Minutes of the Federal Open Market Committee
June 15–16, 2021

A joint meeting of the Federal Open Market Committee and the Board of Governors was held by videoconference on Tuesday, June 15, 2021, at 9:00 a.m. and continued on Wednesday, June 16, 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, Naureen Hassan, 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, Rochelle M. Edge, Eric M. Engen, and William Wascher, Associate Economists

Lorie K. Logan, Manager, System Open Market Account

Patricia Zobel, Deputy Manager, System Open Market Account

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

Daniel M. Covitz, Deputy Director, Division of Research and Statistics, Board of Governors; Sally Davies, Deputy Director, Division of International Finance, 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, Chiara Scotti, and Nitish R. Sinha, Special Advisers to the Board, Division of Board Members, Board of Governors

Carol C. Bertaut, Senior Associate Director, Division of International Finance, Board of Governors; Marnie Gillis DeBoer and David López-Salido, Senior Associate Directors, Division of Monetary Affairs, Board of Governors; Elizabeth Klee, Senior Associate Director, Division of Financial Stability, Board of Governors; David E. Lebow, Senior Associate Director, Division of Research and Statistics, Board of Governors

Brett Berger,[2] Senior Adviser, Division of International Finance, Board of Governors; Ellen E. Meade and Edward Nelson, Senior Advisers, Division of Monetary Affairs, Board of Governors; Jeremy B. Rudd, Senior Adviser, Division of Research and Statistics, Board of Governors

Andrew Figura, Associate Director, Division of Research and Statistics, Board of Governors;

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

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

Christopher J. Gust, Associate Director, Division of Monetary Affairs, Board of Governors

Stephanie E. Curcuru[2] and Andrea Raffo, Deputy Associate Directors, Division of International Finance, Board of Governors; Laura Lipscomb,[2] Deputy Associate Director, Division of Monetary Affairs, Board of Governors; Steve Spurry,[2] Deputy Associate Director, Division of Supervision and Regulation, Board of Governors; Jeffrey D. Walker,[2] Deputy Associate Director, Division of 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, Etienne Gagnon, and Dan Li, Assistant Directors, Division of Monetary Affairs, Board of Governors

Charles Fleischman, Adviser, Division of Research and Statistics, Board of Governors

Penelope A. Beattie,[3] Section Chief, Office of the Secretary, Board of Governors

Alyssa Arute,[2] Manager, Division of Reserve Bank Operations and Payment Systems, Board of Governors

Sriya Anbil,[2] Group Manager, Division of Monetary Affairs, Board of Governors

Mark A. Carlson,[2] Senior Economic Project Manager, Division of Monetary Affairs, Board of Governors

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

David M. Byrne, Principal Economist, Division of Research and Statistics, Board of Governors; Michele Cavallo, Bernd Schlusche, Mary Tian, and Francisco Vazquez-Grande, Principal Economists, Division of Monetary Affairs, Board of Governors; Alberto Queralto, Principal Economist, Division of International Finance, Board of Governors

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

Courtney Demartini,[2] Lead Financial Institution Policy Analyst, Division of Monetary Affairs, Board of Governors

Anthony M. Diercks, Senior Economist, Division of Monetary Affairs, Board of Governors

Joseph W. Gruber and Ellis W. Tallman, Executive Vice Presidents, Federal Reserve Banks of Kansas City and Cleveland, respectively

Anne Baum, Carlos Garriga, Susan McLaughlin,[2] Anna Nordstrom,[2] Giovanni Olivei, Paolo A. Pesenti, Julie Ann Remache,[2] Robert G. Valletta, and Mark L.J. Wright, Senior Vice Presidents, Federal Reserve Banks of New York, St. Louis, New York, New York, Boston, New York, New York, San Francisco, and Minneapolis, respectively

Roc Armenter, Jennifer S. Crystal,[2] Jonas Fisher, and Matthew Nemeth,[2] Vice Presidents, Federal Reserve Banks of Philadelphia, New York, Chicago, and New York, respectively

