

## Minutes of the Federal Open Market Committee January 26–27, 2021

A joint meeting of the Federal Open Market Committee and the Board of Governors was held by videoconference on Tuesday, January 26, 2021, at 1:00 p.m. and continued on Wednesday, January 27, 2021, at 9:00 a.m.<sup>1</sup>

**PRESENT:**

Jerome H. Powell, Chair  
John C. Williams, Vice Chair  
Thomas I. Barkin  
Raphael W. Bostic  
Michelle W. Bowman  
Lael Brainard  
Richard H. Clarida  
Mary C. Daly  
Charles L. Evans  
Randal K. Quarles  
Christopher J. Waller

James Bullard, Esther L. George, Loretta J. Mester,  
Helen E. Mucciolo, and Eric Rosengren, Alternate  
Members of the Federal Open Market Committee

Patrick Harker, Robert S. Kaplan, and Neel Kashkari,  
Presidents of the Federal Reserve Banks of  
Philadelphia, Dallas, and Minneapolis, respectively

James A. Clouse, Secretary  
Matthew M. Luecke, Deputy Secretary  
Michelle A. Smith, Assistant Secretary  
Mark E. Van Der Weide, General Counsel  
Michael Held, Deputy General Counsel  
Trevor A. Reeve, Economist  
Stacey Tevlin, Economist  
Beth Anne Wilson, Economist

Shaghil Ahmed, David Altig, Kartik B. Athreya, Brian  
M. Doyle, Rochelle M. Edge, Eric M. Engen,  
Beverly Hirtle, and William Wascher, Associate  
Economists

Lorie K. Logan, Manager, System Open Market  
Account

Patricia Zobel, Deputy Manager, System Open Market  
Account

Ann E. Misback, Secretary, Office of the Secretary,  
Board of Governors

Matthew J. Eichner,<sup>2</sup> Director, Division of Reserve  
Bank Operations and Payment Systems, Board of  
Governors; Michael S. Gibson, Director, Division  
of Supervision and Regulation, Board of  
Governors; Andreas Lehnert, Director, Division of  
Financial Stability, Board of Governors

Daniel M. Covitz, Deputy Director, Division of  
Research and Statistics, Board of Governors; Sally  
Davies, Deputy Director, Division of International  
Finance, Board of Governors; Michael T. Kiley,  
Deputy Director, Division of Financial Stability,  
Board of Governors

Jon Faust, Senior Special Adviser to the Chair, Division  
of Board Members, Board of Governors

Joshua Gallin, Special Adviser to the Chair, Division of  
Board Members, Board of Governors

William F. Bassett, Antulio N. Bomfim, Wendy E.  
Dunn, Burcu Duygan-Bump, Jane E. Ihrig, Kurt F.  
Lewis, and Chiara Scotti, Special Advisers to the  
Board, Division of Board Members, Board of  
Governors

John J. Stevens, Senior Associate Director, Division of  
Research and Statistics, Board of Governors;  
Gretchen C. Weinbach, Senior Associate Director,  
Division of Monetary Affairs, Board of Governors

Ellen E. Meade and Robert J. Tetlow, Senior Advisers,  
Division of Monetary Affairs, Board of Governors;  
Steven A. Sharpe, Senior Adviser, Division of  
Research and Statistics, Board of Governors

Marnie Gillis DeBoer and Min Wei, Associate  
Directors, Division of Monetary Affairs, Board of  
Governors; Andrew Figura, Associate Director,  
Division of Research and Statistics, Board of  
Governors

<sup>1</sup> The Federal Open Market Committee is referenced as the “FOMC” and the “Committee” in these minutes.

<sup>2</sup> Attended through the discussion of developments in financial markets and open market operations.

Eric C. Engstrom, Deputy Associate Director, Division of Monetary Affairs, Board of Governors; Jeffrey D. Walker,<sup>2</sup> Deputy Associate Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors

Jennifer Gallagher, Special Assistant to the Board, Division of Board Members, Board of Governors

Brian J. Bonis, Assistant Director, Division of Monetary Affairs, Board of Governors

Penelope A. Beattie, Section Chief, Office of the Secretary, Board of Governors

Mark A. Carlson, Senior Economic Project Manager, Division of Monetary Affairs, Board of Governors

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

Michele Cavallo, Olesya Grishchenko, Horacio Sapriza, and Fabian Winkler, Principal Economists, Division of Monetary Affairs, Board of Governors; Pablo Cuba-Borda, Principal Economist, Division of International Finance, Board of Governors; Andrew Paciorek, Principal Economist, Division of Research and Statistics, Board of Governors

Randall A. Williams, Lead Information Manager, Division of Monetary Affairs, Board of Governors

Joseph W. Gruber, Daleep Singh, and Ellis W. Tallman, Executive Vice Presidents, Federal Reserve Banks of Kansas City, New York, and Cleveland, respectively

David Andolfatto, Spencer Krane, Keith Sill, and Mark L.J. Wright, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Chicago, Philadelphia, and Minneapolis, respectively

Joe Peek, Vice President, Federal Reserve Bank of Boston

James Dolmas, Economic Policy Advisor and Senior Research Economist, Federal Reserve Bank of Dallas

Andrew Foerster, Research Advisor, Federal Reserve Bank of San Francisco

### Annual Organizational Matters<sup>3</sup>

The agenda for this meeting reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for a term beginning January 26, 2021, were received and that these individuals executed their oaths of office.

The elected members and alternate members were as follows:

John C. Williams, President of the Federal Reserve Bank of New York, with Helen E. Mucciolo, First Vice President of the Federal Reserve Bank of New York, as alternate

Thomas I. Barkin, President of the Federal Reserve Bank of Richmond, with Eric Rosengren, President of the Federal Reserve Bank of Boston, as alternate

Charles L. Evans, President of the Federal Reserve Bank of Chicago, with Loretta J. Mester, President of the Federal Reserve Bank of Cleveland, as alternate

Raphael W. Bostic, President of the Federal Reserve Bank of Atlanta, with James Bullard, President of the Federal Reserve Bank of St. Louis, as alternate

Mary C. Daly, President of the Federal Reserve Bank of San Francisco, with Esther L. George, President of the Federal Reserve Bank of Kansas City, as alternate

By unanimous vote, the following officers of the Committee were selected to serve until the selection of their successors at the first regularly scheduled meeting of the Committee in 2022:

Jerome H. Powell	Chair
John C. Williams	Vice Chair
James A. Clouse	Secretary
Matthew M. Luecke	Deputy Secretary
Michelle A. Smith	Assistant Secretary
Mark E. Van Der Weide	General Counsel
Michael Held	Deputy General Counsel
Richard M. Ashton	Assistant General Counsel
Trevor Reeve	Economist
Stacey Tevlin	Economist
Beth Anne Wilson	Economist

<sup>3</sup> Committee organizational documents are available at [www.federalreserve.gov/monetarypolicy/rules\\_authorizations.htm](http://www.federalreserve.gov/monetarypolicy/rules_authorizations.htm).

Shaghil Ahmed  
 David Altig  
 Kartik B. Athreya  
 Brian M. Doyle  
 Rochelle M. Edge  
 Eric M. Engen  
 Beverly Hirtle  
 Sylvain Leduc  
 Anna Paulson  
 William Wascher

Associate Economists

By unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System Open Market Account (SOMA).

