Minutes of the Federal Open Market Committee
March 16–17, 2021

A joint meeting of the Federal Open Market Committee and the Board of Governors was held by videoconference on Tuesday, March 16, 2021, at 11:00 a.m. and continued on Wednesday, March 17, 2021, at 9:00 a.m.[1]

PRESENT:
- Jerome H. Powell, Chair
- John C. Williams, Vice Chair
- Thomas I. Barkin
- Raphael W. Bostic
- Michelle W. Bowman
- Lael Brainard
- Richard H. Clarida
- Mary C. Daly
- Charles L. Evans
- Randal K. Quarles
- Christopher J. Waller

James Bullard, Esther L. George, Loretta J. Mester, and Eric Rosengren, Alternate Members of the Federal Open Market Committee

Patrick Harker, Robert S. Kaplan, and Neel Kashkari, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

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

Shaghil Ahmed, Kartik B. Athreya, Brian M. Doyle, Rochelle M. Edge, Eric M. Engen, Sylvain Leduc, Anna Paulson, and William Wascher, Associate Economists

Lorie K. Logan, Manager, System Open Market Account

Patricia Zobel, Deputy Manager, System Open Market Account

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

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

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

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

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

Elizabeth Klee, Senior Associate Director, Division of Financial Stability, Board of Governors; David E. Lebow and Michael G. Palumbo, Senior Associate Directors, Division of Research and Statistics, Board of Governors

Don H. Kim and Ellen E. Meade, Senior Advisers, Division of Monetary Affairs, Board of Governors

Glenn Follette, Associate Director, Division of Research and Statistics, Board of Governors; David López-Salido, Associate Director, Division of Monetary Affairs, Board of Governors

Stephanie E. Curcuru, Deputy Associate Director, Division of International Finance, Board of Governors; Christopher J. Gust, Deputy Associate Director, Division of Monetary Affairs, Board of Governors; Norman J. Morin and Paul A. Smith, Deputy Associate Directors, Division of Research and Statistics, Board of Governors; Jeffrey D. Walker,[2] Deputy Associate Director, Division of

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

[2] Attended through the discussion of developments in financial markets and open market operations.

Reserve Bank Operations and Payment Systems, Board of Governors

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

Brian J. Bonis, Michiel De Pooter, and Zeynep Senyuz,[2] Assistant Directors, Division of Monetary Affairs, Board of Governors

Alyssa G. Anderson,[2] Section Chief, Division of Monetary Affairs, Board of Governors; Penelope A. Beattie,[2] Section Chief, Office of the Secretary, Board of Governors

Mark A. Carlson, Senior Economic Project Manager, Division of Monetary Affairs, Board of Governors

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

Michele Cavallo, Sebastian Infante, and Ander Perez-Orive, Principal Economists, Division of Monetary Affairs, Board of Governors

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

Anthony Sarver,[2] Senior Financial Institution Policy Analyst, Division of Monetary Affairs, Board of Governors

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

Michael Dotsey, Executive Vice President, Federal Reserve Bank of Philadelphia

Anne Baum, Edward S. Knotek II, Giovanni Olivei, Paula Tkac, and Mark L.J. Wright, Senior Vice Presidents, Federal Reserve Banks of New York, Cleveland, Boston, Atlanta, and Minneapolis, respectively

Kathryn B. Chen[2] and Jonathan P. McCarthy, Vice Presidents, Federal Reserve Bank of New York

Brett Rose,[2] Assistant Vice President, Federal Reserve Bank of New York

Anthony Murphy, Senior Economic Policy Advisor, Federal Reserve Bank of Dallas

Brent Bundick, Research and Policy Advisor, Federal Reserve Bank of Kansas City

Michael Koslow,[2] Markets Officer, Federal Reserve Bank of New York

Fernando M. Martin, Research Officer, Federal Reserve Bank of St. Louis

William G. O'Boyle,[2] Policy and Markets Manager, Federal Reserve Bank of New York

Michael Junho Lee,[2] Economist, Federal Reserve Bank of New York

Action to Adopt Changes to the Committee's Rules Regarding Availability of Information

By unanimous vote, the Committee approved a final rule that revises its Rules Regarding Availability of Information, which are the Committee's Freedom of Information Act (FOIA) rules. The revised FOIA rules, which include a range of minor and technical updates, will become effective 30 days after the forthcoming publication of the final rule in the *Federal Register*.

