Minutes of the Federal Open Market Committee
August 9, 2011

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 in Washington, D.C., on Tuesday, August 9, 2011, at 8:00 a.m.

PRESENT:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Charles L. Evans
Richard W. Fisher
Narayana Kocherlakota
Charles I. Plosser
Sarah Bloom Raskin
Daniel K. Tarullo
Janet L. Yellen

Christine Cumming, Jeffrey M. Lacker, Dennis P. Lockhart, Sandra Pianalto, and John C. Williams, Alternate Members of the Federal Open Market Committee

James Bullard, Thomas M. Hoenig, and Eric Rosengren, Presidents of the Federal Reserve Banks of St. Louis, Kansas City, and Boston, respectively

William B. English, Secretary and Economist
Matthew M. Luecke, Assistant Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Thomas C. Baxter, Deputy General Counsel
Richard M. Ashton, Assistant General Counsel

Thomas A. Connors, David Reifschneider, Daniel G. Sullivan, David W. Wilcox, and Kei-Mu Yi, Associate Economists

Brian Sack, Manager, System Open Market Account

Jennifer J. Johnson, Secretary of the Board, Office of the Secretary, Board of Governors

Patrick M. Parkinson, Director, Division of Banking Supervision and Regulation, Board of Governors

Robert deV. Frierson, Deputy Secretary, Office of the Secretary, Board of Governors

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

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

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors; Michael Leahy, Senior Associate Director, Division of International Finance, Board of Governors; Lawrence Slifman and William Wascher, Senior Associate Directors, Division of Research and Statistics, Board of Governors

Andrew T. Levin, Senior Adviser, Office of Board Members, Board of Governors; Stephen A. Meyer, Senior Adviser, Division of Monetary Affairs, Board of Governors

Joyce K. Zickler, Visiting Senior Adviser, Division of Monetary Affairs, Board of Governors

David E. Lebow, Associate Director, Division of Research and Statistics, Board of Governors

Joshua Gallin, Deputy Associate Director, Division of Research and Statistics, Board of Governors; Fabio M. Natalucci, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Beth Anne Wilson, Assistant Director, Division of International Finance, Board of Governors

Penelope A. Beattie, Assistant to the Secretary, Office of the Secretary, Board of Governors

John C. Driscoll, Senior Economist, Division of Monetary Affairs, Board of Governors

Carol Low, Open Market Secretariat Specialist, Division of Monetary Affairs, Board of Governors

Randall A. Williams, Records Management Analyst, Division of Monetary Affairs, Board of Governors

David Sapenaro, First Vice President, Federal Reserve Bank of St. Louis

Mark S. Sniderman, Executive Vice President, Federal Reserve Bank of Cleveland

David Altig, Alan D. Barkema, and Geoffrey Tootell, Senior Vice Presidents, Federal Reserve Banks of Atlanta, Kansas City, and Boston, respectively

Chris Burke, Fred Furlong, Tom Klitgaard, Evan F. Koenig, and Daniel L. Thornton, Vice Presidents, Federal Reserve Banks of New York, San Francisco, New York, Dallas, and St. Louis, respectively

Keith Sill, Assistant Vice President, Federal Reserve Bank of Philadelphia

Robert L. Hetzel, Senior Economist, Federal Reserve Bank of Richmond

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

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the Federal Open Market Committee (FOMC) met on June 21–22, 2011. He also reported on System open market operations, including the continuing reinvestment into longer-term Treasury securities of principal payments received on the SOMA's holdings of agency debt and agency-guaranteed mortgage-backed securities. By unanimous vote, the Committee ratified the transactions by the Open Market Desk of the Federal Reserve Bank of New York over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed at the August 9 meeting indicated that the pace of the economic recovery remained slow in recent months and that labor market conditions continued to be weak. In addition, revised data for 2008 through 2010 from the Bureau of Economic Analysis indicated that the recent recession was deeper than previously thought and that the level of real gross domestic product (GDP) had not yet attained its pre-recession peak by the second quarter of 2011. Moreover, the downward revision to first-quarter GDP growth and the slow growth reported for the second quarter indicated that the recovery was quite sluggish in the first half of this year. Overall consumer price inflation moderated in recent months, and survey measures of long-run inflation expectations remained stable.

