Minutes of the Federal Open Market Committee
November 4–5, 2020

A joint meeting of the Federal Open Market Committee and the Board of Governors was held by videoconference on Wednesday, November 4, 2020, at 9:00 a.m. and continued on Thursday, November 5, 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
Loretta J. Mester
Randal K. Quarles

Thomas I. Barkin, Raphael W. Bostic, Mary C. Daly, Charles L. Evans, and Michael Strine, 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

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

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, Rochelle M. Edge, David E. Lebow, Ellis W. Tallman, William Wascher, and Mark L.J. Wright, Associate Economists

Lorie K. Logan, Manager, System Open Market Account

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

Matthew J. Eichner,[2] 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

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, 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

Michael G. Palumbo, Senior Associate Director, Division of Research and Statistics, Board of Governors

Marnie Gillis DeBoer, David López-Salido, and Min Wei, Associate Directors, Division of Monetary Affairs, Board of Governors; Glenn Follette, Associate Director, Division of Research and Statistics, Board of Governors; Paul Wood, Associate Director, Division of International Finance, Board of Governors

Andrew Figura, Deputy Associate Director, Division of Research and Statistics, Board of Governors; Christopher J. Gust, Deputy Associate Director, Division of Monetary Affairs, Board of Governors; Jeffrey D. Walker,[2] Deputy Associate Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors

[1] The Federal Open Market Committee is referenced as the "FOMC" and the "Committee" in these minutes.

[2] Attended through the discussion on asset purchases.

Brian J. Bonis, Michiel De Pooter, Zeynep Senyuz,[2] and Rebecca Zarutskie,[2] Assistant Directors, Division of Monetary Affairs, Board of Governors; Paul Lengermann, Assistant Director, Division of Research and Statistics, Board of Governors

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

Alyssa G. Anderson,[2] Benjamin K. Johannsen,[2] and Matthew Malloy,[2] Section Chiefs, Division of Monetary Affairs, Board of Governors; Penelope A. Beattie,[2] Section Chief, Office of the Secretary, Board of Governors

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

Michele Cavallo, Dobrislav Dobrev, Anna Orlik, and Judit Temesvary,[2] Principal Economists, Division of Monetary Affairs, Board of Governors

Arsenios Skaperdas,[2] Senior Economist, Division of Monetary Affairs, Board of Governors

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

Gregory L. Stefani, First Vice President, Federal Reserve Bank of Cleveland

Kartik B. Athreya, Joseph W. Gruber, Glenn D. Rudebusch, Daleep Singh, and Christopher J. Waller, Executive Vice Presidents, Federal Reserve Banks of Richmond, Kansas City, San Francisco, New York, and St. Louis, respectively

Spencer Krane, Antoine Martin,[2] Paolo A. Pesenti, and Nathaniel Wuerffel,[2] Senior Vice Presidents, Federal Reserve Banks of Chicago, New York, New York, and New York, respectively

Satyajit Chatterjee, Mark J. Jensen, Dina Marchioni,[2] Matthew D. Raskin,[2] and Patricia Zobel, Vice Presidents, Federal Reserve Banks of Philadelphia, Atlanta, New York, New York, and New York, respectively

Daniel Cooper, Senior Economist and Policy Advisor, Federal Reserve Bank of Boston

Alex Richter, Senior Economist and Advisor, Federal Reserve Bank of Dallas

Ryan Bush,[2] Markets Manager, Federal Reserve Bank of New York

Developments in Financial Markets and Open Market Operations

The System Open Market Account (SOMA) manager first discussed developments in financial markets. Financial conditions were little changed, on net, over the intermeeting period and remained accommodative. Market participants suggested that evolving expectations for U.S. fiscal policy as well as stronger-than-expected economic data and corporate earnings reports helped support equity prices. Later in the intermeeting period, however, rising COVID-19 cases in Europe and the United States weighed on the outlook, and equity prices reversed some of their earlier gains. Implied volatility in the equity market moved higher during the intermeeting period, reflecting uncertainties associated with the U.S. election and the future path of fiscal policy as well as concerns about the trajectory of COVID-19 cases.

Market participants' expectations for the path of the federal funds rate were little changed over the intermeeting period. In the Open Market Desk's Survey of Primary Dealers and Survey of Market Participants, respondents' views on when the Committee will most likely start raising the target range for the federal funds rate were centered around 2024. Expectations for the economic conditions that will prevail when the FOMC first lifts the target range were little changed since the September surveys.

Respondents to the Desk's surveys generally expected the Federal Reserve's purchases of Treasury securities and agency mortgage-backed securities (MBS) to continue at the current pace through the end of 2021 and then to slow in subsequent years, although there was a wide range of views about purchase amounts for 2022 and 2023. Market participants appeared increasingly focused on how the Committee's communications on asset purchases might evolve. They expected those communications to place a greater emphasis on fostering accommodative financial conditions, and many noted the possibility that at some point the Committee might convey additional guidance about the future path of asset purchases. Some market participants expected the Committee to eventually lengthen the weighted average maturity of the Federal Reserve's purchases of Treasury securities.

