Minutes of the Federal Open Market Committee
October 23–24, 2012

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, October 23, 2012, at 1:00 p.m. and continued on Wednesday, October 24, 2012, at 9:00 a.m.

PRESENT:
Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Jeffrey M. Lacker
Dennis P. Lockhart
Sandra Pianalto
Jerome H. Powell
Sarah Bloom Raskin
Jeremy C. Stein
Daniel K. Tarullo
John C. Williams
Janet L. Yellen

James Bullard, Charles L. Evans, Esther L. George, and Eric Rosengren, Alternate Members of the Federal Open Market Committee

Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, Presidents of the Federal Reserve Banks of Dallas, Minneapolis, and Philadelphia, respectively

William B. English, Secretary and Economist
Deborah J. Danker, Deputy Secretary
Matthew M. Luecke, Assistant Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Scott G. Alvarez, General Counsel
Thomas C. Baxter, Deputy General Counsel
Steven B. Kamin, Economist
David W. Wilcox, Economist

David Altig, Thomas A. Connors, Michael P. Leahy, William Nelson, David Reifschneider, Mark S. Sniderman, and William Wascher, Associate Economists

Simon Potter, Manager, System Open Market Account

Michael S. Gibson, Director, Division of Banking Supervision and Regulation, Board of Governors

James A. Clouse, Deputy Director, Division of Monetary Affairs, Board of Governors

Andreas Lehnert, Deputy Director, Office of Financial Stability Policy and Research, Board of Governors

Linda Robertson, Assistant to the Board, Office of Board Members, Board of Governors

Thomas Laubach, Senior Adviser, Division of Research and Statistics, Board of Governors; Ellen E. Meade, Stephen A. Meyer, and Joyce K. Zickler, Senior Advisers, Division of Monetary Affairs, Board of Governors

Eric M. Engen, Michael T. Kiley, and Michael G. Palumbo, Associate Directors, Division of Research and Statistics, Board of Governors

Joshua Gallin, Deputy Associate Director, Division of Research and Statistics, Board of Governors

Marnie Gillis DeBoer, Assistant Director, Division of Monetary Affairs, Board of Governors

David H. Small, Project Manager, Division of Monetary Affairs, Board of Governors

Jeremy B. Rudd, Senior Economist, Division of Research and Statistics, Board of Governors

Helen E. Holcomb, First Vice President, Federal Reserve Bank of Dallas

Jeff Fuhrer and Loretta J. Mester, Executive Vice Presidents, Federal Reserve Banks of Boston and Philadelphia, respectively

Troy Davig, Spencer Krane, and Kevin Stiroh, Senior Vice Presidents, Federal Reserve Banks of Kansas City, Chicago, and New York, respectively

William Gavin, Evan F. Koenig, Lorie K. Logan, and Paolo A. Pesenti, Vice Presidents, Federal Reserve Banks of St. Louis, Dallas, New York, and New York, respectively

Thomas D. Tallarini, Jr., Assistant Vice President, Federal Reserve Bank of Minneapolis

Andreas L. Hornstein, Senior Advisor, Federal Reserve Bank of Richmond

Eric T. Swanson, Senior Research Advisor, Federal Reserve Bank of San Francisco

Thresholds and Forward Guidance

A staff presentation focused on the potential effects of using specific threshold values of inflation and the unemployment rate to provide forward guidance regarding the timing of the initial increase in the federal funds rate. The presentation reviewed simulations from a staff macroeconomic model to illustrate the implications for policy and the economy of announcing various threshold values that would need to be attained before the Federal Open Market Committee (FOMC) would consider increasing its target for the federal funds rate. Meeting participants discussed whether such thresholds might usefully replace or perhaps augment the date-based guidance that had been provided in the policy statements since August 2011. Participants generally favored the use of economic variables, in place of or in conjunction with a calendar date, in the Committee's forward guidance, but they offered different views on whether quantitative or qualitative thresholds would be most effective. Many participants were of the view that adopting quantitative thresholds could, under the right conditions, help the Committee more clearly communicate its thinking about how the likely timing of an eventual increase in the federal funds rate would shift in response to unanticipated changes in economic conditions and the outlook. Accordingly, thresholds could increase the probability that market reactions to economic developments would move longer-term interest rates in a manner consistent with the Committee's view regarding the likely future path of short-term rates. A number of other participants judged that communicating a careful qualitative description of the indicators influencing the Committee's thinking about current and future monetary policy, or providing more information about the Committee's policy reaction function, would be more informative than either quantitative thresholds or date-based forward guidance. Several participants were concerned that quantitative thresholds could confuse the public by giving the impression that the FOMC focuses on a small number of economic variables in setting monetary policy, when the Committee in fact uses a wide range of information. Some other participants worried that the public might mistakenly interpret quantitative thresholds as equivalent to the Committee's longer-run objectives or as triggers that, when reached, would prompt an immediate rate increase; but it was noted that the Chairman's postmeeting press conference and other venues could be used to explain the distinction between thresholds and these other concepts.

