Minutes of the Federal Open Market Committee
January 26–27, 2016

A joint meeting of the Federal Open Market Committee and the Board of Governors was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, January 26, 2016, at 12:00 p.m. and continued on Wednesday, January 27, 2016, at 9:00 a.m.[1]

PRESENT:

Janet L. Yellen, Chair
William C. Dudley, Vice Chairman
Lael Brainard
James Bullard
Stanley Fischer
Esther L. George
Loretta J. Mester
Jerome H. Powell
Eric Rosengren
Daniel K. Tarullo

Charles L. Evans, Patrick Harker, Robert S. Kaplan, and Neel Kashkari, Alternate Members of the Federal Open Market Committee

Jeffrey M. Lacker, Dennis P. Lockhart, and John C. Williams, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Brian F. Madigan, Secretary
Matthew M. Luecke, Deputy Secretary
David W. Skidmore, Assistant Secretary
Michelle A. Smith, Assistant Secretary
Scott G. Alvarez, General Counsel
Thomas C. Baxter, Deputy General Counsel
Steven B. Kamin, Economist
Thomas Laubach, Economist
David W. Wilcox, Economist

Thomas A. Connors, Troy Davig, Michael P. Leahy, Jonathan P. McCarthy, Stephen A. Meyer, Ellis W. Tallman, and William Wascher, Associate Economists

Simon Potter, Manager, System Open Market Account

Lorie K. Logan, Deputy Manager, System Open Market Account

Robert deV. Frierson, Secretary of the Board, Office of the Secretary, Board of Governors

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

Nellie Liang, Director, Office of Financial Stability Policy and Research, Board of Governors

James A. Clouse and William R. Nelson, Deputy Directors, Division of Monetary Affairs, Board of Governors; Daniel M. Covitz, Deputy Director, Division of Research and Statistics, Board of Governors

William B. English, Senior Special Adviser to the Board, Office of Board Members, Board of Governors

Andrew Figura, Ann McKeehan,[2] David Reifschneider, and Stacey Tevlin, Special Advisers to the Board, Office of Board Members, Board of Governors

Trevor A. Reeve, Special Adviser to the Chair, Office of Board Members, Board of Governors

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

Eric M. Engen, Senior Associate Director, Division of Research and Statistics, Board of Governors; Beth Anne Wilson, Senior Associate Director, Division of International Finance, Board of Governors

Michael T. Kiley, Senior Adviser, Division of Research and Statistics, and Senior Associate Director, Office of Financial Stability Policy and Research, Board of Governors

Ellen E. Meade and Joyce K. Zickler, Senior Advisers, Division of Monetary Affairs, Board of Governors;

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

[2] Attended Wednesday session only.

Jeremy B. Rudd, Senior Adviser, Division of Research and Statistics, Board of Governors

Gretchen C. Weinbach, Associate Director, Division of Monetary Affairs, Board of Governors

Min Wei, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Glenn Follette, Assistant Director, Division of Research and Statistics, Board of Governors

Eric C. Engstrom, Adviser, Division of Research and Statistics, Board of Governors

Penelope A. Beattie,[2] Assistant to the Secretary, Office of the Secretary, Board of Governors

Etienne Gagnon, Section Chief, Division of Monetary Affairs, Board of Governors

Katie Ross,[3] Manager, Office of the Secretary, Board of Governors

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

Deepa Datta, Senior Economist, Division of International Finance, Board of Governors; Jonathan E. Goldberg, Senior Economist, Division of Monetary Affairs, Board of Governors

Achilles Sangster II, Information Management Analyst, Division of Monetary Affairs, Board of Governors

David Altig, Jeff Fuhrer, Glenn D. Rudebusch, and Daniel G. Sullivan, Executive Vice Presidents, Federal Reserve Banks of Atlanta, Boston, San Francisco, and Chicago, respectively

Samuel Schulhofer-Wohl, Senior Vice President, Federal Reserve Bank of Minneapolis

Todd E. Clark,[4] Deborah L. Leonard, Keith Sill, and Mark A. Wynne, Vice Presidents, Federal Reserve Banks of Cleveland, New York, Philadelphia, and Dallas, respectively

[3] Attended Tuesday session only.

[4] Attended the discussion of potential enhancements to the Summary of Economic Projections.

William Dupor, Assistant Vice President, Federal Reserve Bank of St. Louis

Robert L. Hetzel, Senior Economist, Federal Reserve Bank of Richmond

Annual Organizational Matters[5]

In the agenda for this meeting, it was reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for a term beginning January 26, 2016, had been received and that these individuals had executed their oaths of office.

The elected members and alternate members were as follows:

William C. Dudley, President of the Federal Reserve Bank of New York, with Michael Strine, First Vice President of the Federal Reserve Bank of New York, as alternate

Eric Rosengren, President of the Federal Reserve Bank of Boston, with Patrick Harker, President of the Federal Reserve Bank of Philadelphia, as alternate

Loretta J. Mester, President of the Federal Reserve Bank of Cleveland, with Charles L. Evans, President of the Federal Reserve Bank of Chicago, as alternate

James Bullard, President of the Federal Reserve Bank of St. Louis, with Robert S. Kaplan, President of the Federal Reserve Bank of Dallas, as alternate

Esther L. George, President of the Federal Reserve Bank of Kansas City, with Neel Kashkari, President of the Federal Reserve Bank of Minneapolis, as alternate

By unanimous vote, the following officers of the Committee were selected to serve until the selection of their successors at the first regularly scheduled meeting of the Committee in 2017:

Janet L. Yellen	Chairman
William C. Dudley	Vice Chairman
Brian F. Madigan	Secretary
Matthew M. Luecke	Deputy Secretary
David W. Skidmore	Assistant Secretary
Michelle A. Smith	Assistant Secretary
Scott G. Alvarez	General Counsel
Thomas C. Baxter	Deputy General Counsel
Richard M. Ashton	Assistant General Counsel
Steven B. Kamin	Economist

[5] Committee organizational documents are available at www.federalreserve.gov/monetarypolicy/rules_authorizations.htm.

Thomas Laubach	Economist
David W. Wilcox	Economist
Thomas A. Connors	
Troy Davig	
Michael P. Leahy	
David E. Lebow	
Jonathan P. McCarthy	
Stephen A. Meyer	
Ellis W. Tallman	
Geoffrey Tootell	
Christopher J. Waller	
William Wascher	Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account (SOMA).

By unanimous vote, the Committee selected Simon Potter and Lorie K. Logan to serve at the pleasure of the Committee as manager and deputy manager of the SOMA, respectively, on the understanding that these selections were subject to their being satisfactory to the Federal Reserve Bank of New York.

Secretary's note: Advice subsequently was received that the manager and deputy manager selections indicated above were satisfactory to the Federal Reserve Bank of New York.