By unanimous vote, the Committee selected Lorie K. Logan and Patricia Zobel to serve at the pleasure of the Committee as manager and deputy manager of the SOMA, respectively, on the understanding that these selections were subject to being satisfactory to the Federal Reserve Bank of New York.

Secretary's note: The Federal Reserve Bank of New York subsequently sent advice that the manager and deputy manager selections indicated previously were satisfactory.

By unanimous vote, the Committee voted to reaffirm without revision the Authorization for Domestic Open Market Operations, the Authorization for Foreign Currency Operations, and the Foreign Currency Directive, as shown below. The Guidelines for the Conduct of System Open Market Operations in Federal-Agency Issues remained suspended.

#### AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

(As reaffirmed effective January 26, 2021)

##### OPEN MARKET TRANSACTIONS

1. The Federal Open Market Committee (the "Committee") authorizes and directs the Federal Reserve Bank selected by the Committee to execute open market transactions (the "Selected Bank"), to the extent necessary to carry out the most recent domestic policy directive adopted by the Committee:

A. To buy or sell in the open market securities that are direct obligations of, or fully guaranteed as to principal and interest by, the United States, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United

States, that are eligible for purchase or sale under Section 14(b) of the Federal Reserve Act ("Eligible Securities") for the System Open Market Account ("SOMA"):

- i. As an outright operation with securities dealers and foreign and international accounts maintained at the Selected Bank: on a same-day or deferred delivery basis (including such transactions as are commonly referred to as dollar rolls and coupon swaps) at market prices; or
- ii. As a temporary operation: on a same-day or deferred delivery basis, to purchase such Eligible Securities subject to an agreement to resell ("repo transactions") or to sell such Eligible Securities subject to an agreement to repurchase ("reverse repo transactions") for a term of 65 business days or less, at rates that, unless otherwise authorized by the Committee, are determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual counterparties;

B. To allow Eligible Securities in the SOMA to mature without replacement;

C. To exchange, at market prices, in connection with a Treasury auction, maturing Eligible Securities in the SOMA with the Treasury, in the case of Eligible Securities that are direct obligations of the United States or that are fully guaranteed as to principal and interest by the United States; and

D. To exchange, at market prices, maturing Eligible Securities in the SOMA with an agency of the United States, in the case of Eligible Securities that are direct obligations of that agency or that are fully guaranteed as to principal and interest by that agency.

##### SECURITIES LENDING

2. In order to ensure the effective conduct of open market operations, the Committee authorizes the Selected Bank to operate a program to lend Eligible Securities held in the SOMA to dealers on an overnight basis (except that the Selected Bank may lend Eligible Securities for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions).

A. Such securities lending must be:

- i. At rates determined by competitive bidding;
- ii. At a minimum lending fee consistent with the objectives of the program;

- iii. Subject to reasonable limitations on the total amount of a specific issue of Eligible Securities that may be auctioned; and
  - iv. Subject to reasonable limitations on the amount of Eligible Securities that each borrower may borrow.
- B. The Selected Bank may:
- i. Reject bids that, as determined in its sole discretion, could facilitate a bidder's ability to control a single issue;
  - ii. Accept Treasury securities or cash as collateral for any loan of securities authorized in this paragraph 2; and
  - iii. Accept agency securities as collateral only for a loan of agency securities authorized in this paragraph 2.

### OPERATIONAL READINESS TESTING

3. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraphs 1 and 2 from time to time for the purpose of testing operational readiness, subject to the following limitations:
- A. All transactions authorized in this paragraph 3 shall be conducted with prior notice to the Committee;
  - B. The aggregate par value of the transactions authorized in this paragraph 3 that are of the type described in paragraph 1.A.i, 1.B, 1.C and 1.D shall not exceed \$5 billion per calendar year; and
  - C. The outstanding amount of the transactions described in paragraphs 1.A.ii and 2 shall not exceed \$5 billion at any given time.

### TRANSACTIONS WITH CUSTOMER ACCOUNTS

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments or other authorized services for foreign central bank and international accounts maintained at a Federal Reserve Bank (the "Foreign Accounts") and accounts maintained at a Federal Reserve Bank as fiscal agent of the United States pursuant to section 15 of the Federal Reserve Act (together with the Foreign Accounts, the "Customer Accounts"), the Committee authorizes the following when undertaken on terms comparable to those available in the open market:

- A. The Selected Bank, for the SOMA, to:
  - i. Undertake reverse repo transactions in Eligible Securities held in the SOMA with the Customer Accounts for a term of 65 business days or less; and
  - ii. Undertake repo transactions in Eligible Securities with Foreign Accounts; and
- B. Any Federal Reserve Bank that maintains Customer Accounts, for any such Customer Account, when appropriate and subject to all other necessary authorization and approvals, to:
  - i. Undertake repo transactions in Eligible Securities with dealers with a corresponding reverse repo transaction in such Eligible Securities with the Customer Accounts; and
  - ii. Undertake intra-day repo transactions in Eligible Securities with Foreign Accounts.

Transactions undertaken with Customer Accounts under the provisions of this paragraph 4 may provide for a service fee when appropriate. Transactions undertaken with Customer Accounts are also subject to the authorization or approval of other entities, including the Board of Governors of the Federal Reserve System and, when involving accounts maintained at a Federal Reserve Bank as fiscal agent of the United States, the United States Department of the Treasury.

### ADDITIONAL MATTERS

5. The Committee authorizes the Chair of the Committee, in fostering the Committee's objectives during any period between meetings of the Committee, to instruct the Selected Bank to act on behalf of the Committee to:

- A. Adjust somewhat in exceptional circumstances the stance of monetary policy and to take actions that may result in material changes in the composition and size of the assets in the SOMA; or
- B. Undertake transactions with respect to Eligible Securities in order to appropriately address temporary disruptions of an operational or highly unusual nature in U.S. dollar funding markets.

Any such adjustment described in subparagraph A of this paragraph 5 shall be made in the context of the Committee's discussion and decision about the stance of policy at its most recent meeting and the Committee's long-run objectives to foster maximum employment and price stability, and shall be based on economic, financial,

and monetary developments since the most recent meeting of the Committee. The Chair, whenever feasible, will consult with the Committee before making any instruction under this paragraph 5.

#### AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

(As reaffirmed effective January 26, 2021)

##### IN GENERAL

1. The Federal Open Market Committee (the “Committee”) authorizes the Federal Reserve Bank selected by the Committee (the “Selected Bank”) to execute open market transactions for the System Open Market Account as provided in this Authorization, to the extent necessary to carry out any foreign currency directive of the Committee:

A. To purchase and sell foreign currencies (also known as cable transfers) at home and abroad in the open market, including with the United States Treasury, with foreign monetary authorities, with the Bank for International Settlements, and with other entities in the open market. This authorization to purchase and sell foreign currencies encompasses purchases and sales through standalone spot or forward transactions and through foreign exchange swap transactions. For purposes of this Authorization, foreign exchange swap transactions are: swap transactions with the United States Treasury (also known as warehousing transactions), swap transactions with other central banks under reciprocal currency arrangements, swap transactions with other central banks under standing dollar liquidity and foreign currency liquidity swap arrangements, and swap transactions with other entities in the open market.

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, foreign currencies.