Participants generally agreed that the Committee would need to resolve a number of practical issues before deciding whether to adopt quantitative thresholds to communicate its thinking about the timing of the initial increase in the federal funds rate. These issues included whether to specify such thresholds in terms of realized or projected values of inflation and the unemployment rate and, in either case, what values for those thresholds would best balance the Committee's objectives of promoting maximum employment and price stability. Another open question was whether to supplement thresholds expressed in terms of the unemployment rate and inflation with additional indicators of economic and financial conditions that might signal a need either to raise the federal funds rate before a threshold is crossed or to delay until well afterward. A final question was whether the statement should also provide forward guidance about the likely path of the federal funds rate after the initial increase. It was noted that such guidance could have significant effects on financial conditions and the economy. At the conclusion of the discussion, the Chairman asked the staff to provide additional background material, taking into account the range of participants' views.

Developments in Financial Markets and the Federal Reserve's Balance Sheet

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the FOMC met on September 12–13, 2012. The Manager also reported on System open market operations over the intermeeting period, focusing on the ongoing reinvestment into agency-guaranteed mortgage-backed securities (MBS) of principal payments received on SOMA holdings of agency debt and agency-guaranteed MBS and the purchases of MBS authorized at the September FOMC meeting. By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. There were no intervention operations in foreign currencies for the System's account over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed at the October 23–24 meeting suggested that economic activity continued to increase at a moderate pace in recent months. The unemployment rate declined but was still elevated. Consumer price inflation picked up, reflecting higher consumer energy costs, but longer-run inflation expectations remained stable.

Private nonfarm employment expanded modestly in September, and government employment increased. The unemployment rate fell to 7.8 percent, and the labor force participation rate rose slightly. The share of workers employed part time for economic reasons increased somewhat and continued to be elevated, while the rate of long-duration unemployment edged down further but remained high. Other indicators of labor market conditions, such as surveys of firms' job openings and hiring plans and initial claims for unemployment insurance, did not show decided improvement over the intermeeting period.

Manufacturing production declined in the third quarter, and the rate of manufacturing capacity utilization edged down. Automakers' schedules pointed to a similar rate of motor vehicle assemblies in the fourth quarter as in the third quarter. Broader indicators of factory production, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, remained subdued in recent months at levels consistent with only tepid increases in manufacturing output in the near term.

Real personal consumption expenditures rose at a solid pace in August. In September, nominal retail sales, excluding purchases at motor vehicle and parts outlets, increased considerably. Light motor vehicle sales also expanded. Recent data on factors that tend to support household spending were mixed. Real disposable income declined in August, largely reflecting the effect of higher consumer energy prices. In contrast, consumer sentiment rose in September and early October, and continued modest increases in house prices added to households' net worth.

Housing market conditions improved more generally in recent months. Starts and permits of both new single-family homes and multifamily units picked up in August and September. However, construction activity remained at a relatively low level, reflecting the restraint imposed by tight credit standards for mortgage borrowing and by the large inventory of foreclosed and distressed properties. Sales of existing homes continued to expand, on balance, in recent months, but new home sales were flat.

Real business expenditures on equipment and software appeared to edge down in the third quarter. Nominal shipments for nondefense capital goods excluding aircraft continued to decrease in August; the backlog of unfilled orders for these capital goods also declined. Other forward-looking indicators, such as subdued readings from surveys of business conditions and capital spending plans, also pointed toward roughly flat real expenditures for business equipment in the near term. Nominal business spending for new nonresidential construction decreased further in August. Meanwhile, inventories in most industries were about in line with sales. In the farm sector, however, drought conditions likely reduced inventory accumulation last quarter and subtracted from overall economic growth.

