

Minutes of the Federal Open Market Committee December 15–16, 2020

A joint meeting of the Federal Open Market Committee and the Board of Governors was held by videoconference on Tuesday, December 15, 2020, at 1:00 p.m. and continued on Wednesday, December 16, 2020, at 9:00 a.m.¹

PRESENT:

Jerome H. Powell, Chair
John C. Williams, Vice Chair
Michelle W. Bowman
Lael Brainard
Richard H. Clarida
Patrick Harker
Robert S. Kaplan
Neel Kashkari
Loretta J. Mester
Randal K. Quarles

Thomas I. Barkin, Raphael W. Bostic, Mary C. Daly,
Charles L. Evans, and Helen E. Mucciolo,²
Alternate Members of the Federal Open Market
Committee

James Bullard, Esther L. George, and Eric Rosengren,
Presidents of the Federal Reserve Banks of St.
Louis, Kansas City, and Boston, respectively

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

Shaghil Ahmed, Michael Dotsey, Rochelle M. Edge,
Marc Giannoni, William Wascher, and Mark L.J.
Wright, Associate Economists

Lorie K. Logan, Manager, System Open Market
Account

Ann E. Misback,³ Secretary, Office of the Secretary,
Board of Governors

Matthew J. Eichner,⁴ Director, Division of Reserve
Bank Operations and Payment Systems, Board of
Governors; Michael S. Gibson, Director, Division
of Supervision and Regulation, Board of
Governors; Andreas Lehnert, Director, Division of
Financial Stability, Board of Governors

Margie Shanks, Deputy Secretary, Office of the
Secretary, Board of Governors

Sally Davies and Brian M. Doyle, Deputy Directors,
Division of International Finance, Board of
Governors; Michael T. Kiley, Deputy Director,
Division of Financial Stability, Board of Governors

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

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

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

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

Eric M. Engen and John J. Stevens, Senior Associate
Directors, Division of Research and Statistics,
Board of Governors

Jane E. Ihrig, Don H. Kim, and Edward Nelson, Senior
Advisers, Division of Monetary Affairs, Board of
Governors; Brett Berger,⁴ Senior Adviser, Division
of International Finance, Board of Governors

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

² Elected as an Alternate by the Federal Reserve Bank of New York, effective November 11, 2020.

³ Attended Tuesday’s session only.

⁴ Attended through the discussion of developments in financial markets and open market operations.

Elizabeth K. Kiser, Associate Director, Division of Research and Statistics, Board of Governors

Eric C. Engstrom, Deputy Associate Director, Division of Monetary Affairs, Board of Governors; Norman J. Morin, Karen M. Pence, and John M. Roberts, Deputy Associate Directors, Division of Research and Statistics, Board of Governors; Jeffrey D. Walker,⁴ Deputy Associate Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors

Brian J. Bonis and Dan Li, Assistant Directors, Division of Monetary Affairs, Board of Governors

Penelope A. Beattie,³ Section Chief, Office of the Secretary, Board of Governors; Lubomir Petrasek, Section Chief, Division of Monetary Affairs, Board of Governors

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

Heather A. Wiggins,⁴ Group Manager, Division of Monetary Affairs, Board of Governors

Michele Cavallo and Erin E. Ferris, Principal Economists, Division of Monetary Affairs, Board of Governors

Kyungmin Kim⁴ and Arsenios Skaperdas,⁴ Senior Economists, Division of Monetary Affairs, Board of Governors

Courtney Demartini,⁴ Lead Financial Institution and Policy Analyst, Division of Monetary Affairs, Board of Governors

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

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

Kartik B. Athreya, Joseph W. Gruber, Sylvain Leduc, Anna Paulson, Daleep Singh, and Christopher J. Waller, Executive Vice Presidents, Federal Reserve Banks of Richmond, Kansas City, San Francisco, Chicago, New York, and St. Louis, respectively

Todd E. Clark, Senior Vice President, Federal Reserve Bank of Cleveland

Jonathan P. McCarthy, Matthew Nemeth,⁴ Giovanni Olivei, Rania Perry,⁴ Matthew D. Raskin,⁴ Jonathan L. Willis, and Patricia Zobel, Vice Presidents, Federal Reserve Banks of New York, New York, Boston, New York, New York, Atlanta, and New York, respectively

Robert Lerman,⁴ Assistant Vice President, Federal Reserve Bank of New York

Lisa Stowe,⁴ Markets Officer, Federal Reserve Bank of New York

Developments in Financial Markets and Open Market Operations

The manager of the System Open Market Account (SOMA) turned first to a discussion of financial market developments. Market sentiment improved over the period, as reduced uncertainty related to the U.S. election and positive vaccine news outweighed the anticipated effect of the ongoing surge in the pandemic. U.S. equity price indexes reached all-time highs, with the largest gains registered in sectors that have underperformed during the pandemic. Corporate credit spreads tightened, most notably among lower-rated firms and in sectors most affected by social distancing measures resulting from the pandemic. Longer-term Treasury yields rose modestly, driven by increases in inflation compensation. The positive vaccine news also supported risk sentiment abroad, leading many global equity price indexes to advance and the U.S. dollar to depreciate further.

