Minutes of the Federal Open Market Committee
October 31–November 1, 2023

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, October 31, 2023, at 10:00 a.m. and continued on Wednesday, November 1, 2023, at 9:00 a.m.[1]

Attendance

Jerome H. Powell, Chair
John C. Williams, Vice Chair
Michael S. Barr
Michelle W. Bowman
Lisa D. Cook
Austan D. Goolsbee
Patrick Harker
Philip N. Jefferson
Neel Kashkari
Adriana D. Kugler
Lorie K. Logan
Christopher J. Waller

Thomas I. Barkin, Raphael W. Bostic, Mary C. Daly,[2] Loretta J. Mester, and Sushmita Shukla, Alternate Members of the Committee

Susan M. Collins and Jeffrey R. Schmid, Presidents of the Federal Reserve Banks of Boston and Kansas City, respectively

Kathleen O'Neill Paese, Interim President of the Federal Reserve Bank of St. Louis

Joshua Gallin, Secretary
Matthew M. Luecke, Deputy Secretary
Brian J. Bonis, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Mark E. Van Der Weide, General Counsel
Richard Ostrander, Deputy General Counsel
Trevor A. Reeve, Economist
Stacey Tevlin, Economist
Beth Anne Wilson, Economist

Shaghil Ahmed, James A. Clouse, Brian M. Doyle, Anna Paulson, Andrea Raffo, Chiara Scotti, and William Wascher, Associate Economists

Roberto Perli, Manager, System Open Market Account

Julie Ann Remache, Deputy Manager, System Open Market Account

Stephanie R. Aaronson, Senior Associate Director, Division of Research and Statistics, Board

Jose Acosta, Senior System Administrator II, Division of Information Technology, Board

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

Kartik B. Athreya, Executive Vice President, Federal Reserve Bank of Richmond

Penelope A. Beattie,[4] Section Chief, Office of the Secretary, Board

David Bowman, Senior Associate Director, Division of Monetary Affairs, Board

Yao-Chin Chao, Deputy Associate Secretary, Office of the Secretary, Board

Satyajit Chatterjee, Vice President, Federal Reserve Bank of Philadelphia

Juan C. Climent, Special Adviser to the Board, Division of Board Members, Board

Stephanie E. Curcuru, Deputy Director, Division of International Finance, Board

Ryan Decker, Special Adviser to the Board, Division of Board Members, Board

Cynthia L. Doniger, Principal Economist, Division of Monetary Affairs, Board

Rochelle M. Edge, Deputy Director, Division of Monetary Affairs, Board

Matthew J. Eichner,[3] Director, Division of Reserve Bank Operations and Payment Systems, Board

Eric C. Engstrom, Associate Director, Division of Monetary Affairs, 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] Attended Wednesday's session only.
[3] Attended through the discussion of developments in financial markets and open market operations.
[4] Attended through the discussion of the economic and financial situation.

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

Ron Feldman, First Vice President, Federal Reserve Bank of Minneapolis

Andrew Figura, Associate Director, Division of Research and Statistics, Board

Glenn Follette, Associate Director, Division of Research and Statistics, Board

Jenn Gallagher, Assistant to the Board, Division of Board Members, Board

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

Christine Graham,[4] Special Adviser to the Board, Division of Board Members, Board

Joseph W. Gruber, Executive Vice President, Federal Reserve Bank of Kansas City

Michael Hendley,[3] Associate Director, Federal Reserve Bank of New York

Valerie S. Hinojosa, Section Chief, Division of Monetary Affairs, Board

Matteo Iacoviello, Senior Associate Director, Division of International Finance, Board

Jane E. Ihrig, Special Adviser to the Board, Division of Board Members, Board

Michael T. Kiley, Deputy Director, Division of Financial Stability, Board

Don H. Kim, Senior Adviser, Division of Monetary Affairs, Board

Christopher Kurz, Assistant Director and Chief, Division of Research and Statistics, Board