2. All transactions in foreign currencies undertaken pursuant to paragraph 1 above shall, unless otherwise authorized by the Committee, be conducted:

A. In a manner consistent with the obligations regarding exchange arrangements under Article IV of the Articles of Agreement of the International Monetary Fund (IMF).<sup>1</sup>

B. In close and continuous cooperation and consultation, as appropriate, with the United States Treasury.

C. In consultation, as appropriate, with foreign monetary authorities, foreign central banks, and international monetary institutions.

D. At prevailing market rates.

##### STANDALONE SPOT AND FORWARD TRANSACTIONS

3. For any operation that involves standalone spot or forward transactions in foreign currencies:

A. Approval of such operation is required as follows:

i. The Committee must direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions in foreign currencies, as defined in paragraph 3.C of this Authorization, exceeding \$5 billion since the close of the most recent regular meeting of the Committee. The Foreign Currency Subcommittee (the “Subcommittee”) must direct the Selected Bank in advance to execute the operation if the Subcommittee believes that consultation with the Committee is not feasible in the time available.

ii. The Committee authorizes the Subcommittee to direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions in foreign currencies, as defined in paragraph 3.C of this Authorization, totaling \$5 billion or less since the close of the most recent regular meeting of the Committee.

B. Such an operation also shall be:

i. Generally directed at countering disorderly market conditions; or

ii. Undertaken to adjust System balances in light of probable future needs for currencies; or

iii. Conducted for such other purposes as may be determined by the Committee.

C. For purposes of this Authorization, the overall volume of standalone spot and forward transactions in foreign currencies is defined as the sum (disregarding signs) of the dollar values of individual foreign currencies purchased and sold, valued at the time of the transaction.

## WAREHOUSING

4. The Committee authorizes the Selected Bank, with the prior approval of the Subcommittee and at the request of the United States Treasury, to conduct swap transactions with the United States Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934 under agreements in which the Selected Bank purchases foreign currencies from the Exchange Stabilization Fund and the Exchange Stabilization Fund repurchases the foreign currencies from the Selected Bank at a later date (such purchases and sales also known as warehousing).

## RECIPROCAL CURRENCY ARRANGEMENTS, AND STANDING DOLLAR AND FOREIGN CURRENCY LIQUIDITY SWAPS

5. The Committee authorizes the Selected Bank to maintain reciprocal currency arrangements established under the North American Framework Agreement, standing dollar liquidity swap arrangements, temporary dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements as provided in this Authorization and to the extent necessary to carry out any foreign currency directive of the Committee.

A. For reciprocal currency arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

B. For standing and temporary dollar liquidity swap arrangements all drawings must be approved in advance by the Chair. The Chair may approve a schedule of potential drawings, and may delegate to the manager, System Open Market Account, the authority to approve individual drawings that occur according to the schedule approved by the Chair.

C. For standing foreign currency liquidity swap arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

D. Operations involving standing and temporary dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements shall generally be directed at countering strains in financial markets in the United States or abroad, or reducing the

risk that they could emerge, so as to mitigate their effects on economic and financial conditions in the United States.

E. For reciprocal currency arrangements, standing and temporary dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements:

i. All arrangements are subject to annual review and approval by the Committee;

ii. Any new arrangements must be approved by the Committee; and

iii. Any changes in the terms of existing arrangements must be approved in advance by the Chair. The Chair shall keep the Committee informed of any changes in terms, and the terms shall be consistent with principles discussed with and guidance provided by the Committee.

## OTHER OPERATIONS IN FOREIGN CURRENCIES

6. Any other operations in foreign currencies for which governance is not otherwise specified in this Authorization (such as foreign exchange swap transactions with private-sector counterparties) must be authorized and directed in advance by the Committee.

## FOREIGN CURRENCY HOLDINGS

7. The Committee authorizes the Selected Bank to hold foreign currencies for the System Open Market Account in accounts maintained at foreign central banks, the Bank for International Settlements, and such other foreign institutions as approved by the Board of Governors under Section 214.5 of Regulation N, to the extent necessary to carry out any foreign currency directive of the Committee.

A. The Selected Bank shall manage all holdings of foreign currencies for the System Open Market Account:

i. Primarily, to ensure sufficient liquidity to enable the Selected Bank to conduct foreign currency operations as directed by the Committee;

ii. Secondly, to maintain a high degree of safety;

iii. Subject to paragraphs 7.A.i and 7.A.ii, to provide the highest rate of return possible in each currency; and

iv. To achieve such other objectives as may be authorized by the Committee.

B. The Selected Bank may manage such foreign currency holdings by:

- i. Purchasing and selling obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof (“Permitted Foreign Securities”) through outright purchases and sales;
- ii. Purchasing Permitted Foreign Securities under agreements for repurchase of such Permitted Foreign Securities and selling such securities under agreements for the resale of such securities; and
- iii. Managing balances in various time and other deposit accounts at foreign institutions approved by the Board of Governors under Regulation N.

C. The Subcommittee, in consultation with the Committee, may provide additional instructions to the Selected Bank regarding holdings of foreign currencies.

#### ADDITIONAL MATTERS

8. The Committee authorizes the Chair:

A. With the prior approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the United States Treasury about the division of responsibility for foreign currency operations between the System and the United States Treasury;

B. To advise the Secretary of the United States Treasury concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. To designate Federal Reserve System persons authorized to communicate with the United States Treasury concerning System Open Market Account foreign currency operations; and

D. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

9. The Committee authorizes the Selected Bank to undertake transactions of the type described in this Authorization, and foreign exchange and investment transactions that it may be otherwise authorized to undertake, from time to time for the purpose of testing operational readiness. The aggregate amount of such transactions shall not exceed \$2.5 billion per calendar year. These transactions shall be conducted with prior notice to the Committee.

10. All Federal Reserve banks shall participate in the foreign currency operations for System Open Market Account in accordance with paragraph 3G(1) of the Board of Governors’ Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

11. Any authority of the Subcommittee pursuant to this Authorization may be exercised by the Chair if the Chair believes that consultation with the Subcommittee is not feasible in the time available. The Chair shall promptly report to the Subcommittee any action approved by the Chair pursuant to this paragraph.

12. The Committee authorizes the Chair, in exceptional circumstances where it would not be feasible to convene the Committee, to foster the Committee’s objectives by instructing the Selected Bank to engage in foreign currency operations not otherwise authorized pursuant to this Authorization. Any such action shall be made in the context of the Committee’s discussion and decisions regarding foreign currency operations. The Chair, whenever feasible, will consult with the Committee before making any instruction under this paragraph.

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<sup>1</sup> In general, as specified in Article IV, each member of the IMF undertakes to collaborate with the IMF and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. These obligations include seeking to direct the member’s economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability. These obligations also include avoiding manipulating exchange rates or the international monetary system in such a way that would impede effective balance of payments adjustment or to give an unfair competitive advantage over other members.

#### FOREIGN CURRENCY DIRECTIVE (As reaffirmed effective January 26, 2021)

1. The Committee directs the Federal Reserve Bank selected by the Committee (the “Selected Bank”) to execute open market transactions, for the System Open Market Account, in accordance with the provisions of the Authorization for Foreign Currency Operations (the “Authorization”) and subject to the limits in this Directive.