Jason A. Miu,[2] Assistant Vice President, Federal Reserve Bank of New York

Karel Mertens, Senior Economic Policy Advisor, Federal Reserve Bank of Dallas

Kristopher Gerardi, Financial Economist and Senior Advisor, Federal Reserve Bank of Atlanta

Haitham Jendoubi,[2] Policy and Markets Analysis Manager, Federal Reserve Bank of New York

Discussion of Repurchase Agreement Arrangements

Participants resumed their discussion from the April 2021 FOMC meeting of considerations related to the establishment of a domestic standing repurchase agreement (repo) facility (SRF) and a standing Foreign International Monetary Authorities (FIMA) repo facility. Building on discussion at previous meetings, the staff presented considerations for how these facilities might be designed. The design considerations were guided by

[3] Attended through the discussion of economic developments and the outlook.

participants' general desire to have these facilities play a backstop role in fostering effective implementation of monetary policy and supporting smooth functioning of markets. In April, participants highlighted the importance of designing these facilities in a way that would leave ample room for private market activity while minimizing the potential for stigma, promote equitable access to an appropriately broad set of counterparties, and be governed by the FOMC. With these principles and goals in mind, the staff presented potential terms for each facility.

The staff presentation on the potential design of a domestic SRF included establishing the minimum bid rate at 25 basis points—the top of the target range for the federal funds rate. The staff briefing suggested counterparties for the facility would include primary dealers and would be extended over time to include banks that expressed interest in participation. The staff presentation noted that such a facility could be limited to only U.S. Treasury securities or could accept all securities currently accepted in open market operations (OMOs), which include Treasury securities, agency securities, and agency mortgage-backed securities (MBS). The briefing noted that, on the one hand, restricting eligible collateral for a domestic SRF to U.S. Treasury securities could mitigate concerns that an SRF could encourage counterparties to take on greater liquidity risk. On the other hand, accepting agency securities and agency MBS in an SRF would be consistent with the structure of current repo operations and could help address a greater range of potential repo market pressures from spilling over into the federal funds market.

The proposed design for a standing FIMA repo facility was similar in structure to the existing temporary FIMA repo facility. Under the draft terms, the range of eligible counterparties for the FIMA repo facility would continue to include foreign official institutions, largely comprising central banks, subject to individual approval. The eligible collateral would continue to be limited to U.S. Treasury securities. The draft terms envisioned that the rate for the FIMA repo facility would be set equal to the top of the target range for the federal funds rate, a rate equal to the minimum bid rate in the draft terms for the domestic SRF.

In their discussion of considerations related to the design of a domestic SRF, a substantial majority restated their view, conveyed at the April 2021 meeting, that the potential benefits of such a facility outweighed the potential costs. Participants broadly supported the terms presented by the staff for such a facility. Several participants noted the importance of setting the minimum bid rate high enough so that the facility was positioned as a backstop, while some pointed out the importance of not setting the rate so high that usage of the facility could be stigmatized or that the facility would not sufficiently contain pressures that could spill over into the federal funds market. Several participants noted that setting an SRF rate at the top of the target range for the federal funds rate would be consistent with addressing pressures that could spill over to the federal funds market. Others remarked that setting the SRF rate at the same level as the primary credit rate for borrowing at the discount window would promote equitable access to Federal Reserve liquidity across banks and counterparties for OMOs. Several participants commented that it may also be appropriate to adjust the SRF rate over time based on accumulated experience and economic or financial developments. Several participants suggested that, in order to ensure an SRF continues to be effective, it may be appropriate to study the costs and benefits of additional adjustments over time, such as moving to a cleared settlement structure. Most participants noted the benefits of allowing banks to be counterparties to a domestic SRF, including more directly addressing liquidity pressures for participants in the federal funds market and promoting equitable access to liquidity across domestic counterparties. Many participants judged that it would be appropriate to accept the same set of securities that is currently accepted for OMOs. Some participants indicated that accepting these securities in the domestic SRF's operations should increase the effectiveness of the facility in limiting upward pressures in repo markets that could spill over into the federal funds market. Some other participants noted that limiting acceptable securities for SRF operations to U.S. Treasury securities could have benefits, including consistency with the regulatory distinction between U.S. Treasury securities and other types of securities, potentially limiting the Federal Reserve's footprint in financial markets, and maintaining consistency with the structure of the proposed FIMA repo facility and the overnight reverse repo (ON RRP) facility. Several participants cautioned that establishing a backstop SRF would not diminish the importance of providing a sufficiently ample supply of reserves on an ongoing basis or the need to improve the structural resiliency of the U.S. Treasury market. A couple of participants reiterated their concerns about converting current ongoing daily repo operations to a standing facility and suggested ways to calibrate the terms of the facility to mitigate these concerns, including setting a relatively high minimum bid rate or limiting securities eligible for SRF operations to only U.S. Treasury securities.

