Minutes of the Federal Open Market Committee September 19–20, 2023

A joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve Sys- tem was held in the offices of the Board of Governors on Tuesday, September 19, 2023, at 10:30 a.m. and con- tinued on Wednesday, September 20, 2023, at 9:00 a.m.[1]

Attendance

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

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

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

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

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

Shaghil Ahmed,[2] Roc Armenter, James A. Clouse, Brian M. Doyle, Eric M. Engen,[3] Andrea Raffo,

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

[2] Attended Wednesday's session only.

Chiara Scotti, and William Wascher, Associate Economists

Roberto Perli, Manager, System Open Market Account

Julie Ann Remache, Deputy Manager, System Open Market Account

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

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

Andrea Ajello, Section Chief, Division of Monetary Affairs, Board

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

Ellen J. Bromagen, First Vice President, Federal Reserve Bank of Chicago

Mark A. Carlson, Adviser, Division of Monetary Affairs, Board

Daniel Cooper, Vice President, Federal Reserve Bank of Boston

Daniel M. Covitz, Deputy Director, Division of Research and Statistics, Board

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

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

Matthew J. Eichner,[5] Director, Division of Reserve Bank Operations and Payment Systems, Board

Eric C. Engstrom, Associate Director, Division of Monetary Affairs, Board

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

Charles A. Fleischman, Adviser, Division of Research and Statistics, Board

[3] Attended Tuesday's session only.
[4] Attended through the discussion of the economic and finan- cial situation.
[5] Attended through the discussion of developments in finan- cial markets and open market operations.

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

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

Carlos Garriga, Senior Vice President, Federal Reserve Bank of St. Louis

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

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

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

Matteo Iacoviello,[3] Senior Associate Director, Division of International Finance, Board

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

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

Don H. Kim,[5] Senior Adviser, Division of Monetary Affairs, Board

Edward S. Knotek II, Senior Vice President, Federal Reserve Bank of Cleveland

Spencer Krane, Senior Vice President, Federal Reserve Bank of Chicago

Andreas Lehnert, Director, Division of Financial Stability, Board

Paul Lengermann, Assistant Director, Division of Research and Statistics, Board

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

Dan Li, Assistant Director, Division of Monetary Affairs, Board

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

Zheng Liu, Vice President, Federal Reserve Bank of San Francisco

David López-Salido, Senior Associate Director, Division of Monetary Affairs, Board

Jonathan P. McCarthy, Economic Research Advisor, Federal Reserve Bank of New York

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

Raven Molloy, Deputy Associate Director, Division of Research and Statistics, Board

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

Anna Orlik, Principal Economist, Division of Monetary Affairs, Board

Damjan Pfajfar, Group Manager, Division of Monetary Affairs, Board

Pierre-Daniel G. Sarte, Senior Advisor, Federal Reserve Bank of Richmond

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

Dafina Stewart, Special Adviser to the Board, Division of Board Members, Board

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

Jeffrey D. Walker,[5] Associate Director, Division of Reserve Bank Operations and Payment Systems, Board

Min Wei, Special Adviser to the Board, Division of Board Members, Board

Jonathan Willis, Vice President, Federal Reserve Bank of Atlanta

Donielle A. Winford, Information Manager, Division of Monetary Affairs, Board

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

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

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

Developments in Financial Markets and Open Market Operations

The manager turned first to a review of developments in financial markets over the intermeeting period. U.S. data releases generally pointed to greater economic resilience than previously thought, and the reaction in market pric- ing implied both a higher expected trajectory for the pol- icy rate at longer horizons and higher term premiums. Policy-sensitive rates rose moderately, and longer-dated forward rates displayed larger increases. Ten-year Treas- ury yields ended the period more than 40 basis points higher, and broad measures of equity prices fell. Bank equity prices underperformed over the period, but taking a somewhat longer view, investor sentiment toward the

banking sector appeared to have largely stabilized, with less differentiation of equity price movements across bank types. The dollar broadly appreciated against ad- vanced-economy currencies over the period, as stronger U.S. data supported moderately increased yield differen- tials against these economies amid perceptions that pol- icy rates were at or near their peaks. In China, signs of strain in the property sector increased, and optimism about growth diminished further, on net, although broader markets, including global commodity markets, did not appear to show elevated concern about China- related risks. U.S. financial conditions tightened, with higher longer-term rates, lower equity prices, and a stronger dollar contributing roughly equally to the in- crease in various financial conditions indexes.