2. The Committee directs the Selected Bank to execute warehousing transactions, if so requested by the United States Treasury and if approved by the Foreign Currency Subcommittee (the “Subcommittee”), subject to the limitation that the outstanding balance of United States dollars provided to the United States Treasury as

a result of these transactions not at any time exceed \$5 billion.

3. The Committee directs the Selected Bank to maintain, for the System Open Market Account:

A. Reciprocal currency arrangements with the following foreign central banks:

Foreign central bank	Maximum amount (millions of dollars or equivalent)
Bank of Canada	2,000
Bank of Mexico	3,000

B. Standing dollar liquidity swap arrangements with the following foreign central banks:

Bank of Canada  
Bank of England  
Bank of Japan  
European Central Bank  
Swiss National Bank

C. Temporary dollar liquidity swap arrangements with the following foreign central banks:

Reserve Bank of Australia  
National Bank of Denmark  
Reserve Bank of New Zealand  
Bank of Norway  
Bank of Sweden  
Central Bank of Brazil  
Bank of Mexico  
Bank of Korea  
Monetary Authority of Singapore

D. Standing foreign currency liquidity swap arrangements with the following foreign central banks:

Bank of Canada  
Bank of England  
Bank of Japan  
European Central Bank  
Swiss National Bank

4. The Committee directs the Selected Bank to hold and to invest foreign currencies in the portfolio in accordance with the provisions of paragraph 7 of the Authorization.

5. The Committee directs the Selected Bank to report to the Committee, at each regular meeting of the Committee, on transactions undertaken pursuant to paragraphs 1 and 6 of the Authorization. The Selected Bank is also directed to provide quarterly reports to the Committee regarding the management of the foreign currency holdings pursuant to paragraph 7 of the Authorization.

6. The Committee directs the Selected Bank to conduct testing of transactions for the purpose of operational readiness in accordance with the provisions of paragraph 9 of the Authorization.

By unanimous vote, the Committee reaffirmed its Program for Security of FOMC Information with minor technical changes.

In the Committee's annual reconsideration of the Statement on Longer-Run Goals and Monetary Policy Strategy, all participants supported the statement as written, and the Committee voted unanimously to reaffirm without revision.

#### STATEMENT ON LONGER-RUN GOALS AND MONETARY POLICY STRATEGY (As reaffirmed effective January 26, 2021)

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The Committee's primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate. The Committee judges that the level of the federal funds rate consistent with maximum employment and price stability over the longer run has declined relative to its historical average. Therefore, the federal funds rate is likely to be constrained by its effective lower bound more frequently

than in the past. Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that downward risks to employment and inflation have increased. The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals.

The maximum level of employment is a broad-based and inclusive goal that is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments.

The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee judges that longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances. In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

Monetary policy actions tend to influence economic activity, employment, and prices with a lag. In setting monetary policy, the Committee seeks over time to mitigate shortfalls of employment from the Committee's assessment of its maximum level and deviations of inflation from its longer-run goal. Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The Committee's employment and inflation objectives are generally complementary. However, under circum-

stances in which the Committee judges that the objectives are not complementary, it takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

The Committee intends to review these principles and to make adjustments as appropriate at its annual organizational meeting each January, and to undertake roughly every 5 years a thorough public review of its monetary policy strategy, tools, and communication practices.

### **Developments in Financial Markets and Open Market Operations**

The manager turned first to a discussion of financial market developments. The evolving outlooks for the path of the virus and for fiscal policy were the main drivers of financial markets over the intermeeting period. Progress on vaccinations had been slower than expected, and the near-term trajectory of the pandemic worsened, weighing on economic activity. However, even with the appearance of new strains of the virus, market confidence in the ultimate efficacy of the vaccination efforts seemed to remain high. The emergence of a narrow Democratic majority in the Senate bolstered investor expectations for additional fiscal stimulus, prompting upward revisions to forecasts for economic growth this year. In the Open Market Desk Survey of Primary Dealers, the median 2021 gross domestic product (GDP) growth forecast rose about 1 percentage point.

Against this backdrop, longer-term Treasury yields rose notably over the period. Longer-dated real yields were lifted by expectations for improved growth and increased Treasury issuance, but remained deeply negative. Measures of inflation compensation increased over the period, with the five-year, five-year-forward measure rising to a level of around 2 percent. Overall financial conditions eased further, on net, as the recent rally in risk assets continued. Gains in U.S. equities again centered on cyclical sectors and smaller-capitalization firms most sensitive to growth. Credit spreads narrowed further, especially for riskier borrowers.

Expectations for the path of the target federal funds rate over the next several years, as implied by interest rate futures and by the Desk Survey of Primary Dealers and Survey of Market Participants, were relatively little changed from December. The stability in near-term policy rate expectations amid an improving growth outlook appeared consistent with the Committee's new framework and forward interest rate guidance. Although the median Desk survey respondent continued to expect

12-month personal consumption expenditure (PCE) inflation of 2.3 percent when the FOMC first lifts the target range, the median expectation for the unemployment rate prevailing at that time was modestly lower than in December. The Desk survey results indicated that a majority of market participants anticipated that the pace of net asset purchases would remain stable for the remainder of the year and slow around the first quarter of 2022.

The manager next discussed conditions in funding markets. Over the year-end, overnight secured and unsecured rates were little changed at rates just below the interest on excess reserves (IOER) rate even as financial firms managed their balance sheets for the reporting date. Going forward, reserves were projected to rise rapidly through the summer, reflecting ongoing Federal Reserve asset purchases as well as expected declines in balances held in the Treasury General Account. Market pricing suggested that the effective federal funds rate was expected to decline modestly through the second quarter. Even if more notable downward pressure on money market rates emerged, the manager anticipated that the Federal Reserve's tools, including the IOER rate and overnight reverse repurchase agreement facility, would continue to provide effective control over the federal funds rate and other overnight money market rates.

Finally, the manager discussed Desk operations. A range of indicators suggested that both fixed-income and funding markets continued to function smoothly over the period. The manager noted that, in the coming period, the Desk anticipated implementing two adjustments to continue to normalize operations. First, given the sustained stability in term repurchase markets, the Desk proposed discontinuing the weekly one-month term repurchase operations, beginning in mid-February. In addition, the Desk planned to reduce the frequency of agency commercial mortgage-backed securities (CMBS) operations in light of the sustained improvement in market conditions for these securities.

By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. No intervention operations occurred in foreign currencies for the System's account during the intermeeting period.

### **Staff Review of the Economic Situation**

The COVID-19 pandemic and the measures undertaken to contain its spread continued to affect economic activity in the United States and abroad. The information available at the time of the January 26–27 meeting suggested that U.S. real GDP had continued to advance in

the fourth quarter of 2020, albeit at a pace that was markedly slower than the rapid rate seen in the third quarter, while the level of real GDP had not yet returned to the level seen before the onset of the pandemic. Labor market conditions deteriorated, on balance, in December, and employment continued to be well below its level at the start of 2020. Consumer price inflation through November—as measured by the 12-month percentage change in the PCE price index—remained considerably lower than the rates seen in early 2020.