Sylvain Leduc, Director of Research, Federal Reserve Bank of San Francisco

Andreas Lehnert, Director, Division of Financial Stability, Board

Kurt F. Lewis, Special Adviser to the Chair, Division of Board Members, Board

Laura Lipscomb, Special Adviser to the Board, Division of Board Members, Board

Joshua Louria, Group Manager, Division of Monetary Affairs, Board

Andrew Meldrum, Assistant Director, Division of Monetary Affairs, Board

Kenneth C. Montgomery, First Vice President, Federal Reserve Bank of Boston

Norman J. Morin, Deputy Associate Director, Division of Research and Statistics, Board

Michelle M. Neal, Head of Markets, Federal Reserve Bank of New York

Fernanda Nechio, Vice President, Federal Reserve Bank of San Francisco

Matthias Paustian, Assistant Director, Division of Research and Statistics, Board

Argia Sbordone, Research Department Head, Federal Reserve Bank of New York

Nitish Ranjan Sinha, Special Adviser to the Board, Division of Board Members, Board

Ellis W. Tallman, Executive Vice President, Federal Reserve Bank of Cleveland

Robert J. Tetlow, Senior Adviser, Division of Monetary Affairs, Board

Skander Van den Heuvel, Associate Director, Division of Financial Stability, Board

Francisco Vazquez-Grande, Group Manager, Division of Monetary Affairs, Board

Clara Vega, Special Adviser to the Board, Division of Board Members, Board

David C. Wheelock, Senior Vice President, Federal Reserve Bank of St. Louis

Randall A. Williams, Group Manager, Division of Monetary Affairs, Board

Jonathan Willis, Vice President, Federal Reserve Bank of Atlanta

Paul R. Wood, Special Adviser to the Board, Division of Board Members, Board

Egon Zakrajsek, Executive Vice President, Federal Reserve Bank of Boston

Rebecca Zarutskie, Special Adviser to the Board, Division of Board Members, Board

Andrei Zlate, Group Manager, Division of Monetary Affairs, Board

Developments in Financial Markets and Open Market Operations

The manager turned first to a review of developments in financial markets over the intermeeting period. Financial conditions continued to tighten, driven by higher

yields on Treasury securities as well as by lower equity prices and a stronger dollar, which themselves partly reflected higher interest rates. Because earnings expectations had held up well in recent months, the effect of higher interest rates on equity prices likely took place largely through valuations.

The rise since July in yields on longer-dated nominal Treasury securities was mostly attributable to increases in real yields. There were small increases in inflation compensation, but the levels of spot and forward rates were within historical ranges. The manager also noted that survey measures pointed to generally stable inflation expectations, especially at longer horizons, and that inflation expectations remained well anchored.

Staff analysis and responses from the Open Market Desk's Survey of Primary Dealers and Survey of Market Participants suggested that the bulk of the increase since July in the 10-year nominal Treasury yield could be attributed to a higher term premium, though higher policy expectations at longer horizons could also have played a role. The manager also noted that liquidity conditions in the Treasury market had not changed materially since July, suggesting that Treasury market liquidity had not been an important driver of the increase in yields.

The manager turned next to expectations for monetary policy. Both market pricing and responses to the Desk's surveys implied that market participants expected that the federal funds rate was at or near its peak and would be held there at least until the June 2024 FOMC meeting; there was a roughly 30 percent probability of a 25 basis point increase at either the December or January FOMC meeting. Regarding balance sheet policy, the surveys showed that respondents had pushed out the date they expected balance sheet runoff to stop, perhaps partly in response to policymakers' communications that balance sheet runoff could continue even after the Committee begins to reduce the target range for the federal funds rate.