In addressing the increase in nominal yields on longer- run Treasury securities over the intermeeting period, the manager noted that the rise in real yields exceeded that of nominal yields over the period, implying a small de- cline in inflation compensation. Inflation expectations appeared to remain very well anchored. Market partici- pants cited various factors for the rise in longer-term nominal yields, including stronger-than-expected eco- nomic data, a possible increase in the neutral policy rate, greater economic and policy uncertainty, and larger- than-expected borrowing by the Treasury.

Household and corporate borrowing rates increased over the period, generally rising in line with Treasury yields. Still, market participants noted that, with house- hold and corporate borrowers having a limited need to refinance debt in the near term, it could take more time for past monetary policy actions to fully pass through to these sectors.

Regarding expectations for the September FOMC meet- ing, the manager noted that responses to the Open Mar- ket Desk's Survey of Primary Dealers and Survey of Market Participants and market pricing all pointed to a virtual certainty of no change in the policy rate. In addi- tion, modal expectations for the policy rate from the sur- veys were that the current target range would be main- tained until the May 2024 FOMC meeting, compared with March in the previous survey, with a roughly one- in-three chance of a 25 basis point increase by the No- vember FOMC meeting. For horizons beyond the mid- dle of next year, the modal path from the surveys was notably lower than the market-implied path.

The manager turned next to developments in money markets and Desk operations. Usage of the overnight reverse repurchase agreement (ON RRP) facility contin-

ued to decline over the intermeeting period, largely re- flecting reduced participation by government and prime money market funds even as these funds continued to see inflows. Increased supply of money market instru- ments, especially Treasury bills, contributed to a slight increase in money market rates, which appeared to in- duce money funds to shift away from ON RRP toward other instruments. However, the ON RRP facility con- tinued to provide an effective floor for the federal funds rate. With ON RRP balances falling more than Federal Reserve assets, reserve balances grew over the period. At more than $3.3 trillion, reserves remained abundant. In the September Survey of Primary Dealers, respond- ents generally saw a lower path for ON RRP participa- tion and a higher path for reserves, compared with the July survey.

By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. There were no intervention operations in foreign curren- cies for the System's account during the intermeeting pe- riod.

Staff Review of the Economic Situation

<u>"The information presented during the September 19–20 meeting indicated that the real gross domestic product (GDP) was experiencing robust growth in the third quarter. The labor market remained highly competitive, characterized by a low unemployment rate and a slowdown in job creation, yet job gains were still substantial. Consumer price inflation continued to be high."</u>

The imbalance between labor demand and supply ap- peared to be easing. Total nonfarm payroll employment increased at a slower pace over July and August than in the second quarter. The private-sector job openings rate and the quits rate, both measured by the Job Openings and Labor Turnover Survey, moved down further through July. Over July and August, the unemployment rate edged up, on net, and stood at 3.8 percent in August, and both the labor force participation rate (LFPR) and the employment-to-population ratio rose slightly. The unemployment rate for African Americans declined, while the jobless rate for Hispanics rose, and both rates were still above the national average. The easing of labor market imbalances was also evident in the recent wage data, with the 12-month changes in average hourly earn- ings and the employment cost index, and the four-quar- ter change in business-sector compensation per hour all lower than their year-earlier levels.

Consumer price inflation remained elevated but contin- ued to show signs of slowing. The total price index for personal consumption expenditures (PCE) increased 3.3 percent over the 12 months ending in July, and core

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PCE price inflation, which excludes changes in energy prices and many consumer food prices, was 4.2 percent over the same period; both total and core PCE price in- flation were lower than a year earlier. The trimmed mean measure of 12-month PCE price inflation con- structed by the Federal Reserve Bank of Dallas was 4.1 percent in July, down from its level earlier in the year. In August, the 12-month change in the consumer price index (CPI) was 3.7 percent, while core CPI inflation was 4.3 percent over the same period, and both total and core CPI inflation were well below their year-earlier lev- els. Survey measures of consumers' short-term inflation expectations had moved down alongside actual inflation but remained above pre-pandemic levels. In contrast, survey measures of medium- to longer-term inflation ex- pectations remained in the range seen in the decade be- fore the pandemic.