Market participants had highlighted that uncertainty nevertheless remained high and had pointed to several prominent risks to the economic outlook. These risks included the possibility that the vaccine rollout might not proceed as smoothly as anticipated, the potential for adverse developments in negotiations concerning the United Kingdom's withdrawal from the European Union, and the potential for deterioration in already strained sectors, such as those involving small businesses and certain segments of commercial real estate (CRE).

With regard to market expectations concerning the policy outlook, responses to the Open Market Desk surveys of dealers and market participants suggested that views on the most likely timing of the next increase in the target range for the federal funds rate coalesced further around the first half of 2024. Survey responses continued to indicate median expectations of headline personal consumption expenditures (PCE) inflation above 2 percent and an unemployment rate of around 4 percent at

the time of the first increase in the target range for the federal funds rate. A majority of Desk survey respondents indicated that they expected the Committee to revise its guidance on asset purchases at the current meeting, with many noting that they anticipated the announcement of some form of qualitative, outcome-based guidance tied to inflation, the unemployment rate, or both. Median Desk survey responses continued to suggest expectations that purchases would begin to slow in the first half of 2022 and cease altogether in 2023.

The size of the Federal Reserve's balance sheet increased to around \$7.3 trillion over the intermeeting period, driven by growth in securities holdings. The Desk conducted purchases to increase holdings of Treasury securities and agency mortgage-backed securities (MBS) at the minimum pace directed by the FOMC, as markets for these securities continued to function smoothly. News that CARES Act (Coronavirus Aid, Relief, and Economic Security Act) funding would not be available to support new activity in section 13(3) facilities after the end of the year had only a modest effect on financial markets. New activity remained limited across most Federal Reserve funding operations and section 13(3) facilities, although the Municipal Liquidity Facility and the Main Street Lending Program saw growing usage over the period, with more take-up expected before their scheduled year-end termination.

The manager discussed a proposal to extend the temporary U.S. dollar liquidity swap arrangements as well as the temporary FIMA (Foreign and International Monetary Authorities) Repo Facility through September 2021. The path to a complete economic recovery remained uncertain across the globe, particularly for many emerging market countries, underscoring the need for backstops that could address potential market stresses and prevent spillovers from reemerging. Keeping these arrangements in place would contribute to sustaining improvements in global dollar funding markets and to the continued smooth functioning of the U.S. Treasury securities market. Under the proposal, provided that the Committee had no objections, the Chair would approve the extension of the temporary liquidity swap lines following the meeting. The extensions of the swap and FIMA repurchase agreement (repo) arrangements would be announced following this meeting.

Market participants generally anticipated calm money market conditions through year-end, and the premiums

paid for dollar funding crossing year-end generally were below those observed in recent years. Money market futures also indicated expectations of short-term rates moving down modestly in coming months, in light of anticipated further increases in aggregate reserve balances and a moderation in Treasury bill supply. The manager anticipated that administered rates and the overnight reverse repo program would be effective tools for maintaining control of overnight money market rates.

By unanimous vote, the Committee voted to approve a resolution that extended through September 30, 2021, the expiration of a temporary repo facility for foreign and international monetary authorities (FIMA Repo Facility).⁵

Secretary's note: The Chair subsequently provided approval to the Desk, following the procedures in the Authorization for Foreign Currency Operations, to extend the expiration of the temporary U.S. dollar liquidity swap lines through September 30, 2021.

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 COVID-19 pandemic and the measures undertaken to contain its spread continued to affect economic activity in the United States and abroad. The information available at the time of the December 15–16 meeting suggested that U.S. real gross domestic product (GDP) was continuing to recover in the fourth quarter, but at a more moderate pace than its rapid third-quarter rate, and that the level of real GDP remained well below its level at the start of 2020. Labor market conditions improved further over October and November, although employment continued to be well below its level at the beginning of the year. Consumer price inflation through October—as measured by the 12-month percentage change in the PCE price index—remained notably below the rates seen in early 2020.