By unanimous vote, the Authorization for Domestic Open Market Operations was approved with a nonsubstantive amendment that changed terminology used in paragraph 4.B.ii, related to the provision of intraday credit to Foreign Accounts in exchange for securities. The Guidelines for the Conduct of System Open Market Operations in Federal-Agency Issues remained suspended.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

(As amended effective January 26, 2016)

1. The Federal Open Market Committee (the "Committee") authorizes and directs the Federal Reserve Bank selected by the Committee to execute open market transactions (the "Selected Bank"), to the extent necessary to carry out the most recent domestic policy directive adopted by the Committee:

A. To buy or sell in the open market securities that are direct obligations of, or fully guaranteed as to principal and interest by, the United States, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, that are eligible for purchase or sale under Section 14(b) of the Federal Reserve Act ("Eligible Securities") for the System Open Market Account ("SOMA"):

i. As an outright operation with securities dealers and foreign and international accounts maintained at the Selected Bank: on a same-day or deferred delivery basis (including such transactions as are commonly referred to as dollar rolls and coupon swaps) at market prices; or

ii. As a temporary operation: on a same-day or deferred delivery basis, to purchase such Eligible Securities subject to an agreement to resell ("repo transactions") or to sell such Eligible Securities subject to an agreement to repurchase ("reverse repo transactions") for a term of 65 business days or less, at rates that, unless otherwise authorized by the Committee, are determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual counterparties;

B. To allow Eligible Securities in the SOMA to mature without replacement;

C. To exchange, at market prices, in connection with a Treasury auction, maturing Eligible Securities in the SOMA with the Treasury, in the case of Eligible Securities that are direct obligations of the United States or that are fully guaranteed as to principal and interest by the United States; and

D. To exchange, at market prices, maturing Eligible Securities in the SOMA with an agency of the United States, in the case of Eligible Securities that are direct obligations of that agency or that are fully guaranteed as to principal and interest by that agency.

2. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraph 1 from time to time for the purpose of testing operational readiness, subject to the following limitations:

A. All transactions authorized in this paragraph 2 shall be conducted with prior notice to the Committee;

B. The aggregate par value of the transactions authorized in this paragraph 2 that are of the type described in paragraph 1.A.i shall not exceed $5 billion per calendar year; and

C. The outstanding amount of the transactions described in paragraph 1.A.ii shall not exceed $5 billion at any given time.

3. In order to ensure the effective conduct of open market operations, the Committee authorizes the Selected Bank to operate a program to lend Eligible Securities held in the SOMA to dealers on an overnight basis

(except that the Selected Bank may lend Eligible Securities for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions).

A. Such securities lending must be:

i. At rates determined by competitive bidding;

ii. At a minimum lending fee consistent with the objectives of the program;

iii. Subject to reasonable limitations on the total amount of a specific issue of Eligible Securities that may be auctioned; and

iv. Subject to reasonable limitations on the amount of Eligible Securities that each borrower may borrow.

B. The Selected Bank may:

i. Reject bids that, as determined in its sole discretion, could facilitate a bidder's ability to control a single issue;

ii. Accept Treasury securities or cash as collateral for any loan of securities authorized in this paragraph 3; and

iii. Accept agency securities as collateral only for a loan of agency securities authorized in this paragraph 3.

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments or other authorized services for foreign central bank and international accounts maintained at a Federal Reserve Bank (the "Foreign Accounts") and accounts maintained at a Federal Reserve Bank as fiscal agent of the United States pursuant to section 15 of the Federal Reserve Act (together with the Foreign Accounts, the "Customer Accounts"), the Committee authorizes the following when undertaken on terms comparable to those available in the open market:

A. The Selected Bank, for the SOMA, to undertake reverse repo transactions in Eligible Securities held in the SOMA with the Customer Accounts for a term of 65 business days or less; and

B. Any Federal Reserve Bank that maintains Customer Accounts, for any such Customer Account, when appropriate and subject to all other necessary authorization and approvals, to:

i. Undertake repo transactions in Eligible Securities with dealers with a corresponding reverse repo transaction in such Eligible Securities with the Customer Accounts; and

ii. Undertake intra-day repo transactions in Eligible Securities with Foreign Accounts.

Transactions undertaken with Customer Accounts under the provisions of this paragraph 4 may provide for a service fee when appropriate. Transactions undertaken with Customer Accounts are also subject to the authorization or approval of other entities, including the Board of Governors of the Federal Reserve System and, when involving accounts maintained at a Federal Reserve Bank as fiscal agent of the United States, the United States Department of the Treasury.

5. The Committee authorizes the Chairman of the Committee, in fostering the Committee's objectives during any period between meetings of the Committee, to instruct the Selected Bank to act on behalf of the Committee to:

A. Adjust somewhat in exceptional circumstances the stance of monetary policy and to take actions that may result in material changes in the composition and size of the assets in the SOMA; or

B. Undertake transactions with respect to Eligible Securities in order to appropriately address temporary disruptions of an operational or highly unusual nature in U.S. dollar funding markets.

Any such adjustment described in subparagraph A of this paragraph 5 shall be made in the context of the Committee's discussion and decision about the stance of policy at its most recent meeting and the Committee's long-run objectives to foster maximum employment and price stability, and shall be based on economic, financial, and monetary developments since the most recent meeting of the Committee. The Chairman, whenever feasible, will consult with the Committee before making any instruction under this paragraph 5.

The manager noted that the staff was in the process of evaluating the current framework for foreign reserves management and considering a possible restructuring of the documents governing the framework for foreign operations. He recommended that any changes to these documents be postponed until that process was complete. The Committee voted unanimously to reaffirm without change the Authorization for Foreign Currency Operations, the Foreign Currency Directive, and the Procedural Instructions with Respect to Foreign Currency Operations as shown below. The votes to reaffirm these documents included approval of the System's warehousing agreement with the U.S. Treasury.

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS
(As reaffirmed effective January 26, 2016)

1. The Federal Open Market Committee (the "Committee") authorizes and directs the Federal Reserve Bank selected by the Committee to execute open market transactions (the "Selected Bank"), for the System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in

conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Australian dollars
Brazilian reais
Canadian dollars
Danish kroner
euro
Japanese yen
Korean won
Mexican pesos
New Zealand dollars
Norwegian kroner
Pounds sterling
Singapore dollars
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the arrangements listed in paragraph 2 below, in accordance with the Procedural Instructions with Respect to Foreign Currency Operations.