Available indicators suggested that real GDP was ex- panding at a solid pace in the third quarter. Private do- mestic final purchases—which includes PCE, residential investment, and business fixed investment (BFI) and of- ten provides a better signal of underlying economic mo- mentum than does GDP—also looked to be rising sol- idly, led by gains in both PCE and BFI.

After falling in the second quarter, real goods exports increased in July, supported by higher exports of auto- motive products. Real goods imports also rose, as im- ports of consumer goods and capital goods partially re- covered from their declines in recent months. The nom- inal U.S. international trade deficit widened, as growth in imports of goods and services outpaced that of exports.

Foreign economic growth slowed in the second quarter, as troubles in the property sector weighed on economic activity in China and monetary policy restraint contrib- uted to the slowing in economic growth in Europe. Available data for the third quarter, such as purchasing managers indexes and measures of business confidence, pointed to a continued subdued pace of economic activ- ity abroad.

Foreign headline inflation continued to fall but remained elevated. In several economies, though, energy prices turned up again. In the context of still-high core infla- tion, some central banks in advanced foreign economies (AFEs) raised their policy rates, despite a slowdown in economic activity, and indicated their intention to hold these rates at sufficiently restrictive levels to bring infla- tion back to target rates. In contrast, central banks of emerging market economies largely remained on hold, and some even began to cut rates amid easing inflation- ary pressures.

Staff Review of the Financial Situation

Over the intermeeting period, generally robust eco- nomic data led to moderate increases in the market-implied path of the federal funds rate and yields on shorter-term Treasury securities. Yields on medium- and longer-term nominal Treasury securities rose more substantially, mainly reflecting higher term premiums and higher real yields. Stock prices declined somewhat, but spreads on investment- and speculative-grade cor- porate bonds were little changed. Financing conditions tightened somewhat, and borrowing costs increased moderately.

Market participants pointed to a range of factors that may have contributed to the increase in longer-term for- ward rates, including higher term premiums and upward revisions to market views of the likely path of Treasury debt over time. Real yields increased almost as much as or a little more than nominal yields, leaving implied measures of inflation compensation modestly changed. The market-implied path for the federal funds rate in the near term was up slightly since the July FOMC meeting, and the expected path further out, implied by overnight index swap contracts, rose moderately.

Broad equity price indexes declined somewhat, and the one-month option-implied volatility on the S&P 500 in- dex edged up slightly, on net, and stood near the 25th percentile of its historical distribution.

Conditions in domestic short-term funding markets re- mained stable over the intermeeting period. Both prime and government money market funds experienced mod- erate inflows since the July FOMC meeting. Against a backdrop of heavy issuance of Treasury bills and the modest associated upward pressure on Treasury bill yields, take-up in the ON RRP facility continued to de- cline over the period and fell below $1.5 trillion late in the period.

Over the intermeeting period, the dollar appreciated, as U.S. economic data came in stronger than expected, while foreign data suggested slowing economic growth abroad. Long-term yields in AFEs ended the period higher, reflecting spillovers from higher U.S. yields and, to a lesser extent, the increase in Japanese yields follow- ing the decision by the Bank of Japan to effectively widen its target range for the 10-year Japanese yield. Global equity prices declined moderately, reflecting higher long-term yields and increased concerns about the foreign economic outlook. Bond and equity funds focused on emerging markets saw moderate outflows.

In domestic credit markets, borrowing rates for busi- nesses, households, and municipalities increased moder- ately over the intermeeting period, mostly reflecting a pass-through of higher yields on longer-maturity Treas- ury securities to those borrowing rates. Interest rates on newly originated bank loans to businesses and house- holds increased over the second quarter, interest rates on credit card offers increased in July, and interest rates on auto loans increased in July and August.

Bank credit conditions appeared to tighten somewhat over the intermeeting period, but credit to businesses and households remained generally accessible. Com- mercial and industrial loan balances contracted, but out- standing commercial real estate (CRE) loans increased from July through late August, though at a slower pace than earlier in the year. Within the category of CRE loans, nonfarm nonresidential loans contracted over the summer for the first time since March 2022. Bank fund- ing conditions were generally stable. Core deposits de- clined but were offset by inflows of large time deposits.