In their discussion of considerations related to the design of a standing FIMA repo facility, a substantial majority supported the broad structure discussed in the staff presentation. Many participants generally saw benefits in keeping the rate at the same level as that in the potential domestic SRF in light of the similar nature of the transactions and high quality of the collateral. A number of participants remarked that the rate at the FIMA repo facility could be set at a higher level than at the domestic SRF or could be set at a level comparable to that in the Federal Reserve's dollar liquidity swap lines. A couple of participants commented on the potential reputational risks of establishing a standing FIMA repo facility, including those associated with providing liquidity on a standing basis to a wider set of central banks and finance ministries than through existing swap lines. These participants reiterated the importance of maintaining well-defined criteria for participation in the facility and suggested that the FOMC should receive regular reports on the operations and counterparties approved for a standing FIMA repo facility.

Participants agreed that they would continue their discussion of design parameters for both a domestic SRF and a standing FIMA repo facility. The Chair asked the staff to work on a specific proposal that reflected the views expressed by participants at this meeting.

Developments in Financial Markets and Open Market Operations

The manager turned first to a discussion of financial market developments over the intermeeting period. On net, U.S. financial conditions eased further, led by a decline in Treasury yields. Lower term premiums appeared to be a significant component of the declines, as reflected by lower implied volatility on longer-term interest rates. Equities rose slightly, the broad dollar weakened, and credit spreads were little changed at historically tight levels.

Over the period, market participants focused on data showing lower employment growth and higher inflation readings than had been expected. The median 2021 core personal consumption expenditures (PCE) inflation forecast from the Open Market Desk's Survey of Primary Dealers jumped nearly 1 percentage point from the previous survey. However, median forecasts for 2022 and 2023 each rose less than 0.1 percent, suggesting expectations for inflationary pressures to subside. Inflation compensation as measured by five-year breakeven rates on Treasury Inflation-Protected Securities peaked in mid-May at the highest level in more than a decade, but the increase was driven almost entirely by higher inflation compensation at short horizons. Indeed, one-year-forward inflation compensation at horizons beyond a year was relatively stable.

Measures of expectations for Federal Reserve policy were little changed over the period. The median respondent to the Desk's surveys of primary dealers and market participants continued to expect the pace of Federal Reserve asset purchases to begin to decline in the first quarter of 2022, although most respondents also saw a reasonable chance that this decline could occur one quarter earlier or later. The median respondent expected purchases to end in the fourth quarter of 2022. The Desk's survey measures of the expected path of the target federal funds rate were also fairly steady, and the median respondent continued to expect the first target rate increase to occur in the third quarter of 2023. Nearly all Desk survey respondents anticipated that the Summary of Economic Projections would show the median Committee participant projecting either no increase in the target range or one ¼ percentage point increase by the end of 2023.

The manager noted that downward pressure on money market rates continued over the period. Banks continued to limit growth in their balance sheets by allowing wholesale liabilities to mature and encouraging customers to shift some nonoperational deposits to money market funds. Moreover, the supply of Treasury bills, a primary investment for government money market mutual funds, fell further. Against this backdrop, the Secured Overnight Financing Rate (SOFR) printed at 1 basis point each day in the intermeeting period, while the effective federal funds rate (EFFR) decreased 1 basis point, to 6 basis points.