Developments in Financial Markets and Open Market Operations

The manager turned first to a discussion of financial market developments. In the United States, the trend toward higher longer-term yields observed in recent months accelerated over the intermeeting period, and far-forward real rates based on Treasury Inflation-Protected Securities (TIPS) rose considerably. Market participants highlighted an improving economic outlook, bolstered by passage of the American Rescue Plan (ARP) and progress on vaccinations, as underlying the increase in yields. Model- and survey-based estimates suggested that a significant portion of the increase in yields was associated with an increase in term premiums. Higher term premiums could reflect the outlook for more expansive fiscal policy and an associated upward revision in the expected path for Treasury debt outstanding. Increased uncertainty over the outlook for longer-term interest rates as well as technical factors may also have contributed to the rise in term premiums. The Treasury market functioned well over most of the period, although measures of market liquidity deteriorated somewhat toward the end of February. Conditions gradually improved, although some measures of market liquidity had not fully returned to earlier levels.

Rates implied by interest rate futures maturing over the next several years rose notably over the intermeeting period, reportedly reflecting a reassessment by market participants of the expected path of the target range for the federal funds rate. Since the January meeting, the date of the first increase in the target range for the federal funds rate implied by a straight read of market pricing moved notably earlier to the first quarter of 2023, and the implied target rate at the end of 2023 rose around 50 basis points. However, responses to the Open Market Desk surveys suggested more modest changes to policy rate expectations. The probability-weighted mean survey expectation for the target rate at the end of 2023 rose only around 5 basis points.

Expectations for economic conditions at the time of the first increase in the target range, as measured by the Desk surveys, appeared to remain broadly consistent with the Committee's policy framework and forward guidance. Expectations from the Desk surveys for the path of asset purchases were little changed. Contacts noted that these expectations have been held steady by policymaker communications emphasizing both the need to see realized progress toward the Committee's goals and the intent to communicate well in advance of the time when progress could be judged substantial enough to warrant a change in the pace of purchases.

Alongside the rise in U.S. yields, broad U.S. equity price indexes increased moderately, with the largest gains in cyclically sensitive sectors. The rise in U.S. yields was also accompanied by increases in sovereign yields in other advanced economies. Some central banks responded to these yield increases with adjustments to operations; others suggested that the rising yields reflected improvements in the outlook.

The deputy manager discussed the evolution of the Federal Reserve's balance sheet and related developments in money markets. Reserve balances rose more than \$400 billion, on net, over the intermeeting period to \$3.7 trillion, while Treasury bills outstanding decreased more than \$200 billion. Against this backdrop, the effective federal funds rate softened modestly, while repurchase agreement (repo) rates declined to a greater extent. Moreover, market participants projected that reserves would grow at a historically rapid pace in coming months, reflecting continued expansion of the Federal Reserve's balance sheet along with a projected drawdown in the balances maintained in the Treasury General Account. Market contacts suggested that continued rapid expansion of reserves could put further downward pressure on money market rates. The deputy manager noted that the earliest and most pronounced pressure was likely to be observed in overnight secured financing markets, and there could be increasing usage of the overnight reverse repurchase agreement (ON RRP) facility.

In light of the potential for expanded use of the ON RRP facility, the staff had conducted a review to ensure that the terms of the facility and its counterparty base were well positioned to continue to support effective policy implementation. By offering a broad range of money market lenders an outside investment option, the ON RRP facility enhances lenders' bargaining power in negotiating rates on short-term private investments and thus helps establish a floor on overnight money market rates. The facility can also alleviate downward pressure on overnight rates associated with reserve growth by broadening the range of liabilities that support the Federal Reserve's balance sheet expansion. The review recommended raising the ON RRP per-counterparty limit from \$30 billion to \$80 billion. The \$30 billion limit had been established a number of years ago, and the amount of credit intermediated through money markets had grown substantially since then. The increase in the limit to \$80 billion would restore the capacity of the facility relative to the aggregate size of money fund counterparties to roughly the level in place when the facility was established. The staff would also monitor money market conditions on an ongoing basis to assess whether any additional adjustments were needed to the ON RRP facility terms.

In addition to changes to the ON RRP parameters, the deputy manager also noted that the Federal Reserve could consider adjusting its administered rates if undue downward pressure on overnight rates emerged. Responses to the Desk surveys indicated that many market participants anticipated adjustments to the interest on excess reserves rate and the ON RRP rate at or before the June meeting. Finally, in light of more normal conditions in agency commercial mortgage-backed securities (CMBS) markets, the Desk planned to conduct agency CMBS operations as needed to sustain smooth market functioning but would cease regularly scheduled CMBS operations.