Total nonfarm payroll employment fell in December, with especially sharp declines in the leisure and hospitality sector. As of December, payroll employment had retraced a little more than half of the losses seen at the onset of the pandemic. The unemployment rate held steady at 6.7 percent in December. The unemployment rate for African Americans declined and the Hispanic unemployment rate rose; both rates remained well above the national average. However, the Asian unemployment rate moved below the national average in December. Both the labor force participation rate and employment-to-population ratio were unchanged in December. Initial claims for unemployment insurance in mid-January were higher than their early December level. Weekly estimates of private-sector payrolls constructed by Federal Reserve Board staff using data provided by the payroll processor ADP indicated that the four-week average change in private employment in mid-January was slightly lower than it had been in early December; however, the most recent week-to-week changes in this measure of payrolls had been highly volatile.

Average hourly earnings for all employees rose 5.1 percent over the 12 months ending in December, a gain that was noticeably higher than the measure's year-earlier 12-month change. The 12-month change in average hourly earnings continued to be dominated by changes in the composition of the workforce, with the concentration of job losses among lower-wage workers over the pandemic period resulting in outsized increases in this measure of earnings that were not indicative of tight labor market conditions. By contrast, a staff measure of the 12-month change in the median wage derived from the ADP data—a measure likely to have been less affected by changes in workforce composition—was 3½ percent in December and remained well below its pre-pandemic pace.

Total PCE price inflation was 1.1 percent over the 12 months ending in November and continued to be held down by relatively weak aggregate demand and the declines in consumer energy prices seen over the first

part of 2020. Core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 1.4 percent over the 12 months ending in November, while the trimmed mean measure of 12-month PCE inflation constructed by the Federal Reserve Bank of Dallas was 1.7 percent in November. In December, the 12-month change in the consumer price index (CPI) was 1.4 percent, while core CPI inflation was 1.6 percent over the same period. The latest readings on survey-based measures of longer-run inflation expectations ticked higher. In the first part of January, the University of Michigan Surveys of Consumers measure for the next 5 to 10 years moved back up to its late-summer level, while in December, the 3-year-ahead measure of inflation expectations produced by the Federal Reserve Bank of New York moved back up to its August level.

Real PCE fell in November, and available indicators—including the components of the nominal retail sales data used to estimate PCE—pointed to a further decline in December. Housing starts and construction permits moved up in November and December and finished the year well above their pre-pandemic levels. Although home sales turned down in November, the decline appeared to reflect limited availability of homes for sale rather than weakening demand.

Available indicators pointed to a strong increase in investment in equipment and intangibles in the fourth quarter of 2020, as this component of capital spending recovered from its sharp decline over the first half of the year. Likewise, drilling investment appeared to have turned up sharply, albeit from a low level, as oil prices moved higher. By contrast, investment in nonresidential structures outside of the drilling and mining sector appeared to have declined further in the fourth quarter and had likely been restrained by firms' continued hesitation to commit to projects with lengthy times to completion and uncertain future returns.

Industrial production advanced further in the fourth quarter, led by a solid gain in manufacturing output, but had not yet overtaken its pre-pandemic level. The low level of export demand since the onset of the pandemic had likely continued to restrain the recovery in the manufacturing sector; in addition, production of motor vehicles and parts was a small drag on manufacturing output in the fourth quarter as automotive producers appeared to have had difficulty getting assemblies fully under way for the new model year.

Total real government purchases appeared to have fallen further in the fourth quarter, though at a slower pace

than in the third quarter. Available data suggested that real federal purchases had posted a modest gain, as an increase in defense purchases offset a reduction in non-defense purchases; however, indicators of real state and local purchases, including state and local government employment, pointed to a fourth-quarter decline similar in size to what had been seen in the third quarter.

The nominal U.S. international trade deficit widened further in November. Both imports and exports continued to rebound from their collapse in the first half of the year. Goods imports rose in November to a level well above that of the previous January, with gains in most major categories. Although exports also grew in November, they had not yet recovered to their January 2020 level. Services trade continued a gradual rise but remained depressed, driven by the continued suspension of most international travel. Taken together, these data suggested that net exports made a significant negative contribution to real GDP growth in the fourth quarter.

Recent data pointed to a sharp slowing in foreign economic growth in the fourth quarter, after a strong rebound in the third quarter. Amid a further intensification of the pandemic, many foreign governments tightened social-distancing restrictions. In a few countries, the emergence of new and more contagious virus strains was accompanied by a surge in COVID-19 cases and deaths. The increased virus spread and restrictions appeared to take a toll on foreign economic activity, particularly in Europe. The global slowdown was most notable for services, with further declines in purchasing managers indexes for this sector through January in many advanced foreign economies. By contrast, manufacturing output in both advanced and emerging foreign economies continued to expand at a solid pace, supported by resilient demand for durable goods, high-tech goods, and medical supplies. Amid the generally weak economic situation, inflationary pressures remained subdued in most foreign economies.

### **Staff Review of the Financial Situation**

Investor sentiment improved and risk asset prices moved higher over the intermeeting period on greater prospects for additional fiscal stimulus. Domestic and foreign equity prices increased notably, and spreads on corporate and municipal bonds narrowed. The nominal Treasury yield curve steepened, partly reflecting an increase in inflation compensation. Market-based financing conditions remained accommodative, while bank lending conditions continued to be tight. However, a smaller net share of banks tightened lending standards than in previous quarters.

A straight read of overnight index swap (OIS) quotes suggested that the expected path of the federal funds rate beyond mid-2023 rose moderately over the intermeeting period, with the increases reportedly associated largely with greater investor optimism regarding the expected speed of the economic recovery. OIS quotes suggested that the expected policy rate would remain below 25 basis points until the third quarter of 2023, little changed from the time of the December meeting.

The yield on 2-year nominal Treasury securities was little changed over the intermeeting period, while the 10-year yield rose notably. Most of the steepening of the Treasury yield curve occurred following the outcome of the Georgia runoff elections, which reportedly bolstered market participants' expectations for additional fiscal stimulus. The FOMC's updated guidance around asset purchases was seen as broadly in line with expectations and did not elicit noticeable financial market reaction. Measures of inflation compensation based on Treasury Inflation-Protected Securities increased moderately, on net, continuing the upward trend observed over recent months, with the increase over the intermeeting period reportedly reflecting greater prospects for additional fiscal stimulus and an associated improvement in the longer-run economic outlook.

Broad stock price indexes increased, on net, over the intermeeting period, boosted by gains in the share prices of banks and companies in more cyclically sensitive sectors, reportedly reflecting, in part, increased expectations of fiscal stimulus. One-month option-implied volatility on the S&P 500—the VIX—was little changed, on net, remaining modestly elevated relative to its range over the past several years. Consistent with the optimism driving stock prices, spreads on corporate bond yields over comparable-maturity Treasury yields narrowed somewhat. Spreads on municipal bond yields narrowed notably in January, reportedly reflecting increased expectations of additional fiscal stimulus and aid to state and local governments.

Conditions in short-term funding markets remained stable over the intermeeting period, including over the year-end. Spreads for commercial paper and negotiable certificates of deposit across tenors were largely unchanged at historically low levels. Commercial paper outstanding declined somewhat in late December but quickly rebounded in early January to the levels observed before year-end. Amid stable market conditions, there was no take-up at the Commercial Paper Funding Facility or the Money Market Mutual Fund Liquidity Facility over the intermeeting period. Assets under management (AUM)

of government money market funds (MMFs) remained stable over the intermeeting period. AUM of prime MMFs continued to decline, reaching the lowest level since late 2018, likely reflecting the compressed net yield advantage for prime funds relative to yields for government funds. The net yields of both prime and government MMFs remained near historically low levels.