Amid heightened demand and reduced supply for short-term investments, the ON RRP continued to maintain a floor on overnight rates. Growth in the ON RRP and other nonreserve liabilities helped expand the base of Federal Reserve liabilities supporting asset purchases, damping the increase in reserves and easing pressure on bank balance sheets.

Over the next intermeeting period, the manager anticipated that further increases in reserves and reductions in bill supply could put additional downward pressure on overnight rates. A modest technical adjustment to administered rates could be warranted to maintain the EFFR well within the target range and support smooth functioning of short-term funding markets. Such an adjustment would be expected to raise the federal funds rate and to lift other overnight rates modestly. Most respondents to the Desk's surveys expected an administered rate adjustment this summer. The manager noted that balances at the ON RRP facility would likely continue to grow over coming months. The staff would continue to monitor developments, and the manager noted that, at some point, it could become appropriate to consider raising the counterparty limits for the ON RRP.

The manager provided an update on progress toward winding down a number of emergency facilities established under section 13(3) of the Federal Reserve Act. While market participants took note of the Federal Reserve Board's announcement on winding down the Secondary Market Corporate Credit Facility (SMCCF) holdings, it elicited little price response. The commencement of exchange-traded funds sales proceeded smoothly. All of the SMCCF assets are expected to be sold by the end of this year.

Finally, the manager noted a proposal to request the Chair's approval for an extension to the temporary U.S. dollar liquidity swap arrangements to December 31, 2021. The extension would benefit the U.S. economy by helping forestall potential pressures in offshore dollar funding markets that could spill over to U.S. financial conditions while much of the global economy remains on an uncertain recovery path from the pandemic. Should the Committee decide to make the FIMA repo facility standing, an extension would also provide sufficient time for those temporary swap line central banks that are not currently enrolled in the FIMA repo facility to do so and to become fully operational.

> Secretary's note: The Chair subsequently provided approval to the Desk, following the procedures in the Authorization for Foreign Currency Operations, to extend the expiration of the temporary U.S. dollar liquidity swap lines through December 31, 2021.

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

Staff Review of the Economic Situation

The information available at the time of the June 15–16 meeting suggested that U.S. real gross domestic product (GDP) was expanding in the second quarter at a pace that was faster than in the first quarter of the year. Moreover, labor market conditions had improved further in April and May. Consumer price inflation through April—as measured by the 12-month percentage change in the PCE price index—had picked up notably, largely reflecting transitory factors.

Total nonfarm payroll employment increased solidly over April and May, though at a slower monthly pace than over February and March. As of May, total payroll employment had retraced two-thirds of the job losses seen at the onset of the pandemic, although employment in the leisure and hospitality sector and in the education sector (including both public and private education) had bounced back by less. Over April and May, the unemployment rate edged down and stood at 5.8 percent in May. The unemployment rates for African Americans, Asians, and Hispanics also moved down, although the rates for African Americans and Hispanics remained well above the national average. Both the labor force participation rate and the employment-to-population ratio moved up slightly, and both measures had recovered only partially from their lows during the pandemic. Initial claims for regular state unemployment insurance benefits had moved down further since mid-April and were at the lowest level since the beginning of the pandemic, though they remained high relative to their pre-pandemic level. Weekly estimates of private-sector payrolls constructed by Federal Reserve Board staff using data provided by the payroll processor ADP, which were available through May, suggested that the pace of private employment gains had stepped up late in that month.

The pace of increases in several measures of labor compensation had moved up in recent months. Average hourly earnings for all employees jumped at a sizable monthly rate in April and May, even though the large job gains in the leisure and hospitality sector—where wages tend to be lower than in other sectors—likely held down the increases in average hourly earnings in these months. A staff measure of the 12-month change in the median wage derived from the ADP data had stepped up significantly in April relative to March. The employment cost index of total hourly compensation in the private sector increased at an annual rate of 4 percent in the three months ending in March, a notably faster pace than over the previous three months.