Private nonfarm employment rose at a considerably slower pace in June and July than earlier in the year, and employment in state and local governments continued to trend lower. The unemployment rate edged up, on net, since the beginning of the year, and long-duration unemployment remained very high. Meanwhile, the labor force participation rate moved down further through July. Initial claims for unemployment insurance stepped down some in recent weeks but remained elevated, and indicators of hiring showed no improvement.

Manufacturing production was unchanged in June. Supply chain disruptions associated with the earthquake in Japan continued to hinder production at motor vehicle manufacturers and the firms that supply them. Excluding motor vehicles and parts, factory output posted only a modest increase. The manufacturing capacity utilization rate held about flat in recent months. With auto manufacturers expecting supply chain disruptions to ease, motor vehicle assembly schedules called for a substantial step-up in production in the third quarter, and initial estimates of production in June were consistent with such a step-up. But broader indicators of near-term manufacturing activity, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, softened to levels consistent with only small gains in production in the coming months.

Real consumer spending was nearly unchanged in the second quarter. Motor vehicle purchases declined during the spring when the availability of some models was limited, but rebounded somewhat in July as supplies improved. Consumer spending on goods and services other than motor vehicles also appeared soft through June. Labor earnings rose in the second quarter, but increases in consumer prices offset much of the gain in nominal income. Consumer sentiment weakened markedly in July, and the Thomson Reuters/University of Michigan sentiment index fell to levels last seen in early 2009.

The housing market remained depressed. Although single-family housing starts moved up some in June, permit issuance stayed low. Similarly, sales of new and existing single-family homes were subdued in recent months, and home prices continued to trend lower. New construction remained constrained by the overhang of foreclosed or distressed properties as well as by weak demand in an environment of uncertainty about future home prices and tight underwriting standards for mortgage loans.

Real business spending on equipment and software rose at a modest pace in the second quarter, reflecting strong increases in outlays for high-tech equipment that more than offset declines in spending in many other equipment categories. Nominal new orders for nondefense capital goods excluding aircraft continued to rise through June, and orders remained well above shipments, suggesting further gains in outlays for equipment and software in the near term. However, indicators of business conditions and sentiment weakened in June and July. Business investment in nonresidential structures appeared to have stabilized at a low level in recent months, with vacancy rates elevated and construction financing conditions still tight. Outlays for drilling and mining equipment continued to increase. In the second quarter, businesses appeared to add to inventories at a moderate rate, as a drawdown in motor vehicle inventories associated with production disruptions was offset by higher accumulation elsewhere. In most industries outside of the motor vehicle sector, inventories seemed to be reasonably well aligned with sales.

Real federal purchases turned up in the second quarter, as defense expenditures rebounded after declining noticeably in the preceding quarter. At the state and local level, real purchases continued to decline in response to budgetary pressures; these governments continued to reduce payrolls, and their real construction outlays fell sharply.

The U.S. international trade deficit widened significantly in May in nominal terms, as exports edged down and imports moved up strongly. Declines in exports were concentrated in commodity-intensive categories such as industrial supplies and agricultural goods; sales of capital goods and automotive products increased. The rise in imports importantly reflected increases in spending on petroleum products (mainly the result of higher prices rather than increased volumes) and on capital goods, especially computers. For the second quarter as a whole, the advance release of the National Income and Product Accounts (NIPA) indicated that real exports of goods and services increased more than real imports, with the result that net exports added significantly to real GDP growth.

After decelerating in the preceding two months, indexes of U.S. consumer prices declined in June, reflecting a substantial drop in consumer energy prices. However, survey data indicated some backup in gasoline prices in July. The price index for personal consumption expenditures (PCE) excluding food and energy posted a small increase in June, and the PCE price index for non-energy services was essentially unchanged. In contrast, prices of nonfood, non-energy goods were apparently boosted by upward pressure from earlier increases in commodity and import prices, and motor vehicle prices rose further, reflecting the extremely low levels of vehicle inventories. Near-term expected inflation from the Thomson Reuters/University of Michigan Surveys of Consumers moved down again in July from its elevated level in the spring, and longer-term inflation expectations remained stable.

Nominal hourly labor compensation, as measured both by compensation per hour in the nonfarm business sector and by the employment cost index, increased at a moderate rate over the year ending in the second quarter. Similarly, the 12-month change in average hourly earnings of all employees remained moderate in July. Productivity in the nonfarm business sector rose only slightly over the past four-quarter period, so unit labor costs posted a modest increase.