D. To maintain an overall open position in all foreign currencies not exceeding $25.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies, excluding changes in dollar value due to foreign exchange rate movements and interest accruals. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Committee directs the Selected Bank to maintain for the System Open Market Account (subject to the requirements of section 214.5 of Regulation N, Relations with Foreign Banks and Bankers):

A. Reciprocal currency arrangements with the following foreign banks:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank of Canada	2,000
Bank of Mexico	3,000

B. Standing dollar liquidity swap arrangements with the following foreign banks:

Bank of Canada
Bank of England
Bank of Japan
European Central Bank
Swiss National Bank

C. Standing foreign currency liquidity swap arrangements with the following foreign banks:

Bank of Canada
Bank of England
Bank of Japan
European Central Bank
Swiss National Bank

Dollar and foreign currency liquidity swap arrangements have no pre-set size limits. Any new swap arrangements shall be referred for review and approval to the Committee. All swap arrangements are subject to annual review and approval by the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1.A above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Selected Bank shall not commit itself to maintain any specific balance, unless authorized by the Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Selected Bank with the foreign banks designated by the Board of Governors under section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested to ensure that adequate liquidity is maintained to meet anticipated needs and so that each currency portfolio shall

generally have an average duration of no more than 24 months (calculated as Macaulay duration). Such investments may include buying or selling outright obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof; buying such securities under agreements for repurchase of such securities; selling such securities under agreements for the resale of such securities; and holding various time and other deposit accounts at foreign institutions. In addition, when appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee (the "Subcommittee") and the Committee. The Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, the Vice Chairman's alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the manager, System Open Market Account ("manager"), for the purposes of reviewing recent or contemplated operations and of consulting with the manager on other matters relating to the manager's responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

9. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraphs 1, 2, and 5, and foreign exchange and investment transactions that it may be otherwise authorized to undertake from time to time for the purpose of testing operational readiness. The aggregate amount of such transactions shall not exceed $2.5 billion per calendar year. These transactions shall be conducted with prior notice to the Committee.

FOREIGN CURRENCY DIRECTIVE
(As reaffirmed effective January 26, 2016)

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency arrangements with foreign central banks in accordance with the Authorization for Foreign Currency Operations.

C. Maintain standing dollar liquidity swap arrangements with foreign banks in accordance with the Authorization for Foreign Currency Operations.

D. Maintain standing foreign currency liquidity swap arrangements with foreign banks in accordance with the Authorization for Foreign Currency Operations.

E. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under IMF Article IV.

PROCEDURAL INSTRUCTIONS WITH RESPECT TO FOREIGN CURRENCY OPERATIONS
(As reaffirmed effective January 26, 2016)

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee (the "Committee") as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank selected by the Committee to execute open market transactions (the "Selected Bank"), through the manager, System Open Market Account ("manager"), shall be guided by the following procedural understandings with respect to consultations and clearances with the Committee, the Foreign Currency Subcommittee (the "Subcommittee"), and the Chairman of the Committee, unless otherwise directed by the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. For the reciprocal currency arrangements authorized in paragraphs 2.A of the Authorization for Foreign Currency Operations:
   A. Drawings must be approved by the Subcommittee (or by the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available) if the swap drawing proposed by a foreign bank does not exceed the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.
   B. Drawings must be approved by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or by the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available) if the swap drawing proposed by a foreign bank exceeds the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.
   C. The manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System.
   D. Any changes in the terms of existing swap arrangements shall be referred for review and approval to the Chairman. The Chairman shall keep the Committee informed of any changes in terms, and the terms shall be consistent with principles discussed with and guidance provided by the Committee.
2. For the dollar and foreign currency liquidity swap arrangements authorized in paragraphs 2.B and 2.C of the Authorization for Foreign Currency Operations:
   A. Drawings must be approved by the Chairman in consultation with the Subcommittee. The Chairman or the Subcommittee will consult with the Committee prior to the initial drawing on the dollar or foreign currency liquidity swap lines if possible under the circumstances then prevailing; authority to approve subsequent drawings for either the dollar or foreign currency liquidity swap lines may be delegated to the manager by the Chairman.
   B. Any changes in the terms of existing swap arrangements shall be referred for review and approval to the Chairman. The Chairman shall keep the Committee informed of any changes in terms, and the terms shall be consistent with principles discussed with and guidance provided by the Committee.
3. Any operation must be approved by:
   A. The Subcommittee (or by the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available) if it:
      i. Would result in a change in the System's overall open position in foreign currencies exceeding $300 million on any day or $600 million since the most recent regular meeting of the Committee.
      ii. Would result in a change on any day in the System's net position in a single foreign currency exceeding $150 million, or $300 million when the operation is associated with repayment of swap drawings.
      iii. Might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency (as defined in paragraph 1.D of the Authorization for Foreign Currency Operations) might be less than the limits specified in 3.A.ii.
   B. The Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or by the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available) if it would result in a change in the System's overall open position in foreign currencies exceeding $1.5 billion since the most recent regular meeting of the Committee.
4. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraphs 1, 2, and 5 of the Authorization for Foreign Currency Operations and foreign exchange and investment transactions that it may be otherwise authorized to undertake from time to time for the purpose of testing operational readiness. The aggregate

amount of such transactions shall not exceed $2.5 billion per calendar year. These transactions shall be conducted with prior notice to the Committee.

By unanimous vote, the Committee amended its Program for Security of FOMC Information (Program) with four sets of changes. These changes consisted of (1) a clarification that all Federal Reserve persons, which includes FOMC participants as well as staff members, must receive, review, and agree to abide by the Program before gaining access to confidential FOMC information, and annually thereafter; (2) a change to provide the Chairman flexibility to designate Board staff members to make decisions regarding access to FOMC information by Board staff; (3) technical changes to improve the consistency and accuracy of Program language; and (4) changes to the Program's provisions for handling potential breaches of the Committee's information security rules. This final set of changes codifies the approach used in recent years of promptly referring material potential breaches to the Board's inspector general (IG). In addition, it incorporates revised language that states that the prompt referral to the IG, which would include a request for an investigation, would be made by the secretary or the Committee's general counsel, with appropriate consultation with the Chairman, thereby vesting the referral responsibility in more than one person and thus reducing the possibility of any apparent conflict of interest in making a referral determination.

At the end of the Committee's annual disposition of organizational matters, participants considered a revised Statement on Longer-Run Goals and Monetary Policy Strategy. The proposed revisions would clarify that the Committee viewed its 2 percent inflation goal as symmetric. In presenting the revised statement on behalf of the subcommittee on communications, Governor Fischer pointed out that, in a discussion of the statement in October 2014, participants had expressed widespread agreement that inflation moderately above the Committee's 2 percent goal and inflation the same amount below that level were equally costly. He noted that the proposed language was intended to encompass situations in which deviations from the Committee's inflation objective were expected to continue for a time and had the potential to affect longer-term inflation expectations. In addition to the explicit indication that the Committee viewed its inflation objective as symmetric, the revised statement would update the reference to participants' estimates of the longer-run normal rate of unemployment from the most recent Summary of Economic Projections (SEP), using the median of those projections rather than the central tendency. Participants noted that the statement reflects an exceptionally high degree of consensus and that the threshold for amendments should be high; they judged that the revisions were important because they would clarify the symmetry of the Committee's 2 percent inflation objective and communicate to the public that the objective was not a ceiling. Participants also noted that the proposed new language indicating that the Committee would "be concerned if inflation were running persistently above or below" its 2 percent objective would not require that participants hold similar views about inflation dynamics; in addition, the proposed language would not specify the stance of monetary policy in such circumstances but would afford the Committee appropriate flexibility in tailoring a policy response to persistent deviations from the inflation objective. Moreover, participants generally agreed that the proposed new language should be interpreted as applying to situations in which inflation was seen as likely to remain below or above 2 percent for a sustained period. However, one participant judged that the proposed language could be read as referring to current and past deviations from the inflation objective, and argued that the statement should more clearly indicate that the Committee's policy decisions were based on expected future inflation. A couple of others agreed that there were reasons for concerns about deviations above or below the 2 percent objective, but noted that the reasons for, and degree of, those concerns could differ depending upon the direction of the deviation or broader macroeconomic conditions.