The manager turned next to a discussion of financial market functioning, open market operations, and conditions in short-term funding markets. Markets for Treasury securities and agency MBS continued to function smoothly, with bid-ask spreads and a range of other market functioning indicators remaining near pre-pandemic levels. Weekly operations continued for agency commercial mortgage-backed securities (CMBS), with the Desk purchasing only modest amounts. Short-term dollar funding markets also continued to function smoothly over the period, and forward measures of funding rates were consistent with expectations for calm conditions over year-end.

The Federal Reserve's balance sheet increased modestly over the intermeeting period to $7.2 trillion, as growth in securities holdings was partially offset by a decline in U.S. dollar liquidity swaps outstanding. Outstanding balances for credit and liquidity facilities were little changed. The manager noted that market participants continued to view these facilities as important backstops that would support market functioning and the flow of credit should stresses reemerge.

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.

Discussion on Asset Purchases

Participants discussed the FOMC's asset purchases, including the role they are playing in supporting the Committee's maximum-employment and price-stability goals. In their discussions, participants focused on the objectives of these purchases; considerations for assessing the appropriate pace and composition of asset purchases over time; communications regarding the future path of asset purchases; and the potential effects of higher levels of reserves, associated with the ongoing expansion in Federal Reserve asset holdings, on banks' balance sheets and money market rates. Participants agreed that this discussion would be helpful for future assessments of the appropriate structure of the Committee's asset purchases. While participants judged that immediate adjustments to the pace and composition of asset purchases were not necessary, they recognized that circumstances could shift to warrant such adjustments. Accordingly, participants saw the ongoing careful consideration of potential next steps for enhancing the Committee's guidance for its asset purchases as appropriate.

The participants' discussion was preceded by staff presentations. The staff reviewed some key considerations relevant for conducting asset purchases in the current environment. The staff judged that the Committee's forward guidance on the federal funds rate, the expansion of the Federal Reserve's securities holdings since March, and expectations for a further expansion all had contributed to a very low level of longer-term yields despite substantial Treasury debt issuance. The staff noted that financial market participants generally expected the Committee to continue its net asset purchases at the current pace through next year and at a reduced pace in subsequent years. The staff discussed various changes the Committee could make to the structure of its purchases, including to their pace and composition as well as to the guidance the Committee has been providing to the public about its future asset purchases. The staff discussed the structure of asset purchase programs of several foreign central banks and how they have evolved during the pandemic. Finally, the staff evaluated how higher levels of reserves associated with the ongoing expansion in the Federal Reserve's asset holdings might influence banks' balance sheets and money market rates and discussed the various tools that the Federal Reserve has for managing money market rates in an environment with very high levels of reserves.

In their discussion regarding the role of the Committee's asset purchases, participants noted that these purchases have supported and sustained smooth market functioning and helped foster accommodative financial conditions. With market functioning seen as having largely recovered, many participants indicated that the role of asset purchases had shifted more toward fostering accommodative financial conditions for households and businesses to support the Committee's employment and inflation goals. Still, participants generally judged that asset purchases would continue to support smooth market functioning, and many judged that asset purchases helped provide insurance against risks that might reemerge in financial markets in an environment of high uncertainty. A few participants indicated that asset purchases could also help guard against undesirable upward pressure on longer-term rates that could arise, for example, from higher-than-expected Treasury debt issuance. Several participants noted the possibility that there may be limits to the amount of additional accommodation that could be provided through increases in the Federal Reserve's asset holdings in light of the low level of longer-term yields, and they expressed concerns that a significant expansion in asset holdings could have unintended consequences.

Participants commented on considerations related to the appropriate pace and composition of asset purchases. Participants generally saw the current pace and composition as effective in fostering accommodative financial conditions. Participants noted that the Committee could provide more accommodation, if appropriate, by increasing the pace of purchases or by shifting its Treasury purchases to those with a longer maturity without increasing the size of its purchases. Alternatively, the Committee could provide more accommodation, if appropriate, by conducting purchases of the same pace and composition over a longer horizon. Pointing to the recently announced change in the Bank of Canada's asset purchase program, several participants judged that the Committee could maintain its current degree of accommodation by lengthening the maturity of the Committee's Treasury purchases while reducing the pace of purchases somewhat. In their view, such a change in the Committee's purchase structure would have to be carefully communicated to the public to avoid the misperception that the reduced pace of purchases represented a decline in the degree of accommodation. A few participants expressed concern that maintaining the current pace of agency MBS purchases could contribute to potential valuation pressures in housing markets.