The effective federal funds rate and the Secured Overnight Financing Rate were little changed, averaging 9 basis points and 8 basis points, respectively, over the intermeeting period. There continued to be no participation in the Fed's repurchase agreement (repo) operations, and participation in the Fed's reverse repo facility was minimal.

In foreign financial markets, the prospect of additional U.S. fiscal stimulus and the passage of key risk events such as the Brexit trade agreement largely outweighed investor concerns around new virus strains and the sluggish global vaccine rollout. On balance, foreign equity prices increased moderately, with notable outperformance in some Asian indexes, and capital inflows into mutual funds dedicated to emerging markets continued at a robust pace. Longer-term sovereign yields in most advanced foreign economies rose slightly on improved investor sentiment even while several major central banks reaffirmed their commitment to continue or possibly expand accommodative policies. The broad dollar index was little changed, on net, over the intermeeting period, while the Chinese renminbi appreciated notably against the dollar as data showed a robust economic recovery in China. Dollar funding conditions were generally stable around year-end.

Financing conditions in capital markets remained broadly accommodative, supported by low interest rates and high equity valuations. Gross corporate bond issuance was fairly strong in November and December, and seasoned and initial public offerings in the equity markets were robust. Gross institutional leveraged loan issuance was also strong in December, as issuance volumes excluding refinancing topped their averages for previous months of 2020 and were above those observed during the same period of 2019.

Commercial and industrial (C&I) loan balances at banks continued to decline in December, albeit at a slower pace than in the fall. C&I loans declined in the fourth quarter because of weak origination activity, loan forgiveness at the Paycheck Protection Program, and continued repayments of bank debt. In the January Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks, on net, reported weaker demand and tightened

lending standards for C&I loans, with notable differences in reported changes across bank sizes. Large banks reported having eased standards to large and middle-market firms, while, on net, banks of all sizes reported having tightened standards to small firms. However, a smaller net percentage of banks tightened lending standards to firms of all sizes than in previous quarters.

The credit quality of nonfinancial corporations remained stable in recent months after deteriorating substantially for several months following the onset of the pandemic. The volume of nonfinancial corporate bond downgrades continued to slightly outpace upgrades in November and December, and the monthly volume of nonfinancial corporate bond defaults remained relatively low. Market indicators of future default expectations moved slightly lower, essentially returning to their pre-pandemic levels.

Financing conditions for small businesses remained tight, but small business loan originations in November, the most recent month for which data were available, were at roughly the level seen a year earlier, likely supported by the refinancing of existing loans. Meanwhile, liquidity needs of small businesses remained high as businesses continued to operate at reduced capacity. Small business delinquency and default rates were little changed but remained elevated relative to the levels of recent years. Financing conditions in the municipal bond market remained generally accommodative over the intermeeting period, and the credit quality of municipal debt remained roughly stable.

For commercial real estate (CRE) financed through capital markets, financing conditions remained generally accommodative, easing further over the intermeeting period. Spreads on agency CMBS ticked down, on net, and issuance remained elevated through December, although below its recent historical high in October. Risk spreads on triple-B non-agency CMBS declined, and spreads on triple-A non-agency CMBS stayed close to their historical lows. Issuance of non-agency CMBS remained somewhat below its pre-pandemic level. CRE bank loan growth remained weak in the fourth quarter amid depressed property transaction volumes. On net, in the January SLOOS, banks reported a further tightening of lending standards and further weakening in demand for CRE loans.

Financing conditions in the residential mortgage market were little changed over the intermeeting period. Mortgage rates ticked up slightly but stayed near historically low levels, supporting strong loan origination activity. Credit remained broadly available to higher-score bor-

rowers seeking conforming mortgages but tightened further, from already tight levels, for borrowers with lower credit scores and those seeking nonconforming mortgages. The January SLOOS suggested that for most types of residential mortgages, banks' lending standards remained unchanged, while loan demand was either little changed or somewhat stronger. Mortgage forbearance rates plateaued in December and early January after having gradually declined over the previous six months, and the rate of new delinquencies stayed at low, pre-pandemic levels.

Financing conditions in consumer credit markets generally remained accommodative for borrowers with strong credit scores but tight for those with subprime scores. Banks in the January SLOOS reported easing standards for all consumer loan types and experiencing weaker demand for auto loans and little-changed demand for other consumer loans. Conditions in the asset-backed securities market appeared supportive of lending. Credit card balances edged down further for both prime and nonprime borrowers, likely reflecting weak consumer spending. However, the volume of new cards and available credit continued to rise for both prime and nonprime borrowers. Interest rates on new credit card offers for nonprime borrowers stayed elevated, and financing conditions remained tight for those borrowers. Auto loan balances continued to increase solidly for prime and near-prime borrowers but declined further for subprime borrowers. Auto loan interest rates were about flat over the past few months and remained significantly below their pre-pandemic levels. Delinquency rates for nonprime auto and credit card borrowers ticked up, albeit from very low levels.

The staff provided an update on its assessments of the stability of the financial system and, on balance, characterized the financial vulnerabilities of the U.S. financial system as notable. The staff assessed asset valuation pressures as elevated. In particular, corporate bond spreads had declined to pre-pandemic levels, which were at the lower ends of their historical distributions. In addition, measures of the equity risk premium declined further, returning to pre-pandemic levels. Prices for industrial and multifamily properties continued to grow through 2020 at about the same pace as in the past several years, while prices of office buildings and retail establishments started to fall. The staff assessed vulnerabilities associated with household and business borrowing as notable, reflecting increased leverage and decreased incomes and revenues in 2020. Small businesses were hit particularly hard. The staff judged that vulner-

abilities stemming from financial leverage were moderate, noting that capital ratios at the largest bank holding companies rose over the course of last year; leverage among hedge funds was elevated but it did decline last spring for the most highly leveraged funds. The staff characterized vulnerabilities stemming from funding risks as moderate. Banks continued to maintain significant levels of high-quality liquid assets and stable sources of funding. In contrast, money market funds and open-ended mutual funds were characterized by significant vulnerabilities associated with liquidity transformation.

### **Staff Economic Outlook**

The U.S. economic projection prepared by the staff for the January FOMC meeting implied a considerably stronger outlook for activity in 2021 relative to the December forecast. Although incoming data had been weaker than expected, the staff's January projection incorporated the effects of the stimulus in the recently enacted Consolidated Appropriations Act, 2021 (CAA), together with an assumption that an additional sizable tranche of fiscal support would be put into place in coming months. Taken together, these stimulus measures were expected to partly offset the substantial drag on aggregate demand that would result from the unwinding of the fiscal stimulus enacted in the spring of 2020. The staff's projection continued to anticipate that widespread vaccination would allow for an easing in social distancing in 2021. With the boost to growth from the reduction in social distancing assumed to be largely completed by the end of 2021, GDP growth was expected to step down over the remainder of the medium term. Even so, the staff continued to project that real GDP growth would outpace that of potential over this period, leading to a considerable further decline in the unemployment rate.