All participants but one supported adopting the proposed amendments. Participants agreed that it was appropriate to release the amended statement, which is reproduced below, in advance of the *Monetary Policy Report* and testimony, which were scheduled for mid-February.

STATEMENT ON LONGER-RUN GOALS AND MONETARY POLICY STRATEGY
(As amended effective January 26, 2016)

"The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Inflation, employment, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. These factors may change over time and may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments. Information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the FOMC's Summary of Economic Projections. For example, in the most recent projections, the median of FOMC participants' estimates of the longer-run normal rate of unemployment was 4.9 percent.

In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

The Committee intends to reaffirm these principles and to make adjustments as appropriate at its annual organizational meeting each January."

All Committee members but one voted to adopt the revised statement. Although Mr. Bullard supported the statement without the changes and agreed that the Committee's inflation goal is symmetric, he dissented because he judged that the amended language was not sufficiently focused on expected future deviations of inflation from the 2 percent objective. In addition, because the Committee's past behavior had demonstrated the emphasis it places on expected future inflation, Mr. Bullard viewed the amended language as potentially confusing to the public.

Developments in Financial Markets, Open Market Operations, and Policy Normalization

The SOMA manager reported on developments in domestic and foreign financial markets, including changes in the expectations of market participants for the trajectory of monetary policy. The deputy manager followed with a briefing on money market developments and System open market operations conducted by the Open Market Desk during the period since the Committee met on December 15–16, 2015. The report included an assessment of the response of money market interest rates to the increase in the target range for the federal funds rate announced following the December meeting. Overall, the rate increase was implemented smoothly and money markets responded as anticipated. Take-up of overnight reverse repurchase agreement (ON RRP) operations over this period was consistent with that observed in the testing phase of operations over the second half of last year. The deputy manager also reviewed plans for reinvestment of the proceeds of upcoming maturations of SOMA holdings of Treasury securities, for small-value tests of various System operations and facilities during 2016, and for quarterly tests of the Term Deposit Facility.

The Committee then resumed its consideration of matters related to the System's reverse repurchase agreement (RRP) facilities, focusing in particular on the appropriate aggregate capacity of the ON RRP facility going forward. Previous communications had indicated that the Committee intended to allow aggregate capacity of the ON RRP facility to be temporarily elevated after policy firming had commenced to support monetary policy implementation and expected that it would be appropriate to reduce capacity fairly soon thereafter. A staff presentation at this meeting reviewed broad strategies for reintroducing an aggregate cap on ON RRP operations and managing the cap subsequently. In the discussion that followed, participants reiterated that the Committee expects to phase out the facility when it is no longer needed to help control the federal funds rate, and they unanimously expressed the view that it would be appropriate to reintroduce an aggregate cap on ON RRP operations at some point. Regarding when to do so, participants held varied views, but nearly all indicated a preference for waiting a couple of months or longer before making operational adjustments to the facility, in part so that the Federal Reserve could gain additional experience with its policy implementation tools. Concerning the strategy that would be used to cap the ON RRP facility when the time came, most policymakers favored an approach in which a relatively high cap level would be imposed initially—though one that nonetheless would significantly reduce capacity relative to the current situation—with the intention of periodically making further reductions in the level of the cap as appropriate. Other participants indicated a preference for initially imposing a somewhat lower cap. Some noted that the demand for ON RRPs could be reduced by widening the spread between the interest rate on reserves and the offering rate on ON RRPs. In making these judgments, most policymakers emphasized the primacy of maintaining monetary control in setting the appropriate capacity of the ON RRP facility for the time being; participants indicated that the Committee's future decisions regarding the size and ultimate longevity of the facility should be largely driven by considerations of monetary control, although other factors, such as financial stability, should also be taken into account. Finally, policymakers also discussed the appropriate management of the Federal Reserve's RRP operations over quarter-ends, when private-sector cash investment options temporarily and predictably decline and result in temporary downward pressure on some money market rates, including the federal funds rate. Several participants indicated a preference for continuing to take account of such calendar effects in conducting RRPs; some policymakers emphasized, however, that they do not view such temporary declines in the federal funds rate as a materially adverse factor for monetary control. Overall, participants agreed that, for some time at least, the Committee would continue to provide ample RRPs in some form over quarter-ends, including in March.

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 over the intermeeting period.

Staff Review of the Economic Situation

The information reviewed for the January 26–27 meeting indicated that labor market conditions continued to improve in the fourth quarter of last year even though growth in real gross domestic product (GDP) appeared to slow. Consumer price inflation was still running below the Committee's longer-run objective of 2 percent, restrained in part by decreases in both energy prices and the prices of non-energy imports. Recent survey-based measures of longer-run inflation expectations were little changed, on balance, while market-based measures of inflation compensation declined further.

Total nonfarm payroll employment increased substantially in December, and the monthly pace of job gains in the fourth quarter as a whole was faster than in the third quarter. The unemployment rate remained at 5.0 percent in December, while both the labor force participation rate and the employment-to-population ratio increased a little. The share of workers employed part time for economic reasons moved down a bit in December. The rates of private-sector job openings, hires, and quits were little changed in November. The four-week moving average of initial claims for unemployment insurance benefits was somewhat higher in early January than its very low level late last year. Average hourly earnings for all employees increased 2½ percent over the 12 months ending in December, about ½ percentage point more than over the same period a year earlier.

Industrial production decreased in November and December, primarily reflecting the ongoing effects of the appreciation of the foreign exchange value of the dollar and the declines in crude oil prices since the middle of 2014. Manufacturing output declined, with a step-down in the production of motor vehicles and parts from the high levels seen earlier last year, while production outside of the motor vehicle sector was roughly flat. Production in the mining sector continued to fall, and the output of utilities declined, as the weather was unseasonably warm. Automakers' assembly schedules and broader indicators of manufacturing production, such as the readings on new orders from national and regional manufacturing surveys, mostly pointed to a slow pace of gains in factory output early this year. Information on drilling activity for crude oil and natural gas in early January was consistent with further declines in mining output.

Real personal consumption expenditures (PCE) appeared to have increased at a slower rate in the fourth quarter than in the previous quarter. Although real PCE rose solidly in November, spending had been flat in October. Moreover, in December the components of the nominal retail sales data used by the Bureau of Economic Analysis to construct its estimate of PCE edged down, and the rate of sales of light motor vehicles, while remaining at a high level, declined. However, recent readings on key factors that influence consumer spending were generally favorable. Growth in real disposable income continued to be solid in November. Households' net worth was supported by further strong gains in home values through November, although equity prices declined in recent months. Also, consumer sentiment in the University of Michigan Surveys of Consumers remained at an elevated level in early January.