In their discussion following the Desk briefings, participants noted that the ON RRP facility had been very effective in establishing a firm floor for the federal funds rate and supporting monetary policy implementation. Participants commented that the facility would continue to be an important part of the monetary policy implementation framework going forward, particularly in coming months with reserve levels projected to rise rapidly. Participants broadly supported the proposed increase in the counterparty limit, and a few participants also noted that they would support removing the limit altogether. A few participants suggested that some type of dynamic or differential limit could be considered in the future to enable the ON RRP facility to adapt more readily to market developments. A few participants noted that the concerns at the time the facility was established about possible adverse effects of the ON RRP facility on financial stability and the structure of money markets had not materialized. Indeed, over the spring of 2020, the facility played an important role in helping stabilize money market conditions. In light of the potential for greater use of the ON RRP facility going forward in connection with the expansion of the Federal Reserve's balance sheet and associated downward pressure on overnight rates, a couple of participants noted that it might be useful to review lessons learned regarding the ON RRP facility since its inception.

Following the discussion, the Chair noted the potential for downward pressure on money market rates and suggested that, should undue downward pressure on overnight rates emerge, it might be appropriate to implement adjustments to administered rates at upcoming meetings or even between meetings to support effective policy implementation and ensure that the federal funds rate remains well within the target range.

By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. No intervention operations occurred in foreign currencies for the System's account during the intermeeting period.

Staff Review of the Economic Situation

The COVID-19 pandemic and the measures undertaken to contain its spread continued to affect economic activity in the United States and abroad. The information available at the time of the March 16–17 meeting suggested that U.S. real gross domestic product (GDP) was expanding in the first quarter of 2021 at a pace that was faster than in the fourth quarter of last year, although the level of real GDP had likely not yet returned to the level seen before the onset of the pandemic. Labor market conditions improved in January and February, but employment was still well below its level at the start of 2020. Consumer price inflation through January—as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE)—remained well below 2 percent.

Total nonfarm payroll employment increased solidly over January and February after softening at the end of last year. As of February, payroll employment had retraced somewhat more than half of the losses seen since the onset of the pandemic. The unemployment rate fell to 6.2 percent in February. The unemployment rates for Hispanics and Asians declined, on balance, over January and February, while the unemployment rate for African Americans was unchanged on net; the rates for both African Americans and Hispanics remained well above the national average. Even though the labor force participation rate edged down, the employment-to-population ratio moved up somewhat over January and February; both measures remained below their pre-pandemic levels. Initial claims for unemployment insurance in early March were at their lowest level since November of last year. Weekly estimates of private-sector payrolls constructed by Federal Reserve Board staff using data provided by the payroll processor ADP indicated that the four-week average increase in private employment at the end of February was about the same as it had been in the middle of the month, when the Bureau of Labor Statistics collects payroll employment data.

Average hourly earnings for all employees rose 5.3 percent over the 12 months ending in February, and labor compensation per hour in the business sector increased 6.6 percent over the four quarters of 2020. The gains in both these measures, however, continued to be dominated by changes in the composition of the workforce. In particular, the concentration of job losses among lower-wage workers since early last year had resulted in outsized increases in average hourly earnings and compensation per hour that were not indicative of tight labor market conditions. By contrast, the employment cost index of total hourly compensation in the private sector rose 2.6 percent over the 12 months of last year, and a staff estimate of the 12-month change in the median wage derived from the ADP data was 3.2 percent in January. These measures are likely to have been less affected by changes in workforce composition, and they were rising more slowly than their pre-pandemic pace.

Total PCE price inflation was 1.5 percent over the 12 months ending in January and continued to be held down by slack in resource utilization. Core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, also was 1.5 percent over the 12 months ending in January, while the trimmed mean measure of 12-month PCE inflation constructed by the Federal Reserve Bank of Dallas was 1.7 percent in January. In February, the 12-month change in the consumer price index (CPI) was 1.7 percent, while core CPI inflation was 1.3 percent over the same period. The latest readings on survey-based measures of longer-run inflation expectations were little changed on balance. In early March, the University of Michigan Surveys of Consumers preliminary measure for the next 5 to 10 years was the same as in the previous two months, while in February, the 3-year-ahead measure of inflation expectations produced by the Federal Reserve Bank of New York was essentially unchanged from its January level. The Survey of Professional Forecasters measure of PCE price inflation over the next 10 years edged up in the first quarter, returning to its pre-pandemic level. A staff index of common inflation expectations, which summarizes the co-movement of a wide variety of inflation expectations measures, was at about the same level in the fourth quarter of last year as in the third quarter.

