Minutes of the Federal Open Market Committee
July 26–27, 2022

A joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System was held in the offices of the Board of Governors on Tuesday, July 26, 2022, at 10:30 a.m. and continued on Wednesday, July 27, 2022, at 9:00 a.m.[1]

Attendance

Jerome H. Powell, Chair
John C. Williams, Vice Chair
Michael S. Barr
Michelle W. Bowman
Lael Brainard
James Bullard
Susan M. Collins
Lisa D. Cook
Esther L. George
Philip N. Jefferson
Loretta J. Mester
Christopher J. Waller

Meredith Black, Charles L. Evans, Patrick Harker, Neel Kashkari, and Helen E. Mucciolo,[2] Alternate Members of the Committee

Thomas I. Barkin, Raphael W. Bostic, and Mary C. Daly, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

James A. Clouse, Secretary
Brian J. Bonis, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Mark E. Van Der Weide, General Counsel
Trevor A. Reeve, Economist
Stacey Tevlin, Economist
Beth Anne Wilson, Economist

Shaghil Ahmed, Brian M. Doyle, Joseph W. Gruber, David E. Lebow, Ellis W. Tallman, 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

Andreas Lehnert, Director, Division of Financial Stability, Board

Jennifer J. Burns, Deputy Director, Division of Supervision and Regulation, Board; Sally Davies, Deputy Director, Division of International Finance, Board; Rochelle M. Edge, Deputy Director, Division of Monetary Affairs, Board

Jon Faust and Joshua Gallin, Senior Special Advisers to the Chair, Division of Board Members, Board

Burcu Duygan-Bump, Jane E. Ihrig, Kurt F. Lewis, Laura Lipscomb, John W. Schindler, Nitish R. Sinha, Paul R. Wood, and Rebecca Zarutskie, Special Advisers to the Board, Division of Board Members, Board

Linda Robertson, Assistant to the Board, Division of Board Members, Board

William F. Bassett, Senior Associate Director, Division of Financial Stability, Board

Edward Nelson, Senior Adviser, Division of Monetary Affairs, Board; Jeremy B. Rudd, Senior Adviser, Division of Research and Statistics, Board

Andrew Figura, Associate Director, Division of Research and Statistics, Board; Christopher J. Gust, Associate Director, Division of Monetary Affairs, Board; Jeffrey D. Walker,[3] Associate Director, Division of Reserve Bank Operations and Payment Systems, Board

[1] The Federal Open Market Committee is referenced as the "FOMC" and the "Committee" in these minutes; the Board of Governors of the Federal Reserve System is referenced as the "Board" in these minutes.

[2] Elected as an Alternate by the Federal Reserve Bank of New York, effective July 15, 2022.

[3] Attended through the discussion of developments in financial markets and open market operations.

Patrick E. McCabe and Norman J. Morin, Deputy Associate Directors, Division of Research and Statistics, Board

David Arseneau, Assistant Director, Division of Financial Stability, Board; Giovanni Favara and Etienne Gagnon, Assistant Directors, Division of Monetary Affairs, Board

Penelope A. Beattie,[4] Section Chief, Office of the Secretary, Board; Valerie S. Hinojosa, Section Chief, Division of Monetary Affairs, Board

Alyssa Arute,[3] Manager, Division of Reserve Bank Operations and Payment Systems, Board

Sriya L. Anbil,[5] Group Manager, Division of Monetary Affairs, Board

Fabian Winkler, Principal Economist, Division of Monetary Affairs, Board

Peter M. Garavuso, Senior Information Manager, Division of Monetary Affairs, Board

David Na and Anthony Sarver, Senior Financial Institution and Policy Analysts, Division of Monetary Affairs, Board

Brett Takacs, Senior Communications Analyst, Division of Information Technology, Board

Becky C. Bareford, First Vice President, Federal Reserve Bank of Richmond

Kartik B. Athreya, Michael Dotsey, and Michelle M. Neal, Executive Vice Presidents, Federal Reserve Banks of Richmond, Philadelphia, and New York, respectively

James P. Bergin, Spencer Krane, and Giovanni Olivei, Senior Vice Presidents, Federal Reserve Banks of New York, Chicago, and Boston, respectively

William D. Dupor, Vice President, Federal Reserve Bank of St. Louis

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

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

Nina Boyarchenko, Department Head, Federal Reserve Bank of New York

Jonathan Heathcote, Monetary Advisor, Federal Reserve Bank of Minneapolis

Federico Mandelman, Research Economist and Advisor, Federal Reserve Bank of Atlanta

Developments in Financial Markets and Open Market Operations

The deputy manager turned first to a discussion of financial market developments. Financial markets over the intermeeting period reflected elevated uncertainty about the outlook. Most market participants appeared to view a moderation of inflation and slower, but still positive, economic growth ahead as the most likely scenario. However, investors appeared to be increasingly attentive to downside risks to the economy in light of the potential for shocks from abroad and the continued upside surprises to inflation.