Recent information on housing activity was consistent with a continued gradual recovery in this sector. Both starts and building permits for new single-family homes moved higher, on balance, in November and December, and starts of multifamily units also stepped up. New home sales increased modestly in November. Sales of existing homes rose strongly in December, more than offsetting an outsized decline in November, which likely reflected a change in mortgage regulations that temporarily held down existing home sales.

Growth in real private expenditures for business equipment and intellectual property products looked to be slower in the fourth quarter than in the third quarter. Nominal shipments of nondefense capital goods excluding aircraft moved down in November. Forward-looking indicators of equipment spending, such as new orders for nondefense capital goods along with recent readings from national and regional surveys of business conditions, generally pointed to soft business equipment spending in the coming months. Firms' nominal spending for nonresidential structures excluding drilling and mining declined somewhat in November. Indicators of spending for structures in the drilling and mining sector, such as the number of oil and gas rigs in operation, continued to fall through early January. The available information indicated that inventory investment decreased again in the fourth quarter, although there was little evidence that inventory-to-sales ratios were uncomfortably high outside of the energy sector.

Total real government purchases appeared to be about flat in the fourth quarter. Federal government spending for defense moved roughly sideways. State and local government payrolls increased somewhat in the fourth quarter, while nominal construction spending by these governments declined in October and November.

The U.S. international trade deficit narrowed in November, as imports fell more than exports. The value of exports declined to its lowest level since the beginning of 2012. The decrease in imports was widespread across categories, with a particularly large decline in the imports of consumer goods. The available trade data suggested that net exports continued to weigh on real GDP growth in the fourth quarter.

Total U.S. consumer prices, as measured by the PCE price index, increased about ½ percent over the 12 months ending in November, partly restrained by substantial declines in consumer energy prices. Core PCE price inflation, which excludes changes in food and energy prices, was 1¼ percent over the same 12-month period, held down in part by decreases in the prices of non-energy imports and the pass-through of declines in energy prices. Over the 12 months ending in December, total consumer prices as measured by the consumer price index (CPI) rose ¾ percent, while core CPI inflation was around 2 percent. Recent survey measures of longer-run inflation expectations were little changed on balance. In early January, the Michigan survey measure of median inflation expectations over the next 5 to 10 years ticked up but continued to run near the low end of its typical range of the past 15 years. The Survey of Primary Dealers and the Survey of Market Participants indicated that the median expectation of CPI inflation 5 to 10 years ahead was essentially unchanged in January.

In many foreign economies, real GDP growth in the fourth quarter appeared to continue at a pace roughly similar to that in the third quarter. In contrast, economic growth weakened in Canada, in part because investment spending continued to be weighed down by the effects of the sharp decline in oil prices since the middle of 2014. Lower oil prices and the slowing in U.S. manufacturing activity contributed to a step-down in the rate of economic growth in Mexico. Economic growth slowed slightly in China but remained robust, supported by a modest pickup in growth of Chinese manufacturing output. Further declines in energy prices pulled down inflation in many foreign economies in the fourth quarter, with inflation falling to near zero in several advanced economies.

Staff Review of the Financial Situation

Domestic financial conditions tightened over the intermeeting period, as turmoil in Chinese financial markets and lower oil prices contributed to concerns about prospects for global economic growth and a pullback from risky assets. The increased reluctance to hold risky assets was associated with a sharp decline in equity prices and a notable widening in risk spreads on corporate bonds.

Treasury yields declined across maturities, reflecting a downward revision in the expected path of the federal funds rate and likely some increase in safe-haven demands amid the market turbulence. The dollar appreciated against most foreign currencies.

The Committee's decision to raise the target range for the federal funds rate to ¼ to ½ percent at the December meeting was widely anticipated in financial markets and elicited little reaction in Treasury and interest rate futures markets. The expected path of the federal funds rate implied by market quotes on interest-rate derivatives moved down notably after year-end; the turbulence in global financial markets evidently led investors to expect a more gradual increase in the target range for the federal funds rate than they had previously anticipated. In line with that interpretation, results from the Desk's January Survey of Primary Dealers and Survey of Market Participants indicated that, on average, respondents expected fewer increases in the target range this year than they had projected in December.

Consistent with the decline in the expected path of the federal funds rate, yields on nominal Treasury securities moved lower over the intermeeting period. Part of the decline likely also reflected an increase in safe-haven demands for low-risk and highly liquid assets amid the turbulence in financial markets. Measures of forward inflation compensation based on Treasury Inflation-Protected Securities and inflation swaps fell further.

Broad U.S. equity price indexes declined sharply over the intermeeting period, exhibiting a high correlation with movements in crude oil prices and foreign equity indexes. Domestic equity indexes were quite volatile in January, and one-month-ahead option-implied volatility on the S&P 500 index climbed to the upper end of its range of the past few years. Spreads on corporate bonds over comparable-maturity Treasury securities widened over the intermeeting period, reportedly reflecting increased concerns about corporate credit quality, particularly in the energy sector, and a decline in investors' willingness to assume risk.

Financing conditions for nonfinancial businesses remained accommodative for firms of higher credit quality but tightened somewhat for riskier firms. Investment-grade bond issuance stayed robust, while speculative-grade bond issuance was weak. The growth of commercial and industrial (C&I) loans on banks' books continued to be strong, although a modest net percentage of banks reported tightening standards for C&I loans to large and middle-market firms during the fourth quarter in the most recent Senior Loan Officer Opinion Survey (SLOOS). Issuance of syndicated leveraged loans decreased in the fourth quarter amid higher spreads, with the most pronounced slowing in relatively risky loans such as those earmarked for leveraged buyouts.

Credit continued to be broadly available in the commercial real estate (CRE) sector. The growth of CRE loans on banks' balance sheets remained strong in the fourth quarter, and issuance of commercial mortgage-backed securities (CMBS) continued at a robust pace in December. However, a moderate net percentage of banks reported in the most recent SLOOS that they had tightened standards on CRE loans during the fourth quarter, and credit spreads in CMBS markets continued to widen over the intermeeting period.

Credit conditions for residential mortgages were little changed over the intermeeting period. Credit remained tight for borrowers with low credit scores, hard-to-document income, or high debt-to-income ratios. According to the January SLOOS, moderate net fractions of banks eased standards on several types of home mortgages over the past three months and expected to ease standards this year.

Financing conditions in consumer credit markets were little changed over the intermeeting period and remained accommodative on balance. Consumer loan balances continued to rise at a robust pace in the fourth quarter, reflecting further expansions in credit card, auto, and student loan balances. Student and auto loans remained broadly available, even to borrowers with subprime credit histories, but the availability of credit card loans to subprime borrowers was still tight. Respondents to the January SLOOS indicated that, over the past three months, they had eased standards and terms on auto loans but tightened standards and terms on credit card loans.

Global financial market conditions deteriorated sharply in January, as recent developments in Chinese financial markets and the further decrease in crude oil prices appeared to increase concerns about global economic growth. Equity prices in emerging market economies (EMEs) and in advanced foreign economies (AFEs) fell sharply, and 10-year sovereign yields in the AFEs decreased substantially. Market expectations for the policy rates of major foreign central banks, which had risen somewhat after the December FOMC meeting, ended the period lower. Credit spreads in the EMEs widened. The foreign exchange value of the U.S. dollar appreciated further against most currencies, with larger increases relative to the currencies of commodity-exporting countries.