Real federal government purchases appeared to edge up in the third quarter, as data for nominal federal spending in August and September pointed to a slight increase in real defense expenditures. Real state and local government purchases likely moved essentially sideways in the third quarter. State and local government payrolls expanded, but nominal construction spending continued to decline in recent months.

The U.S. international trade deficit widened in August, as imports fell less than exports. Imports edged down, on net, with higher purchases of services and petroleum products more than offset by declines in all of the other major categories. Across export categories, exports of industrial supplies posted a particularly large decline, as the volume of petroleum product exports dropped sharply.

Consumer prices picked up in August and September, primarily reflecting sharp increases in retail gasoline prices. However, survey data indicated that retail gasoline prices were about flat in early October. Consumer food prices rose modestly in recent months. The somewhat better-than-expected crop harvest caused spot and futures prices of farm commodities to retrace some of their rise during the summer; however, farm commodity prices remained elevated and continued to point toward some temporary upward pressures on retail food prices later this year. Increases in consumer prices excluding food and energy were subdued in August and September. Near-term inflation expectations from the Thomson Reuters/University of Michigan Surveys of Consumers declined in September and early October, while longer-term inflation expectations in

the survey moved down to near the lower end of the narrow range where they have remained for some time.

Available measures of labor compensation indicated that increases in nominal wages stayed relatively modest. The gains in average hourly earnings for all employees in the third quarter were subdued.

Foreign economic growth remained sluggish, restrained by weak activity in Europe and the associated spillovers—including through trade—to the rest of the world. Euro-area production indicators signaled continued contraction, and the area's unemployment rate in August stayed at a historical high. In Japan, exports and output declined in the summer months, and growth of real gross domestic product (GDP) for the first half of the year was revised down significantly. Data for exports from emerging market economies, especially in Asia, showed a drop, although recently released data for China indicated a pickup in economic activity in the third quarter. Foreign inflation rose slightly in some emerging market economies in response to higher food prices but was still generally well contained. Monetary policy remained accommodative in most advanced and emerging market economies.

Staff Review of the Financial Situation

Market participants reportedly read the September FOMC statement as pointing to a significant increase in monetary policy accommodation. As a result, financial conditions generally eased appreciably early in the intermeeting period. However, toward the end of the period investor sentiment deteriorated somewhat, in part because of concerns about corporate profitability.

Short- and medium-term nominal Treasury yields ended the intermeeting period up slightly, and long-term yields were about unchanged on net. At the same time, real yields on Treasury inflation-protected securities (TIPS) decreased somewhat, leaving inflation compensation higher. In part, the rise in inflation compensation may have reflected upward pressure on nominal Treasury yields associated with some unwinding of safe-haven demands.

The expected path of the federal funds rate based on money market futures was little changed between the September and October FOMC meetings. Market-based measures of uncertainty about the path of the federal funds rate over medium-to-long horizons declined over the period. The survey of primary dealers conducted prior to the October meeting showed that the expected size of the SOMA at the end of 2013 had risen significantly.

Indicators of the condition of domestic financial institutions were mixed over the intermeeting period. Indexes of equity prices for those institutions were modestly lower. But spreads on credit default swaps for large financial institutions declined in recent months, and third-quarter earnings of large bank holding companies that had reported by the time of the FOMC meeting were generally in line with expectations.

Conditions in unsecured dollar funding markets appeared to improve some. In secured funding markets, rates on repurchase agreements spiked around quarter-end but subsequently more than retraced that move, ending the intermeeting period down slightly.

Broad equity price indexes were a little lower, on balance, as gains following the September FOMC meeting and generally better-than-expected economic data releases were more than offset by concerns about corporate profitability. Option-implied volatility for the S&P 500 index fell noticeably following the September FOMC meeting but increased, on net, over the intermeeting period.

Yields on investment-grade corporate bonds reached a record low level, and their spreads to yields on comparable-maturity Treasury securities narrowed on net. Yields and spreads on speculative-grade corporate bonds also decreased.