Consumer spending appeared to be increasing in the first quarter at a pace considerably faster, on balance, than in the fourth quarter of last year. Real PCE expanded strongly in January after declining over the preceding two months, with spending likely boosted by federal stimulus payments sent out in early January. The components of the nominal retail sales data used by the Bureau of Economic Analysis to estimate PCE pointed to a step-down in spending in February, but revised data for the previous month suggested an even stronger gain in January. Spending in March was expected to be boosted by additional federal stimulus payments from the ARP, which started to be distributed around the middle of the month. In addition, the personal saving rate jumped to an even higher level in January, and ongoing gains in labor earnings along with further fiscal support pointed to additional increases in accumulated household savings. Moreover, the preliminary reading of consumer sentiment from the Michigan survey moved up notably in early March to its highest level over the past year, reportedly reflecting the growing number of vaccinations and the enactment of the ARP, although consumer sentiment remained below its levels from just before the onset of the pandemic.

Construction of single-family homes and home sales remained well above their pre-pandemic levels. However, the incoming data for this sector were mixed. Starts of single-family homes moved down notably over January and February, in part likely reflecting severe winter weather in February. Starts of multifamily units also fell in February but by less than the strong increase seen in January. Construction permits for single-family homes moved down, on net, over January and February, pointing to some slowing in construction in coming months. Sales of both new and existing homes increased further in January, and home prices continued to rise briskly.

Business investment in equipment and intangibles was continuing to increase in the first quarter after rising appreciably in the fourth quarter of last year. Nominal shipments of nondefense capital goods excluding aircraft expanded strongly in January, and rising orders for these goods pointed to further gains in business equipment spending in coming months. Business investment in the drilling and mining sector appeared to be increasing further after turning up sharply in the fourth quarter, as crude oil and natural gas rigs in operation—an indicator of drilling investment—continued to rise through early March with oil prices moving higher. Nominal nonresidential construction spending rose somewhat in January, but investment in nonresidential structures outside of the drilling and mining sector looked to remain weak in the current quarter after declining further in the fourth quarter, reflecting continued hesitation by businesses to commit to building projects with lengthy times to completion and uncertain future returns.

Industrial production continued to rise solidly in January but then fell markedly in February, largely reflecting declines in manufacturing and mining sector output caused by severe winter weather in the south central region of the country in the middle of that month. Along with the severe weather, a cutback in the production of motor vehicles and parts also reflected a global shortage of semiconductors. New orders indexes in national and regional manufacturing surveys pointed toward solid increases in factory output in the coming months, although reports of shortages in materials and labor, as well as bottlenecks in transportation, signaled some potential restraints on the pace of the manufacturing recovery.

Total real government purchases appeared to be rising in the first quarter after edging down in the fourth quarter. Although data through February indicated that defense spending was moving down, a likely bounceback in nondefense spending was expected to lift total federal purchases. State and local government purchases looked to be increasing, as the payrolls of these governments expanded, on net, over January and February, and nominal state and local construction spending increased solidly in January. Moreover, additional federal support for state and local governments included in the ARP, along with an improved outlook for state and local tax revenues, pointed to further notable increases in state and local purchases.

Data for December and January showed a narrower nominal U.S. international trade deficit than in November. Both imports and exports continued to rebound from their collapse in the first half of last year. Goods imports in January were much higher than a year earlier, with continued gains in most categories. Nominal goods exports in January nearly recovered to their level from a year earlier, with particular strength in exports of capital goods and industrial supplies. Services imports and exports remained depressed, weighed down by the continued suspension of most international travel.

Recent data pointed to a slowdown in economic activity across foreign economies around the turn of the year, as tight social-distancing restrictions were imposed to rein in a new wave of COVID-19 infections in various parts of the world, most notably in Europe and Latin America. Even so, economies appeared to be better adapted to operating under restrictions than during previous waves of infections. Manufacturing activity continued to generally outperform activity in the services sector, and manufactured exports from China and some other Asian economies remained strong, especially to the United States. Inflation rebounded in many foreign economies, reflecting rising energy prices and other temporary factors. However, underlying inflationary pressures remained subdued.

Staff Review of the Financial Situation

Investors appeared to have become more optimistic about the economic outlook over the intermeeting period against the backdrop of progress on COVID-19 vaccinations, signs of stronger domestic spending, and additional fiscal stimulus. The nominal Treasury yield curve steepened markedly, largely because of increases in longer-term real yields, although measures of inflation compensation also increased further. Despite the spikes in equity market volatility early in the intermeeting period, spurred by heavy trading concentrated in a few specific stocks and subsequent concerns over the rapid rise in longer-term interest rates, broad equity price indexes rose on net. Consistent with the stronger outlook, spreads on high-yield corporate bonds narrowed. Financing conditions for businesses with access to capital markets and households with high credit scores remained broadly accommodative, but conditions stayed tight for other borrowers.