The staff provided its latest report on potential risks to financial stability and judged the financial vulnerabilities of the U.S. financial system as moderate on balance. Their assessment reflected strong capital and liquidity positions at banks, moderate leverage in the nonbank financial sector, and subdued borrowing by households. Risk premiums had increased as spreads widened by more than was estimated to be necessary to compensate for expected losses, suggesting a decline in the willingness of investors to bear credit risk. However, leverage continued to increase in the nonfinancial business sector, particularly among energy-related and other relatively risky firms. The high leverage of nonfinancial corporations and the liquidity mismatch at high-yield bond mutual funds suggested some elevated risks for bond investors and lower-rated borrowers.

Staff Economic Outlook

In the economic projection prepared by the staff for the January FOMC meeting, real GDP growth in the fourth quarter of last year was estimated to have been markedly slower than in the forecast for the December meeting. However, the medium-term projection for real GDP growth was only slightly lower, on balance, than the previous forecast. The staff estimated that the negative effects of a lower projected path for equity prices and a higher assumed trajectory for the foreign exchange value of the dollar would be mostly offset by the positive effects of a lower path for crude oil prices and slightly more stimulus to aggregate demand from changes in fiscal policy than was assumed in the previous forecast. In particular, federal legislation enacted in December unexpectedly included both a multiyear extension of the bonus depreciation tax credit for business investment and a delay in the introduction of several tax increases related to the Affordable Care Act. The staff continued to project that real GDP would expand at a somewhat faster pace than potential output in 2016 through 2018, supported primarily by increases in consumer spending. The unemployment rate was expected to gradually decline further and to run somewhat below the staff's estimate of its longer-run natural rate over this period.

The staff's forecast for inflation in the near term was revised down slightly, reflecting recent data for consumer prices and the further declines in the price of crude oil; the projection for inflation over the medium term was little revised. Energy prices and the prices of non-energy imported goods were expected to begin steadily rising later this year. The staff continued to project that inflation would increase gradually over the next several years and reach the Committee's longer-run objective of 2 percent by the end of 2018.

The staff viewed the uncertainty around its January projections for real GDP growth, the unemployment rate, and inflation as similar to the average of the past 20 years. The risks to the forecast for real GDP were seen as tilted to the downside, reflecting the staff's assessment that neither monetary nor fiscal policy was well positioned to help the economy withstand substantial adverse shocks; the downside risks to the forecast of economic activity were seen as more pronounced than in December, mainly reflecting the greater uncertainty about global economic prospects and the financial market turbulence in the United States and abroad. Consistent with the downside risk to aggregate demand, the staff viewed the risks to its outlook for the unemployment rate as skewed to the upside. The risks to the projection for inflation were seen as weighted to the downside, reflecting the possibility that longer-term inflation expectations may have edged down and that the foreign exchange value of the dollar could rise substantially further, which would put downward pressure on inflation.

Participants' Views on Current Conditions and the Economic Outlook

In their discussion of the economic situation and the outlook, meeting participants saw the information received over the intermeeting period as suggesting that labor market conditions had improved further in late 2015 even as economic growth slowed. Household and business spending had been increasing at moderate rates; however, net exports had been soft and inventory investment had slowed. A range of labor market indicators pointed to some additional decline in underutilization of labor resources. Inflation continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined further over the intermeeting period; survey-based measures of longer-term inflation expectations were little changed, on balance, in recent months.

In considering the outlook for economic activity, participants weighed the divergent signals from recent strength in the labor market and the modest increase in real GDP suggested by the available data on spending and production. In part, the projected slow growth of real GDP in the fourth quarter of 2015 appeared to be caused by reduced inventory investment and a weather-related slowing in consumer spending on energy services—developments that would likely be reversed in the current quarter. Moreover, some participants noted that the preliminary spending data and initial estimates of GDP are often revised substantially, and they judged that labor market indicators tended to provide a more reliable early reading on the economy's underlying strength.

In assessing the medium-term outlook, participants discussed the extent to which the recent turbulence in global financial markets might restrain U.S. economic activity. While acknowledging the possible adverse effects of the tightening of financial conditions that had occurred, most policymakers thought that the extent to which tighter conditions would persist and what that might imply for the outlook were unclear, and they therefore judged that it was premature to alter appreciably their assessment of the medium-term economic outlook. They continued to anticipate that economic activity would expand at a moderate pace over the medium term and that the labor market would continue to strengthen. Inflation was expected to remain low in the near term, in part because of the further decline in energy prices. However, most participants continued to anticipate that inflation would rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipated and the labor market strengthened further. Given their increased uncertainty about how global economic and financial developments might evolve, participants emphasized the importance of closely monitoring these developments and of assessing their implications for the labor market and inflation, and for the balance of risks to the outlook.

Growth of consumer spending appeared to have slowed in the fourth quarter, with the December data showing a decline in nominal retail sales and a step-down in purchases of new motor vehicles from the elevated level of the preceding three months. Moreover, households' spending on energy services was evidently held down by unseasonably warm weather in many parts of the country. Although participants received mixed reports from their District contacts on consumer spending, some heard that retail activity had been generally positive at year-end, and a number of participants relayed indications that spending on services in their Districts remained solid. Regarding the outlook for consumer spending, a number of participants noted that the recent moderation in spending seemed inconsistent with continued strong gains in households' real income from rising employment and falling energy prices and with the relatively elevated level of consumer sentiment. Because of these favorable fundamentals, many participants indicated that they still expected consumer spending to contribute importantly to economic growth in the coming year. However, several were concerned that the rise in the saving rate since the middle of 2015 might suggest an elevated degree of caution about the economic outlook or that the recent retreat in equity values, if sustained, might damp spending. Nonetheless, a couple of others pointed out that information from surveys of consumer sentiment suggested that households, to date, had not appeared to be particularly sensitive to changes in financial market conditions.

Housing sales and construction continued to trend up though the end of 2015, extending the gradual recovery in the housing sector. In participants' reports on economic conditions in their Districts, some highlighted the sector as one in which activity had improved or about which contacts were upbeat. A couple of participants noted that new mortgage lending regulations appeared to have slowed the mortgage origination process and temporarily reduced home sales.

Manufacturing activity continued to weaken in late 2015. Production continued to contract in industries—such as steel and heavy machinery—in which demand had been negatively affected, either directly or indirectly, by the appreciation of the dollar, slow economic growth abroad, and declining oil prices. Participants from those Reserve Banks that conduct surveys of manufacturing activity reported that the weakness extended into January. Nonetheless, several participants pointed to aerospace, autos, and consumer products as areas of strength in the manufacturing sector, and a few commented that manufacturers surveyed in their Districts were still relatively optimistic about the outlook for 2016. Information on business activity outside of the manufacturing sector was mixed. Commercial construction was reported to be strong in a couple of Districts, and a few participants commented that government spending was likely to provide a boost to business activity in the coming year. Several participants reported moderate growth in services industries, but a couple noted some slowing of activity. Some participants reported a deterioration in business sentiment among their contacts in the wake of recent global economic and financial developments, which could result in more-cautious capital spending plans.