The 12-month changes in total and core PCE prices in coming months were projected to briefly move above 2 percent in the second quarter of 2021 as the unusually low observations from the spring of 2020 drop out of the 12-month calculation. Following these swings, inflation was expected to finish the year at just below 2 percent. Thereafter, inflation was projected to gradually edge up to 2 percent by the end of the medium term as labor and product markets tightened. With monetary policy assumed to remain accommodative, inflation was projected to moderately overshoot 2 percent for some time in the years beyond 2023.

The staff viewed the possibility that a larger-than-anticipated fiscal package would be enacted in coming months

as a modest upside risk to the baseline economic outlook. However, the further rise in COVID-19 cases in the United States, coupled with developments such as the emergence of more-contagious strains of the virus in the United States and elsewhere, led the staff to continue to judge that the risks to the baseline projection were skewed to the downside and that the uncertainty around the forecast was elevated.

### **Participants' Views on Current Conditions and the Economic Outlook**

Participants noted that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment had moderated in recent months, with weakness concentrated in the sectors of the economy most adversely affected by the resurgence of the virus and by greater social distancing. Weaker demand and earlier declines in oil prices were holding down consumer price inflation. Overall financial conditions remained accommodative, in part reflecting the Federal Reserve's actions to support the economy and the flow of credit to U.S. households and businesses. Participants agreed that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations, and that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation and posed considerable risks to the economic outlook.

Participants observed that the resurgence in COVID-19 infections and associated social-distancing measures were restraining activity in some sectors, particularly in industries such as travel and leisure and hospitality. Most participants expected that the stimulus provided by the passage of the CAA in December, the likelihood of additional fiscal support, and anticipated continued progress in vaccinations would lead to a sizable boost in economic activity. Even so, participants noted that economic activity and employment were currently well below levels consistent with achieving maximum employment.

Participants commented on improved prospects for household spending over the course of the year, in part reflecting fiscal support. They saw progress on vaccinations as essential for supporting further gains in aggregate consumer spending and for the economic recovery more generally. In commenting on recent data for household spending, most participants discussed the composition of expenditures, with strong spending on

many goods, especially durables, and weakness in spending on some services, especially in travel and in leisure and hospitality. The relative strength in consumer spending on goods was supported by fiscal programs such as federal stimulus payments and expanded unemployment benefits as well as by accommodative monetary policy. The weakness in services spending was largely attributed to the pandemic and associated social-distancing measures, which limited spending on services that depend heavily on in-person contact. Increased government transfers to households, combined with reduced outlays on some services, had contributed to a historically large increase in aggregate household savings last year. Participants also observed that residential investment and home sales remained robust; low interest rates were viewed as an important factor supporting the strength in housing activity.

Most participants noted that the economic downturn had not fallen equally on all Americans and that those least able to shoulder the burden—in particular, lower-income and Black and Hispanic households—had been the hardest hit by the pandemic. Many participants stressed that sustained support from fiscal policy would help address the hardships faced by these groups and that monetary policy could also help by promoting the economy's return to maximum employment and price stability.

In their remarks on the business sector, participants commented that business equipment investment had continued to show strength while nonresidential construction remained weak. Participants also discussed the recent strong performance of the manufacturing sector. Many discussed supply chain issues in manufacturing, including those associated with acquiring material inputs and pandemic-related worker shortages and absenteeism. Business contacts reported that firms in goods-producing industries, particularly larger firms and those in the durable goods or housing sectors, were adapting to the pandemic; in contrast, smaller firms and those in industries most adversely affected by the pandemic were finding it more difficult to adapt. Many participants stated that their business contacts were optimistic that continued progress on vaccinations, together with further fiscal support, would result in more improvement in overall business conditions. Several participants noted the increase in agricultural crop prices over 2020 and the associated improvement in farm revenues.

As with overall economic activity, the pace of improvement in the labor market had slowed in recent months. Payroll employment fell in December, as continued job

gains in many industries were outweighed by significant layoffs in industries where the resurgence of the virus had weighed heavily on activity. While labor market conditions had improved significantly, on balance, since the spring, some participants noted that if the sizable number of workers who reported having left the labor force since the beginning of the pandemic were to be counted as unemployed, the unemployment rate would be substantially higher. Participants judged that the current low level of labor force participation likely reflected a number of factors, including health concerns and additional childcare responsibilities. Over the medium term, participants expected strong growth in employment, driven by continued progress on vaccinations and an associated rebound of economic activity and of consumer and business confidence, as well as accommodative fiscal and monetary policy. However, participants observed that the economy was far from achieving the Committee's broad-based and inclusive goal of maximum employment and that even with a brisk pace of improvement in the labor market, achieving this goal would take some time.

In their comments about inflation, participants noted that headline PCE price inflation in December, measured on a 12-month basis, was poised to come in well below the Committee's 2 percent longer-term objective. In the relatively near term, a number of participants suggested that there could be increases in the prices of some goods whose production has been subject to supply chain constraints, or soon could be; others anticipated that a possibly abrupt return to normal levels of activity could result in one-time increases in certain prices. Many participants stressed the importance of distinguishing between such one-time changes in relative prices and changes in the underlying trend for inflation, noting that changes in relative prices could temporarily raise measured inflation but would be unlikely to have a lasting effect. Some participants further observed that 12-month PCE inflation was likely to move somewhat above 2 percent for a brief period in the spring as the unusually low monthly observations from last spring roll out of the 12-month calculation. Outside of such near-term fluctuations, participants generally anticipated that inflation would move up along a trajectory consistent with achieving the Committee's objectives over time, supported by stronger economic activity, widespread vaccinations and the associated reduction in social distancing, and accommodative fiscal and monetary policy. Some participants pointed to the continued increase in market-based measures of inflation compensation from the very low levels recorded in the spring as consistent

with the view that inflation was likely to move up gradually over time; others noted that survey-based measures were little changed, on net, over the year as a whole.

Participants noted that overall financial conditions remained highly accommodative, in part reflecting investors' optimism about the economic outlook along with the accommodative stance of monetary policy and recent and expected future fiscal policy measures. However, a few participants remarked that credit conditions were relatively tight for borrowers with low credit scores and for some small and medium-sized businesses that rely on bank lending rather than capital markets to meet their financing needs.

While generally acknowledging that the medium-term outlook for real GDP growth and employment had improved, participants continued to see the uncertainty surrounding that outlook as elevated. Participants agreed that the path of the economy depended significantly on the course of the virus and progress on vaccinations. Many participants remarked that the pandemic continued to pose considerable risks to the economic outlook, including risks associated with new virus strains, potential public resistance to vaccination, and potential difficulties in the production and distribution of vaccines. With regard to upside risks, some participants pointed to the possibility that fiscal policy could turn out to be more expansionary than anticipated, that households could display greater willingness to spend out of accumulated savings than expected, or that widespread vaccinations and easing of social distancing could result in a more rapid boost to spending and employment than anticipated. Participants generally viewed the risks to the outlook for inflation as having become more balanced than was the case over most of 2020, although most still viewed the risks as weighted to the downside. As an upside risk to inflation, several participants noted the potential for pandemic-related supply constraints to affect price inflation somewhat more than anticipated or for price increases among industries most adversely affected by the pandemic to be more pronounced than projected.

A number of participants commented on issues related to financial stability. Several participants noted areas of strength. For example, the banking system had shown considerable resilience since the onset of the pandemic. Banks' capital positions had generally remained solid, and earnings were strong. In addition, results from the most recent stress tests indicated that the largest banks could withstand very stressed economic conditions.