Credit was available for most consumers. Credit card balances grew in the second quarter through late August. For residential real estate borrowers, credit availability was little changed. Credit conditions for small busi- nesses were also fairly stable. The PayNet Small Busi- ness Lending Index indicated that loan originations edged up in July and stood above the median of its pre- pandemic level. Credit was generally accessible through capital markets, although issuance was subdued. Issu- ance of nonfinancial investment- and speculative-grade bonds was muted in July but picked up modestly in Au- gust, and issuance of municipal bonds was weak in July. New issuance of leveraged loans was subdued in July, and issuance of agency and non-agency commercial mortgage-backed securities (CMBS) was soft in July and August.

Credit quality deteriorated a little further across many sectors in recent months but remained broadly solid. In the CRE sector, delinquency rates on nonfarm nonresi- dential CRE bank loans rose over the second quarter, while delinquency rates on construction, land develop- ment, and multifamily loans were roughly unchanged. Delinquency rates of loans in CMBS pools increased, driven by the office and retail sectors. The office delin- quency rate rose more than 2 percentage points since January but remained below its pre-pandemic average. The delinquency rate for small business loans ticked up in June and July. Delinquency rates for credit cards and auto loans increased further in the second quarter and stood a bit above their average levels in the years leading

up to the pandemic. The fraction of potential borrowers with a prime credit score expanded through the second quarter, moving further above its pre-pandemic level. The trailing default rates for investment- and specula- tive-grade corporate bonds increased in July but re- mained at historically low levels. The trailing default rate for leveraged loans was little changed, on net, but down- grades of leveraged loans surpassed upgrades in July and August.

In contrast to many other types of loans, the payment performance of home mortgages improved. Delin- quency rates of Federal Housing Administration and Department of Veterans Affairs loans in July were lower than levels seen earlier this year, and delinquency rates of conventional loans remained at historical lows. Credit quality was also strong for municipal borrowers.

Staff Economic Outlook

The economic forecast prepared by the staff for the Sep- tember FOMC meeting was stronger than the July pro- jection, as consumer and business spending appeared to be more resilient to tight financial conditions than pre- viously expected. The staff assumed that GDP growth for the rest of this year would be damped a bit by the autoworkers' strike, with these effects unwound by a small boost to GDP growth next year. The size and tim- ing of these effects were highly uncertain. In all, the staff projected that real GDP growth in 2024 through 2026 would be slower, on average, than this year and would run below the staff's estimate of potential output growth, restrained over the next couple of years by the lagged effects of monetary policy actions. The unem- ployment rate was projected to remain roughly flat through 2026, as upward pressure from below-potential output growth was offset by downward pressure from further improvements in labor market functioning.

Total and core PCE price inflation were forecast to be around 3.5 percent at the end of this year, and inflation was projected to move lower in coming years, as demand and supply in product and labor markets continued to move into better alignment. Total and core PCE price inflation were expected to be close to 2 percent in 2026.

The staff continued to view the uncertainty around the baseline projection as considerable. Risks around the in- flation forecast were seen as skewed to the upside, given the possibility that inflation could prove to be more per- sistent than expected or that further adverse shocks to supply conditions might occur. Should these upside in- flation risks materialize, the response of monetary policy could, if coupled with an adverse reaction in financial

markets, tilt the risks around the forecast for economic activity to the downside.

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 infla- tion for each year from 2023 through 2026 and over the longer run. The projections were based on their individ- ual assessments of appropriate monetary policy, includ- ing 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.

Regarding the economic outlook, participants assessed that real GDP had been expanding at a solid pace and had been more resilient than expected. Nevertheless, participants also noted that they expected that real GDP growth would slow in the near term. Participants judged that the current stance of monetary policy was restrictive and that it broadly appeared to be restraining the econ- omy as intended. Participants stressed that current in- flation remained unacceptably high while acknowledging that it had moderated somewhat over the past year. They also noted that further evidence would be required for them to be confident that inflation was clearly on a path to the Committee's 2 percent objective. Partici- pants continued to view a period of below-trend growth in real GDP and some softening in labor market condi- tions as likely to be needed to bring aggregate demand and aggregate supply into better balance and reduce in- flation pressures sufficiently to return inflation to 2 per- cent over time.