Total nonfarm payroll employment continued to increase solidly over October and November, though the rate of monthly job gains was more moderate than the substantial third-quarter pace. Through November,

⁵ The approved FIMA Desk Resolution, which updates the July 2020 resolution with a new expiration date, is available along with other Committee organizational documents at

https://www.federalreserve.gov/monetarypolicy/rules_authorizations.htm.

payroll employment had regained somewhat more than half of the losses seen at the onset of the pandemic. The unemployment rate moved down further and stood at 6.7 percent in November. The unemployment rates for African Americans and Hispanics each declined but remained well above the national average. Both the labor force participation rate and the employment-to-population ratio in November were above their levels of two months earlier. The four-week moving average of initial claims for unemployment insurance was only slightly lower in early December than it had been in late October. Weekly estimates of private-sector payrolls constructed by Federal Reserve Board staff using data provided by the payroll processor ADP suggested that the four-week average of private employment gains in early December was lower than it was in mid-November. Both the 12-month change in average hourly earnings for all employees through November and the four-quarter change in total labor compensation per hour in the business sector through the third quarter continued to be dominated by changes in the composition of the workforce. The substantial employment losses over the past year were most significant among lower-wage workers—a situation that had led to outsized increases in these average measures of earnings and compensation that were not indicative of tight labor market conditions.

Total PCE price inflation was 1.2 percent over the 12 months ending in October, and it continued to be held down by relatively weak aggregate demand and the declines in consumer energy prices seen earlier in 2020. Core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 1.4 percent over the same period, while the trimmed mean measure of 12-month PCE price inflation constructed by the Federal Reserve Bank of Dallas was 1.7 percent in October. In November, the 12-month change in the consumer price index (CPI) was 1.2 percent, while core CPI inflation was 1.6 percent over the same period. The latest readings on survey-based measures of longer-run inflation expectations edged up, though each remained within the range in which it has fluctuated in recent years; in November and early December, the University of Michigan Surveys of Consumers measure for the next 5 to 10 years was slightly above its level in October, while the 3-year-ahead measure produced by the Federal Reserve Bank of New York rose a bit in November.

Real PCE rose strongly in October, though at a more moderate pace than in the third quarter. Real disposable personal income declined in October, reflecting a large reduction in government transfer payments, even

though wage and salary income continued to climb. As a result, the personal saving rate moved lower, though it continued to be notably above its 2019 average. In November, the components of the nominal retail sales data used to estimate PCE, along with the rate of light motor vehicle sales, stepped down, possibly reflecting the effects on consumer spending of renewed social-distancing measures and concerns about the resurgent pandemic. Consumer sentiment, as measured by both the Michigan survey and the Conference Board, moved somewhat lower, on net, since October, although both indexes were still above their April troughs.

Housing-sector activity advanced further, on balance, in October, supported in part by low interest rates. Starts and construction permits for single-family homes continued to rise, while starts of multi-family units moved sideways. Sales of existing homes increased solidly, though new home sales were roughly flat.

Business fixed investment appeared to be expanding further, on net, in the fourth quarter following an outsized third-quarter increase. Nominal shipments of nondefense capital goods excluding aircraft rose strongly in October, and new orders for these capital goods continued to advance. By contrast, nominal spending on non-residential structures outside of the drilling and mining sector declined further in October. The number of crude oil and natural gas rigs in operation—an indicator of business spending on structures in the drilling and mining sector—continued to move up somewhat through early December, although the number of rigs in operation was still subdued, reflecting the effect of low oil prices on drilling investment.

Industrial production rose strongly over October and November, led by gains in manufacturing output, but production was still below its February pre-pandemic level. The pickup in the production of motor vehicles and related parts was particularly strong in November. Output in the mining sector—which includes crude oil and natural gas drilling and extraction—increased, on net, over October and November.

Total real government purchases appeared to be declining moderately, on balance, in the fourth quarter. Federal defense spending continued to rise in October and November, although federal employment declined with the layoff of temporary census workers. State and local government payrolls decreased in October and November, and nominal state and local construction expenditures in October were somewhat below their third-quarter level.

The nominal U.S. international trade deficit widened in October. Both imports and exports continued to rebound from their collapse in the first half of the year. Goods imports in October rose above their January level after several months of strong growth. Goods exports, however, had only recovered three-fourths of their decline since January despite brisk growth in agricultural exports. Services trade remained depressed, driven by the continued suspension of most international travel.