That said, a few participants stated that it would be important to stay vigilant to ensure that the banking system remained strong and resilient. In addition, several participants noted that the pandemic had highlighted structural vulnerabilities in other parts of the financial system. These included run-prone investment funds in short-term funding and credit markets as well as fragilities in Treasury market functioning; stresses stemming from these vulnerabilities had required substantial intervention by the Federal Reserve in the turbulent market conditions at the onset of the pandemic. A couple of participants commented that it would be important for the appropriate regulatory bodies to address these financial stability vulnerabilities. Regarding asset valuations, some participants commented that equity valuations had risen further, that initial public offering activity was elevated, or that valuations might have been affected by retail investors trading through electronic platforms. In addition, risk spreads on corporate bonds and loans were generally low, even with corporate indebtedness having risen to high levels. A few participants noted that some CRE in sectors that had been most directly affected by the pandemic—such as those involving retail establishments and hotels—faced the prospect of falling prices and increased stress.

In their consideration of monetary policy at this meeting, participants reaffirmed the Federal Reserve's commitment to using its full range of tools to support the U.S. economy during this challenging time, thereby promoting the Committee's statutory goals of maximum employment and price stability. Participants agreed that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations, and that the ongoing public health crisis had continued to weigh on economic activity, employment, and inflation. Participants noted that as the pandemic had worsened across the country in recent months, the pace of the recovery had moderated, with weakness concentrated in the sectors most adversely affected by the pandemic. In contrast, participants remarked that the prospect of an effective vaccine program, the recently enacted fiscal support, and the potential for additional fiscal actions had led them to judge that the medium-term outlook had improved. That said, participants agreed that the economy remained far from the Committee's longer-run goals and that the path ahead remained highly uncertain, with the pandemic continuing to pose considerable risks to the outlook.

In their discussion of the outlook for monetary policy, participants judged that maintaining a highly accommodative stance of policy was essential to foster further

economic recovery and to achieve an average inflation rate of 2 percent over time. Participants noted that economic conditions were currently far from the Committee's longer-run goals and that the stance for policy would need to remain accommodative until those goals were achieved. Consequently, all participants supported maintaining the Committee's current settings and outcome-based guidance for the federal funds rate and the pace of asset purchases.

Participants noted that the Committee's current guidance was well suited to the current environment because it describes how policy would respond based on the path of the economy. For example, if progress toward the Committee's goals proved slower than anticipated, the outcome-based guidance would convey the Committee's intention to respond by increasing monetary policy accommodation through maintaining the current level of the target range of the federal funds rate for longer and raising the expected path of the Federal Reserve's balance sheet. In addition, participants noted that the Committee's current outcome-based guidance for both the federal funds rate and balance sheet appeared to be well understood by the public. In that context, participants emphasized that it was important to abstract from temporary factors affecting inflation—such as low past levels of prices dropping out of measures of annual price changes or relative price increases in some sectors brought about by supply constraints or disruptions—in judging whether inflation was on track to moderately exceed 2 percent for some time.

Participants noted that the increase in the Federal Reserve's balance sheet since last March had materially eased financial conditions and was providing substantial support to the economy. The Committee's guidance for asset purchases indicated that asset purchases would continue at least at the current pace until substantial further progress toward its employment and inflation goals had been achieved. With the economy still far from those goals, participants judged that it was likely to take some time for substantial further progress to be achieved. Various participants noted the importance of the Committee clearly communicating its assessment of progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of purchases.

### **Committee Policy Action**

In their discussion of monetary policy for this meeting, members agreed that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. They

noted that the pace of recovery in economic activity and employment had moderated in recent months, with weakness concentrated in sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices had been holding down consumer price inflation. Overall financial conditions remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Members also stated that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations. In addition, members agreed that the ongoing public health crisis had continued to weigh on economic activity, employment, and inflation and was posing considerable risks to the economic outlook.

Members agreed that the pandemic continued to pose considerable risks to the outlook. Nonetheless, in light of the expected progress on vaccinations and the change in the outlook for fiscal policy, the medium-term prospects for the economy had improved enough that members decided that the reference in previous post-meeting statements to risks to the economic outlook over the medium term was no longer warranted.

Members agreed that the Federal Reserve was committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum-employment and price-stability goals. All members reaffirmed that, in accordance with the Committee's goals to achieve maximum employment and inflation at the rate of 2 percent over the longer run and with inflation running persistently below this longer-run goal, they would aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. Members expected to maintain an accommodative stance of monetary policy until those outcomes were achieved.

All members agreed to maintain the target range for the federal funds rate at 0 to  $\frac{1}{4}$  percent, and they expected that it would be appropriate to maintain this target range until labor market conditions had reached levels consistent with the Committee's assessments of maximum employment and inflation had risen to 2 percent and was on track to moderately exceed 2 percent for some time.

In addition, members agreed that it would be appropriate for the Federal Reserve to continue to increase its holdings of Treasury securities by at least \$80 billion per month and agency mortgage-backed securities by at least \$40 billion per month until substantial further progress

had been made toward the Committee's maximum-employment and price-stability goals. They judged that these asset purchases would help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the SOMA in accordance with the following domestic policy directive, for release at 2:00 p.m.:

“Effective January 28, 2021, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 0 to  $\frac{1}{4}$  percent.
- Increase the System Open Market Account holdings of Treasury securities by \$80 billion per month and of agency mortgage-backed securities (MBS) by \$40 billion per month.
- Increase holdings of Treasury securities and agency MBS by additional amounts and purchase agency commercial mortgage-backed securities (CMBS) as needed to sustain smooth functioning of markets for these securities.
- Conduct repurchase agreement operations to support effective policy implementation and the smooth functioning of short-term U.S. dollar funding markets.
- Conduct overnight reverse repurchase agreement operations at an offering rate of 0.00 percent and with a per-counterparty

limit of \$30 billion per day; the per-counterparty limit can be temporarily increased at the discretion of the Chair.

- Roll over at auction all principal payments from the Federal Reserve's holdings of Treasury securities and reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS.
- Allow modest deviations from stated amounts for purchases and reinvestments, if needed for operational reasons.
- Engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.”

The vote also encompassed approval of the statement below for release at 2:00 p.m.:

“The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so

that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward the Committee’s maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals. The Committee’s assessments will take into account a wide range of

information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.”

**Voting for this action:** Jerome H. Powell, John C. Williams, Thomas I. Barkin, Raphael W. Bostic, Michelle W. Bowman, Lael Brainard, Richard H. Clarida, Mary C. Daly, Charles L. Evans, Randal K. Quarles, and Christopher J. Waller.

**Voting against this action:** None.

Consistent with the Committee’s decision to leave the target range for the federal funds rate unchanged, the Board of Governors voted unanimously to leave the interest rates on required and excess reserve balances at 0.10 percent. The Board of Governors also voted unanimously to approve establishment of the primary credit rate at the existing level of 0.25 percent, effective January 28, 2021.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, March 16–17, 2021. The meeting adjourned at 10:25 a.m. on January 27, 2021.

#### **Notation Vote**

By notation vote completed on January 5, 2021, the Committee unanimously approved the minutes of the Committee meeting held on December 15–16, 2020.

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**James A. Clouse**  
Secretary