The Treasury yield curve steepened over the intermeeting period, with 5- and 10-year yields rising markedly. Measures of inflation compensation increased moderately, on net, continuing the trend observed over recent months. However, in contrast to recent months, most of the recent increase in longer-term Treasury yields was accounted for by higher TIPS-implied real yields. Market participants attributed the increases in longer-term yields in part to increased investor optimism about the economic outlook and expectations of higher Treasury debt issuance. On February 25, yields rose especially sharply. Market depth became thin, and bid-ask spreads widened, but Treasury market liquidity gradually recovered over the following days. Swaption-implied volatilities of longer-term interest rates rose notably.

The expected path for the federal funds rate over the next few years, as implied by a straight read of overnight index swap quotes, rose substantially since the previous FOMC meeting and moved above 25 basis points in the first quarter of 2023, about three quarters sooner than expected at the time of the January meeting.

Broad stock price indexes increased, on net, over the intermeeting period, consistent with increased investor optimism about the economic outlook and the enactment of the ARP. Stocks in cyclically sensitive industries such as energy, banking, and small caps recorded sizable gains, while other sectors experienced mixed performance. One-month option-implied volatility on the S&P 500—the VIX—fluctuated over a wide range during the intermeeting period but moved lower on balance. Spreads of corporate bond yields over comparable-maturity Treasury yields were roughly unchanged on investment-grade corporate bonds but narrowed for speculative-grade bonds.

Conditions in short-term funding markets remained stable over the intermeeting period. Spreads on commercial paper and negotiable certificates of deposit across different tenors were little changed and remained near historically low levels. Assets under management (AUM) of government money market funds (MMFs) rose over the intermeeting period, whereas AUM of prime MMFs declined somewhat.

The effective federal funds rate and the Secured Overnight Financing Rate averaged 7 basis points and 3 basis points, respectively, over the intermeeting period, decreasing somewhat relative to the previous intermeeting period average amid a net decrease in Treasury bill issuance and rising reserves. There continued to be no participation in the Federal Reserve's repo operations, but participation in the Federal Reserve's ON RRP increased a little. Amid stable market conditions, there was no take-up in the Money Market Mutual Fund Liquidity Facility or the Commercial Paper Funding Facility.

Improved U.S. economic growth prospects and optimism about the eventual lifting of social-distancing and related restrictions globally were major drivers of asset prices abroad, spurring sizable increases in sovereign yields in advanced foreign economies. In response to rising yields, the Reserve Bank of Australia increased its bond purchases, and the European Central Bank indicated it would increase the pace of its bond purchases going forward. The broad dollar index rose modestly, with more notable appreciation against currencies of emerging market economies (EMEs). EME sovereign spreads edged up, and flows into EME bond funds fell back later in the period amid the rise in yields in advanced economies. However, flows into dedicated EME equity funds remained strong. Overall, foreign equity indexes increased slightly in most major markets.

Financing conditions for nonfinancial businesses in capital markets remained broadly accommodative over the intermeeting period, supported by low interest rates and high equity valuations. Gross and net corporate bond issuances were solid in January and February. Gross issuance of leveraged loans was strong in January, driven mainly by refinancing activity, as primary-market spreads compressed notably since the end of last year in response to strong investor demand for such loans. Equity raised through traditional initial public offerings and seasoned equity offerings continued to be strong in January and February, and initial equity offerings by special purpose acquisition companies remained exceptionally high. Commercial and industrial loans outstanding on banks' balance sheets continued to decline through February as loan paydowns persisted and demand for new bank credit reportedly remained subdued.

Corporate earnings continued to recover while the credit quality of nonfinancial corporations improved further. Corporate bond defaults declined in December and January and reached levels substantially below their 2019 average. In addition, the volume of nonfinancial corporate credit rating upgrades modestly outpaced downgrades over the first two months of 2021. Market indicators of future default expectations moved lower.

Financing conditions for small businesses remained tight. Demand for loans remained depressed—and loan originations fell in December last year to about the same level seen in August—after the spike in lending associated with the first round of the Paycheck Protection Program. Long-term delinquencies remained elevated relative to recent years but were at levels significantly below those experienced during the Global Financial Crisis. Municipal market financing conditions stayed accommodative over the intermeeting period.

For commercial real estate (CRE) financed through capital markets, financing conditions remained accommodative over the intermeeting period. Agency CMBS spreads narrowed further with strong issuance in December and January. Spreads on non-agency CMBS also tightened, although triple-B spreads stayed at elevated levels compared with pre-pandemic levels. Issuance of non-agency CMBS remained weak relative to pre-pandemic levels. CRE loan growth at banks was weak, on net, through February, consistent with tight bank lending standards.