The manager then turned to developments in money markets and Desk operations. Balance sheet runoff continued to proceed smoothly over the intermeeting period through reduced holdings of Treasury securities, agency debt, and agency mortgage-backed securities. The continued repayment by the Federal Deposit Insurance Corporation of discount window loans extended to banks that were placed into receivership also contributed to reduced Federal Reserve assets. On the liabilities side of the balance sheet, usage of the overnight reverse repurchase agreement (ON RRP) facility declined further, as money market mutual funds continued to absorb new Treasury bill issuance and appeared to increase investment in the private market for repurchase agreements (repos) as well. Overall, the reduced usage of the ON RRP facility released more reserves than the reduction in Federal Reserve assets and the increase in the Treasury General Account absorbed. On net, reserves expanded over the period, and available indicators pointed to them remaining abundant. Primary dealers indicated that reserves were projected to remain within their recent range for the next several quarters. The manager also noted that 23 banks, in addition to all primary dealers, were already counterparties to the standing repo facility (SRF) and that several more were in the onboarding process. Together, these banks held the vast majority of SRF-eligible securities in the banking system. The SRF, in addition to the discount window, may therefore prove helpful for supplying liquidity to the banking system should funding pressures emerge.

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 data available at the time of the October 31–November 1 meeting indicated that U.S. real gross domestic product (GDP) had expanded at a strong pace in the third quarter. Labor market conditions remained tight, with continued strong job gains and a low unemployment rate. Consumer price inflation remained elevated.

Labor demand and supply were slowly moving into better alignment. Easing labor market imbalances were apparent in the wage data, with the 12-month changes in average hourly earnings and the employment cost index each below their year-earlier levels. Although total nonfarm payroll employment rose at a faster pace in September than in previous months, the unemployment rate was unchanged at 3.8 percent; the labor force participation rate and the employment-to-population ratio were also unchanged in September. The unemployment rate for African Americans rose, while the jobless rate for Hispanics declined; both rates were higher than the national average.

Consumer price inflation remained elevated but continued to show signs of slowing. The price index for total personal consumption expenditures (PCE) increased 3.4 percent over the 12 months ending in September, while core PCE price inflation, which excludes changes in energy prices and many consumer food prices, was 3.7 percent over the same period; both total and core

PCE price inflation were well below their year-earlier levels. The trimmed mean measure of 12-month PCE price inflation constructed by the Federal Reserve Bank of Dallas was 3.8 percent in September, also down from the level posted a year ago. Survey measures of consumers' short-run inflation expectations remained above their pre-pandemic levels. In contrast, survey measures of medium- to longer-term inflation expectations remained in the range seen in the decade before the pandemic.

According to the advance estimate, real GDP posted a strong gain in the third quarter. Private domestic final purchases, which includes PCE and private fixed investment and often provides a better signal than GDP of underlying economic momentum, posted a smaller but still-solid increase.

Real exports and imports of goods and services grew at a robust pace in the third quarter after falling sharply in the second quarter, reflecting broad-based strength across categories. Net exports made a slightly negative contribution to U.S. GDP growth in the third quarter, while the nominal trade deficit narrowed somewhat.

Foreign economic growth remained subdued in the third quarter. Monetary policy restraint weighed on activity abroad, especially in Europe, where euro-area GDP growth registered a small decline and the latest European Central Bank lending survey pointed to a contraction in credit from a year ago. Although GDP growth in China improved in the third quarter, supported by an increase in industrial production, Chinese retail sales continued to be held back by low consumer confidence and weakness in the residential property sector.

Inflation abroad remained elevated. While core inflation continued to ease amid slowing aggregate demand, energy price inflation increased in many foreign economies. With inflation still high, most major foreign central banks, while keeping their policy rates unchanged, indicated their intentions to hold these rates at sufficiently restrictive levels to bring inflation back to target rates.

Staff Review of the Financial Situation

Over the intermeeting period, longer-term Treasury yields rose notably, while shorter-term yields were little changed, and the market-implied path for the federal funds rate through 2024 declined slightly. The increase in longer-term Treasury yields appeared to be mostly attributable to higher term premiums, as stronger-than-expected economic data seemed to increase the uncertainty regarding how long policy rates might need to remain high. Meanwhile, equity prices decreased, and spreads on investment- and speculative-grade corporate bonds widened. Financing conditions tightened further, and borrowing costs continued to rise.