On net, financial conditions eased modestly over the period but remained substantially tighter than at the start of the year. Treasury yields fell, reflecting expectations of slower growth as well as a decline in inflation compensation. Respondents to the Open Market Desk's surveys of primary dealers and market participants marked down their growth forecasts for 2022 and 2023 and attached higher odds than in the June survey to the possibility that the U.S. economy could enter a recession in coming quarters.

Market participants perceived falling commodity prices—particularly for oil—and the FOMC's commitment to bringing inflation down as pointing to lower inflation ahead. Market-based measures of near-dated inflation compensation declined and continued to suggest that inflation would ease in coming quarters. In the Desk surveys, respondents also expected inflation to decline substantially in 2023 but assigned meaningful probabilities to a wide range of potential outcomes, including scenarios involving continued elevated rates of inflation. Far-forward market-based measures of inflation com-

[4] Attended Tuesday's session only.

[5] Attended from the discussion of the economic and financial situation through the end of Wednesday's session.

pensation fell over the period. These measures continued to suggest that inflation would return over time to the Committee's 2 percent objective.

In their assessment of the policy outlook, market participants expected significant policy tightening in coming meetings as the Committee continued to respond to the current elevated level of inflation. Nearly all respondents to the Desk survey anticipated a 75 basis point increase in the target range at the current meeting, and most expected a 50 basis point increase in September to follow. The market-implied path of the federal funds rate indicated a peak policy rate of around 3.4 percent, significantly lower than at the time of the June meeting. The market-implied path suggested expectations that the policy rate would fall thereafter. Most respondents to the Desk survey expected the federal funds rate to remain above the survey's longer-run policy rate of 2.4 percent through the end of 2024, but, on average, respondents placed significant probabilities on lower rate outcomes.

Regarding developments abroad, central banks in advanced foreign economies (AFEs) had quickened the pace of policy tightening in order to address above-target inflation. Eight advanced-economy central banks raised their policy rates over the period. Along lines similar to U.S. developments, market-implied policy rates in most AFEs fell at longer horizons and reflected expectations that policy rates would reach peak levels by early 2023. In contrast to central banks in other advanced economies, the Bank of Japan confirmed its commitment to accommodative policy. In this environment, the exchange value of the dollar appreciated further, surpassing its March 2020 peak against advanced-economy currencies.

The deputy manager next turned to a discussion of money markets and Desk operations. The 75 basis point increase in the target range at the June meeting passed through fully to the federal funds rate and other overnight rates. Although downward pressure on overnight secured rates had persisted, the pronounced softness observed in the past intermeeting period had abated to some degree. The overnight reverse repurchase agreement (ON RRP) facility continued to support policy implementation, and balances remained elevated. The deputy manager anticipated that, in the near term, the evolution of take-up at the ON RRP facility would continue to depend on changes in the supply of safe, short-term investments, and the demand for such investments by money market mutual funds (MMMFs). ON RRP balances were expected to decline over time as balance sheet runoff proceeded. The deputy manager noted that this process would involve adjustments across a number of markets and that the staff would continue to monitor developments in money markets closely.

Regarding expectations for the evolution of the Federal Reserve's balance sheet, market participants expected the Committee to increase the monthly caps on System Open Market Account (SOMA) redemptions beginning in September, as announced in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet issued in May. Treasury coupon principal payments would first fall below the $60 billion cap in September, with the remainder of redemptions met with maturities of Treasury bills. Paydowns of agency mortgage-backed securities (MBS) were projected to fall below the higher September cap of $35 billion beginning in September.

The deputy manager ended with an update on SOMA net income. Staff projections suggested that net income would likely turn negative in coming months. That development would be reflected in a temporary deferred asset on Reserve Bank balance sheets. Any deferred asset would not affect the Committee's ability to implement monetary policy, and the deferred asset would be extinguished over time as net income turned positive again in later years.

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 during the intermeeting period.

Staff Review of the Economic Situation

The information available at the time of the July 26–27 meeting suggested that U.S. real gross domestic product (GDP) had declined over the first half of the year. However, the labor market continued to be very tight, and labor demand remained strong. Consumer price inflation—as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE)—remained elevated in May, and available information suggested that inflation was still elevated in June.

Total nonfarm payroll employment posted a solid gain in June at a pace that was similar to that seen in April and May. The unemployment rate was unchanged in June at 3.6 percent. The unemployment rate for African Americans moved lower in June, while the rate for Hispanics was unchanged; both rates were noticeably higher than the national average. The labor force participation rate and the employment-to-population ratio both ticked

down in June. The private-sector job openings rate, as measured by the Job Openings and Labor Turnover Survey, declined further in May but remained at a high level. Nominal wage growth continued to be rapid and broad based, with average hourly earnings having risen 5.1 percent over the 12 months ending in June.