In their discussion of the household sector, participants observed that aggregate consumer spending had contin- ued to exhibit considerable strength, supported by the strong labor market and by generally strong household balance sheets. However, many participants remarked that the finances of some households were coming un- der pressure amid high inflation and declining savings and that there had been an increasing reliance on credit to finance expenditures. In addition, tighter credit con- ditions, waning fiscal support for families, and a resump- tion of student loan payments were viewed by several participants as having the potential to weigh on the growth of consumption. While household credit quality

was seen as generally strong, a few participants noted ris- ing delinquency rates on some types of consumer credit. A couple of participants also remarked that households were becoming increasingly price sensitive. Some par- ticipants noted that housing demand was resilient de- spite higher interest rates; new home construction was solid, in part reflecting the limited inventory of homes available for sale.

Regarding the business sector, participants noted that activity continued to be solid, though several pointed to signs of softening conditions. Many participants noted improved business conditions from an increased ability to hire and retain workers, better-functioning supply chains, or reduced input cost pressures. A few partici- pants commented that their business contacts had re- ported difficulties passing on cost increases to custom- ers. Several participants judged that, over coming quar- ters, business activity would be restrained by tighter fi- nancial conditions, such as higher interest rates and more constrained access to bank credit. Several partici- pants noted, however, that the tightening of credit con- ditions resulting from the banking stresses earlier in the year was likely to be less severe than they previously ex- pected. A number of participants expressed concerns about vulnerabilities in the CRE sector. Many partici- pants commented that they expected that the autowork- ers' strike would, in the near term, result in a slowdown in production of motor vehicles and parts and possibly put upward pressure on automobile prices, but that these effects would be temporary. With respect to the agricul- tural sector, a few participants noted that conditions were mixed, as crop prices had declined amid higher pro- duction estimates and as supply and demand imbalances pushed up the prices of some types of livestock and held down the prices of others.

Participants observed that the labor market was tight but that supply and demand conditions were continuing to come into better balance. Most participants remarked that a range of indicators of labor demand were easing— as could be seen by declines in job openings, a narrowing of the jobs-to-workers gap, lower quits rates, and a re- duction in average weekly hours worked to levels at or below those seen before the pandemic. However, sev- eral participants noted that labor markets remained very tight in some sectors of the economy, such as health- care services and education. Many participants also ob- served that measures of labor supply, especially the LFPR, had moved up. Some participants commented that the increase in the LFPR for women had been par- ticularly notable, although they expressed concern that challenges regarding the availability of childcare could

affect the sustainability of this increase in participation. Several participants noted that immigration had also been boosting labor supply. Some participants observed that payroll growth remained strong but had slowed in recent months to a pace closer to that consistent with maintaining a constant unemployment rate over time. Most participants commented that the pace of nominal wage increases had moderated, and a few also mentioned that the wage premium for job switchers had come down. They noted, however, that nominal wages were still rising at rates above levels generally assessed to be consistent with the sustained achievement of the Com- mittee's 2 percent inflation objective, given current esti- mates of trend productivity growth.

Participants noted that the data received over the past several months generally suggested that inflation was slowing. Even with these favorable developments, they emphasized that further progress was needed to get in- flation sustainably to 2 percent. Participants pointed to the softening of price inflation for goods amid improv- ing supply conditions and to declining housing services inflation. Several participants remarked that, despite the recent rise in energy prices, food and energy prices over the past year had contributed to a decline in overall in- flation. However, participants also noted that significant progress in reducing inflation had yet to become appar- ent in the prices of core services excluding housing. Par- ticipants noted that longer-term inflation expectations remained well anchored and that shorter-term inflation expectations had been moving down from elevated lev- els. Participants observed that, notwithstanding recent favorable developments, inflation remained well above the Committee's 2 percent longer-run objective and that elevated inflation was continuing to harm businesses and households—particularly low-income households. Par- ticipants stressed that they would need to see more data indicating that inflation pressures were abating to be more confident that inflation was on course to return to 2 percent over time.

Participants generally noted there was still a high degree of uncertainty surrounding the economic outlook. One new source of uncertainty was that associated with the autoworkers' strike, and many participants observed that an intensification of the strike posed both an upside risk to inflation and a downside risk to activity. A majority of participants pointed to upside risks to inflation from rising energy prices that could undo some of the recent disinflation or to the risk that inflation would prove more persistent than expected. Various participants noted downside risks to economic activity, including that credit conditions might tighten more than expected

if the domestic banking sector experienced further strains; the possibility that the economic slowdown in China could result in a drag on global economic growth; or that an extended U.S. government shutdown could have negative, albeit temporary, consequences for growth. Some participants remarked that an upside risk to their projections for economic activity was that the unexpected resilience that the economy had demon- strated so far could persist. Several participants com- mented that a government shutdown might result in the delayed release of some economic data and that this out- come would make it more difficult to assess economic conditions. A few participants observed that there were challenges in assessing the state of the economy because some data continued to be volatile and subject to large revisions.