Recent 12-month change measures of inflation, using either PCE prices or the consumer price index (CPI), were boosted significantly by the base effects of the drop in prices from the spring of 2020 rolling out of the calculation. In addition, a surge in demand as the economy reopened further, combined with production bottlenecks and supply constraints, contributed to the large recent monthly price increases. Total PCE price inflation was 3.6 percent over the 12 months ending in April. Core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 3.1 percent over the 12 months ending in April. In contrast, the trimmed mean measure of 12-month PCE inflation constructed by the Federal Reserve Bank of Dallas was 1.8 percent in April. In May, the 12-month change in the CPI was 5 percent, while core CPI inflation was 3.8 percent over the same period. In the second quarter, the staff's common inflation expectations index, which combines information from many indicators of inflation expectations and inflation compensation, had returned to the level that prevailed in 2014, a time when inflation was modest.

Real PCE increased substantially in March and then was little changed from that high level in April. The components of the nominal retail sales data that are used to estimate PCE edged down in May, but the sales data for the previous two months were revised up markedly, pointing to stronger real PCE growth than had been initially estimated. Combined with reduced social distancing and more widespread vaccinations, key factors that influence consumer spending—including increasing job gains, the upward trend in real disposable income, high levels of household net worth, and low interest rates—pointed to strong real PCE growth over the rest of the year.

Housing demand continued to be robust, with construction of single-family homes and home sales remaining well above their pre-pandemic levels and house prices rising appreciably further. The incoming data for this sector indicated that residential investment spending was being temporarily held back in the second quarter by materials shortages and limited stocks of homes for sale.

Available indicators suggested that equipment and intangibles investment—particularly in high-tech categories—was increasing solidly in the second quarter. Rising orders for nondefense capital goods excluding aircraft were running well above the increases in shipments of those goods through April, which pointed to additional gains in business equipment spending in coming months. Moreover, business investment in the drilling and mining sector appeared to be increasing further, as crude oil and natural gas rigs in operation—an indicator of drilling investment—continued to rise through early June, with oil prices moving higher. However, nominal nonresidential construction spending declined further in April, and investment in nonresidential structures outside of the drilling and mining sector looked to remain weak in the current quarter, likely reflecting continued hesitation by businesses to commit to building projects with lengthy times to completion and uncertain future returns.

Manufacturing output expanded solidly, on balance, over April and May. Output in the motor vehicle and parts sector rose, on net, although semiconductor shortages were still weighing on vehicle production. Factory output outside of the motor vehicle sector increased solidly, and production in the mining sector, which includes crude oil and natural gas extraction, also increased over April and May.

Total real government purchases looked to be about flat, on balance, in the second quarter. Data through May indicated that real federal defense spending was rising only slightly, and nondefense spending was expected to drop following a first-quarter surge in pandemic-related expenditures. State and local government purchases looked to be increasing significantly, as the payrolls of these governments expanded solidly over April and May. Nominal state and local construction spending, however, edged down in April. With the strong economic recovery leading to an improved outlook for state and local tax revenues, and the additional federal support for these governments included in the American Rescue Plan, state and local purchases appeared likely to increase notably over the rest of the year.

The nominal U.S. international trade deficit widened to a record size in March and then reversed that widening in April. Real goods exports in March surpassed their January 2020 levels for the first time and then continued to grow in April, with particular strength in exports of capital goods. Real goods imports surged to record-high levels in March and then stepped back modestly in April. Bottlenecks in the global semiconductor industry, which had weighed on exports and imports of automotive products this year, continued to do so through April. Exports and imports of services remained depressed relative to pre-pandemic levels, as international travel increased only slightly from February.

Recent data pointed to a pickup in foreign economic activity in the second quarter. Demand improved as social-distancing restrictions were lifted in the United Kingdom and the euro area following the rollout of vaccines. With the economic reopening under way, purchasing managers indexes (PMIs) in both the manufacturing and services sectors were strong in Europe in April and May. In the emerging market economies (EMEs), manufacturing PMIs and exports were generally robust. However, many EMEs continued to struggle to contain the virus amid a slow pace of vaccinations, particularly in South America and parts of Asia. Consumer price inflation continued to rise in many foreign economies, primarily driven by rebounding energy prices and the fading effects of steep price declines seen early last year. Price increases were concentrated in relatively few items, suggesting that underlying inflationary pressures remained subdued amid considerable economic slack.