Real goods exports edged down in May after growing robustly in March and April. Real goods imports continued to step down from the exceptionally strong March readings, driven by declines in imports of consumer goods and capital goods. Exports and imports of services continued to be held back by an incomplete recovery of international travel. The nominal U.S. international trade deficit narrowed for a second consecutive month in May from its record size in March. The available data suggest that net exports contributed positively to GDP growth in the second quarter.

Consumer price inflation remained elevated. Total PCE price inflation was 6.3 percent over the 12 months ending in May, and core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 4.7 percent over the same period. The trimmed mean measure of 12-month PCE price inflation constructed by the Federal Reserve Bank of Dallas was 4.0 percent in May, 2.1 percentage points higher than its year-earlier rate of increase. In June, the 12-month change in the consumer price index (CPI) was 9.1 percent, while core CPI inflation was 5.9 percent over the same period. Survey-based measures of short-run inflation expectations remained elevated; by contrast, some measures of longer-term inflation expectations moved lower in recent weeks.

Available indicators suggested that real PCE rose at a modest pace in the second quarter, while business investment, residential investment, and government purchases all posted declines. Manufacturing output moved lower in May and June, and forward-looking indicators of manufacturing activity weakened broadly.

Foreign economic growth slowed notably in the second quarter, as COVID-19-related lockdowns led to a sharp contraction in China and Russia's war against Ukraine took a toll on foreign activity, especially in Europe. Indicators for June showed the Chinese economy rebounding as the lockdowns were eased. The global economy, however, continued to face headwinds from disruptions to the supply of energy, elevated political uncertainties in Europe, and tighter global monetary and financial conditions. Although most commodity prices moved lower from elevated levels in recent weeks, foreign consumer price inflation continued to rise through June, mostly reflecting past increases in energy and food prices, but also a continued broadening of price pressures to core goods and services. Many foreign central banks tightened monetary policy to address high inflation.

Staff Review of the Financial Situation

Over the intermeeting period, nominal and real Treasury yields declined significantly, reportedly reflecting increased investor concerns about downside risks to the growth outlook as well as a decline in inflation compensation. Sovereign yields in AFEs declined notably. The market-implied federal funds rate path for the next few meetings rose but moved down noticeably at longer horizons. Broad equity price indexes were higher, on net, while credit spreads widened. Major foreign equity price indexes edged higher, on net, and the exchange value of the dollar continued to appreciate. Amid the decline in Treasury yields, longer-term borrowing costs declined for households and businesses with higher credit ratings, and while credit availability remained generally available, it appeared to tighten for most businesses and some households.

Broad equity price indexes were higher over the intermeeting period, amid heightened volatility. Declines in interest rates likely supported stock prices over the period, while some positive earnings releases suggested to investors a less pessimistic corporate outlook. One-month option-implied volatility on the S&P 500 index—the VIX—decreased but remained significantly above its pre-pandemic levels. Yields on corporate bonds declined notably across the credit spectrum, but corporate bond spreads ended the period slightly wider. Spreads on municipal bonds widened slightly as yields declined by less than those of comparable-maturity Treasury securities.

Conditions in short-term funding markets were stable since the previous FOMC meeting, with the June increase in the Federal Reserve's administered rates passing through promptly to overnight money markets. Secured overnight rates remained soft relative to the ON RRP offering rate, with the downward pressure on rates attributed to continuing declines in net Treasury bill issuance, elevated demand for collateral in the form of Treasury securities, and MMMFs maintaining very short portfolio maturities amid uncertainty about the near-term outlook for policy rate increases. Consistent with the downward pressure on repo rates, daily take-up in the ON RRP facility increased. Spreads on lower-rated short-term commercial paper (CP) narrowed modestly, on net. Bank core deposit rates moved up very little in

response to the Federal Reserve's increase in administered rates following the June FOMC meeting, while MMMFs' net yields rose, reflecting the increases in short-term rates over recent months.

Investors' concerns about global economic growth intensified amid weaker-than-expected data on economic activity and uncertainty about the supply of natural gas from Russia to Europe. Sovereign yields and medium-term inflation compensation measures in major AFEs, most notably in the euro area, moved down, with yields largely reversing the sharp increase that occurred just before the June FOMC meeting. In the euro area, peripheral sovereign spreads were little changed following the widely anticipated announcement by the European Central Bank of its Transmission Protection Instrument that could be activated to counter disorderly conditions in euro-area bond markets. Major foreign equity price indexes were volatile but generally edged higher, on net, supported by declines in sovereign yields. The dollar appreciated somewhat further against most currencies and particularly against the euro as yield differentials between the United States and the euro area widened. Most Latin American currencies depreciated against the dollar, in part reflecting the decline in global commodity prices.

In domestic credit markets, longer-term borrowing costs for households and businesses with higher credit ratings declined over the intermeeting period but borrowing costs for lower rated firms were higher, on net. The credit quality of businesses, municipalities, and households remained stable. Credit remained generally available, though credit availability appeared to tighten for most businesses and for some households.