After a strong rebound in the third quarter, foreign economic growth appeared to slow sharply in recent months. The resurgence of coronavirus infections in Europe and Canada prompted governments to reintroduce social-distancing restrictions, leading to a fall in measures of mobility and services activity. Even so, with restrictions less severe and more targeted than in the spring, the hit to economic activity looked to be more limited. Economic growth appeared to hold up better in several emerging Asian economies. In these economies, effective virus control was supporting domestic demand, while strong external demand boosted exports. Inflationary pressures remained subdued in most foreign economies amid substantial economic slack.

Staff Review of the Financial Situation

Financial market sentiment improved over the intermeeting period, boosted by news of forthcoming COVID-19 vaccines and reduced uncertainty following the U.S. election that outweighed concerns regarding the continued rise in COVID-19 cases and the potential effects of ensuing restrictions. Corporate bond spreads narrowed, and major global equity price indexes rose on net. The prospect of additional fiscal stimulus likely contributed to a steeper U.S. Treasury yield curve, increased inflation compensation, and broad dollar depreciation. Financing conditions for businesses able to access capital markets and households possessing high credit scores remained accommodative and eased a bit further in some sectors, but conditions for borrowers dependent on bank financing remained tight.

Yields on 2-year nominal Treasury securities were little changed since the November FOMC meeting, while 10- and 30-year yields rose moderately. Market participants attributed the increases in longer-term yields primarily to greater optimism about the economic outlook, due to the forthcoming availability of effective vaccines and renewed fiscal stimulus negotiations. Near-dated option-implied volatility on the 10-year Treasury futures contract declined to historic lows. The rise in longer-term Treasury yields was concentrated in inflation com-

ensation. The 5-year and 5-to-10-year measures of inflation compensation based on Treasury Inflation Protected Securities rose above their pre-pandemic levels.

The expected path of the federal funds rate, based on a straight read of overnight index swap rates, remained close to the effective lower bound through mid-2023. Survey-based measures indicated that market expectations regarding the federal funds rate target range did not show a tightening until 2024.

Broad stock price indexes increased over the intermeeting period, led by steep stock price gains in cyclical sectors and buoyed by the prospect of successful vaccines and lower post-election uncertainty. One-month S&P 500 option-implied volatility—the VIX—declined, reversing a pre-election increase. Consistent with the optimism driving stock prices, spreads of corporate bond yields over comparable-maturity Treasury yields narrowed markedly across the credit spectrum, most notably for debt securities of the lowest credit quality firms.

Conditions in short-term funding markets remained stable over the intermeeting period. Spreads on commercial paper (CP) and negotiable certificates of deposit across different tenors were little changed, on net, and remained around pre-pandemic levels despite continued outflows from prime money market funds (MMFs) and the coming year-end. CP issuance was robust over the intermeeting period across the different tenors. With the yields of prime MMFs approaching those of government MMFs, assets under management (AUM) of prime MMFs declined moderately, while AUM of government MMFs were little changed. Net yields of prime and government MMFs both remained near historically low levels.

The intermeeting averages of the effective federal funds rate and the Secured Overnight Financing Rate remained unchanged from the previous intermeeting period averages, at 9 basis points and 8 basis points, respectively. Term and forward repo market quotes indicated muted year-end funding pressure amid ample liquidity conditions. The Federal Reserve maintained its pace of purchases of Treasury securities and agency MBS, and Federal Reserve repos outstanding remained at zero over the intermeeting period.

Investor sentiment abroad improved over the intermeeting period, as favorable news on COVID-19 vaccines and the resolution of uncertainty regarding the U.S. election apparently outweighed concerns about another surge in COVID-19 cases and the resulting adoption of tighter social-distancing restrictions in many countries.

On balance, prices of global risky assets increased notably, implied volatility dropped sharply, and the dollar depreciated against most currencies. Most advanced foreign economy sovereign yields were little changed, on net, as policymakers in several countries announced additional actions aimed at maintaining accommodative financial conditions.

Financing conditions in capital markets continued to be broadly accommodative, supported by low interest rates and high equity valuations. With historically low corporate bond yields, gross issuance of both investment- and speculative-grade bonds remained solid in October. Much of the recent issuance was intended to refinance existing debt. Gross institutional leveraged loan issuance increased substantially in October for both new loans and refinancing. Seasoned equity offerings in October and November were similar to the typical volumes observed in previous years, though equity raised through initial public offerings moderated somewhat from the robust rate of issuance in September. Commercial and industrial (C&I) loans outstanding on banks' balance sheets contracted in October and November, reflecting the continued paydown of loan balances and the start of Paycheck Protection Program loan forgiveness activity.