Foreign economic growth appeared to have slowed significantly in recent months. Real GDP growth declined sharply in the United Kingdom in the second quarter, and industrial production data and purchasing managers surveys pointed to a similar slowdown in Canada. Retail sales and business sentiment for the euro area also weakened in recent months amid intensified concerns over the fiscal situation of the peripheral euro-area countries. Economic performance in the emerging market economies was somewhat better, but indicators for those economies also suggested some cooling from the very rapid growth earlier this year. By contrast, the Japanese economy has begun to recover from the March disaster, with exports and production both retracing much of their substantial losses. Foreign inflation dipped in the second quarter as the effects of previous increases in food and energy prices began to dissipate.

Staff Review of the Financial Situation

Over the intermeeting period, U.S. financial markets were strongly influenced by developments regarding the fiscal situations in the United States and in Europe and by generally weaker-than-expected readings on economic activity. Throughout the period, waxing and waning concerns about the sovereign debt of peripheral euro-area countries appeared to have an effect on investor appetite for risk, leading to volatility in many asset markets. Late in the period, investor focus appeared to turn to the U.S. debt ceiling and the potential for delayed debt service payments by the Treasury Department, the possibility of a downgrade of U.S. sovereign debt, and the prospects for significant long-term fiscal consolidation. Liquidity and funding in money markets deteriorated in the last week of July, and interest rates on a number of short-term funding instruments increased markedly. The strains in these markets eased after legislation to raise the debt ceiling and to cut the federal budget deficit was signed into law on August 2. U.S. equity prices fell considerably in the last week of July and the first week of August, reportedly reflecting recent weaker-than-expected economic data releases, and they declined further after the August 5 announcement by Standard & Poor's of its downgrade of long-term U.S. sovereign debt.

The decisions by the FOMC at its June meeting to complete its asset purchase program and to maintain the 0 to ¼ percent target range for the federal funds rate were about in line with market expectations and elicited little market reaction; the same was true of the accompanying statement and the subsequent press briefing by the Chairman. Over the intermeeting period, investors marked down the expected path for the federal funds rate substantially, reflecting incoming economic data that were weaker than expected and concomitant concerns about the prospects for global growth. Yields on nominal Treasury securities also fell notably, on net, over the intermeeting period. The Federal Reserve's Treasury purchase program was completed on schedule on June 30.

Broad U.S. stock price indexes fell sharply, on net, over the intermeeting period, as increased concerns about economic growth appeared to overshadow generally strong second-quarter corporate earnings reports. Option-implied volatility on the S&P 500 index jumped late in the period. Yields on both investment- and speculative-grade corporate bonds fell a little less than those on comparable-maturity Treasury securities, leaving risk spreads wider. Financial market indicators of inflation expectations were mixed over the intermeeting period.

Net debt financing by nonfinancial corporations was solid in July, although below the elevated pace posted in the second quarter. Gross bond issuance fell, and the outstanding amount of commercial and industrial (C&I) loans on banks' books was about flat. Nonfinancial commercial paper (CP) posted a sizable gain. The market for CP issued by financial firms experienced some strains late in the period as institutional money market mutual funds reportedly increased their cash positions and sought to decrease exposure to CP issued by some entities perceived to be less creditworthy. Issuance of syndicated leveraged loans remained strong in the second quarter. The pace of gross public equity issuance by nonfinancial firms fell somewhat in July from its solid pace in the second quarter. Most indicators of business credit quality continued to improve.

Commercial real estate markets remained weak. Available data for the second quarter indicated that commercial mortgage debt contracted, prices of commercial properties were generally depressed, and issuance of commercial mortgage-backed securities (CMBS) slowed. However, the delinquency rate in June for loans that back existing CMBS stayed below its recent peak, and vacancy rates for commercial properties, while still high, generally continued to edge lower.

Rates on conforming fixed-rate residential mortgages declined, on net, over the intermeeting period. Mortgage refinancing activity picked up but remained relatively subdued. Outstanding residential mortgage debt is estimated to have contracted further in the second quarter. Rates of serious mortgage delinquency continued to moderate but remained high, while the rate of new delinquencies on prime mortgages flattened out in recent months at an elevated level.

