

FEDERAL RESERVE press release



For release at 2 p.m. EDT

September 21, 2016

Information received since the Federal Open Market Committee met in July indicates that the labor market has continued to strengthen and growth of economic activity has picked up from the modest pace seen in the first half of this year. Although the unemployment rate is little changed in recent months, job gains have been solid, on average. Household spending has been growing strongly but business fixed investment has remained soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

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In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; James Bullard; Stanley Fischer; Jerome H. Powell; and Daniel K. Tarullo. Voting against the action were: Esther L. George, Loretta J. Mester, and Eric Rosengren, each of whom preferred at this meeting to raise the target range for the federal funds rate to 1/2 to 3/4 percent.

Decisions Regarding Monetary Policy Implementation

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement on September 21, 2016:

- The Board of Governors of the Federal Reserve System left unchanged the interest rate paid on required and excess reserve balances at 0.50 percent.
- As part of its policy decision, the Federal Open Market Committee voted to authorize and direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

“Effective September 22, 2016, 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 1/4 to 1/2 percent, including overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of 0.25 percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of \$30 billion per day.

The Committee directs the Desk to continue rolling over maturing Treasury securities at auction and to continue reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve’s agency mortgage-backed securities transactions.”

More information regarding open market operations may be found on the Federal Reserve Bank of New York’s website.

- The Board of Governors of the Federal Reserve System took no action to change the discount rate (the primary credit rate), which remains at 1.00 percent.

This information will be updated as appropriate to reflect decisions of the Federal Open Market Committee or the Board of Governors regarding details of the Federal Reserve’s operational tools and approach used to implement monetary policy.