The September FOMC statement indicated that asset purchases will continue "over coming months," and participants viewed this guidance for asset purchases as having served the Committee well so far. Most participants judged that the Committee should update this guidance at some point and implement qualitative outcome-based guidance that links the horizon over which the Committee anticipates it would be conducting asset purchases to economic conditions. These participants indicated that updating the Committee's guidance for asset purchases in this manner would help keep the market's expectation for future asset purchases aligned with the Committee's intentions. Some of these participants also saw such updated guidance as reinforcing the Committee's commitment to fostering outcomes consistent with maximum employment and inflation that averages 2 percent over time. A few participants were hesitant to make changes in the near term to the guidance for asset purchases and pointed to considerable uncertainty about the economic outlook and the appropriate use of balance sheet policies given that uncertainty.

Participants noted that it would be important for the Committee's guidance for future asset purchases to be consistent with the Committee's forward guidance for the federal funds rate so that the use of these tools would be well coordinated in terms of achieving the Committee's objectives. Most participants judged that the guidance for asset purchases should imply that increases in the Committee's securities holdings would taper and cease sometime before the Committee would begin to raise the target range for the federal funds rate. A number of participants highlighted the view that after net purchases cease there would likely be a period of time in which maturing assets would be reinvested to roughly maintain the size of the Federal Reserve's securities holdings.

Participants commented on how a higher level of reserves associated with the expansion in the Federal Reserve's asset holdings might affect the banking sector and money markets. A few participants raised concerns about the possibility that much higher levels of reserves might create pressure on banks' balance sheets, including on regulatory ratios, or could potentially put undue downward pressure on money market rates. Most participants judged that the Federal Reserve had effective tools to address these circumstances. Some participants noted that, if needed, the Federal Reserve could consider various steps to manage the levels of short-term interest rates and the quantity of reserves, such as adjusting administered rates, expanding the overnight reverse repurchase agreement program, or implementing a maturity extension program.

Staff Review of the Economic Situation

The coronavirus 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 November 4–5 meeting suggested that U.S. real gross domestic product (GDP) had rebounded at a rapid rate in the third quarter but remained well below its level at the start of the year. Labor market conditions improved further in September, although the pace of gains eased and employment continued to be well below its level at the beginning of the year. Consumer price inflation—as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE) through September—had returned to its year-earlier pace but remained noticeably below the rates that were posted in January and February.

Total nonfarm payroll employment expanded strongly in September, but the gain was markedly below the even larger increases seen in previous months. Through September, payroll employment had retraced only about half of the decline seen at the onset of the pandemic.

The unemployment rate moved down further to 7.9 percent in September. The unemployment rates for African Americans and Asians both decreased, but the unemployment rate for Hispanics was little changed, and each group's rate remained well above the national average. In addition, the overall labor force participation rate declined, and the employment-to-population ratio rose only slightly. Initial claims for unemployment insurance continued to move lower, on net, through late October, and weekly estimates of private-sector payrolls constructed by the Board's staff using data provided by the payroll processor ADP suggested that employment gains from mid-September to mid-October remained solid. The employment cost index (ECI) for total hourly labor compensation in the private sector, which likely had been less influenced than other hourly compensation measures by the concentration of recent job losses among lower-wage workers, rose 2.4 percent over the 12 months ending in September. This gain was a little smaller than the index's year-earlier 12-month change; in addition, the 3-month changes in the ECI in June and September were noticeably below the average pace seen over the period from 2017 through 2019.

Total PCE price inflation was 1.4 percent over the 12 months ending in September and continued to be held down by relatively weak aggregate demand and the declines in consumer energy prices seen earlier in the year. Core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 1.5 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 1.9 percent in September. On a monthly basis, inflation was a little lower in September, largely reflecting slower goods price inflation. The latest readings on survey-based measures of longer-run inflation expectations moved lower, though each remained within the range in which it has fluctuated in recent years; in October, the University of Michigan Surveys of Consumers measure for the next 5 to 10 years fell back to the level that prevailed in early 2020, while in September the 3-year-ahead measure from the Federal Reserve Bank of New York retraced its August increase.

Real PCE rose strongly in the third quarter, though the increase was not sufficient to return consumer spending to its pre-pandemic level. Real disposable personal income declined, reflecting a large reduction in government transfer payments. As a result, the personal saving rate moved sharply lower, though it was still elevated relative to its 2019 average. The consumer sentiment measures from the Michigan survey and the Conference Board had moved higher, on net, since August; although both indexes stood above their April troughs, they remained well below their levels at the start of the year.

Housing-sector activity advanced in the third quarter, with real residential investment and home sales both moving above their first-quarter levels. Activity in this sector was likely being supported by low interest rates, the sector's ability to adjust business practices in response to social distancing, and pent-up demand following the widespread shutdowns earlier in the year.

Business fixed investment expanded strongly, led by an outsized increase in third-quarter equipment spending. By contrast, spending on nonresidential structures continued to move lower and was likely restrained by firms' hesitation to commit to projects with lengthy times to completion and uncertain future returns as well as by the effect of lower oil prices on drilling investment.