Conditions in consumer credit markets generally continued to improve. Total consumer credit expanded at a moderate rate in May as both nonrevolving and revolving credit posted gains. Issuance of consumer asset-backed securities remained solid in July, although some deals later in the month were reportedly postponed a few days while issuers awaited the outcome of the debt ceiling deliberations. Delinquency rates for most types of consumer loans moved down in recent months.

Core commercial bank loans—the sum of C&I, real estate, and consumer loans—were about flat over the months of June and July, as a slowdown in lending to businesses was offset by a pickup in loans to households. The July Senior Loan Officer Opinion Survey on Bank Lending Practices showed that respondents again eased lending standards to some degree on all major loan types other than residential real estate loans. Nonetheless, banks also indicated that the current levels of their lending standards for all loan types were between moderate and relatively tight when compared with the range of standards that had prevailed since 2005. Nearly all second-quarter earnings reports from large banking companies exceeded expectations.

M2 expanded rapidly in June and July. Liquid deposits, the largest component of M2, increased robustly, likely reflecting safe-haven flows from riskier assets along with temporary increases in the amount of deposits that money market mutual funds held at their custodian banks. The rise in currency moderated over those two months but remained robust.

Headline equity indexes abroad and foreign benchmark sovereign yields declined over the intermeeting period in apparent response to signs of a slowdown in the pace of global economic activity and reduced demand for risky assets. At the same time, concerns about fiscal deficits and debt sustainability drove yields on the sovereign debt of Greece, Ireland, Portugal, Spain, and Italy to record highs relative to yields on German bunds, although later in the period, spreads fell back somewhat. Stock prices of European banks, which are significant investors in sovereign bonds issued by the peripheral euro-area countries, declined appreciably, and some of these banks reportedly faced tighter funding conditions toward the end of the intermeeting period. The broad nominal index of the U.S. dollar fluctuated over the period in response to changes in investors' assessment of the outlook for the U.S. economy, prospects for the lifting of the U.S. debt ceiling, and the situation in the European economies. On net over the intermeeting period, the dollar rose modestly after having depreciated earlier this year.

The European Central Bank (ECB) boosted its policy rate in July, a move that was widely anticipated. As indicated by money market futures quotes, however, the expected pace of monetary policy tightening declined substantially for the ECB as well as for other central banks in advanced foreign economies. Following its August meeting, the ECB expanded and extended its offerings of term liquidity and resumed purchases of sovereign debt in the secondary market. Central banks in several emerging market economies, including China, continued to tighten policy in response to inflationary pressures. Authorities in some emerging market economies also took measures to limit capital inflows and credit growth.

Staff Economic Outlook

The information on economic activity received since the June FOMC meeting was weaker than the staff had anticipated, and the projection for real GDP growth in the second half of 2011 and in 2012 was marked down notably. Moreover, the lower estimates of real GDP in recent years that were contained in the annual revisions to the NIPA led the staff to lower its estimate of potential GDP growth, both during recent years and over the forecast period, and to mark down further the staff forecast. The staff continued to expect some rebound in economic activity in the near term as the Japan-related supply chain disruptions in the motor vehicle sector eased. More generally, the staff still projected real GDP to accelerate gradually over the next year and a half, supported by accommodative monetary policy, improved credit availability, and a pickup in consumer and business sentiment. However, the increase in real GDP was projected to be sufficient to reduce slack in the labor market only slowly, and the unemployment rate was expected to remain elevated at the end of 2012.

The staff raised slightly its projection for inflation during the second half of this year, as the upward pressure on consumer prices from earlier increases in import and commodity prices was expected to persist a little longer than previously anticipated. But these influences were still expected to dissipate in coming quarters, as was the temporary upward pressure on motor vehicle prices from low inventories. Moreover, the large increases in consumer energy and food prices seen earlier this year were not expected to be repeated. With long-run inflation expectations stable and substantial slack expected to persist in labor and product markets, the staff continued to expect prices to rise at a subdued pace in 2012.

Participants' Views on Current Conditions and the Economic Outlook

In their discussion of the economic situation and outlook, meeting participants regarded the information received during the intermeeting period as indicating that economic growth so far this year was considerably slower than they had expected. Participants noted a deterioration in labor market conditions, slower household spending, a drop in consumer and business confidence, and continued weakness in the housing sector. Manufacturing activity was reported to be mixed. Participants judged that temporary factors affecting demand and production, including the damping effect of higher energy and other commodity prices and the supply disruptions from the Japanese earthquake, could account for only some of the weakness in economic growth over the first half of the year. While these effects appeared to be waning, the underlying strength of the economic recovery remained uncertain. In addition, many participants pointed to the recent downward revision to estimates of economic activity over the past three years, and some to the financial market strains seen during the intermeeting period, as contributing to a downgrade of the outlook for the economy. Moreover, many participants saw increased downside risks to the outlook for economic growth.