Borrowing costs linked to shorter-term interest rates generally increased, largely as a result of expectations of tighter monetary policy. Bank interest rates for both commercial and industrial (C&I) and commercial real estate (CRE) loans increased in May and were close to pre-pandemic levels. Yields on institutional leveraged loans and newly issued commercial mortgage-backed securities (CMBS) increased amid financial market volatility and growing concerns about an economic slowdown. Small businesses that borrow on a regular basis faced notably higher borrowing costs in June. Interest rates on most existing credit card accounts and on auto loans continued to trend upward. In contrast to many other borrowing rates, residential mortgage rates fell since the June FOMC meeting, in line with the drop in longer-term yields, but remained near their highest levels since 2010.

The credit quality of nonfinancial corporations remained strong with low volumes of defaults on corporate bonds in May and on leveraged loans in June. The volume of rating downgrades on speculative-grade credit in the corporate bond market was similar to that of upgrades in June, while for leveraged loans, the volume of downgrades exceeded the volume of upgrades in May and June. The credit quality for C&I and CRE loans on banks' books remained sound. However, respondents in the July Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) indicated increased concerns about credit quality in the near future as reasons for their expectation of a tightening in lending standards over the second half of 2022. Delinquency rates on CRE loans in CMBS declined in June, delinquency rates on small business loans were little changed, and the credit quality of municipal securities remained strong. The credit quality of households stayed solid. Residential mortgage delinquencies and the share of mortgages in forbearance trended down. Credit card and auto credit delinquency rates rose somewhat over the first quarter but remained subdued by recent historical standards.

Business loans at banks expanded at a rapid pace in May and June, despite higher interest rates and a more uncertain economic outlook. C&I loans on banks' books continued to grow robustly, with the July SLOOS citing reasons of increased demand by customers to finance inventory and accounts receivable. However, issuance of both agency and non-agency CMBS slowed significantly in June. Credit appeared to be available to most small businesses, although the share of small firms reporting that it was difficult to obtain loans increased. Credit in the residential mortgage market remained widely available for borrowers with higher credit ratings but tight for households with low credit scores. Volumes of home-purchase mortgage originations declined in May and mortgage refinance volumes continued to fall. Consumer credit remained broadly available to households in April and May but respondents in the Federal Reserve Bank of New York's Survey of Consumer Expectations indicated that it was harder to get credit in recent months. That said, auto loans outstanding continued to grow at a robust pace in April and May but credit card balances moderated somewhat in May and June.

The staff provided an update on its assessment of the stability of the financial system and, on balance, characterized the vulnerabilities of the U.S. financial system as moderate, down from notable in January.

Equity and corporate debt prices declined significantly since the last assessment, reflecting concerns over slower

growth and lower risk appetite in corporate markets. Declining risk appetite has also led to sharp declines in the price of some digital assets. The staff noted that digital assets tended to be volatile. The staff also highlighted the financial stability considerations associated with rapid growth in stablecoins, including their vulnerability to runs and the opacity of many aspects of their operations. Residential real estate prices continued to rise, and the staff noted that although valuations have been elevated, mortgage underwriting standards have been stronger than in previous house-price cycles. CRE prices continued to rise, and valuation pressures appeared to be increasing.

The staff assessed that households were in a better position than in the mid-2000s to weather a downturn in house prices, noting that mortgage debt growth has significantly lagged growth in house prices, leaving households with substantial equity cushions. Moreover, for much of the past decade, most new mortgage debt had been added by borrowers with prime credit scores. In addition, the staff assessed that business leverage was high, but businesses maintained ample cash on hand and their credit quality remained strong. Further, the ability of most firms to service their debt was at a historically high level, as measured by the interest coverage ratio.

The staff assessed that leverage in the financial sector remained moderate. Recent declines in bank capital ratios were due to higher volatility, interest rate increases, and loan growth, but the recently concluded stress tests suggested that participating banks could absorb losses from a severe recession without breaching regulatory minimums, and some banks were expected to increase their capital ratios later this year. Leverage at hedge funds and life insurance companies remained relatively high.

Market liquidity had deteriorated in the oil and equities markets since January, but market functioning continued to be orderly. Yields offered by MMMFs were well above those offered by banks, and the staff noted that this yield differential would attract inflows to MMMFs. Noting the structural vulnerabilities associated with MMMFs, the staff highlighted the need to monitor the size and fragility of this sector and the progress of the Security and Exchange Commission's recently proposed reforms. The staff noted that open-end bond and loan mutual funds, which are also vulnerable to large-scale investor withdrawals, had experienced outflows as interest rates rose. These outflows had proceeded in an orderly manner.

Staff Economic Outlook

The projection for U.S. economic activity prepared by the staff for the July FOMC meeting was noticeably weaker than the June forecast, reflecting the economy's reduced momentum and current and prospective financial conditions that were expected to provide less support to aggregate demand growth. As a result, while the projected level of real GDP remained above potential this year, the gap was expected to have closed by the second half of 2023. Similarly, the unemployment rate was projected to start rising in the second half of 2022 and to reach the staff's estimate of its natural rate at the end of next year.