The pace of investment- and speculative-grade bond issuance by nonfinancial firms picked up significantly in September from the already robust pace in previous months. In the syndicated leveraged loan market, issuance through the first three quarters of 2012 lagged that of the same period in 2011 but nonetheless remained solid. The pace of gross public equity issuance by nonfinancial firms moved up some in September from the subdued levels observed in prior months, but overall issuance in the third quarter stayed low compared with the first half of 2012.

Financial conditions in the commercial real estate sector remained weak amid elevated vacancy and delinquency rates. However, some indicators pointed to modest improvement in this sector, and issuance of commercial mortgage-backed securities was solid in the third quarter.

Residential mortgage rates declined over the intermeeting period. The decline in mortgage rates reflected a sizable drop in MBS yields following the September FOMC statement. Refinancing activity increased further in September and early October. House prices continued to rise, and some indicators of credit quality

on residential real estate loans improved. The fraction of seriously delinquent existing mortgages remained elevated, but the rate at which mortgages entered delinquency continued to trend down in July.

Consumer credit expanded briskly in August. Nonrevolving credit continued to increase at a robust pace, mainly reflecting growth in student and auto loans. Revolving credit also rose in August but was little changed, on balance, over the past few months. Delinquency rates for consumer credit remained low, and issuance of consumer asset-backed securities was strong in the third quarter, close to the pace seen earlier this year.

Bank credit continued to expand at a moderate rate in the third quarter, with further growth in loans augmented by larger gains in securities holdings. Results from the October Senior Loan Officer Opinion Survey on Bank Lending Practices indicated that modest fractions of domestic banks, on net, continued to report having eased their lending standards on some categories of business and household loans. In addition, for the second straight quarter, reports of stronger demand were relatively widespread for many types of loans.

M2 growth picked up somewhat in September, as strong growth in liquid deposits and currency offset ongoing declines in small time deposits and retail money market funds.

The staff's broad nominal index of the foreign exchange value of the dollar was little changed, on net, over the intermeeting period. The dollar rose against the currencies of most advanced economies but declined against the euro and most Asian emerging market currencies. Of note, the Chinese renminbi appreciated further against the dollar. A number of central banks eased monetary policy during the period, including those of Australia, Brazil, Japan, Korea, and Thailand. Foreign equity indexes, which generally rose following the September FOMC statement, ended the intermeeting period higher in most markets, although stock prices in the euro area were down on net. Ten-year sovereign yields in Germany and the United Kingdom moved down just a few basis points. After declining significantly between late July and early September, the yield spread of 10-year sovereign debt in Italy over comparable German bunds declined only slightly further over the intermeeting period, and the Spanish sovereign spread edged up.

Staff Economic Outlook

In the economic forecast prepared by the staff for the October FOMC meeting, real GDP growth in the near term was revised up relative to the previous projection. The upward revision to the near-term forecast primarily reflected better-than-expected incoming information for consumer spending, residential construction, and labor market conditions that more than offset the recent data for business fixed investment and industrial production that were weaker than anticipated. The staff's medium-term projection for real GDP growth also was revised up, mostly reflecting the monetary policy actions announced by the FOMC after the September meeting and the resulting improved outlook for financial conditions. Nonetheless, with fiscal policy assumed to be tighter next year than this year, the staff anticipated that real GDP growth would not materially exceed increases in potential output in 2013. In 2014, economic activity was projected to accelerate gradually, supported by a lessening in fiscal policy restraint, gains in consumer and business confidence, further improvements in financial conditions and credit availability, and accommodative monetary policy. Progress in reducing unemployment over the projection period was expected to be relatively slow.

The staff's near-term forecast for inflation was little changed, on balance, from the projection prepared for the September FOMC meeting, notwithstanding recent increases in consumer energy prices. The staff's projection for inflation over the medium term was also essentially unchanged. Crude oil prices were anticipated to decline slowly from their current levels, the boost to retail food prices from the drought was expected to be only temporary and relatively small, longrun inflation expectations were assumed to remain stable, and significant resource slack was projected to persist over the projection period. As a result, the staff continued to forecast that inflation would be subdued through 2014.