Meeting participants generally noted that overall labor market conditions had deteriorated in recent months. While the employment report for July showed that hiring was somewhat better than in previous months, the release was still seen as indicating relatively weak conditions. A couple of participants commented that the exceptionally high level of long-term unemployment could lead to permanent negative effects on the skills and employment prospects of those affected. Another participant, however, noted that it could instead reflect a mismatch between the characteristics of the unemployed and the jobs currently available. Participants also discussed the labor force participation rate, and it was noted that extended unemployment benefits could be increasing the measured unemployment rate by encouraging some workers to remain in the labor force longer than they otherwise would have. Other participants remarked that the declines in the unemployment rate that have occurred over the past year appeared to reflect primarily declines in labor force participation rather than significant gains in employment. Reports from business contacts suggested that depressed business confidence as well as uncertainty regarding the economic outlook, regulatory policy, and fiscal policy continued to restrain hiring and also capital investment.

Inflation had moderated in recent months after having been somewhat elevated earlier this year. Transitory factors, including supply chain disruptions from the earthquake in Japan and a surge in energy and other commodity prices, had pushed up both headline and core measures of inflation for a time. More recently, however, as prices of energy and some commodities have declined from their earlier peaks, headline inflation has moderated. Participants generally noted that, with apparently significant slack in labor and product markets, slow wage growth, and little evidence of pricing power among firms, inflation was likely to decline somewhat over time. Measures of inflation expectations had remained stable. Nevertheless, a number of participants noted that core inflation had moved up, on balance, since last fall. Some indicated that the rise in inflation from very low levels reflected the Committee's accommodative stance of monetary policy, which had helped address the deflation risks of a year ago. A couple of others, however, suggested that the juxtaposition of higher core inflation and somewhat lower unemployment could imply that the level of potential output was lower than had been thought.

Most meeting participants indicated that the weakness in consumer spending in recent months was unexpected. The flattening out of consumer spending was seen as reflecting, in part, the modest pace of gains in employment and labor income. In addition, household spending on autos had been held back by low inventories, and participants generally expected a pickup in sales of motor vehicles in coming months as production rebounded. Nonetheless, low consumer confidence, efforts to rebuild balance sheets, and heightened caution on the part of households facing an uncertain economic environment were seen as factors likely to continue to weigh on household spending going forward. Several participants also pointed to financial constraints, particularly depressed home prices and still-tight credit conditions, as further restraining consumer spending for a time.

Business outlays on equipment and software continued to advance, although at a slower pace than earlier in the year. Business contacts in many parts of the country reported that uncertainty about the pace of growth in coming quarters and a general slump in business confidence had made some firms reluctant to expand capacity. With home prices depressed, housing construction was quite subdued and seen as likely to remain so, while investment in nonresidential structures remained low.

The weakness in household and business spending was accompanied by fiscal consolidation at the state and local level. The shedding of state and local government jobs contributed to the deterioration in overall labor market conditions. Some policymakers noted that their outlooks for economic activity were shaped in part by an expectation of fiscal restraint at all levels of government.

Participants generally saw the degree of uncertainty surrounding the outlook for economic growth as having risen appreciably. A couple noted that the cyclical impetus to economic expansion appeared to be weaker than it had been in past recoveries, but that the reasons for the weakness were unclear, contributing to greater uncertainty about the economic outlook. Many participants also saw an increase in the downside risks to economic growth. While participants did not anticipate a downturn in economic activity, several noted that, with the recovery still somewhat tentative, the economy was vulnerable to adverse shocks. Potential shocks included the possibility of a more protracted period of weakness in household financial conditions, the chance of a larger-than-expected near-term fiscal tightening, and potential financial and economic spillovers if the situation in Europe were to deteriorate.