The market-implied path for the federal funds rate through 2024 declined slightly over the intermeeting period. Beyond 2024, the policy rate path implied by overnight index swap quotes increased, likely reflecting, in part, higher term premiums. The rise in longer-term nominal Treasury yields was driven by real yields. Short-term inflation compensation fluctuated notably over the intermeeting period, largely following the changes in energy prices, but ended the period modestly lower.

Broad stock price indexes declined over the intermeeting period. Equity prices in interest rate–sensitive sectors, such as real estate and utilities, underperformed the broader market. Stock prices of banks also declined more than broader equity indexes. The one-month option-implied volatility on the S&P 500 index increased notably over the intermeeting period but remained below the peaks observed in the first quarter of 2023.

Over the intermeeting period, foreign asset prices were largely driven by spillovers from the rise in longer-term U.S. Treasury yields. Longer-term sovereign bond yields for advanced foreign economies rose, foreign equity prices declined, foreign credit spreads generally widened, and investors continued to withdraw from emerging market economy funds. Stronger-than-expected U.S. data on economic activity and widening interest rate differentials between the U.S. and the rest of the world contributed to an increase in the staff's broad dollar index. The Bank of Japan increased the flexibility of its yield curve control framework, which contributed to the rise in longer-term Japanese government bond yields. The armed conflict between Israel and Hamas left a limited net imprint on foreign financial markets over this period.

Conditions in short-term funding markets remained stable over the intermeeting period. Take-up in the ON RRP facility continued to decline over the period. That decline primarily reflected money market funds reducing their usage of the facility and increasing their holdings of Treasury bills and private market repos in response to slightly more attractive rates on these alternative investments. Banks' total deposit levels were roughly unchanged over the intermeeting period, as outflows of core deposits were about offset by inflows of large time deposits, which tend to be more expensive sources of funding. Wholesale borrowing by large banks increased over the intermeeting period.

In domestic credit markets, borrowing costs for businesses, households, and municipalities continued to rise from already elevated levels over the intermeeting period, primarily reflecting increases in longer-term Treasury yields. Interest rates on commercial and industrial (C&I) loans and small business loans increased, as did rates on loans to households, including for 30-year conforming residential mortgages, new auto loans, and credit cards. Rates also moved up on a broad array of fixed-income securities, including residential and commercial mortgage-backed securities, municipal bonds, and corporate bonds. Yields on corporate bonds rose more than Treasury yields, particularly for speculative-grade bonds.

Credit continued to be generally available to businesses, households, and municipalities. Total core loans on banks' books continued to increase in the third quarter, although at a slower pace than earlier in the year. However, smaller firms were finding it harder to obtain credit, with the share of small firms reporting in September that it was more difficult to obtain credit compared with three months earlier rising from an already elevated level. Capital market financing continued to be available, although issuance in most markets was below typical levels.

In the October Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks reported tightening standards and terms on C&I loans to firms of all sizes in the third quarter. The most frequently cited reasons for tightening C&I standards and terms included concerns about the economic outlook, a less favorable or more uncertain economic outlook, and the effects of potential legislative changes, supervisory actions, or changes in accounting standards. Banks also reported that demand for C&I loans weakened in the third quarter, with the most frequently cited reasons being decreased investment in plant or equipment and decreased inventory financing needs. Similarly, banks indicated that commercial real estate (CRE) loan standards continued to tighten and demand weakened further in the third quarter.

Credit in the residential mortgage market remained easily available for high-credit-score borrowers who met standard conforming loan criteria. However, in the October SLOOS, banks reported tighter standards and weaker demand for almost all categories of residential real estate loans in the third quarter.

Consumer credit remained readily available for most borrowers, although there were signs of tightening standards. Credit card balances grew at a strong pace in August, while auto credit continued to grow at a modest pace. However, respondents to the October SLOOS reported tighter standards for all consumer loan categories in the third quarter. Meanwhile, outstanding student loan balances declined significantly in August, driven by the cancellation of student loan debt for certain borrowers.