Financing conditions in the residential mortgage market tightened somewhat over the intermeeting period but remained accommodative for stronger borrowers. Mortgage rates for most borrowers increased but stayed near historically low levels, supporting elevated refinance and purchase activity through January. Credit was broadly available to higher-score borrowers meeting standard conforming loan criteria but tightened further for borrowers with lower credit scores. The share of mortgages in forbearance was unchanged.

Financing conditions in consumer credit markets remained generally accommodative for borrowers with strong credit scores but were still tight for those with nonprime scores. Auto loan balances continued to grow in January, while credit card balances declined. Interest rates on new credit card offers to borrowers with prime credit scores continued to trend down, on net, through December. In contrast, offer rates to nonprime borrowers rose further. Conditions in the asset-backed securities market were stable during the intermeeting period.

Staff Economic Outlook

The U.S. economic projection prepared by the staff for the March FOMC meeting was considerably stronger than the January forecast. Real GDP growth appeared to be picking up at the beginning of this year by more than the staff had expected, likely reflecting both a faster-than-anticipated easing in social distancing and a more rapid response by households to the fiscal support package enacted in late December. Moreover, the size of the ARP enacted in March was considerably larger than what the staff had assumed in the January projection. All told, real GDP growth was projected to be substantial this year and the unemployment rate was forecast to decline markedly, as the staff's projection also continued to anticipate that widespread vaccination would allow for further easing in social distancing this year. Real GDP growth was expected to step down in 2022 and 2023 but still outpace that of potential over this period, leading to a decline in the unemployment rate to historically low levels, as monetary policy was assumed to remain highly accommodative.

Incoming data on inflation were a little above what the staff had expected. The 12-month changes in total and core PCE prices were expected to transitorily move above 2 percent in coming months, as the low inflation readings from the spring of last year dropped out of the calculation window. In addition, inflation was forecast to be temporarily boosted this year by the expected emergence of some production bottlenecks and supply constraints. Following the transitory increase this year, inflation was projected to run a bit below 2 percent next year and then to reach 2 percent by 2023, reflecting tight resource utilization in product and labor markets.

The staff continued to see the uncertainty surrounding the outlook as elevated. Moreover, the uncertain course of the pandemic, particularly the emergence of more-contagious strains of the coronavirus in the United States and elsewhere, was still viewed as tilting the risks to the economic outlook to the downside. However, given the resilience of the economy in the face of the earlier surge in new COVID-19 cases, hospitalizations, and deaths and the magnitude of fiscal support enacted, the downside risks to the economic outlook were seen as smaller than for the previous projection. The staff viewed the risks of upside inflationary pressures as having increased since the previous forecast and now saw the risks to the inflation projection as balanced.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, participants submitted their projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2021 through 2023 and over the longer run, based on their individual assessments of appropriate monetary policy, including the path of the federal funds rate. The longer-run projections represented each participant's assessment of the rate to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. A Summary of Economic Projections was released to the public following the conclusion of the meeting.

In their discussion of current conditions, participants noted that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. Following a moderation in the pace of the recovery, indicators of economic activity and employment had turned up recently, although the sectors most adversely affected by the pandemic remained weak. Inflation continued to run below 2 percent. 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 noted that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations, and that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation and posed considerable risks to the economic outlook.

Participants observed that the pace of the economic recovery had picked up recently and that the economy continued to show resilience in the face of the pandemic. They noted encouraging developments regarding the pandemic, including significant declines in the number of new cases, hospitalizations, and deaths over the intermeeting period as well as a pickup in the pace of vaccinations. In light of these developments as well as the extent of the recent fiscal policy support, participants significantly revised up their projections for real GDP growth this year compared with the projections they submitted last December. They noted, however, that economic activity and employment were currently well below levels consistent with maximum employment.

Participants observed that the economic downturn had not fallen equally on all Americans and that lower-income and Black and Hispanic households had been disproportionately affected by the pandemic. A number of participants stressed that recently enacted fiscal support would help address some of the hardships faced by these groups and that monetary policy would also help by promoting the economy's return to the Committee's goals of broad-based and inclusive maximum employment and price stability.

Participants observed that household spending had risen notably so far this year and anticipated that further gains in consumer spending would contribute significantly to the economic recovery. While household spending on services that typically require close personal contact remained weak, participants expected spending on these services would improve as vaccinations became more widespread, social-distancing measures were relaxed, and the public became less wary of close personal interactions. Participants anticipated consumer spending would be bolstered by the recently enacted fiscal stimulus packages as well as by accommodative monetary policy. Many participants also pointed to the elevated level of household savings and judged that the release of pent-up demand could boost consumption growth further as social distancing waned. Participants also observed that residential construction continued to be solid and home sales remained robust in part because of low interest rates. Low inventory was viewed as an important factor supporting strong gains in housing prices.