In their consideration of appropriate monetary policy ac- tions at this meeting, participants concurred that eco- nomic activity had been expanding at a solid pace and had been resilient. While the labor market remained tight, job gains had slowed, and there were continuing signs that supply and demand in the labor market were coming into better balance. Participants also noted that tighter credit conditions facing households and busi- nesses were a source of headwinds for the economy and would likely weigh on economic activity, hiring, and in- flation. However, the extent of these effects remained uncertain. Although inflation had moderated since the middle of last year, it remained well above the Commit- tee's longer-run goal of 2 percent, and participants re- mained resolute in their commitment to bring inflation down to the Committee's 2 percent objective. Amid these economic conditions, and in consideration of the significant cumulative tightening in the stance of mone- tary policy and the lags with which policy affects eco- nomic activity and inflation, almost all participants judged it appropriate to maintain the target range for the federal funds rate at 51⁄4 to 51⁄2 percent at this meeting. Participants judged that maintaining this restrictive stance of policy would support further progress toward the Committee's goals while allowing the Committee time to gather additional data to evaluate this progress. All participants agreed that it was appropriate to con- tinue the process of reducing the Federal Reserve's se- curities holdings, as described in its previously an- nounced Plans for Reducing the Size of the Federal Re- serve's Balance Sheet.

In discussing the policy outlook, participants continued to judge that it was critical that the stance of monetary policy be kept sufficiently restrictive to return inflation

to the Committee's 2 percent objective over time. A ma- jority of participants judged that one more increase in the target federal funds rate at a future meeting would likely be appropriate, while some judged it likely that no further increases would be warranted. All participants agreed that the Committee was in a position to proceed carefully and that policy decisions at every meeting would continue to be based on the totality of incoming information and its implications for the economic out- look as well as the balance of risks. Participants expected that the data arriving in coming months would help clar- ify the extent to which the disinflation process was con- tinuing and labor markets were reaching a better balance between demand and supply. This information would be valuable in determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time. Some participants also emphasized the importance of continuing to communicate clearly to the public about the Committee's data-dependent ap- proach to policy and its firm commitment to bring infla- tion down to 2 percent.

All participants agreed that policy should remain restric- tive for some time until the Committee is confident that inflation is moving down sustainably toward its objec- tive. A few participants noted that the pace at which inflation was returning to the Committee's 2 percent goal would influence their views of the sufficiently re- strictive level of the policy rate and how long to keep policy restrictive. Several participants commented that, with the policy rate likely at or near its peak, the focus of monetary policy decisions and communications should shift from how high to raise the policy rate to how long to hold the policy rate at restrictive levels. A few partic- ipants noted that it would be important to monitor the real federal funds rate in gauging the stance of monetary policy over time. Most participants observed that postmeeting communications, including the SEP, would help clarify to the public how participants assessed the likely evolution of the stance of monetary policy. Par- ticipants observed that the continuing process of reduc- ing the size of the Federal Reserve's balance sheet was an important part of the overall approach to achieving their macroeconomic objectives. Several participants noted that the process of balance sheet runoff could continue for some time, even after the Committee be- gins to reduce the target range for the federal funds rate.

A vast majority of participants continued to judge the future path of the economy as highly uncertain. Many noted data volatility and potential data revisions, or the difficulty of estimating the neutral policy rate, as sup- porting the case for proceeding carefully in determining

the extent of additional policy firming that may be ap- propriate.