Growth in both total industrial production and manufacturing output turned negative in September after having slowed markedly in August. Part of the softness in manufacturing production appeared to be attributable to pandemic-related delays in the motor vehicle industry's model-year changeover, though subdued foreign demand and weaker demand from domestic energy producers were also likely acting to restrain factory output. As of September, manufacturing output had recovered roughly two-thirds of the drop seen earlier in the year.

Total real government purchases declined in the third quarter. Federal nondefense purchases fell especially sharply, largely reflecting a step-down in lender processing fees associated with the Paycheck Protection Program (PPP). In addition, real purchases by state and local governments declined further.

The nominal U.S. international trade deficit narrowed in September after widening in August. Both exports and imports continued to rebound from their collapse in the first half of the year. Goods imports fully recovered to their January level, with broad-based increases in August and September. In contrast, goods exports by September recovered only two-thirds of their decline since January despite brisk growth in exports of agricultural products and industrial supplies. Services trade remained depressed, driven by the continued suspension of most international travel. Altogether, net exports made a substantial negative contribution to real GDP growth in the third quarter.

Economic activity abroad rebounded sharply in the third quarter following a rollback of pandemic-related restrictions. GDP levels, however, generally remained well

below their pre-pandemic peaks, with China being a notable exception. Domestic demand supported the recovery, and in Asia there was also a strong rebound of exports, especially of electronics and, more recently, autos. Third-quarter growth was particularly rapid in those economies that experienced some of the deepest contractions in the second quarter, including France, Italy, and Spain among the advanced foreign economies (AFEs) and Mexico among the emerging market economies. After falling through the end of the summer in many countries, inflation rates started to rise over the past two months but remained well below rates from early in the year.

The rapid increase over recent weeks of new COVID-19 cases in several AFEs, especially in Europe, prompted governments to reintroduce restrictions to rein in this renewed wave of infections. In late October, the governments of several European countries—including England, France, and Germany—announced new nationwide restrictions (including the closures of bars and restaurants) and, in some cases, restrictions to the mobility of individuals within and across regions. Still, relative to the spring, restrictions were noticeably less severe; factories, most businesses, and schools generally remained open.

Staff Review of the Financial Situation

Financial market sentiment was little changed over the intermeeting period against the backdrop of evolving U.S. election and fiscal outlooks, as well as rising COVID-19 cases in the United States and Europe. On net, the Treasury yield curve steepened modestly, corporate bond spreads narrowed somewhat, and broad equity price indexes increased. Inflation compensation increased a little further, remaining close to pre-pandemic levels. Financing conditions for businesses with access to capital markets and households with high credit scores remained generally accommodative, although conditions remained tight or tightened somewhat for other borrowers.

Yields on two-year nominal Treasury securities were little changed over the intermeeting period, while longer-term yields increased modestly, on net, reportedly reflecting market participants' reassessments of the election outcome and the outlook for fiscal policy. FOMC communications and macroeconomic data releases did not elicit material yield reactions. Measures of inflation compensation based on Treasury Inflation-Protected Securities (TIPS) edged up, on net, remaining close to their pre-pandemic levels. This development reflected in part the recovery of TIPS market liquidity conditions from their stressed levels in the spring. However, both the 5-year and 5-to-10-year measures of inflation compensation remained near the lower ends of their historical ranges.

The expected path for the federal funds rate over the next few years, as implied by a straight read of overnight index swap quotes, was little changed, on net, since the September FOMC meeting and remained close to the effective lower bound (ELB) until the end of 2023. Survey-based expectations favored the first increase in the federal funds rate to occur in 2024.

Broad stock price indexes increased, on balance, over the intermeeting period amid volatility associated with market participants' reactions to news on the U.S. election, the pandemic's trajectory, and the fiscal policy outlook. One-month option-implied volatility on the S&P 500—the VIX—increased some, on net, after briefly rising sharply late in the intermeeting period. Spreads on corporate bond yields over comparable-maturity Treasury yields narrowed across the credit spectrum and stood somewhat below their historical median levels at the end of the intermeeting period.

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 and remained at pre-pandemic levels. The outstanding level of nonfinancial CP continued to move down over the intermeeting period, reportedly driven by issuers' relatively low appetite for CP funding in light of the availability of longer-term financing on attractive terms. September quarter-end effects were muted, and there was no credit outstanding through the Commercial Paper Funding Facility by the end of the intermeeting period. Conditions in money market funds (MMFs) were also generally calm over the intermeeting period, and net yields of MMFs remained stable near historical lows.