Downward pressure on domestic energy activity intensified over the intermeeting period as oil prices dropped further. The imbalance of the supply of crude oil relative to demand remained very high and appeared unlikely to be resolved quickly, as was evidenced by a further downshift in oil futures prices. Participants' contacts in the energy sector reported that firms were still adjusting to lower prices and the contraction in their businesses, and some firms expected that they would need to cut investment and employment further. In addition, it was noted that energy firms continued to face tightening financial conditions and that financial stress was building for those with high levels of debt. In agriculture, depressed levels of crop prices and weak global demand continued to weaken farm income.

A broad range of indicators showed ongoing improvement in labor market conditions. Most notably, increases in nonfarm payroll employment were quite strong during the final three months of 2015. Although the unemployment rate, at 5.0 percent, was unchanged over that period, it was at a level close to or below most participants' estimates of its longer-run normal rate. Moreover, the labor force participation rate and the employment-to-population rate moved up toward year-end. Many viewed labor market underutilization as having been substantially reduced over the past year, and a few saw slack as having been largely eliminated. In their comments on labor market conditions, participants cited strong employment gains, low levels of unemployment in their Districts, reports of shortages of workers in various industries, or firming in wage increases. Most anticipated that employment would expand at a solid rate over the year ahead, although several saw the prospect of some moderation in employment gains from the particularly large increases in the fourth quarter of 2015.

Participants discussed the implications of the further decline in the prices of oil and other commodities and the additional appreciation of the dollar since the previous FOMC meeting for the outlook for inflation. They agreed that these developments would keep inflation low in the near term but offered a range of views on the effects on the medium-term outlook and the risks attending the outlook. Most continued to anticipate that once the price of energy and the exchange value of the dollar stabilized, the effects of those factors on inflation would fade. Several saw that outlook as depending importantly on continued strengthening of the labor market or on an above-trend pace of economic activity. Moreover, some emphasized the need for longer-run inflation expectations to remain well anchored. In that regard, while some participants interpreted the recent readings on survey-based measures of inflation expectations and market-based measures of inflation compensation as suggesting that long-term inflation expectations were still relatively well anchored, some others expressed concern about the further decline in inflation compensation recently and the historically low levels of some survey measures of longer-run inflation expectations. Some noted the difficulty of distinguishing declines in expected inflation embedded in those market-based measures from changes in risk and liquidity premiums or of interpreting the current high correlation of far-forward measures of inflation compensation and oil prices. Although most participants continued to expect that inflation would rise to the Committee's 2 percent objective over the medium term, a number of participants indicated that, in light of recent developments, they viewed the outlook for inflation as somewhat more uncertain or saw the risks as being to the downside. Several participants reiterated the importance of monitoring inflation developments closely to confirm that inflation was evolving along the path anticipated by the Committee.

Regarding the foreign economic outlook, it was noted that the slowdown in China's industrial sector and the decline in global commodity prices could restrain economic activity in the EMEs and other commodity-producing countries for some time. Participants discussed recent developments in China, including the possibility that structural changes and financial imbalances in the Chinese economy might lead to a sharper deceleration in economic growth in that country than was generally anticipated. Such a downshift, if it occurred, could increase the economic and financial stresses on other EMEs and on commodity producers, including Canada and Mexico. Moreover, global financial markets could continue to be affected by uncertainty about China's exchange rate regime. While the exposure of the United States to the Chinese economy through direct trade ties was limited, a number of participants were concerned about the potential drag on the U.S. economy from the broader effects of a greater-than-expected slowdown in China and other EMEs.

Participants also discussed a range of issues related to financial market developments. Almost all participants cited a number of recent events as indicative of tighter financial conditions in the United States; these events included declines in equity prices, a widening in credit spreads, a further rise in the exchange value of the dollar, and an increase in financial market volatility. Some participants also pointed to significantly tighter financing conditions for speculative-grade firms and small businesses, and to reports of tighter standards at banks for C&I and CRE loans. The effects of these financial developments, if they were to persist, may be roughly equivalent to those from further firming in monetary policy. Participants mentioned several apparent factors underlying the recent financial market turbulence, including economic and financial developments in China and other foreign countries, spillovers in financial markets from stresses at firms and in countries that are producers of energy and other commodities, and an increase in concerns among market participants regarding the prospects for domestic economic growth. However, a number of participants noted that the large magnitude of changes in domestic financial market conditions was difficult to reconcile with incoming information on U.S. economic developments. A couple of participants pointed out that the recent decline in equity prices could be viewed as bringing equity valuations more in line with historical norms. Additionally, a few participants cautioned that valuations in CRE markets should be closely monitored. The effects of a relatively flat yield curve and low interest rates in reducing banks' net interest margins were also noted.

Participants discussed whether their current assessments of economic conditions and the medium-term outlook warranted either increasing the target range for the federal funds rate at this meeting or altering their earlier views of the appropriate path for the target range for the federal funds rate. Participants agreed that incoming indicators regarding labor market developments had been encouraging, but also that data releases since the December meeting on spending and production had been disappointing. Furthermore, developments in commodity and financial markets as well as the possibility of a significant weakening of some foreign economies had the potential to further restrain domestic economic activity, partly because the large cumulative declines in energy and other commodity prices could have pronounced adverse effects on some firms and countries that are important producers of such commodities. However, a few noted that the potential positive effects of lower energy costs on economic activity were a mitigating factor. Participants judged that the overall implication of these developments for the outlook for domestic economic activity was unclear, but they agreed that uncertainty had increased, and many saw these developments as increasing the downside risks to the outlook.

As expected, inflation had continued to run below 2 percent, but the further decline in energy prices and the additional appreciation of the dollar likely implied that inflation would take somewhat longer than previously anticipated to rise to the Committee's objective. It was noted that although it was generally appropriate for monetary policy not to respond substantially to temporary shocks to inflation, that prescription depended in part on the assumption that longer-term inflation expectations remained well anchored. Participants pointed out that some market-based measures of longer-term inflation compensation had declined to historically low levels, which increased concerns about whether inflation expectations could be moving lower. Other participants, however, noted that survey-based measures of longer-term inflation expectations had remained fairly steady, and a few participants characterized measures of underlying inflation rates, such as core and trimmed mean PCE inflation, as having stayed relatively stable. Most participants still expected inflation to increase gradually once energy prices and the prices of non-energy imports stabilized and as the labor market strengthened further. However, a few participants noted that direct evidence that inflation was rising toward 2 percent would be an important element of their assessment of the outlook and of the appropriate path for policy.

Participants expressed a range of views regarding the balance of risks to the medium-term economic outlook and its implications for the conduct of monetary policy. Most participants indicated that it was difficult to judge at this point whether the outlook for inflation and economic growth had changed materially, but they thought that uncertainty surrounding the outlook had increased as a result of recent financial and economic developments. Most participants were of the view that there was not yet enough evidence to indicate whether the balance of risks to the medium-term outlook had changed materially, but others judged that recent developments had increased the level of downside risks or that the risks were no longer balanced.