With respect to the business sector, participants observed that business equipment investment had continued to increase and that readings on new orders and shipments of capital goods remained strong. While some District contacts continued to report that firms in industries such as CRE or leisure, travel, and hospitality were struggling from pandemic-related social distancing, other District contacts reported that activity in these industries had started to improve. Participants noted that surveys of business activity had picked up recently and that many District contacts were growing increasingly optimistic about business prospects given ongoing progress on vaccinations. Participants also discussed reports of shortages in materials, key intermediate inputs, and labor as well as bottlenecks in shipping. A few participants noted that higher crop prices were continuing to boost income in the agricultural sector. Several participants judged that the support provided by the ARP could improve the financial positions of small firms that had been adversely affected by the pandemic.

Participants observed that labor market conditions had improved recently, as payroll employment registered strong gains in February and the unemployment rate fell to 6.2 percent. Even so, payroll employment was about 9.5 million jobs below its pre-pandemic level, and labor market conditions for those in the most disadvantaged communities were viewed as lagging behind those of other households. Moreover, participants noted that employment in the leisure and hospitality sector was still down substantially from its pre-pandemic level despite a sharp rebound in February. Participants generally expected strong job gains to continue over coming months and into the medium term, supported by accommodative fiscal and monetary policies as well as by continued progress on vaccinations, further reopening of sectors most affected by the pandemic, and the associated recovery in economic activity. However, participants noted that the economy was far from achieving the Committee's broad-based and inclusive goal of maximum employment. Some participants commented that labor force participation continued to be held down by workers' health concerns and additional childcare responsibilities associated with virtual schooling and that the pace of recovery in the labor market would depend importantly on how rapidly those affected by these issues could rejoin the labor force. Several participants noted that the speed of the labor market recovery also depended on factors such as the movement of workers across industries and occupations in a restructuring economy or the effects of technological change on the demand for labor. Several participants suggested that the ARP could hasten the recovery, which could help limit longer-term damage in labor markets caused by the pandemic.

Participants observed that headline PCE inflation continued to run below 2 percent. In the near term, the 12-month change in PCE prices was expected to move above 2 percent as the low inflation readings from the spring of last year drop out of the calculation. Most participants also pointed to supply constraints that could contribute to price increases for some goods in coming months as the economy continued to reopen. After the transitory effects of these factors fade, however, participants generally anticipated that annual inflation readings would edge down next year. Subsequently, participants expected that inflation would likely move along a trajectory consistent with achieving the Committee's objectives over time, supported by strong aggregate demand, which participants expected would be driven in part by accommodative monetary and fiscal policies.

Participants discussed market- and survey-based measures of longer-term inflation expectations and their implications for the inflation outlook. Market-based measures of inflation compensation at the 5- and 10-year horizons had continued to move up over the intermeeting period, while survey-based measures of inflation expectations were little changed on balance. A number of participants indicated that the increases in market-based measures of inflation compensation from the very low levels of last spring were consistent with the view that inflation was likely to move along a path over time consistent with the Committee's goals.

Participants noted that overall financial conditions remained highly accommodative, in part reflecting the stance of monetary policy. Participants commented on the notable rise in longer-term Treasury yields that occurred over the intermeeting period and generally viewed it as reflecting the improved economic outlook, some firming in inflation expectations, and expectations for increased Treasury debt issuance. Disorderly conditions in Treasury markets or a persistent rise in yields that could jeopardize progress toward the Committee's goals were seen as cause for concern. While overall financial conditions were still seen as accommodative, a number of participants remarked that financing conditions remained challenging for many small businesses. A couple of participants expressed concern that highly accommodative financial conditions could lead to excessive risk-taking and the buildup of financial imbalances.

While generally acknowledging that the medium-term outlook for real GDP growth and employment had improved, participants continued to see the uncertainty surrounding that outlook as elevated. Participants agreed that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations. Most participants indicated that the pandemic continued to pose considerable risks to the economic outlook, including risks associated with new more-contagious virus strains, obstacles in getting sufficient numbers of the public vaccinated, or social-distancing fatigue. A few participants pointed to risks associated with stress in the CRE sector or to risks associated with the unwinding of mortgage forbearance and eviction moratoriums provided to households. With regard to upside risks, some participants pointed to the possibility that fiscal policy could have a more expansionary effect than anticipated, that households could display a greater-than-expected willingness to spend out of accumulated savings, or that widespread vaccinations and easing of social distancing could result in a more rapid boost to spending and employment than anticipated.