The effective federal funds rate stood at 9 basis points, unchanged from the average over the previous intermeeting period. The Secured Overnight Financing Rate averaged 8 basis points, edging down from the previous intermeeting period amid a modest net decrease in Treasury bill issuance. The amount of Federal Reserve repurchase agreements outstanding remained at zero over the intermeeting period, as dealers were able to obtain more attractive rates in the private market. The Federal Reserve increased holdings of Treasury securities and agency MBS at the same pace as over the previous intermeeting period.

Investor sentiment abroad turned negative over the intermeeting period amid rising COVID-19 case counts, newly adopted restrictions aimed at containing the spread of the virus, and indicators pointing to a slowing recovery in several foreign economies, particularly in the euro area. Uncertainty about additional U.S. fiscal stimulus and the outcome of the U.S. presidential election also caused some asset price volatility abroad. On net, most foreign equity indexes declined, option-implied volatility in the euro area increased a bit, and most AFE long-term sovereign yields fell.

Overall, the broad dollar index was little changed over the intermeeting period. The dollar appreciated modestly against most AFE currencies except the Japanese yen and the British pound. Several Asian currencies, including the Chinese renminbi, the South Korean won, and the Taiwanese dollar, appreciated against the U.S. dollar amid improving growth prospects and low COVID-19 case counts. Most Latin American currencies (especially the Brazilian *real*) and the Turkish lira depreciated against the U.S. dollar on concerns about fiscal and political prospects in Latin America and Turkey.

Financing conditions in capital markets continued to be broadly accommodative over the intermeeting period, supported by low interest rates and high equity valuations. With historically low corporate bond yields, gross issuance of both investment- and speculative-grade corporate bonds remained solid in September, moderating from robust readings in August but staying close to the averages seen in recent years. Most of this issuance was reportedly intended to refinance existing debt. Gross institutional leveraged loan issuance continued to pick up in September but remained below its average pace in 2019. Collateralized loan obligation issuance was strong in September, likely supporting robust investor demand for newly issued leveraged loans in the coming months.

The credit quality of nonfinancial corporations continued to show signs of stabilization. The volume of downgrades to corporate bonds and leveraged loans fell to pre-pandemic levels through September. Corporate bond and leveraged loan defaults were low in August and September relative to their elevated readings in July. Market indicators of expected corporate bond and leveraged loan defaults remained somewhat elevated at above pre-pandemic levels, especially for lower-rated leveraged loan issuers.

Commercial and industrial (C&I) loans on banks' balance sheets continued to decline through September, reflecting a mix of weak origination activity and the repayment of credit-line draws from earlier in the year. In the October Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks reported that standards for C&I loans continued to tighten during the third quarter, although fewer banks reported tightening than in previous quarters. In addition, demand for C&I loans reportedly weakened in the third quarter.

Financing conditions for small businesses remained tight as a result of the pandemic. Small business loan originations dropped off sharply in August after a temporary boost from PPP distributions over the summer. At the same time, small businesses' liquidity needs were high and appeared likely to increase further, with the most recent Census Bureau Small Business Pulse Survey pointing to a majority of small businesses having no more than two months of cash on hand and many small businesses anticipating some need for additional financial assistance in the next six months. However, the uncertainty surrounding earning prospects was reportedly making many business owners less willing to take on debt at prevailing terms. Small business loan performance generally deteriorated further over the intermeeting period.

For commercial real estate (CRE) financed through capital markets, financing conditions remained accommodative over the intermeeting period. Spreads on agency CMBS were narrow, and issuance was very strong in September. Spreads on triple-A non-agency CMBS, which were already within their pre-pandemic range in August, moved down further in September and early October, while non-agency issuance remained relatively subdued in September. In contrast, CRE loan growth at banks decelerated in the third quarter, while standards for CRE loans tightened further, according to the October SLOOS.

Financing conditions in the residential mortgage market were little changed over the intermeeting period. Mortgage rates remained near historical lows, supporting high volumes of both home-purchase and refinancing originations. Credit continued to flow to higher-score borrowers meeting standard conforming loan criteria, while it remained tight for borrowers with lower credit scores and for nonstandard mortgage products. Residential real estate loans on banks' balance sheets declined, and the October SLOOS suggested that lending standards tightened for all mortgage types. Mortgage forbearance rates continued their downward trend, and the rate of new delinquencies remained low.

In consumer credit markets, conditions remained accommodative for borrowers with relatively strong credit

scores but continued to be tight for borrowers with subprime credit scores. Banks in the October SLOOS indicated that standards tightened and demand was little changed, on balance, across consumer loan types following a sharp contraction in demand in the second quarter. Credit card balances continued to decline through the third quarter, with gains in balances for account holders with prime credit scores offset by declines in those for nonprime accounts. Interest rates on existing accounts were little changed and remained below pre-crisis levels, while interest rates on new accounts to nonprime borrowers remained elevated. Auto loan balances increased solidly for prime and near-prime borrowers but declined for subprime borrowers. Auto loan interest rates increased but stayed below pre-pandemic levels. Conditions in the asset-backed securities market remained stable over the intermeeting period.