Participants' Views on Current Conditions and the Economic Outlook

In their discussion of the economic situation and the outlook, meeting participants viewed the information received since the Committee met in September as indicating that economic activity continued to expand at a moderate pace. Employment was still rising slowly, and the unemployment rate remained elevated. Household spending advanced more quickly in recent months than during the spring, and housing activity showed further signs of improvement. However, business fixed investment slowed noticeably. Inflation re-

cently picked up somewhat, reflecting higher energy prices, while longer-run inflation expectations remained stable.

Participants generally saw the economic outlook as little changed, on balance, from their projections prepared for the September Summary of Economic Projections (SEP), agreeing that the pace of the economic recovery was likely to stay moderate over coming quarters. The recent news on household spending, consumer sentiment, and the housing market was encouraging, and most participants expected that highly accommodative monetary policy would provide support for the recovery in the period ahead. However, many participants saw the uncertainty attending the unresolved U.S. fiscal situation and the ongoing fiscal and financial strains in the euro area as factors likely to restrain the pace of economic growth in coming months. Moreover, many participants cited significant downside risks to the outlook that might arise from more widespread weakness in global economic activity or an intensification of strains in global financial markets. Regarding inflation, the recent run-up in consumer energy prices was expected to subside over the next few months, while the effects of the drought were likely to show through to retail food prices. Over the medium term, most participants anticipated that inflation would run at or below the Committee's 2 percent objective.

Concerning developments in the household sector, participants observed that the recent news on consumer spending and confidence had been positive, with surveys reporting that households had become noticeably more optimistic about the outlook for unemployment and income. Sales of motor vehicles remained an area of strength, in part due to favorable credit conditions. The increase in consumer spending appeared to be relatively broadly based across the country, although retailers in a few areas reported that they had seen slower sales recently and expressed concerns about the near-term outlook. Among the factors mentioned that might support consumer confidence and a continuation of the somewhat stronger pace of spending were an expected decline in retail energy prices and continued gradual improvement in labor market conditions. In addition, lower mortgage rates had spurred a rise in refinancing activity, which, along with the increases in household wealth attributable to higher home values and equity prices, would provide support for consumer spending going forward.

Participants generally agreed that a recovery in housing activity now appeared to be under way, citing increases in house prices, sales, and construction in many areas. Most saw the low levels of mortgage interest rates as an important factor contributing to increased housing demand. Although the recovery in the housing sector appeared to be taking hold, several participants cited obstacles to more rapid improvement. For example, several participants reported that lenders' capacity for processing home-purchase mortgages was tight and backlogs were long, in part due to the current heavy pace of refinancings. These participants also noted that underwriting standards remained quite tight, particularly for borrowers with lower credit quality.

In contrast to the more favorable news on consumer spending and housing, contacts generally reported slower activity in the business sector. Some participants expressed concern about weaker manufacturing output and new orders in recent months, particularly in capital goods industries, although several pointed out that manufacturers' expectations for future orders and production were more positive. A few participants noted that shipping activity was down, and one participant added that energy production had decelerated. In contrast, a few participants had received reports of a pickup in nonresidential construction, and one indicated that high-tech firms were expecting gains in business going forward. In many instances, participants' business contacts stated that they were delaying or cutting back on hiring and capital spending because of the uncertain outlook for government spending, taxes, or regulatory policies. One participant, however, reported that contacts said that insufficient demand remained their principal concern. Several participants mentioned that the cautious posture of businesses was apparent in national and regional surveys of plans of both large and small firms. Some participants noted that the outlook for business spending would likely be difficult to assess until the direction of U.S. fiscal policy becomes clearer. A few suggested the possibility that a near-term resolution of the fiscal situation might lead to a significant increase in spending as projects now being deferred were undertaken; another worried that the uncertainty attending the outlook for fiscal policy might weigh on business planning for some time. In addition to the uncertainty about the fiscal outlook, manufacturing contacts attributed the weakness in orders and production to softer export demand; one participant added that agricultural exports had also softened. Several participants noted that their contacts were concerned not only about the economic slowdown in Europe, but also about whether the recent slowing in economic activity in Asia might persist.