Total PCE price inflation was expected to be 4.8 percent in 2022, and core inflation was expected to be 4.0 percent. Core PCE price inflation was expected to step down to 2.6 percent in 2023 and to 2.0 percent in 2024; the projected deceleration in core prices was attributable to the anticipated resolution of supply–demand imbalances, a labor market that was expected to become less tight over the projection period, and a projected decline in import price inflation. Total PCE inflation was expected to decline to 2.2 percent in 2023 and to 1.9 percent in 2024, reflecting the anticipated slowing in core inflation and a projected rapid deceleration in consumer food and energy prices in coming quarters.

The staff continued to judge that the risks to the baseline projection for real activity were skewed to the downside, noting that supply chain bottlenecks, Russia's war against Ukraine, weak incoming data on spending, and the tightening in financial conditions since the start of the year supported this assessment. The staff viewed the risks to the inflation projection as skewed to the upside given the persistent upward surprises seen in the inflation data, the possibility that inflation expectations would become unanchored as a result of the large increase in actual inflation over the past year, and the risk that supply conditions would not improve as much as the baseline projection assumed.

Participants' Views on Current Conditions and the Economic Outlook

In their discussion of current economic conditions, participants noted that recent indicators of spending and production had softened. Nonetheless, job gains had been robust in recent months, and the unemployment rate had remained low. Inflation remained elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. Participants recognized that Russia's war against Ukraine was causing tremendous human and

economic hardship. Participants judged that the war and related events were creating additional upward pressure on inflation and were weighing on global economic activity. Against this background, participants stated that they were highly attentive to inflation risks.

With regard to current economic activity, participants noted that consumer expenditures, housing activity, business investment, and manufacturing production had all decelerated from the robust rates of growth seen in 2021. The labor market, however, remained strong. Participants observed that indicators of spending and production suggested that the second quarter of this year had seen a broad-based softening in economic activity. Many participants remarked that some of the slowing, particularly in the housing sector, reflected the emerging response of aggregate demand to the tightening of financial conditions associated with the ongoing firming of monetary policy. The unwinding of the large-scale support to consumer spending provided by pandemic-related fiscal policy actions, the inflation-induced reduction in real disposable income, and the move down in the demand for some products from the elevated levels seen in earlier stages of the pandemic had also all led to slower growth in households' expenditures. In addition, a deterioration in the foreign economic outlook and a strong dollar were contributing to a weakening of external demand. Participants anticipated that U.S. real GDP would expand in the second half of the year, but many expected that growth in economic activity would be at a below-trend pace, as the period ahead would likely see the response of aggregate demand to tighter financial conditions become stronger and more broad based. Participants noted that a period of below-trend GDP growth would help reduce inflationary pressures and set the stage for the sustained achievement of the Committee's objectives of maximum employment and price stability.

In their discussion of the household sector, participants commented that they were seeing many signs in the data, and hearing reports from business contacts, of slower growth in consumer spending. Although the aggregate balance sheet for the household sector was strong and the unemployment rate was low, consumer sentiment had deteriorated, and households were reportedly becoming more cautious in their expenditure decisions in light of uncertainty about the economic outlook and the reduction in purchasing power induced by price rises, particularly increases in the prices of essentials such as food, housing, and transportation. Participants also observed that housing activity had weakened notably, reflecting the impact of higher mortgage interest rates and house prices on home affordability. Participants anticipated that this slowdown in housing activity would continue and also expected higher borrowing costs to lead to a slowing in other interest-sensitive household expenditures, such as purchases of durable goods.

With respect to the business sector, participants noted that investment spending had likely declined in the second quarter. In addition, business survey data and information received from contacts indicated that manufacturing orders and production had fallen in some Districts. Heightened uncertainty, concerns about inflation, tighter financial conditions, and a cutback in consumer spending had led firms to downgrade economic prospects. Some participants noted that their contacts were reporting that businesses were in the process of reevaluating their capital expenditure plans, though a few participants stated that some contacts had reported a degree of short-term momentum in business activity arising from existing orders and from the implementation of expansion plans made before the tightening of financial conditions. A few participants indicated that some business contacts had assessed that demand and supply were beginning to come into better balance. Even so, contacts in many areas continued to report major supply chain disruptions and anticipated that these were likely to continue while also indicating that there were signs of improvement in supply conditions in some areas.