The staff provided an update on its assessment of the stability of the financial system. The staff judged that, accounting for low interest rates, asset valuations appeared moderate, with measures of compensation for risk generally in the middle of their historical ranges. However, uncertainty regarding the pandemic and economic outlook has been high, and the risk of sizable declines in asset prices, should adverse shocks materialize, has remained significant. CRE prices had started to decline in some sectors, while market conditions, including rising vacancies and declining rents, pointed to a risk of further drops, especially in severely affected sectors. The staff assessed vulnerabilities associated with household and business borrowing as notable. Household finances had weakened with the economic downturn, and some households could find debt levels burdensome going forward. Business debt levels were high before the pandemic, and the ability of some businesses to service these obligations will depend on the course of the economic recovery. The staff assessed vulnerabilities arising from financial leverage as moderate. While the banking sector has been resilient to recent developments, banks' profitability, as well as that of a range of financial institutions, could be affected by future losses, the weakening of the economic outlook relative to pre-pandemic conditions, and low interest rates. With regard to funding risks, the staff highlighted that structural vulnerabilities in markets for short-term funding and corporate bonds remained present. Emergency facilities were viewed as critical in restoring market functioning and continued to serve as important backstops. The staff also summarized near-term risks to financial stability identified in outreach to the public in recent months, including concerns associated with the outlook for the pandemic and business defaults.

Staff Economic Outlook

In the U.S. economic projection prepared by the staff for the November FOMC meeting, the rate of real GDP growth and the pace of declines in the unemployment rate over the second half of this year were similar to those in the September forecast despite material revisions to several assumptions influencing the outlook along with incoming data that were, on balance, better than expected. In particular, in the absence of clear progress toward an agreement on further fiscal stimulus, the staff removed the assumption that an additional tranche of fiscal policy support would be enacted. Although this lack of additional fiscal support was expected to cause significant hardships for a number of households, the staff now assessed that the savings cushion accumulated by other households would be enough to allow total consumption to be largely maintained through year-end. Hence, as in the September projection, the staff continued to expect a rapid but partial rebound in activity over the second half of the year following the unprecedented contraction in the spring. The inflation forecast for the rest of the year was revised up slightly in response to incoming readings on inflation that were, on balance, higher than expected. Nevertheless, inflation was still projected to finish the year at a relatively subdued level, reflecting substantial margins of slack in labor and product markets and the large declines in consumer energy prices seen earlier in the year.

In the staff's medium-term projection, the assumption that significant additional fiscal support would not be enacted pointed to a lower trajectory for aggregate demand going forward. However, recent data on tax receipts also suggested that the fiscal positions of states and localities had deteriorated less than expected, which led the staff to boost the projected path of state and local government purchases. Hence, with monetary policy assumed to remain highly accommodative and social-distancing measures expected to ease further, the staff continued to project that real GDP over the medium term would outpace potential, leading to a considerable further decline in the unemployment rate. The resulting take-up of economic slack was in turn expected to cause inflation to increase gradually, and the inflation rate was projected to moderately overshoot 2 percent for some time in the years beyond 2023 as monetary policy remained accommodative.

The staff continued to observe that the uncertainty related to the future course of the pandemic and its consequences for the economy was high. The staff also continued to view the risks to the economic outlook as tilted to the downside, with the latest data suggesting an increased probability of a resurgence in the disease.

Participants' Views on Current Conditions and the Economic Outlook

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 economy's medium-term outlook.

Participants observed that the economy had registered a rapid though incomplete rebound, with third-quarter real GDP rising at an annual rate of 33 percent, reflecting gains across consumer spending, housing-sector activity, and business equipment investment. In recent months, however, the pace of improvement had moderated, with slower growth expected for the fourth quarter. Participants noted that economic activity thus far had recovered faster than had been expected earlier in the year. Household spending on goods, especially durable goods, had been strong and had moved above its pre-pandemic level. Participants commented that the rebound in consumer spending was due in part to federal stimulus payments and expanded unemployment benefits, which provided essential support to many households. Participants viewed accommodative monetary policy as also contributing to gains in durable goods and residential investment as well as the surge in home sales. In contrast, participants noted that consumer outlays for services were increasing more slowly than for durable goods, particularly for items such as air travel, hotel accommodations, and restaurant meals, which had been significantly disrupted by voluntary and mandated social-distancing measures. Participants generally expected the strength in household spending to continue, especially for durable goods and residential investment. A few participants noted that households' balance sheets generally appeared healthy and an unwinding of the large pool of household savings accumulated during the pandemic could provide greater-than-anticipated momentum to consumer spending over coming months. However, several participants expressed concern that, in the absence of additional fiscal support, lower- and moderate-income households might need to reduce their spending sharply when their savings were exhausted. A couple of these participants noted reports from their banking contacts that households appeared to be rapidly exhausting funds they received from fiscal relief programs.