In their comments on labor market developments, participants generally viewed the recent decline in the unemployment rate and continued modest gains in payroll employment, taken together, as consistent with a gradually improving job market. However, with economic growth anticipated to stay moderate, some participants expressed concern that the pace of job creation would generate only a slow decline in joblessness. Several pointed to a steep drop in the index of hiring plans by small businesses. A couple of participants mentioned that some firms planned to increase their use of part-time or temporary workers rather than full-time permanent employees, at least partly in order to limit health insurance costs.

Participants saw recent price developments as consistent with inflation remaining at or below the Committee's 2 percent objective over the medium run. Although energy prices had risen sharply in recent months, reflecting earlier increases in crude oil costs and supply disruptions, gasoline prices were anticipated to move back down in coming months as those pressures eased. Similarly, effects of the drought were expected to show through to retail food prices over the next few quarters but then subside. By various estimates, underlying inflation trends remained subdued, and indicators of longer-term inflation expectations were generally viewed as stable.

In their discussion of financial developments over the intermeeting period, participants commented on the effects of the policy actions taken at the September meeting to strengthen the Committee's forward guidance and to purchase additional MBS. The initial effects were generally viewed as consistent with a marked easing in financial conditions. For example, yields on MBS dropped noticeably, leading to a decline in mortgage interest rates, and corporate bond yields generally moved lower. Yields on nominal Treasury securities were little changed. Some participants suggested that more time would be required to assess the ultimate effects of the additional MBS purchases on primary mortgage rates and on financial conditions more broadly. The stability in nominal Treasury yields, paired with a decline in TIPS yields, implied a modest increase in inflation compensation, on net, over the intermeeting period. A couple of participants saw this increase as a sign that the open-ended asset purchases posed a risk to the stability of longer-term inflation expectations. However, others saw the effect on expected inflation as relatively muted or likely the result of reduced risks of undesirably low inflation. Participants remained concerned about risks to financial markets associated with the situation in the euro area and uncertain U.S. fiscal prospects, but a couple noted that measures of financial market uncertainty were still relatively low. Several participants pointed out that recent policy announcements by the European Central Bank were received favorably in markets. A number of participants mentioned other signs of greater optimism in financial markets, including a rise in merger and acquisition activity and a moderation in pressures on large U.S. financial institutions. A few participants observed that low interest rates had increased demand for riskier financial products, and a couple of participants saw a risk that holding interest rates low for a prolonged period could lead to financial imbalances and imprudent risk-taking. One participant, however, commented that risk aversion still seemed quite high, citing the very low yields on longer-term TIPS and a large estimated risk premium in equity markets.

Participants also discussed the efficacy and potential costs of the Committee's asset purchases. A number of participants offered the assessment that the Committee's policy actions, to date, had been effective in making financial conditions more accommodative and that lower interest rates were providing support to aggregate spending, most notably in areas such as housing, autos, and other consumer durables. In particular, some pointed out that the favorable developments in mortgage markets over the intermeeting period suggested that the MBS purchases were likely to reinforce the nascent recovery in the housing market. Several added that, based on the experience with earlier asset purchases, the broader effects on economic activity from more-accommodative financial conditions were likely to accrue over time. Looking ahead, a number of participants indicated that additional asset purchases would likely be appropriate next year after the conclusion of the maturity extension program in order to achieve a substantial improvement in the labor market. In that regard, a couple of participants noted the likely usefulness of clarifying the range of indicators that would be evaluated in assessing the outlook for the labor market. Participants generally agreed that in determining the appropriate size, pace, and composition of further purchases, they would need to carefully assess the efficacy of asset purchases in fostering stronger economic activity and consider the potential risks and costs of such purchases. Several participants questioned the effectiveness of the current purchases or whether a continuation of them would be warranted if the recent moderate pace of economic recovery were sustained. In addition, several participants expressed

concerns that sizable asset purchases might eventually have adverse consequences for the functioning of asset markets or that they might complicate the Committee's ability to remove policy accommodation at the appropriate time and normalize the size and composition of the Federal Reserve's balance sheet. A couple of participants noted that an extended period of policy accommodation posed an upside risk to inflation.

Committee Policy Action

Members viewed the information on U.S. economic activity received over the intermeeting period as suggesting that the economy was, on balance, expanding moderately, with a pickup in household spending and further improvement in housing markets offset to some extent by a slowdown in the business sector. Although the unemployment rate declined in recent months, monthly gains in nonfarm payroll jobs remained modest, and many members noted that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in the labor market. Inflation rose recently because of a temporary run-up in energy prices. However, longer-term inflation expectations were stable, and over the medium run, inflation was anticipated to run at or below the Committee's 2 percent objective.