Participants observed that the labor market remained strong, with the unemployment rate very low, job vacancies and quits close to historically high levels, and an elevated rate of nominal wage growth. Many participants also noted, however, that there were some tentative signs of a softening outlook for the labor market: These signs included increases in weekly initial unemployment insurance claims, reductions in quit rates and vacancies, slower growth in payrolls than earlier in the year, and reports of cutbacks in hiring in some sectors. In addition, although nominal wage growth remained strong according to a wide range of measures, there were some signs of a leveling off or edging down. In some Districts, contacts had suggested that labor demand–supply imbalances might be diminishing, with firms being more successful in hiring and retaining workers and under less pressure to raise wages. Some participants noted that the contribution that increases in labor supply could make to reducing labor market imbalances was likely limited, especially as the scope for labor force participation to pick up was constrained by the ongoing movement of the large baby-boom cohort into their retirement years, while others highlighted factors holding down participation that could wane in the future, such

as continuing pandemic-related concerns. Participants observed that, in part because of tighter financial conditions and an associated moderation in the growth of aggregate demand, growth in employment would likely slow further in the period ahead. They noted that this development would help bring labor demand and supply into better balance, reducing upward pressures on nominal wage growth and aiding the return of inflation to 2 percent. Several participants observed that the moderation in labor market conditions might well lag the slowdown in economic activity. Participants remarked that a moderation in labor market conditions would likely involve a decline in the number of job openings as well as a moderate increase in unemployment from the current very low rate. A couple of participants indicated that firms were keen to retain workers—a factor that could limit the increase in layoffs associated with a slowing labor market.

Participants noted that indicators of spending and production pointed to less underlying strength in economic activity than was suggested by indicators of labor market activity. With employment growth still strong, the weakening in spending data implied unusually large negative readings on labor productivity growth for the year so far. Participants remarked that the strength of the labor market suggested that economic activity may be stronger than implied by the current GDP data, with several participants raising the possibility that the discrepancy might ultimately be resolved by GDP being revised upward. Several participants also observed, however, that the labor market might not be as tight as some indicators suggested, and they noted that data provided by the payroll processor ADP and employment as reported in the household survey both seemed to imply a softer labor market than that suggested by the still-robust growth in payroll employment as reported in the establishment survey.

Participants observed that inflation remained unacceptably high and was well above the Committee's longer-run goal of 2 percent. In light of the high CPI reading for June, participants noted that PCE inflation was likely to have increased further in that month. Participants further observed that inflationary pressures were broad based, a pattern reflected in large one-month increases in the trimmed mean CPI and core CPI measures. Participants remarked that, although recent declines in gasoline prices would likely help produce lower headline inflation rates in the short term, declines in the prices of oil and some other commodities could not be relied on as providing a basis for sustained lower inflation, as these prices could quickly rebound. Participants also noted that the high cost of living was an especially great burden on low- and middle-income households. Participants agreed that there was little evidence to date that inflation pressures were subsiding. They judged that inflation would respond to monetary policy tightening and the associated moderation in economic activity with a delay and would likely stay uncomfortably high for some time. Participants also observed that in some product categories, the rate of price increase could well pick up further in the short run, with sizable additional increases in residential rental expenses being especially likely.

Participants noted that supply bottlenecks were continuing to contribute to price pressures. There were, however, some signs of gradual improvement in the supply situation—including improved availability of certain key materials, less upward pressure on input prices, and a decline in delivery times. Contacts reported that there were nevertheless substantial continuing challenges. Participants judged that it would take considerable time for supply constraints to be resolved, and a few suggested that full resolution of supply difficulties would take longer than they previously assessed. Several participants stressed that improvements in supply would be helpful but by themselves could not be relied on to resolve the supply and demand imbalances in the economy sufficiently rapidly. Participants emphasized that a slowing in aggregate demand would play an important role in reducing inflation pressures. They expected that the appropriate firming of monetary policy and an eventual easing of supply and demand imbalances would bring inflation back down to levels consistent with the Committee's longer-run objective and keep longer-term inflation expectations well anchored. Participants discussed a number of factors likely to be helpful in bringing inflation back down to 2 percent. In addition to the Committee's ongoing policy firming and anchored longer-term inflation expectations, these included competitive pressures restraining price increases, the apparent absence of a wage–price spiral, the tightening of monetary policy abroad, and the impact of the appreciation of the dollar on import prices. However, they continued to view commodity price developments as a potential source of upward pressure on inflation.

Participants noted that expectations of inflation were an important influence on the behavior of actual inflation and stressed that moving to an appropriately restrictive stance of policy was essential for avoiding an unanchoring of inflation expectations. Such an unanchoring would make achieving the Committee's statutory objectives of maximum employment and price stability much more difficult. In assessing the current state of inflation

expectations, participants noted that recent readings on market-based measures of inflation compensation were consistent with longer-term inflation expectations remaining anchored near 2 percent. They judged that this behavior of longer-term inflation expectations was likely partly due to the actual and expected firming of monetary policy and also likely reflected downward revisions to the growth of aggregate demand expected in coming years. In addition, several participants assessed that the Committee's ongoing monetary policy tightening was helping alleviate concerns among market participants and wage and price setters that elevated inflation would become entrenched. Several participants observed that recent readings on survey measures of inflation expectations were broadly consistent with the Committee's 2 percent longer-run inflation objective, although a few participants noted that household surveys were indicating increasing divergences in views about the likely longer-run rate of inflation.