The credit quality of businesses, households, and municipalities continued to show signs of deterioration in most sectors, as delinquency rates rose. The credit quality of nonfinancial firms borrowing in the corporate bond market remained sound overall, albeit with pockets of deterioration. The credit quality of C&I and CRE loans on banks' balance sheets remained generally stable through August. However, delinquency rates for nonfarm nonresidential CRE loans recently picked up. In the October SLOOS, banks frequently cited concerns about credit quality, including for both C&I and CRE loans, as reasons for tightening standards over the third quarter.

The staff provided an update on its assessment of the stability of the financial system and, on balance, judged that the financial vulnerabilities of the U.S. financial system were notable. The staff characterized asset valuation pressures as notable. In particular, the staff noted that valuations in equities, housing, and CRE were high. The forward price-to-earnings ratio for S&P 500 firms increased to the upper quartile of its historical distribution. House prices increased to the upper end of their historical range, relative to fundamentals, despite tight credit conditions in the mortgage market. While CRE prices declined, valuations remained stretched, with capitalization rates remaining near historical lows. Fundamentals in the office sector remained weak given the shift toward telework in many industries, especially for central business districts and coastal cities. Delinquency rates on commercial mortgage-backed securities moved up as office and retail loan performance deteriorated. Vulnerabilities associated with business and household debt were characterized as moderate.

Leverage in the financial sector was characterized as notable. In the banking sector, holdings of liquid assets remained high, and regulatory risk-based capital ratios indicated ample loss-bearing capacity in the banking system. However, the fair value of banks' longer-term fixed-rate assets, including loans, decreased in the third quarter as longer-term interest rates rose. Hedge fund leverage remained above historical averages, particularly for the largest funds. Funding risks were also characterized as notable. Reliance on uninsured deposits declined

in the aggregate but remained high for some banks, and short-term nondeposit funding had increased.

Staff Economic Outlook

The economic forecast prepared by the staff for the October–November meeting was similar to the September projection. The staff expected fourth-quarter GDP growth to slow markedly from its third-quarter rate. All told, however, average GDP growth over the second half of the year was projected to be a little faster than the first half's pace. The staff also expected output in the fourth quarter to be temporarily restrained by the autoworkers' strike before being boosted in the first quarter as lost production begins to be made up. The size and timing of these effects were highly uncertain, however. With the lagged effects of monetary policy actions expected to restrain activity, real GDP was projected to rise more slowly than the staff's estimate of potential over the next two years before rising in line with potential in 2026. The unemployment rate was expected to be roughly flat through 2026 as the effects of below-potential output growth were offset by the effects of further improvements in labor market functioning.

Total PCE price inflation was expected to be close to 3.0 percent by the end of this year, and core PCE inflation was expected to be around 3.5 percent. Inflation was projected to move lower in coming years as demand and supply in product and labor markets moved into better alignment; in 2026, total and core PCE price inflation rates were expected to be close to 2 percent.

The staff continued to view the uncertainty around the baseline projection as elevated. Risks around the inflation forecast were seen as skewed to the upside, given the possibility that inflation might prove to be more persistent than expected or that additional adverse shocks to supply conditions might occur. The risks to the forecast for real activity were viewed to be skewed to the downside. Moreover, the additional monetary policy tightening that would be necessitated by higher or more persistent inflation, and the potential for a greater tightening of financial conditions, represented a downside risk to the projection for real activity.

Participants' Views on Current Conditions and the Economic Outlook

Participants noted that real GDP had expanded at an unexpectedly strong pace in the third quarter, boosted by a surge in consumer spending. Nevertheless, participants judged that aggregate demand and aggregate supply continued to come into better balance, as a result of the current restrictive stance of monetary policy and the continued normalization of aggregate supply conditions. Participants assessed that while labor market conditions remained tight, they had eased since earlier in the year, partly as a result of recent increases in labor supply. Participants judged that the current stance of monetary policy was restrictive and was putting downward pressure on economic activity and inflation. In addition, they noted that financial conditions had tightened significantly in recent months. Participants noted that inflation had moderated over the past year but stressed that current inflation remained unacceptably high and well above the Committee's longer-run goal of 2 percent. They also stressed that further evidence would be required for them to be confident that inflation was clearly on a path to the Committee's 2 percent objective. Participants continued to view a period of below-potential growth in real GDP and some further softening in labor market conditions as likely to be needed to reduce inflation pressures sufficiently to return inflation to 2 percent over time.

