fees, or legal uncertainties.