Staff Review of the Financial Situation

Overall financial conditions eased during the intermeeting period as market participants appeared to remain confident that the economic recovery was broadly on track, that inflation over the medium term would stay contained, and that monetary policy would remain accommodative. Domestic equity prices edged up, and corporate bond spreads narrowed a little. Yields on nominal Treasury securities declined modestly since the previous FOMC meeting. Measures of inflation compensation at shorter horizons moved down somewhat, on net, while measures of longer-term inflation compensation were little changed. A straight read of overnight index swap (OIS) quotes suggested that the expected path for the federal funds rate moved lower over the intermeeting period and that the expected policy rate would remain below 25 basis points until the first quarter of 2023. Short-term funding markets functioned smoothly amid record participation in the ON RRP facility. Financing conditions for businesses and households remained accommodative, particularly for large firms and households with high credit ratings.

The Treasury yield curve flattened a bit, on net, with 2-year yields about unchanged while 5-, 10-, and 30-year yields declined somewhat. Inflation compensation declined a bit at shorter horizons but held steady at longer horizons. Market expectations for the federal funds rate path over the medium term, as implied by OIS quotes unadjusted for term premiums, declined moderately.

Broad stock price indexes increased slightly over the intermeeting period, with stocks in cyclically sensitive sectors generally outperforming. One-month option-implied volatility on the S&P 500—the VIX—reached its lowest level since February 2020 and remained a bit below the middle of its historical distribution. Spreads of yields on corporate bonds over those on comparable-maturity Treasury securities narrowed a little for all credit ratings. Meanwhile, yields on municipal bonds reached historical lows, with spreads roughly unchanged for high-credit-rated bonds and moderately narrower for lower-credit-rated bonds.

Short-term funding markets continued to function smoothly over the intermeeting period. Short-term and overnight rates remained near historical lows, with overnight rates dipping slightly. The EFFR was nearly constant throughout the period at 6 basis points, while the SOFR remained at 1 basis point. With rates low and net Treasury bill supply contracting, government money market funds, which at the same time were attracting notable inflows, had limited investment options at nonnegative rates. As a result, ON RRP take-up by these funds surged, pushing total ON RRP participation to record levels in late May and June.

International financial market participants were focused on news about inflation and monetary policy communications. In Europe, stronger-than-expected readings for both inflation and economic activity, as well as increased optimism about vaccinations, contributed to a rise in market-based measures of inflation expectations. On net, European longer-term government bond yields were little changed even as U.S. yields declined, and the broad dollar index decreased modestly. In emerging markets, credit spreads narrowed a bit, and capital flows into EME funds continued at a moderate pace. Equity indexes increased somewhat in both emerging and advanced foreign economies.

Financing conditions for nonfinancial firms through capital markets remained highly accommodative, as reflected in historically low corporate bond and leveraged loan yields as well as high price-to-earnings ratios in the equity markets. Gross issuance of corporate bonds and leveraged loans was solid. Equity raised through traditional initial public offerings was robust in April but softened to more moderate levels in May and through mid-June, while the pace of seasoned equity offerings was modest over the intermeeting period. Meanwhile, equity issuance through special purpose acquisition companies slowed markedly. Commercial and industrial (C&I) loans outstanding at banks fell through mid-May, with forgiveness of Paycheck Protection Program (PPP) loans continuing to drive balances down and more than offsetting volumes of new loan originations. Tepid demand for loans appears to have been a factor in the decline in loans outstanding. For instance, despite healthy growth in C&I commitments at large banks over the first quarter, there was no corresponding change in the utilization rates of credit lines.

The credit quality of large nonfinancial corporations remained largely stable over the intermeeting period. The volume of credit rating upgrades for nonfinancial bonds and leveraged loans outpaced downgrades somewhat in the April-to-early-June period. There were no reported corporate defaults in April, and defaults were low in May. Delinquency rates on bank C&I loans also remained low in the first quarter. Market indicators of future default expectations were little changed and remained low relative to their historical range.