Participants noted that financial markets were volatile over the intermeeting period, as investors responded to news on the European fiscal situation and the negotiations regarding the debt ceiling in the United States. However, the broad declines in stock prices and interest rates over the intermeeting period were seen as mostly reflecting the incoming data pointing to a weaker outlook for growth both in the United States and globally as well as a reduced willingness of investors to bear risk in light of the greater uncertainty about the outlook. While conditions in funding markets had tightened, it was noted that the condition of U.S. banks had strengthened in recent quarters and that the credit quality of both businesses and households had continued to improve.

Participants discussed the range of policy tools available to promote a stronger economic recovery should the Committee judge that providing additional monetary accommodation was warranted. Reinforcing the Committee's forward guidance about the likely path of monetary policy was seen as a possible way to reduce interest rates and provide greater support to the economic expansion; a few participants emphasized that guidance focusing solely on the state of the economy would be preferable to guidance that named specific spans of time or calendar dates. Some participants noted that additional asset purchases could be used to provide more accommodation by lowering longer-term interest rates. Others suggested that increasing the average maturity of the System's portfolio—perhaps by selling securities with relatively short remaining maturities and purchasing securities with relatively long remaining maturities—could have a similar effect on longer-term interest rates. Such an approach would not boost the size of the Federal Reserve's balance sheet and the quantity of reserve balances. A few participants noted that a reduction in the interest rate paid on excess reserve balances could also be helpful in easing financial conditions. In contrast, some participants judged that none of the tools available to the Committee would likely do much to promote a faster economic recovery, either because the headwinds that the economy faced would unwind only gradually and that process could not be accelerated with monetary policy or because recent events had significantly lowered the path of potential output. Consequently, these participants thought that providing additional stimulus at this time would risk boosting inflation without providing a significant gain in output or employment. Participants noted that devoting additional time to discussion of the possible costs and benefits of various potential tools would be useful, and they agreed that the September meeting should be extended to two days in order to provide more time.

Committee Policy Action

In the discussion of monetary policy for the period ahead, most members agreed that the economic outlook had deteriorated by enough to warrant a Committee response at this meeting. While all felt that monetary policy could not completely address the various strains on the economy, most members thought that it could contribute importantly to better outcomes in terms of the Committee's dual mandate of maximum employment and price stability. In particular, some members expressed the view that additional accommodation was warranted because they expected the unemployment rate to remain well above, and inflation to be at or below, levels consistent with the Committee's mandate. Those viewing a shift toward more accommodative policy as appropriate generally agreed that a strengthening of the Committee's forward guidance regarding the federal funds rate, by being more explicit about the period over which the Committee expected the federal funds rate to remain exceptionally low, would be a measured response to the deterioration in the outlook over the intermeeting period. A few members felt that recent economic developments justified a more substantial move at this meeting, but they were willing to accept the stronger forward guidance as a step in the direction of additional accommodation. Three members dissented because they preferred to retain the forward guidance language employed in the June statement.

The Committee agreed to keep the target range for the federal funds rate at 0 to ¼ percent and to state that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. That anticipated path for the federal funds rate was viewed both as appropriate in light of most members' outlook for the economy and as generally consistent with some prescriptions for monetary policy based on historical and model-based analysis. In choosing to phrase the outlook for policy in terms of a time horizon, members also considered conditioning the outlook for the level of the federal funds rate on explicit numerical values for the unemployment rate or the inflation rate. Some members argued that doing so would establish greater clarity regarding the Committee's intentions and its likely reaction to future economic developments, while others raised questions about how an appropriate numerical value might be chosen. No such references were included in the statement for this meeting. One member expressed concern that the use of a specific date in the forward guidance would be seen by the public as an unconditional commitment, and it could undermine Committee credibility if a change in timing subsequently became appropriate. Most members, however, agreed that stating a conditional expectation for the level of the federal funds rate through mid-2013 provided useful guidance to the public, with some noting that such an indication did not remove the Committee's flexibility to adjust the policy rate earlier or later if economic conditions do not evolve as the Committee currently expects.

In the statement to be released following the meeting, members generally agreed that it was important to acknowledge that the recovery had been considerably slower than the Committee had expected. Although some of the slowdown in the first half of the year reflected transitory factors, most members now judged that only part of that weakness could be attributed to those factors. The Committee decided to note that the declines in energy and commodity prices from their recent peaks had led to a moderation of inflation and that longer-term inflation expectations remained stable. The Committee also characterized the economic outlook in terms of its statutory mandate and indicated that it expected the slower pace of economic expansion to result in an unemployment rate that would decline only gradually toward levels consistent with its dual mandate and that it saw the downside risks to the economic outlook as having increased. Most members also anticipated that inflation would settle, over coming quarters, at levels at or below those consistent with the Committee's mandate. The Committee noted that it had discussed the range of policy tools that were available to promote a stronger economic recovery in a context of price stability, and to indicate that those tools, including adjustments to the Committee's securities holdings, would be employed as appropriate.