Most participants noted that they viewed the risks to the outlook for inflation as broadly balanced. Several remarked that supply disruptions and strong demand could push up price inflation more than anticipated. Several participants commented that the factors that had contributed to low inflation during the previous expansion could again exert more downward pressure on inflation than expected.

In their consideration of the stance of monetary policy, participants reaffirmed the Federal Reserve's commitment to using its full range of tools to support the U.S. economy during this challenging time, thereby promoting the Committee's statutory goals of maximum employment and price stability. Participants noted that indicators of economic activity and employment had turned up recently after a period of moderation, although the sectors most adversely affected by the pandemic remained weak. Despite these positive indicators and an improved public health situation, participants agreed that the economy remained far from the Committee's longer-run goals and that the path ahead remained highly uncertain, with the pandemic continuing to pose considerable risks to the outlook. Consequently, participants judged that the current stance of policy and policy guidance remained appropriate to foster further economic recovery as well as to achieve inflation that averages 2 percent over time and longer-term inflation expectations that remain well anchored at 2 percent.

Participants judged that the Committee's current guidance for the federal funds rate and asset purchases was serving the economy well. They noted that a benefit of the outcome-based guidance was that it did not need to be recalibrated often in response to incoming data or the evolving outlook. Participants also noted the importance of communicating to the public that the existing guidance, together with the new monetary policy framework as delineated in the revised Statement on Longer-Run Goals and Monetary Policy Strategy, meant that the path of the federal funds rate and the balance sheet depend on actual progress toward reaching the Committee's maximum-employment and inflation goals. In particular, various participants noted that changes in the path of policy should be based primarily on observed outcomes rather than forecasts.

Participants agreed that overall financial conditions were accommodative. They noted that the Federal Reserve's asset purchases since last March had materially eased financial conditions and were providing substantial support to the economy. Participants noted that it would likely be some time until substantial further progress toward the Committee's maximum-employment and price-stability goals would be realized and that, consistent with the Committee's outcome-based guidance, asset purchases would continue at least at the current pace until then. A number of participants highlighted the importance of the Committee clearly communicating its assessment of progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of asset purchases. The timing of such communications would depend on the evolution of the economy and the pace of progress toward the Committee's goals.

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 following a moderation in the pace of the recovery, indicators of economic activity and employment had turned up recently, although the sectors most adversely affected by the pandemic remained weak. Inflation continued to run below 2 percent. 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 also remarked that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations. In addition, members agreed that the ongoing public health crisis continued to weigh on economic activity, employment, and inflation and was posing considerable risks to the economic outlook.

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. 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 it would be appropriate for the Federal Reserve to continue to increase its holdings of Treasury securities by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion per month until substantial further progress had been made toward the Committee's maximum-employment and price-stability goals. They judged that these asset purchases would help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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

With regard to the postmeeting statement, in light of the notably positive tone of recent data, members judged that it was appropriate to incorporate that development in the description of the economic situation with the language that "indicators of economic activity and employment have turned up recently." Members also determined that, with oil prices having essentially retraced their pandemic-related declines, it was appropriate to remove the reference to oil prices as a factor holding down consumer price inflation and to simply state that "inflation continues to run below 2 percent." Regarding the directive to the Desk, members agreed that the directive should incorporate the proposed increase in the per-counterparty limit for the ON RRP facility to $80 billion.

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 System Open Market Account in accordance with the following domestic policy directive, for release at 2:00 p.m.:

> "Effective March 18, 2021, the Federal Open Market Committee directs the Desk to:
>
> - Undertake open market operations as necessary to maintain the federal funds rate in a target range of 0 to ¼ percent.
> - Increase the System Open Market Account holdings of Treasury securities by $80 billion per month and of agency mortgage-backed securities (MBS) by $40 billion per month.
> - Increase holdings of Treasury securities and agency MBS by additional amounts and purchase agency commercial mortgage-backed securities (CMBS) as needed to sustain smooth functioning of markets for these securities.
> - Conduct 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 $80 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. Following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak. Inflation continues to run below 2 percent. 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, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.
>
> 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, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.
>
> In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

Voting for this action: Jerome H. Powell, John C. Williams, Thomas I. Barkin, Raphael W. Bostic, Michelle W. Bowman, Lael Brainard, Richard H. Clarida, Mary C. Daly, Charles L. Evans, Randal K. Quarles, 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 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 March 18, 2021.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, April 27–28, 2021. The meeting adjourned at 10:20 a.m. on March 17, 2021.

Notation Vote

By notation vote completed on February 16, 2021, the Committee unanimously approved the minutes of the Committee meeting held on January 26–27, 2021.

James A. Clouse
Secretary