In their discussion of the household sector, participants observed that the incoming data on consumer spending had again surprised to the upside, likely supported by a strong labor market and by generally solid household balance sheets. Nevertheless, some participants remarked that the finances of some households—especially those in the low- and moderate-income categories—were increasingly coming under pressure amid high prices for food and other essentials as well as tight credit conditions. Several participants added that delinquencies on auto loans and credit cards had risen for these households. Some participants commented that their District contacts reported a somewhat weaker picture of consumer demand than indicated by the incoming aggregate data. Several participants, however, noted that repeated upside surprises in the aggregate spending data could indicate that considerable momentum could be sustained. A couple of these participants commented that the aggregate household sector may have more financial resources than previously thought, which could help account for the strength in spending. A few participants observed that activity in the housing sector had flattened out in recent months, likely reflecting the effects of further increases in mortgage rates from already elevated levels.

Business fixed investment was flat in the third quarter, and participants observed that conditions reported by their business contacts varied across industries and Districts. Some participants noted that businesses were benefiting from an increased ability to hire and retain workers, better-functioning supply chains, or reduced input cost pressures. A few participants commented

that their business contacts had reported that cost increases could not be easily passed on to customers. Several participants commented that the apparent resolution of the United Auto Workers strike would reduce business-sector uncertainty. Several participants noted that an increasing number of District businesses were reporting that higher interest rates were affecting their businesses or that firms were increasingly cutting or delaying their investment plans because of higher borrowing costs and tighter bank lending conditions. A few participants noted that the tighter financial and credit conditions could be particularly challenging for small businesses. A few participants observed that higher interest rates were also affecting the agricultural sector, with their contacts noting that high financing costs were likely weighing on purchases of heavy agricultural equipment. Regarding the energy sector, a few participants observed that energy markets had calmed after significant volatility at the start of the current armed conflict between Israel and Hamas.

Participants observed that the labor market remained tight. Payroll growth was unexpectedly strong in September, and the unemployment rate remained low. Nevertheless, participants assessed that labor supply and labor demand were continuing to come into better balance. Measures of labor supply had moved up, with the labor force participation rate for prime-age workers rising this year, especially for women, and immigration also boosting labor supply. A few participants expressed concern that the recent pace of increases in labor supply might not be sustainable in light of challenges regarding the availability of childcare and the uncertainty regarding the extent to which immigration would continue to boost the growth of labor supply. Regarding labor demand, various measures appeared to indicate some easing, including a downward trend in job openings, a lower quits rate, and reduced wage premiums offered to job switchers. Consistent with the gradual rebalancing of labor market conditions, participants commented that the pace of nominal wage increases had continued to moderate. A few participants noted, however, that nominal wages were still rising at rates above levels generally assessed to be consistent with the sustained achievement of the Committee's 2 percent inflation objective, given current estimates of trend productivity growth.

Participants observed that inflation had continued to moderate since the middle of last year. Both the 6- and 12-month change measures of core PCE price inflation had come down somewhat in recent months, despite a less favorable monthly reading in September. Participants pointed to the softening of core goods prices in recent months, as well as the continued gradual decline in housing services inflation. However, participants also noted that there had been only limited progress in bringing down inflation in core services excluding housing. Participants noted that longer-term inflation expectations remained well anchored. Participants observed that, notwithstanding the moderation of inflation so far, inflation remained well above the Committee's 2 percent longer-run objective and that elevated inflation was continuing to harm businesses and households, particularly low-income households. Participants stressed that they would need to see more data indicating that inflation pressures were abating to be more confident that inflation was on course to return to 2 percent over time.