The credit quality of nonfinancial corporations continued to show signs of stabilization. Although the volume of nonfinancial corporate bond downgrades outpaced upgrades somewhat in October and November, nonfinancial corporate bond defaults continued to decline. The rate of leveraged loan defaults was largely unchanged in October, albeit at somewhat elevated levels. Market indicators of future default expectations for corporate bonds fell slightly but remained above their pre-pandemic levels. In the municipal bond market, financing conditions remained accommodative. Issuance of state and local government debt moderated in November after all-time high issuance in October, and market-based measures of state credit quality were little changed on net.

Financing conditions for small businesses remained tight, although some indicators suggested that they might have improved a bit. Data provided by the Federal Reserve Small Business Lending Survey showed that standards for small businesses tightened, on net, over the third quarter, consistent with the most recent Senior Loan Officer Opinion Survey on Bank Lending Practices. Small business loan originations ticked up in October to a level near that seen in the same period last year. Short-term delinquencies and defaults remained relatively elevated but significantly lower than the levels

observed following the financial crisis. In light of the uncertain outlook, small business owners' assessments of the risk of permanent closures remained elevated in most sectors, according to the Census Small Business Pulse Survey.

In the CRE market, financing conditions remained accommodative, on net, over the intermeeting period. Agency commercial mortgage-backed security (CMBS) spreads remained narrow amid strong issuance in October, while non-agency CMBS spreads ticked down. Triple-B-rated non-agency CMBS spreads came down substantially from their highs in the spring, although they remained elevated relative to pre-pandemic levels. Non-agency issuance picked up in October, nearing pre-pandemic levels. CRE bank loan growth in October and November remained weak, consistent with tightened bank lending standards.

In the residential mortgage market, financing conditions remained highly accommodative for borrowers accessing government-backed loans. Mortgage rates remained near historic lows, supporting robust loan originations. Credit continued to flow to higher-score borrowers who met standard conforming loan criteria while remaining tight for lower-score borrowers and for nonstandard mortgage products. The credit quality of mortgages was little changed, as the fraction of mortgages in forbearance held fairly steady, and the rate of transition into mortgage delinquency remained at pre-pandemic levels.

Financing conditions in consumer credit markets remained generally accommodative for borrowers with relatively strong credit. Credit card balances and average credit limits on existing accounts contracted, on net, for all types of borrowers. However, auto loan balances continued to increase for higher-quality borrowers, and loan rates remained well below pre-pandemic levels. Conditions in the asset-backed securities market remained stable over the intermeeting period.

Staff Economic Outlook

In the U.S. economic projection prepared by the staff for the December FOMC meeting, real GDP growth was revised up and the unemployment rate revised down for the fourth quarter relative to the November meeting forecast. These revisions reflected incoming data that were, on balance, better than expected, although the recent resurgence of the pandemic and increased social-distancing restrictions in many states and localities were expected to weigh on economic activity in the coming months. As a result, the staff expected that real GDP growth would temporarily weaken in the first quarter of 2021, and the slowing seen in some of the most recent

high-frequency indicators of spending and employment appeared consistent with that forecast. The inflation forecast for the rest of 2020 was revised down slightly in response to incoming data, and inflation was projected to finish the year at a relatively subdued level, reflecting substantial margins of labor- and product-market slack in the economy and the large declines in consumer energy prices seen earlier in 2020.

Primarily in response to the recent favorable news on the development of COVID-19 vaccines, the staff revised up its projection of real GDP growth for 2021 as a whole, as social-distancing measures were expected to ease more quickly than previously assumed. With monetary policy assumed to remain highly accommodative, the staff continued to project that real GDP growth over the medium term would be well above the rate of potential output growth, leading to a considerable further decline in the unemployment rate. The resulting take-up of labor- and product-market slack was expected to lead to gradually increasing inflation, and, for some time in the years beyond 2023, inflation was projected to overshoot 2 percent by a moderate amount, as monetary policy remained accommodative.

The staff observed that the uncertainty related to the future course of the pandemic, the measures to control it, and the associated economic effects remained elevated. In addition, the staff continued to judge the risks to the economic outlook as being tilted to the downside. The recent sharp resurgence in the pandemic suggested that the near-term risks had risen, while the recent favorable developments regarding vaccines pointed to some reduction in the downside risks over the medium term.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, participants submitted their projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2020 through 2023 and over the longer run, based on their individual assessments of appropriate monetary policy, including the path of the federal funds rate. The longer-run projections represented each participant's assessment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. A Summary of Economic Projections (SEP) was released to the public following the conclusion of the meeting.

Participants noted that the COVID-19 pandemic was causing tremendous human and economic hardship

across the United States and around the world. Economic activity and employment had continued to recover but remained well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices had been holding down consumer price inflation. Overall financial conditions remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Participants agreed that the path of the economy would depend on the course of the virus and that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation in the near term and posed considerable risks to the economic outlook over the medium term.