In their discussion of risks, participants emphasized that they were highly attentive to inflation risks and were closely monitoring developments regarding both inflation and inflation expectations. Uncertainty about the medium-term course of inflation remained high, and the balance of inflation risks remained skewed to the upside, with several participants highlighting the possibility of further supply shocks arising from commodity markets. Participants saw the risks to the outlook for real GDP growth as primarily being to the downside. These downside risks included the possibility that the tightening in financial conditions would have a larger negative effect on economic activity than anticipated, that there would be further pandemic-related economic disruptions, or that geopolitical and global economic developments would lead to additional adverse economic or financial disturbances.

Several of the participants who commented on issues related to financial stability noted that, on balance, asset valuations had eased from elevated levels in recent months. High levels of capital and liquidity overall in the banking system, healthy household balance sheets, and the adoption of stronger mortgage underwriting standards following the Global Financial Crisis were also cited among the factors that fostered financial stability in the current environment. Several participants noted that financial market liquidity had been low in some areas but that market functioning had, nonetheless, been orderly. Several participants emphasized the importance of avoiding complacency when assessing financial vulnerabilities amid ever-changing economic and financial landscapes or the need to look at a broad range of possible outcomes, including scenarios involving elevated inflation and rising interest rates, when assessing financial vulnerabilities and stability. Some participants commented on the financial stability challenges posed by digital assets. They noted that these assets, including stablecoins, were subject to vulnerabilities—such as runs, fire sales, and excessive leverage—similar to those associated with more traditional assets. While the recent turmoil in digital asset markets had not spread to other asset classes, these participants saw digital assets' rising importance and growing interconnectedness with other segments of the financial system as underscoring the need to establish a robust supervisory and regulatory framework for this industry that would appropriately limit potential systemic risks. A few participants mentioned the need to strengthen the oversight and regulation of certain types of nonbank financial institutions. Several participants noted that capital at some of the largest banks had declined in recent quarters. These participants emphasized that it was important that the largest banks have strong capital positions and that appropriate settings of regulatory and supervisory tools can help deliver that outcome. A couple of these participants highlighted the potential role that usage of the countercyclical capital buffer could play in this context.

In their consideration of the appropriate stance of monetary policy, participants concurred that the labor market was very tight and that inflation was far above the Committee's 2 percent inflation objective. Participants noted that recent indicators of spending and production had softened, while, by contrast, job gains had been robust and the unemployment rate had remained low. Against this backdrop, all participants agreed that it was appropriate to raise the target range for the federal funds rate 75 basis points at this meeting and to continue the process of reducing the Federal Reserve's securities holdings, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that the Committee issued in May. Participants observed that, following this meeting's policy rate hike, the nominal federal funds rate would be within the range of their estimates of its longer-run neutral level. Even so, with inflation elevated and expected to remain so over the near term, some participants emphasized that the real federal funds rate would likely still be below shorter-run neutral levels after this meeting's policy rate hike.

In discussing potential policy actions at upcoming meetings, participants continued to anticipate that ongoing increases in the target range for the federal funds rate

would be appropriate to achieve the Committee's objectives. With inflation remaining well above the Committee's objective, participants judged that moving to a restrictive stance of policy was required to meet the Committee's legislative mandate to promote maximum employment and price stability. Participants concurred that the pace of policy rate increases and the extent of future policy tightening would depend on the implications of incoming information for the economic outlook and risks to the outlook. Participants judged that, as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation. Some participants indicated that, once the policy rate had reached a sufficiently restrictive level, it likely would be appropriate to maintain that level for some time to ensure that inflation was firmly on a path back to 2 percent.

Participants concurred that, in expeditiously raising the policy rate, the Committee was acting with resolve to lower inflation to 2 percent and anchor inflation expectations at levels consistent with that longer-run goal. Participants noted that the Committee's credibility with regard to bringing inflation back to the 2 percent objective, together with its forceful policy actions and communications, had already contributed to a notable tightening of financial conditions that would likely help reduce inflation pressures by restraining aggregate demand. Participants pointed to some evidence suggesting that policy actions and communications about the future path of the federal funds rate were starting to affect the economy, most visibly in interest-sensitive sectors. Participants generally judged that the bulk of the effects on real activity had yet to be felt because of lags associated with the transmission of monetary policy, and that while a moderation in economic growth should support a return of inflation to 2 percent, the effects of policy firming on consumer prices were not yet apparent in the data. A number of participants posited that some of the effects of policy actions and communications were showing up more rapidly than had historically been the case, because the expeditious removal of policy accommodation and supporting communications already had led to a significant tightening of financial conditions.