Participants discussed several risk-management consid- erations that could bear on future policy decisions. Par- ticipants generally judged that, with the stance of mone- tary policy in restrictive territory, risks to the achieve- ment of the Committee's goals had become more two sided. But with inflation still well above the Committee's longer-run goal and the labor market remaining tight, most participants continued to see upside risks to infla- tion. These risks included the imbalance of aggregate demand and supply persisting longer than expected, as well as risks emanating from global oil markets, the po- tential for upside shocks to food prices, the effects of a strong housing market on shelter inflation, and the po- tential for more limited declines in goods prices. Many participants commented that even though economic ac- tivity had been resilient and the labor market had re- mained strong, there continued to be downside risks to economic activity and upside risks to the unemployment rate. Such risks included larger-than-anticipated lagged macroeconomic effects from the tightening in financial conditions, the effect of labor union strikes, slowing global growth, and continued weakness in the CRE sec- tor. Participants generally noted that it was important to balance the risk of overtightening against the risk of in- sufficient tightening.

Committee Policy Actions

In their discussion of monetary policy for this meeting, members agreed that economic activity had been ex- panding at a solid pace, and, accordingly, that the corre- sponding language in the postmeeting statement should be changed from "moderate" to "solid." They also con- curred that job gains had slowed in recent months but remained strong, and the unemployment rate had re- mained low. Inflation had remained elevated.

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

In support of the Committee's objectives to achieve maximum employment and inflation at the rate of 2 per- cent over the longer run, members agreed to maintain the target range for the federal funds rate at 51⁄4 to 51⁄2 percent. They also agreed that they would continue to assess additional information and its implications for monetary policy. In determining the extent of additional

policy firming that may be appropriate to return inflation to 2 percent over time, members concurred that they would take into account the cumulative tightening of monetary policy, the lags with which monetary policy af- fects economic activity and inflation, and economic and financial developments. In addition, members agreed to continue to reduce the Federal Reserve's holdings of Treasury securities and agency debt and mortgage- backed securities, as described in its previously an- nounced plans. All members affirmed that they are strongly committed to returning inflation to their 2 per- cent objective.

Members agreed that, in assessing the appropriate stance of monetary policy, they would continue to monitor the implications of incoming information for the economic outlook. They would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. Mem- bers also agreed that their assessments will take into ac- count a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international develop- ments.

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

"Effective September 21, 2023, the Federal Open Market Committee directs the Desk to:

- • Undertake open market operations as nec- essary to maintain the federal funds rate in a target range of 51⁄4 to 51⁄2 percent.
- • Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5.5 percent and with an aggregate operation limit of $500 billion.

- • Conduct standing overnight reverse repur- chase agreement operations at an offering rate of 5.3 percent and with a per-counter- party limit of $160 billion per day.
- • Roll over at auction the amount of principal payments from the Federal Reserve's hold- ings of Treasury securities maturing in each calendar month that exceeds a cap of $60 billion per month. Redeem Treasury coupon securities up to this monthly cap

and Treasury bills to the extent that coupon principal payments are less than the monthly cap.

• Reinvest into agency mortgage-backed se- curities (MBS) the amount of principal pay- ments from the Federal Reserve's holdings of agency debt and agency MBS received in each calendar month that exceeds a cap of $35 billion per month.

• Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons.

• Engage in dollar roll and coupon swap transactions as necessary to facilitate settle- ment of the Federal Reserve's agency MBS transactions."

The vote also encompassed approval of the statement below for release at 2:00 p.m.:

"Recent indicators suggest that economic activ- ity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has re- mained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic ac- tivity, hiring, and inflation. The extent of these effects remains uncertain. The Committee re- mains highly attentive to inflation risks.

The Committee seeks to achieve maximum em- ployment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 51⁄4 to 51⁄2 percent. The Committee will continue to assess additional information and its implica- tions for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects eco- nomic activity and inflation, and economic and financial developments. In addition, the Com- mittee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is

strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, in- cluding readings on labor market conditions, in- flation pressures and inflation expectations, and financial and international developments."

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

Voting against this action: None.

Consistent with the Committee's decision to leave the target range for the federal funds rate unchanged, the Board of Governors of the Federal Reserve System

voted unanimously to maintain the interest rate paid on reserve balances at 5.4 percent, effective September21,2023. TheBoardofGovernorsoftheFederal Reserve System voted unanimously to approve the establishment of the primary credit rate at the existing level of 5.5 percent, effective September 21, 2023.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, October 31–November 1, 2023. The meeting adjourned at 10:10 a.m. on September 20, 2023.

Notation Vote

By notation vote completed on August 15, 2023, the Committee unanimously approved the minutes of the Committee meeting held on July 25–26, 2023.

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Joshua Gallin Secretary