Participants noted that business equipment investment had also picked up. A few participants expected the momentum in investment to extend into next year as the economic recovery continued, while a couple of other participants noted that many businesses in their Districts were deferring longer-term commitments because of heighted uncertainty about the economic outlook. The recovery was viewed as unevenly distributed across industries. While many business contacts, particularly those in the durable goods or housing industries, reported progress in adapting to the pandemic or improved business conditions, others—especially those with ties to small businesses and the hospitality, aviation, and nonresidential construction industries—were still seeing very difficult circumstances. Contacts reported improved conditions in the agricultural sector, boosted by strong demand from China as well as domestic ethanol production, higher crop prices, and federal aid payments. Looking ahead, some business contacts expressed concerns that many households and businesses were currently in a weaker position to weather additional economic shocks than they had been at the beginning of the pandemic.

Participants observed that labor market conditions had continued to improve in recent months, with roughly half of the 22 million jobs lost over March and April having been regained. The unemployment rate had declined further, and the employment gains since the spring were generally seen as larger than anticipated. Business contacts in a couple of Districts—particularly those in the manufacturing, health-care, and technology sectors—reported having trouble hiring workers for reasons likely related to virus cases or workers' need to provide childcare. Several participants noted that the decline in the unemployment rate in recent months had been accompanied by a fall in the labor force participation rate, particularly among those with a high school education or lower and among women. Although the number of workers on temporary layoff had fallen

sharply, the number of permanent job losers had continued to rise. Most participants commented that the pace of labor market improvement was likely to moderate going forward. A couple of them noted that many businesses in industries severely affected by the pandemic were downsizing or that some businesses were focused on cutting costs or increasing productivity, including through automation. Many participants observed that high rates of job losses had been especially prevalent among lower-wage workers, particularly in the services sector, and among women, African Americans, and Hispanics. A few participants noted that these trends, if slow to reverse, could exacerbate racial, gender, and other social-economic disparities. In addition, a slow job market recovery would cause particular hardship for those with less educational attainment, less access to childcare or broadband, or greater need for retraining.

In their comments about inflation, participants noted that some consumer prices had increased more quickly than expected in recent months but that broader price trends were still quite soft. The upturn in consumer price inflation was primarily attributed to price increases in sectors where the pandemic had induced stronger demand, such as consumer durables. In contrast, services price inflation remained softer than pre-pandemic rates, as prices for the categories most affected by social distancing, such as accommodations and airfares, continued to be very depressed and housing services inflation moderated. Several participants commented on the unusually large relative price movements caused by the pandemic and the considerable uncertainty as to how long these price changes would persist.

Participants noted that financial conditions were generally accommodative and that actions by the Federal Reserve, including the establishment of emergency lending facilities with the approval of and, in some cases, provision of equity investments by the Treasury, were supporting the flow of credit to households, businesses, and communities. While these actions were viewed as contributing to accommodative financial conditions, participants noted important differences in credit availability across borrowers. In particular, financing conditions eased further for residential mortgage borrowers and for large corporations that were able to access capital markets, but surveys of credit availability indicated that bank lending conditions tightened further. A few participants noted that the financing conditions for small businesses were especially worrisome, as the PPP had ended and the prospect for additional fiscal support remained uncertain. They pointed to the most recent Census Bureau Small Business Pulse Survey, in which more than half of the respondents reported having no more than two months of cash on hand.

Participants continued to see the uncertainty surrounding the economic outlook as quite elevated, with the path of the economy highly dependent on the course of the virus; on how individuals, businesses, and public officials responded to it; and on the effectiveness of public health measures to address it. Participants cited several downside risks that could threaten the recovery. While another broad economic shutdown was seen as unlikely, participants remained concerned about the possibility of a further resurgence of the virus that could undermine the recovery. The majority of participants also saw the risk that current and expected fiscal support for households, businesses, and state and local governments might not be sufficient to sustain activity levels in those sectors, while a few participants noted that additional fiscal stimulus that was larger than anticipated could be an upside risk. Some participants commented that the recent surge in virus cases in Europe and the reimposition of restrictions there could lead to a slowdown in economic activity in the euro area and have negative spillover effects on the U.S. recovery. Some participants raised concerns regarding the longer-run effects of the pandemic, including sectoral restructurings that could slow employment growth or an acceleration of technological disruptions that could be limiting the pricing power of some firms.