Participants noted that in recent months, financial conditions had tightened significantly because of a substantial run-up in longer-term Treasury yields, among other factors. Higher Treasury yields contributed to an increase in 30-year mortgage rates to levels not seen in many years and led to higher corporate borrowing rates. Many participants observed that a range of measures suggested that the rise in longer-term yields had been driven primarily or substantially by a rise in the term premiums on Treasury securities. Participants generally viewed factors such as a fiscal outlook that suggested greater future supply of Treasury securities than previously thought and increased uncertainty about the economic and policy outlooks as likely having contributed to the rise in the term premiums. Some participants noted that the rise in longer-term yields may also have been driven by expectations for a higher path of the federal funds rate in light of the surprising resilience of the economy or a possible rise in the neutral policy rate. Participants highlighted that longer-term yields could be volatile and that the factors behind the recent increase, as well as their persistence, were uncertain. However, they also noted that, whatever the source of the rise in longer-term yields, persistent changes in financial conditions could have implications for the path of monetary policy and that it would therefore be important to continue to monitor market developments closely.

Participants generally noted a high degree of uncertainty surrounding the economic outlook. As upside risks to economic activity, participants noted that the factors behind the resilience in spending could persist longer than expected. As downside risks, participants cited the possibility that the effects on households and businesses of the cumulative policy tightening and tighter financial conditions could be larger than expected, disruptions from a potential government shutdown, and the possibility that the resumption of student loan repayments

could weigh on household spending by more than was expected. As upside risks to inflation, participants cited the possibility that progress on disinflation stalls or inflation reaccelerates because of continued momentum in economic activity. A potential for a broadening of the armed conflict in the Middle East was seen as presenting upside risk to inflation through its potential effect on oil prices as well as downside risk to economic activity.

In their discussion of financial stability, participants observed that the banking system was sound and resilient and that banking stresses had subsided. However, many participants commented that unrealized losses on assets resulting from the rise in longer-term interest rates, significant reliance by some banks on uninsured deposits, and increased funding costs at banks warranted monitoring. Many participants also commented on risks associated with a potential sharp decline in CRE valuations, which could adversely affect some banks and other financial institutions. Several participants noted potential cyber risks and emphasized the importance of firms, particularly providers of critical infrastructure, being prepared to recover from such threats. A few participants also discussed the importance of monitoring Treasury market functioning and potential vulnerabilities posed by the amount of leverage being used by hedge funds in this market. In addition, several participants emphasized the need for banks to establish readiness to use Federal Reserve liquidity facilities and for the Federal Reserve to ensure its own readiness to provide liquidity during periods of stress.

In their consideration of appropriate monetary policy actions at this meeting, participants noted that economic activity expanded at a strong pace in the third quarter and had been resilient. While the labor market remained tight, job gains had moderated, on balance, since earlier in the year, and there were continuing signs that supply and demand in the labor market were coming into better balance. While inflation had moderated since the middle of last year, it remained well above the Committee's longer-run goal of 2 percent, and participants remained resolute in their commitment to bring inflation down to the Committee's 2 percent objective. Participants also noted that tighter financial and credit conditions facing households and businesses would likely weigh on economic activity, hiring, and inflation, although the extent of these effects remained uncertain. Participants commented on the significant tightening in financial conditions in recent months, driven by higher longer-term yields, with many noting that it was uncertain whether this tightening of financial conditions would persist and to what extent it reflected expectations for tighter policy or other factors. Amid these economic conditions, all participants judged it appropriate to maintain the target range for the federal funds rate at 5¼ to 5½ percent at this meeting. Participants judged that maintaining this restrictive stance of policy at this meeting would support further progress toward the Committee's goals while allowing more time to gather additional information to evaluate this progress. All participants agreed that it was appropriate to continue the process of reducing the Federal Reserve's securities holdings, as described in the previously announced Plans for Reducing the Size of the Federal Reserve's Balance Sheet.