In light of elevated inflation and the upside risks to the outlook for inflation, participants remarked that moving to a restrictive stance of the policy rate in the near term would also be appropriate from a risk-management perspective because it would better position the Committee to raise the policy rate further, to appropriately restrictive levels, if inflation were to run higher than expected. Participants judged that a significant risk facing the Committee was that elevated inflation could become entrenched if the public began to question the Committee's resolve to adjust the stance of policy sufficiently. If this risk materialized, it would complicate the task of returning inflation to 2 percent and could raise substantially the economic costs of doing so. Many participants remarked that, in view of the constantly changing nature of the economic environment and the existence of long and variable lags in monetary policy's effect on the economy, there was also a risk that the Committee could tighten the stance of policy by more than necessary to restore price stability. These participants highlighted this risk as underscoring the importance of the Committee's data-dependent approach to judging the pace and magnitude of policy firming over coming quarters.

Participants reaffirmed their strong commitment to returning inflation to the Committee's 2 percent objective. Participants agreed that a return of inflation to the 2 percent objective was necessary for sustaining a strong labor market. Participants remarked that it would likely take some time for inflation to move down to the Committee's objective. Participants added that the course of inflation would be influenced by various nonmonetary factors, including developments associated with Russia's war against Ukraine and with supply chain disruptions. Participants recognized that policy firming could slow the pace of economic growth, but they saw the return of inflation to 2 percent as critical to achieving maximum employment on a sustained basis.

Committee Policy Action

In their discussion of monetary policy for this meeting, members agreed that recent indicators of spending and production had softened. Members also concurred that, nonetheless, job gains had been robust in recent months and the unemployment rate had remained low. Members agreed that inflation remained elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. In describing the sources of elevated inflation, members judged it pertinent to add a reference to higher food prices to the statement because of the notable rise in these prices and the importance of food items in households' budgets.

Members concurred that Russia's war against Ukraine was causing tremendous human and economic hardship. They also agreed that the war and related events were creating additional upward pressure on inflation and

were weighing on global economic activity. Members remarked that they remained highly attentive to inflation risks. Amid evidence that COVID-related lockdowns in China had generally been lifted and had affected supply chains only modestly, members generally considered it appropriate to omit from the July statement the sentence that appeared in the June statement indicating that these lockdowns were likely to exacerbate supply chain disruptions.

In their assessment of the monetary policy stance necessary for achieving the Committee's maximum-employment and price-stability goals, the Committee decided to raise the target range for the federal funds rate to 2¼ to 2½ percent and anticipated that ongoing increases in the target range would be appropriate. In addition, members agreed that the Committee would continue reducing the Federal Reserve's holdings of Treasury securities and agency debt and agency MBS, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May.

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. They also concurred that their assessments 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. Members affirmed that the Committee was strongly committed to returning inflation to its 2 percent objective.

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 July 28, 2022, 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 2¼ to 2½ percent.
> - Conduct overnight repurchase agreement operations with a minimum bid rate of 2.5 percent and with an aggregate operation limit of $500 billion; the aggregate operation limit can be temporarily increased at the discretion of the Chair.
> - Conduct overnight reverse repurchase agreement operations at an offering rate of 2.3 percent and with a per-counterparty limit of $160 billion per day; the per-counterparty limit can be temporarily increased at the discretion of the Chair.
> - Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in the calendar months of July and August that exceeds a cap of $30 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
> - Starting in the calendar month of September, roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds a cap of $60 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
> - Reinvest into agency mortgage-backed securities (MBS) the amount of principal payments from the Federal Reserve's holdings of agency debt and agency MBS received in the calendar months of July and August that exceeds a cap of $17.5 billion per month.
> - Starting in the calendar month of September, reinvest into agency MBS the amount of principal payments from the Federal Reserve's holdings of agency debt and agency MBS received in each calendar month that exceeds a cap of $35 billion per month.
> - Allow modest deviations from stated amounts for 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.:

> "Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.
>
> Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.
>
> The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 2¼ to 2½ percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.
>
> 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, Michael S. Barr, Michelle W. Bowman, Lael Brainard, James Bullard, Susan M. Collins, Lisa D. Cook, Esther L. George, Philip N. Jefferson, Loretta J. Mester, and Christopher J. Waller.

Voting against this action: None.

To support the Committee's decision to raise the target range for the federal funds rate, the Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on reserve balances to 2.4 percent, effective July 28, 2022. The Board of Governors of the Federal Reserve System voted unanimously to approve a ¾ percentage point increase in the primary credit rate to 2.5 percent, effective July 28, 2022.[6]

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, September 20–21, 2022. The meeting adjourned at 10:35 a.m. on July 27, 2022.

Notation Vote

By notation vote completed on July 5, 2022, the Committee unanimously approved the minutes of the Committee meeting held on June 14–15, 2022.

James A. Clouse
Secretary

[6] In taking this action, the Board approved requests to establish that rate submitted by the boards of directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco. This vote also encompassed approval by the Board of Governors of the establishment of a 2.5 percent primary credit rate by the remaining Federal Reserve Banks, effective on the later of July 28, 2022, or the date such Reserve Banks inform the Secretary of the Board of such a request. (Secretary's note: Subsequently, the Federal Reserve Banks of St. Louis, Minneapolis, and Kansas City were informed of the Board's approval of their establishment of a primary credit rate of 2.5 percent, effective July 28, 2022.)