A number of participants commented on various potential risks to financial stability. A few participants noted that the banking system showed considerable resilience through the end of the third quarter, and a few observed that this resilience partly reflected stronger-than-expected balance sheets of their customers, with delinquency rates declining or showing only moderate increases. Moreover, capital positions and loan loss reserves for large banks were higher than before the pandemic. Several participants emphasized the need to ensure that banks continue to maintain strong capital levels, as lower levels of capital are typically associated with tighter credit availability from banks. Several participants commented on the vulnerabilities witnessed during the March selloff in the Treasury market. The substantial maturity and liquidity transformations undertaken by some nonbank financial institutions—such as prime MMFs and corporate bond and bank loan mutual funds—were also discussed. A couple of participants expressed concerns that a prolonged period of low interest rates and highly accommodative financial market conditions could lead to excessive risk-taking, which in

turn could result in elevated firm bankruptcies and significant employment losses in the next economic downturn. A few participants noted that climate change poses important challenges to financial stability and welcomed analysis of climate change as both a source of shocks and an underlying vulnerability. A couple of participants commented that the actions taken by the Federal Reserve to support the economy and achieve its mandated goals also supported financial stability. Relatedly, several participants emphasized the important roles various section 13(3) facilities played in restoring financial market confidence and supporting financial stability; they noted that these facilities were still serving as an important backstop in financial markets. A few participants noted that it was important to extend them beyond year-end.

In their consideration of monetary policy at this meeting, participants reaffirmed the Federal Reserve's commitment to using its full range of tools in order 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 and posed considerable risks to the economic outlook over the medium term. 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 the Committee's long-run 2 percent inflation objective.

Participants remarked that the Committee's action in September to provide more explicit outcome-based forward guidance for the federal funds rate had been an important step to affirm the Committee's strong commitment to the goals and strategy articulated in its revised Statement on Longer-Run Goals and Monetary Policy Strategy. Several participants noted that they were encouraged by evidence that suggested that market participants' expectations of the economic conditions that would likely prevail at the time of liftoff seemed broadly consistent with the Committee's forward guidance and revised consensus statement.

Participants agreed that monetary policy was providing substantial accommodation, and most concurred that, with the federal funds rate at the ELB, much of that accommodation was due to the Committee's forward guidance and increases in securities holdings. They judged that the current stance of monetary policy remained appropriate, as both employment and inflation remained well short of the Committee's goals and the uncertainty about the course of the virus and the outlook for the economy continued to be very elevated. Participants viewed the resurgence of COVID-19 cases in the United States and abroad as a downside risk to the recovery; a few participants noted that diminished odds for further significant fiscal support also increased downside risks and added to uncertainty about the economic outlook.

Regarding asset purchases, participants judged that it would be appropriate over coming months for the Federal Reserve to increase its holdings of Treasury securities and agency MBS at least at the current pace. These actions would continue to help sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses. Many participants judged that the Committee might want to enhance its guidance for asset purchases fairly soon. Most participants favored moving to qualitative outcome-based guidance for asset purchases that links the horizon over which the Committee anticipates it would be conducting asset purchases to economic conditions. A few participants were hesitant to make changes in the near term to the guidance for asset purchases and pointed to considerable uncertainty about the economic outlook and the appropriate use of balance sheet policies given that uncertainty.

Discussion on Recommended Changes to the Summary of Economic Projections

Participants considered two recommendations from the subcommittee on communications for changes to the Summary of Economic Projections (SEP) that would enhance the information provided to the public. These recommendations included accelerating the release of the full set of SEP exhibits from three weeks after the corresponding FOMC meeting, when the minutes of that meeting are released, to the day of the policy decision and adding new charts that display a time series of diffusion indexes for participants' judgments of uncertainty and risks. With these recommendations, the written summary of the projections that has been included as an addendum to the minutes of the corresponding FOMC meeting would be discontinued.

Most of the participants who commented noted that releasing all SEP materials at the time of the postmeeting statement would provide greater context for the policy decision, highlight the risk-management factors relevant for the decision, or further emphasize the degree of uncertainty around participants' modal projections. Some who commented noted that the SEP serves a valuable role in illustrating how participants' policy assessments

respond to changes in the economic outlook. Most participants who commented suggested that it would be useful to continue thinking about options for refining the SEP. Participants unanimously supported the recommended changes and agreed that they should be implemented beginning in December.

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 ¼ 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 over coming months it would be appropriate for the Federal Reserve to increase its holdings of Treasury securities and agency MBS at least at the current pace to sustain smooth market functioning and help foster 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 November 6, 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 and agency mortgage-backed securities (MBS) at the current pace. 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 the statement below for release 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 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, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster 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, Mary C. Daly, Patrick Harker, Robert S. Kaplan, Loretta J. Mester, and Randal K. Quarles.

Voting against this action: None.

Ms. Daly voted as alternate member at this meeting.

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 November 6, 2020.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, December 15–16, 2020. The meeting adjourned at 10:05 a.m. on November 5, 2020.

Notation Votes

By notation vote completed on September 30, 2020, the Committee unanimously approved the selection of Trevor Reeve to serve as economist and Rochelle Edge to serve as associate economist, effective October 1, 2020.

By notation vote completed on October 6, 2020, the Committee unanimously approved the minutes of the Committee meeting held on September 15–16, 2020.

James A. Clouse
Secretary