Several participants noted that monetary policy was less well positioned to respond effectively to shocks that reduce inflation or real activity than to upside shocks, and that waiting for additional information regarding the underlying strength of economic activity and prospects for inflation before taking the next step to reduce policy accommodation would be prudent. While participants continued to expect that gradual adjustments in the stance of monetary policy would be appropriate, they emphasized that the timing and pace of adjustments will depend on future economic and financial market developments and their implications for the medium-term economic outlook. A couple of participants questioned whether some financial market participants fully appreciated that monetary policy is data dependent, and a number of participants emphasized the importance of continuing to communicate this aspect of monetary policy.

Committee Policy Action

In their discussion of monetary policy for the period ahead, members judged that information received since the Committee met in December suggested that labor market conditions had improved further even as economic growth slowed late last year. Members noted that a range of recent labor market indicators, including strong job gains, pointed to some additional decline in the underutilization of labor resources. Members also agreed that household spending and business fixed investment had been increasing at moderate rates in recent months, and the housing sector had improved further;

however, net exports had been soft and inventory investment had slowed. Members noted that inflation continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation had declined further; survey-based measures of longer-term inflation expectations were little changed, on balance, in recent months. Members expected that, with gradual adjustments in the stance of monetary policy, economic activity would expand at a moderate pace and labor market conditions would continue to strengthen.

In assessing whether economic conditions had improved sufficiently to warrant a further increase in the target range for the federal funds rate at this meeting, members agreed that labor market data had generally been stronger than anticipated at the time of the December meeting, and some members noted that wage growth had picked up. However, the spending and production data generally had been disappointing—in particular, information regarding indicators of manufacturing activity, consumption expenditures, and inventory investment. Regarding the outlook for inflation, the additional sharp declines in energy prices and strengthening of the exchange value of the dollar since the December meeting were likely to hold down inflation for longer than previously anticipated, but inflation was expected to increase gradually as energy prices and the prices of non-energy imports stabilized and the labor market strengthened further. A couple of members emphasized that direct evidence that inflation was rising toward 2 percent would be an important element of their assessments of the appropriate timing of further policy firming.

In discussing the appropriate path for the target range for the federal funds rate over the medium term, members agreed that it would be important to closely monitor global economic and financial developments and to continue to assess their implications for the labor market and inflation, and for the balance of risks to the outlook. Members expressed a range of views regarding the implications of recent economic and financial developments for the degree of uncertainty about the medium-term outlook, with many members judging that uncertainty had increased. Members generally agreed that the implications of the available information were not sufficiently clear to allow members to assess the balance of risks to the economic outlook in the Committee's postmeeting statement. However, members observed that if the recent tightening of global financial conditions was sustained, it could be a factor amplifying downside risks.

After assessing the outlook for economic activity, the labor market, and inflation, and after weighing the uncertainties associated with the outlook, members agreed to leave the target range for the federal funds rate unchanged at ¼ to ½ percent. The Committee also maintained its policy of reinvesting principal payments from agency debt and agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipated that it would be appropriate to continue this reinvestment policy until normalization of the level of the federal funds rate was well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

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

> "Effective January 28, 2016, the Federal Open Market Committee directs the Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of ¼ to ½ percent, including overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of 0.25 percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of $30 billion per day.
>
> The Committee directs the Desk to continue rolling over maturing Treasury securities at auction and to continue reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions."

The vote also encompassed approval of the statement below to be released at 2:00 p.m.:

> "Information received since the Federal Open Market Committee met in December suggests that labor market conditions improved further even as economic growth slowed late last year.

Household spending and business fixed investment have been increasing at moderate rates in recent months, and the housing sector has improved further; however, net exports have been soft and inventory investment slowed. A range of recent labor market indicators, including strong job gains, points to some additional decline in underutilization of labor resources. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined further; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. Inflation is expected to remain low in the near term, in part because of the further declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook.

Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at ¼ to ½ percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

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

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

Voting for this action: Janet L. Yellen, William C. Dudley, Lael Brainard, James Bullard, Stanley Fischer, Esther L. George, Loretta J. Mester, Jerome H. Powell, Eric Rosengren, and Daniel K. Tarullo.

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 took no action to change the interest rates on reserves or discount rates.

Potential Enhancements to the Summary of Economic Projections

Next, participants considered a proposal by the subcommittee on communications to add to the SEP several charts that would illustrate the uncertainty that attends participants' macroeconomic projections. A staff briefing reviewed the subcommittee's proposal, noting that these so-called fan charts could be constructed largely from information on historical errors from government and private-sector forecasts that is already provided in the SEP, thereby making it easy to explain the new charts to the public; in addition, the inclusion of a fan chart for the federal funds rate could help convey to the public that the future path of monetary policy is uncertain and will depend on economic and financial developments. The subcommittee had considered other approaches but opted to recommend a simple method similar to that followed by some foreign central banks.

Participants expressed a range of views regarding the advantages and disadvantages of including fan charts in the SEP. On the one hand, these charts would enhance the

Committee's communications by providing a visual representation of the uncertainty surrounding the median projections for each variable, although it was noted that the meeting minutes and the SEP already provide information about participants' assessments of the uncertainty regarding the economic outlook. In addition, fan charts would help illustrate that the dispersion of participants' projections was usually modest relative to the uncertainty that attends macroeconomic forecasts. Moreover, a number of participants noted that the simple approach that the subcommittee was recommending would be more straightforward to explain to the public than the other options considered by the subcommittee and could be modified over time to incorporate greater complexity—for instance, by showing that the magnitude of uncertainty above the median projection was not necessarily equal to the magnitude of uncertainty below it. On the other hand, some participants thought that the proposed fan charts still could be challenging for the general public to interpret. It was also noted that other central banks that employ fan charts typically display uncertainty around a staff forecast or policymakers' consensus forecast, but that the median SEP projections do not necessarily represent the Committee's collective view. Moreover, the typical magnitude of the historical forecast errors used to construct the proposed fan charts could well differ from participants' judgments about uncertainty going forward—information that is already included in the SEP—and this difference could be difficult to explain.

With regard to including a fan chart to illustrate the uncertainty surrounding the path of the policy interest rate, a fan chart for the federal funds rate might be helpful in explaining that future monetary policy is necessarily uncertain and will depend upon economic and financial developments. However, participants raised several questions, including whether the band around the federal funds rate path should extend below zero, how any future forward guidance would be represented in this framework, and whether it would be appropriate to include a fan chart for the federal funds rate in light of the Committee's role in setting the policy target.

At the end of the discussion, the Chair noted that further work might be helpful to address participants' concerns and asked the subcommittee on communications to continue to investigate the possibility of incorporating a graphical depiction of uncertainty into the SEP.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, March 15–16, 2016. The meeting adjourned at 12:25 p.m. on January 27, 2016.

Notation Vote

By notation vote completed on January 5, 2016, the Committee unanimously approved the minutes of the Committee meeting held on December 16–17, 2015.

Brian F. Madigan
Secretary