In discussing the policy outlook, participants continued to judge that it was critical that the stance of monetary policy be kept sufficiently restrictive to return inflation to the Committee's 2 percent objective over time. All participants agreed that the Committee was in a position to proceed carefully and that policy decisions at every meeting would continue to be based on the totality of incoming information and its implications for the economic outlook as well as the balance of risks. Participants noted that further tightening of monetary policy would be appropriate if incoming information indicated that progress toward the Committee's inflation objective was insufficient. Participants expected that the data arriving in coming months would help clarify the extent to which the disinflation process was continuing, aggregate demand was moderating in the face of tighter financial and credit conditions, and labor markets were reaching a better balance between demand and supply. Participants noted the importance of continuing to communicate clearly about the Committee's data-dependent approach and its firm commitment to bring inflation down to 2 percent.

All participants judged that it would be appropriate for policy to remain at a restrictive stance for some time until inflation is clearly moving down sustainably toward the Committee's objective. Participants also observed that the continuing process of reducing the size of the Federal Reserve's balance sheet was an important part of the overall approach to achieving their macroeconomic objectives. A few participants noted that the process of balance sheet runoff could continue for some time, even after the Committee begins to reduce the target range for the federal funds rate. Several participants commented on the recent decline in the use of the ON RRP facility, noting that the use of the facility had been responsive to market conditions.

Participants discussed several risk-management considerations that could bear on future policy decisions. Participants generally judged that, with the stance of monetary policy in restrictive territory, risks to the achievement of the Committee's goals had become more two sided. But with inflation still well above the Committee's longer-run goal and the labor market remaining tight, most participants continued to see upside risks to inflation. These risks included the possibility that the imbalance of aggregate demand and supply could persist longer than expected and slow the progress on inflation, geopolitical tensions and risks emanating from global oil markets, the effects of a tight housing market on shelter inflation, and the potential for more limited declines in goods prices. Many participants commented that even though economic activity had been resilient and the labor market had continued to be strong, downside risks to economic activity remained. Such risks included potentially larger-than-expected effects of the tightening in financial and credit conditions on aggregate demand and on bank, business, and household balance sheets; continued weakness in the CRE sector; and potential disruptions to global oil markets.

Committee Policy Actions

In their discussion of monetary policy for this meeting, members agreed that economic activity had expanded at a strong pace in the third quarter, job gains had moderated since earlier in the year but remained strong, and the unemployment rate had remained low. Inflation had remained elevated.

Members concurred that the U.S. banking system was sound and resilient. They also agreed that tighter financial and credit conditions for households and businesses were likely to weigh on economic activity, hiring, and inflation but that the extent of these effects was uncertain. Members agreed that they remained highly attentive to inflation risks.

In support of the Committee's objectives to achieve maximum employment and inflation at the rate of 2 percent over the longer run, members agreed to maintain the target range for the federal funds rate at 5¼ to 5½ percent. They also agreed that they would continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, members concurred that they would take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, members agreed to continue to reduce the Federal Reserve's holdings of Treasury securities and agency debt and mortgage-backed securities, as described in its previously announced plans. All members affirmed that they are strongly committed to returning inflation to their 2 percent objective.

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. They 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. Members also agreed that their assessments would take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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

> "Effective November 2, 2023, 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 5¼ to 5½ percent.
> - Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5.5 percent and with an aggregate operation limit of $500 billion.
> - Conduct standing overnight reverse repurchase agreement operations at an offering rate of 5.3 percent and with a per-counterparty limit of $160 billion per day.
> - 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 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 suggest that economic activity expanded at a strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains 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 maintain the target range for the federal funds rate at 5¼ to 5½ percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. 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 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, Lisa D. Cook, Austan D. Goolsbee, Patrick Harker, Philip N. Jefferson, Neel Kashkari, Adriana D. Kugler, Lorie K. Logan, 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 of the Federal Reserve System voted unanimously to maintain the interest rate paid on reserve balances at 5.4 percent, effective November 2, 2023. The Board of Governors of the Federal Reserve System voted unanimously to approve the establishment of the primary credit rate at the existing level of 5.5 percent, effective November 2, 2023.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, December 12–13, 2023. The meeting adjourned at 10:05 a.m. on November 1, 2023.

Notation Vote

By notation vote completed on October 10, 2023, the Committee unanimously approved the minutes of the Committee meeting held on September 19–20, 2023.

Joshua Gallin
Secretary