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

> "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee also directs the Desk to maintain its existing policy of reinvesting principal payments on all domestic securities in the System Open Market Account in Treasury securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

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

> "Information received since the Federal Open Market Committee met in June indicates that economic growth so far this year has been considerably slower than the Committee had expected. Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Temporary factors, including the damping effect of higher food and energy prices on consumer purchasing power and spending as well as supply chain disruptions associated with the tragic events in Japan, appear to account for only some of the recent weakness in economic activity. Inflation picked up earlier in the year, mainly reflecting higher prices for some commodities and imported goods, as well as the supply chain disruptions. More recently, inflation has moderated as prices of energy and some commodities have declined from their earlier peaks. Longer-term inflation expectations have remained stable.

> Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee now expects a somewhat slower pace of recovery over coming quarters than it did at the time of the previous meeting and anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, downside risks to the economic outlook have increased. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
>
> To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent. The Committee currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
>
> The Committee discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. It will continue to assess the economic outlook in light of incoming information and is prepared to employ these tools as appropriate."

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Charles L. Evans, Sarah Bloom Raskin, Daniel K. Tarullo, and Janet L. Yellen.

Voting against this action: Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser.

Messrs. Fisher, Kocherlakota, and Plosser dissented because they would have preferred to continue to describe economic conditions as likely to warrant exceptionally low levels for the federal funds rate for an "extended period," rather than characterizing that period as "at least through mid-2013." Mr. Fisher discussed the fragility of the U.S. economy but felt that it was chiefly nonmonetary factors, such as uncertainty about fiscal and regulatory initiatives, that were restraining domestic capital expenditures, job creation, and economic growth. He was concerned both that the Committee did not have enough information to be specific on the time interval over which it expected low rates to be maintained, and that, were it to do so, the Committee risked appearing overly responsive to the recent financial market volatility. Mr. Kocherlakota's perspective on the policy decision was shaped by his view that in November 2010, the Committee had chosen a level of accommodation that was well calibrated for the condition of the economy. Since November, inflation had risen and unemployment had fallen, and he did not believe that providing more monetary accommodation was the appropriate response to those changes in the economy. Mr. Plosser felt that the reference to 2013 might well be misinterpreted as suggesting that monetary policy was no longer contingent on how the economic outlook evolved. Although financial markets had been volatile and incoming information on growth and employment had been weaker than anticipated, he believed the statement conveyed an excessively negative assessment of the economy and that it was premature to undertake, or be perceived to signal, further policy accommodation. He also judged that the policy step would do little to improve near-term growth prospects, given the ongoing structural adjustments and external challenges faced by the U.S. economy.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, September 20–21, 2011. The meeting adjourned at 1:40 p.m. on August 9, 2011.

Videoconference Meeting of August 1

On August 1, 2011, the Committee met by videoconference to discuss issues associated with contingencies in the event that the Treasury was temporarily unable to meet its obligations because the statutory federal debt limit was not raised or in the event of a downgrade of the U.S. sovereign credit rating. The staff provided an update on the debt limit status, conditions in financial markets, plans that the Federal Reserve and the Treasury had developed regarding the processing of federal payments, potential implications for bank supervision and regulatory policies, and possible actions that the Federal Reserve could take if disruptions to market functioning posed a threat to the Federal Reserve's economic objectives. Participants generally anticipated that there would be no need to make changes to existing bank regulations, the operation of the discount window, or the conduct of open market operations. A number of participants emphasized that the Federal Reserve would continue to employ market values of securities in its transactions. With respect to potential policy actions, participants agreed that the appropriate response would depend importantly on the actual conditions in markets and should generally consist of standard operations. Some participants noted that such an approach would maintain the traditional separation of the Federal Reserve's actions from the Treasury's debt management decisions.

Notation Vote
By notation vote completed on August 29, 2011, the Committee unanimously approved the minutes of the FOMC meeting held on August 9, 2011.

William B. English
Secretary