Participants observed that the economy continued to show resilience in the face of the pandemic, though it was still far from having attained conditions consistent with the Committee's dual mandate. They noted that the economic recovery thus far had been stronger than anticipated—suggesting greater momentum in economic activity than had been previously thought—but viewed the more recent indicators as signaling that the pace of recovery had slowed. With the pandemic worsening across the country, the expansion was expected to slow even further in coming months. Nevertheless, the positive vaccine news received over the intermeeting period was viewed as favorable for the medium-term economic outlook.

Participants noted that household spending on goods, especially durables, had been strong. Participants commented that the rebound in consumer spending was due, in part, to fiscal programs such as federal stimulus payments and expanded unemployment benefits. These measures had provided essential support to many households. The support to incomes provided by fiscal programs, combined with reduced spending by households on some services, had contributed to a historically large increase in aggregate household savings. Participants also observed that residential investment and home sales remained robust. Accommodative monetary policy was viewed as having provided support to interest rate sensitive expenditure categories, including residential investment and consumer durables spending. Participants regarded the positive news on vaccine development as further strengthening the medium-term outlook for household spending. However, participants saw increased challenges for the economy in the coming months, as the ongoing surge of COVID-19 cases and the related mandatory and voluntary measures prompted greater social distancing and damped spending, especially on services requiring in-person contact. Several

participants pointed out that readings on high-frequency economic indicators, such as individual mobility indexes and online restaurant reservation data, might already be registering the effects of the recent rise in virus cases. Various participants noted that low-income households were particularly hard hit by the effects of the resurgent virus, and that—with the looming expiration of the expanded unemployment benefits, eviction moratoria, and loan forbearance programs—their situations could deteriorate significantly if additional relief and support did not materialize.

With respect to the business sector, participants observed that business equipment investment had picked up further, with strong readings registered on new orders and shipments. A couple of participants remarked that the very low levels of inventories would likely be a factor supporting increases in production as demand continued to recover. Participants noted that the economic recovery had been uneven across firms and industries. Though many business contacts, particularly those in the durable goods or housing sectors, reported progress in adapting to the pandemic and improved business practices, others—especially those closely linked to the leisure, travel, and hospitality industries—were still struggling, and their problems were intensifying because of the resurgence of the virus. Furthermore, while larger firms were generally seen as recovering reasonably well, conditions remained worrisome for small businesses. A number of participants noted that many small businesses were in especially vulnerable positions and that further fiscal policy support would help such businesses weather the ongoing surge in the pandemic, especially over the coming months. Looking further ahead, participants observed that continuing positive developments on the vaccine front could further support business investment by helping reduce stresses in pandemic-sensitive industries and by boosting confidence.

Participants remarked that labor market conditions generally had continued to improve, but they were still a long way from those consistent with the Committee's maximum employment goal. Although the pace of employment gains had moderated in recent months, the overall recovery in employment thus far had been faster than anticipated, with a little more than half of the 22 million jobs lost over March and April having been regained. The unemployment rate had declined further, although several participants underlined the fact that the labor force participation rate remained below its pre-pandemic level—likely reflecting, in part, health concerns and additional childcare responsibilities associated

with online schooling. Participants assessed that the ongoing surge in COVID-19 infections would be particularly challenging for the labor market in coming months, but they indicated that they expected employment to continue to recover over the medium term. Participants stressed that the burdens of the economic downturn had fallen unequally on different groups; in particular, high rates of job losses had been especially prevalent among lower-wage workers and among African Americans and Hispanics. Some participants expressed the concern that the longer the pandemic continued, the more lasting damage to the labor market there could be. They noted that the number of unemployed workers who had been permanently laid off had increased notably in recent months and that those workers historically often required a longer time to find a new job than those temporarily laid off. In light of these considerations, several participants assessed that improvements in the labor market were lagging that of economic activity, and they indicated that they had not revised their projections of labor market variables to the same extent as their revision of the outlook for economic activity.

In their comments about inflation, participants noted that increases in consumer prices had been soft of late, as prices of products in those categories most affected by social distancing—such as hotel accommodations and air travel—continued to be depressed and increases in rents remained low. These patterns were expected to continue in the near term as pandemic concerns intensified over the winter. However, participants generally saw these downward pressures on inflation starting to abate next year, with widespread distribution of vaccines reducing social-distancing concerns and spurring economic activity. A couple of participants suggested that, as a result of ongoing technology-enabled disruption to business models and practices or lasting pandemic-induced restraint on firms' pricing power, downward pressure on inflation could persist. Several participants noted a pickup in market-based measures of inflation compensation. Participants expected that, with continued monetary policy support, inflation would rise over time. In their SEP submissions, seven participants—five more than in the September SEP—expected overall inflation to be above the Committee's 2 percent longer-run objective in 2023.