In their discussion of monetary policy for the period ahead, Committee members generally agreed that their overall assessments of the economic outlook were little changed since their previous meeting. Accordingly, all but one member judged that maintaining the current, highly accommodative stance of monetary policy was warranted in order to foster a stronger economic recovery in a context of price stability. The Committee judged that continuing both the purchases of MBS at a pace of $40 billion per month and the existing program to extend the average maturity of its Treasury securities holdings remained appropriate. The Committee also agreed to maintain its policy of reinvesting principal payments from its holdings of agency debt and agency MBS into agency MBS. One member opposed further asset purchases because he viewed them as unlikely to help the Committee achieve its goals and because he thought that purchases of MBS represented inappropriate credit allocation. Many members saw the adjustments in the Committee's forward guidance at the September meeting as having been effective in communicating its intention to maintain a highly accommodative stance of monetary policy for a considerable time after the economic recovery strengthens and judged that the guidance remained appropriate at this meeting. However, one member continued to object to the calendar-date-based forward guidance for the federal funds rate. With respect to the statement to be released following the meeting, members made only relatively small modifications to update the description of recent developments in consumer and business spending and in inflation. With the economic outlook little changed, they agreed that the remainder of the statement would reiterate the policy actions and intentions adopted at the September meeting.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until it was instructed otherwise, to execute transactions in the System Account in accordance with the following domestic policy directive:

> "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to continue purchasing agency mortgage-backed securities at a pace of about $40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

The vote encompassed approval of the statement below to be released at 2:15 p.m.:

> "Information received since the Federal Open Market Committee met in September suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has advanced a bit more quickly, but growth in business fixed investment has slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation recently picked up somewhat, reflecting higher energy prices. Longer-term inflation expectations have remained stable.
>
> Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.
>
> To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of Treasury securities, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
>
> The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.
>
> To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015."

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Dennis P. Lockhart, Sandra Pianalto, Jerome H. Powell, Sarah Bloom Raskin, Jeremy C. Stein, Daniel K. Tarullo, John C. Williams, and Janet L. Yellen.

Voting against this action: Jeffrey M. Lacker.

Mr. Lacker dissented for the same reasons he had cited at the September FOMC meeting, including his view of the likely ineffectiveness of asset purchases and their potential inflationary effects, as well as the inappropriateness of credit allocation inherent in purchasing MBS. He also continued to disagree with the description of the time period over which a highly accommodative stance of monetary policy would remain appropriate and exceptionally low levels for the federal funds rate were likely to be warranted.

Discussion of Communications regarding Economic Projections

A staff presentation reviewed the results of the consensus forecast experiments that the Committee conducted in conjunction with its August and September meetings. The briefing highlighted the important role of the assumed path for monetary policy in construct-

ing a consensus forecast and reviewed several alternative approaches for setting such a path. As a possible alternative to a consensus forecast, the staff presentation also discussed potential enhancements to the SEP. In their discussion, participants agreed that FOMC communications could be enhanced by clarifying the linkage between participants' economic forecasts, including the underlying policy assumptions, and the Committee's policy decision as expressed in the post-meeting statement. However, most participants judged that, given the diversity of their views about the economy's structure and dynamics, it would be difficult for the Committee to agree on a fully specified longer-term path for monetary policy to incorporate into a quantitative consensus forecast in a timely manner, especially under present conditions in which the policy decision comprises several elements. Participants agreed to continue to explore ways to increase transparency and clarity in the Committee's policy communications, and they indicated a willingness to look into modifications to the SEP. At the end of the discussion, the Chairman asked the subcommittee on communications to explore potential approaches to providing more information about the Committee's collective judgment regarding the economic outlook and appropriate monetary policy through the SEP.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, December 11–12, 2012. The meeting adjourned at 12:50 p.m. on October 24, 2012.

Notation Vote

By notation vote completed on October 3, 2012, the Committee unanimously approved the minutes of the FOMC meeting held on September 12–13, 2012.

William B. English
Secretary