Participants noted that overall financial conditions were accommodative, in part reflecting policy measures to support the economy and the flow of credit to households and businesses. However, participants underlined important differences in credit availability across borrowers. Financing conditions eased further for large

corporations that were able to access capital markets, as equity prices rose and corporate credit spreads continued to narrow, but smaller firms and some households reliant on bank lending continued to face tight lending standards. Participants noted that the financing conditions for small businesses were especially strained, with a few participants pointing out that a sizable fraction of small businesses had permanently closed or were in the process of transitioning to closure. A couple of participants observed that aggregate banking data had not indicated a significant increase in loan delinquencies for C&I loans thus far, though this development could be partly due to the CARES Act provisions that provided relief to many troubled borrowers or to the fact that many small businesses had gone out of business without declaring bankruptcy or defaulting on loans. Some participants noted the important role played by the various section 13(3) facilities implemented in 2020 in serving as temporary backstops to key credit markets and in helping to restore and maintain the flow of credit to households, businesses, and communities. These participants also mentioned the announcement that CARES Act funding to support new activity in many of these facilities would not be available after December 31, and a number noted that they saw downside risks associated with this development.

Participants continued to see the uncertainty surrounding the economic outlook as elevated, with the path of the economy highly dependent on the course of the virus. The positive vaccine news was seen as reducing downside risks over the medium term, and a number of participants saw risks to economic activity as more balanced than earlier. Still, participants saw significant uncertainties regarding how quickly the deployment of vaccines would proceed as well as how different members of the public would respond to the availability of vaccines. Participants cited several downside risks that could threaten the economic recovery. These risks included the possibility of significant additional fiscal policy support not materializing in a timely manner, the potential for further adverse pandemic developments—which could lead to more-stringent restrictions, more-severe business failures, and more permanent job losses—and the chance that trade negotiations between the United Kingdom and the European Union would not be concluded successfully before the December 31 deadline. As upside risks, participants mentioned the prospect that the release of pent-up demand, spurred by wider-scale vaccinations and easing of social distancing, could boost spending and bring individuals back to the labor force more quickly than currently expected as well

as the possibility that fiscal policy developments could see measures that were larger than expected in amount or economic impact. Regarding inflation, participants generally viewed the risks as having become more balanced than they were earlier in the year, though most still viewed the risks as being weighted to the downside. As an upside risk to inflation, a few participants noted the potential for a stronger-than-expected recovery, coupled with the possible emergence of pandemic-related supply constraints, to boost inflation.

In their consideration of monetary policy at this meeting, participants reaffirmed the Federal Reserve's commitment to using its full range of tools to support the U.S. economy during this challenging time, thereby promoting the Committee's statutory goals of maximum employment and price stability. Participants agreed that the path of the economy would depend significantly on the course of the virus and that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation in the near term. Participants noted that, with the pandemic worsening across the country, the expansion would likely slow in coming months. In contrast, for the medium term, participants commented that positive vaccine news had improved the economic outlook. That said, participants agreed that the path ahead remained highly uncertain and that the economy remained far from the Committee's longer-run goals. In light of this assessment, all participants judged that maintaining an accommodative stance of monetary policy was essential to foster economic recovery and to achieve an average inflation rate of 2 percent over time.

All participants supported enhancing the Committee's guidance on asset purchases at this meeting and, in particular, adopting qualitative, outcome-based guidance indicating that increases in asset holdings would continue, with purchases of Treasury securities of at least \$80 billion per month and of agency MBS of at least \$40 billion per month, until substantial further progress has been made toward reaching the Committee's maximum employment and price stability goals. In their discussions of this change, participants noted that the new guidance regarding balance sheet policy brought the statement's references to purchases into better alignment with the Committee's outcome-based guidance on the federal funds rate, offered more clarity about the role played by the asset purchase program in providing accommodation to meet the Committee's economic goals, and underscored the responsiveness of balance sheet policy to unanticipated economic developments. A few participants stressed that all of the Committee's policy tools

were now well positioned to respond to the evolution of the economy. For example, if progress toward the Committee's goals proved slower than anticipated, the new guidance relayed the Committee's intention to respond by increasing monetary policy accommodation through maintaining the current level of the target range of the federal funds rate for longer and raising the expected path of the Federal Reserve's balance sheet. A couple of participants remarked that, against this background, it was important to convey to the public that the federal funds rate remained the Committee's primary policy tool.

A number of participants discussed considerations related to determining the eventual attainment of "substantial further progress" toward reaching the Committee's maximum employment and price stability goals. Participants commented that this judgment would be broad, qualitative, and not based on specific numerical criteria or thresholds. Various participants noted the importance of the Committee clearly communicating its assessment of actual and expected progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of purchases.

Regarding the decisions on the pace and composition of the Committee's asset purchases, all participants judged that it would be appropriate to continue those purchases at least at the current pace, and nearly all favored maintaining the current composition of purchases, although a couple of participants indicated that they were open to weighting purchases of Treasury securities toward longer maturities. Participants generally judged that the asset purchase program as structured was providing very significant policy accommodation. Some participants noted that the Committee could consider future adjustments to its asset purchases—such as increasing the pace of securities purchases or weighting purchases of Treasury securities toward those that had longer remaining maturities—if such adjustments were deemed appropriate to support the attainment of the Committee's objectives. A few participants underlined the importance of continuing to evaluate the balance of costs and risks associated with asset purchases against the benefits arising from purchases.

Participants shared their views on the appropriate evolution of asset purchases once substantial further progress had been made toward the Committee's maximum employment and price stability goals. A number of participants noted that, once such progress had been attained, a gradual tapering of purchases could begin and

the process thereafter could generally follow a sequence similar to the one implemented during the large-scale purchase program in 2013 and 2014.

Committee Policy Action

In their discussion of monetary policy for this meeting, members agreed that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. They noted that economic activity and employment had continued to recover but remained well below their levels at the beginning of the year and that weaker demand and earlier declines in oil prices had been holding down consumer price inflation. Overall financial conditions remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Members agreed that the Federal Reserve was committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals. Members also stated that the path of the economy would depend significantly on the course of the virus. In addition, members agreed that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation in the near term and was posing considerable risks to the economic outlook over the medium term.

All members reaffirmed that, in accordance with the Committee's goals to achieve maximum employment and inflation at the rate of 2 percent over the longer run and with inflation running persistently below this longer-run goal, they would aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. Members expected to maintain an accommodative stance of monetary policy until those outcomes were achieved.

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

In addition, members agreed that it would be appropriate for the Federal Reserve to continue to increase its holdings of Treasury securities by at least \$80 billion per month and agency MBS by at least \$40 billion per month until substantial further progress had been made toward the Committee's maximum employment and price stability goals. They judged that these asset purchases

would help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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

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

“Effective December 17, 2020, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 0 to ¼ percent.
- Increase the System Open Market Account holdings of Treasury securities by \$80 billion per month and of agency mortgage-backed securities (MBS) by \$40 billion per month.
- Increase holdings of Treasury securities and agency MBS by additional amounts and purchase agency commercial mortgage-backed securities (CMBS) as needed to sustain smooth functioning of markets for these securities.
- Conduct term and overnight repurchase agreement operations to support effective policy implementation and the smooth functioning of short-term U.S. dollar funding markets.
- Conduct overnight reverse repurchase agreement operations at an offering rate of 0.00 percent and with a per-counterparty limit of \$30 billion per day; the per-

counterparty limit can be temporarily increased at the discretion of the Chair.

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

The vote also encompassed approval of a statement for release.⁶ The following statement was released at 2:00 p.m.:

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

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

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

⁶ The statement approved at the meeting included a drafting error. By notation vote shortly after the meeting concluded,

the Committee unanimously approved a corrected version of the statement for release at 2:00 p.m.

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

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

conditions, inflation pressures and inflation expectations, and financial and international developments.”

Voting for this action: Jerome H. Powell, John C. Williams, Michelle W. Bowman, Lael Brainard, Richard H. Clarida, Patrick Harker, Robert S. Kaplan, Neel Kashkari, Loretta J. Mester, and Randal K. Quarles.

Voting against this action: None.

Consistent with the Committee's decision to leave the target range for the federal funds rate unchanged, the Board of Governors voted unanimously to leave the interest rates on required and excess reserve balances at 0.10 percent. The Board of Governors also voted unanimously to approve establishment of the primary credit rate at the existing level of 0.25 percent, effective December 17, 2020.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, January 26–27, 2021. The meeting adjourned at 10:05 a.m. on December 16, 2020.

Notation Vote

By notation vote completed on November 24, 2020, the Committee unanimously approved the minutes of the Committee meeting held on November 4–5, 2020.

James A. Clouse
Secretary