In the municipal bond market, financing conditions remained accommodative over the intermeeting period. Issuance of municipal bonds was solid in recent months, and indicators of the credit quality of municipal debt showed some signs of improvement, with the volume of bond upgrades outpacing the volume of bond downgrades.

Financing conditions for small businesses were little changed, with supply of small business loans remaining tight and demand still subdued outside of the PPP. While small business loan originations rose in April, surpassing pre-pandemic levels, loans made under the PPP likely accounted for a significant portion of that growth. Loan performance and other indicators of the financial health of small businesses improved in recent months. However, in certain sectors, such as accommodation and food services, small businesses remained stressed.

For commercial real estate (CRE) financed through capital markets, financing conditions remained mostly accommodative over the intermeeting period. Issuance of commercial mortgage-backed securities (CMBS) was solid in recent months except in the retail and hotel sectors. Spreads of agency CMBS narrowed to below pre-pandemic levels. Meanwhile, spreads on non-agency triple-A CMBS were little changed at accommodative levels, while non-agency triple-B spreads remained elevated. CRE loan growth at banks continued to be weak through mid-May, likely reflecting weak demand as well as tight underwriting standards.

In the residential mortgage market, financing conditions were little changed over the intermeeting period and remained accommodative for stronger borrowers who met standard conforming loan criteria. Credit continued to appear tight for borrowers with lower credit scores. Mortgage rates for most borrowers were little changed, on net, and remained near historical lows. Home-purchase and refinance mortgage activity continued at a strong pace through early June. The share of mortgages in forbearance declined in May.

Financing conditions for consumer credit remained generally accommodative. Consumer loans grew at a robust pace in April, driven by rapid growth in auto loan balances. Credit card balances on banks' books rose in May, reversing an April decline. For subprime borrowers, conditions in the credit card market appeared to have eased somewhat further from the tight conditions seen after the onset of the pandemic. Conditions in the asset-backed securities market continued to be supportive of lending during the intermeeting period.

Staff Economic Outlook

The U.S. economic projection prepared by the staff for the June FOMC meeting was stronger than the April forecast. Real GDP growth was projected to increase substantially this year, with a correspondingly rapid decline in the unemployment rate. Further reductions in social distancing and favorable financial conditions were expected to support output growth, even though the effects of fiscal stimulus on economic growth were starting to unwind. With the boost to growth from continued reductions in social distancing assumed to fade after 2021 and the further unwinding of fiscal stimulus, GDP growth was expected to step down in 2022 and 2023. Nevertheless, with monetary policy assumed to remain highly accommodative, the staff continued to anticipate that real GDP growth would outpace that of potential over most of this period, leading to a decline in the unemployment rate to historically low levels.

The staff's near-term outlook for inflation was revised up markedly, but the staff continued to expect the rise in inflation this year to be transitory. The 12-month change in total and core PCE prices had moved well above 2 percent in April, and incoming CPI data suggested that PCE price inflation would remain high in May. The recent 12-month measures of inflation were being boosted significantly by the base effects of the drop in prices from the spring of 2020 rolling out of the calculation. In addition, the surge in demand as the economy reopened further, combined with production bottlenecks and supply constraints, contributed to the large recent monthly price increases. The staff expected the 12-month change in PCE prices to gradually move down in coming months, reflecting, importantly, the fading of base effects along with smaller expected monthly price increases, but PCE price inflation was forecast to still be well above 2 percent at the end of this year. Over the next year, the transitory price increases caused by bottlenecks and supply constraints were expected to largely reverse, and the growth in demand was forecast to ease. As a result, inflation was projected to slow to slightly below 2 percent in 2022 before moving back up to a bit above 2 percent in 2023, supported by high levels of resource utilization.

The staff continued to see the uncertainty surrounding the economic outlook as elevated, although increasingly widespread vaccinations, along with ongoing policy support, were viewed as helping to diminish some of these uncertainties. Nevertheless, the staff judged that the risks around their strong baseline projection for economic activity were still tilted somewhat to the downside, as adverse alternative courses of the pandemic—including the possibility of the spread of more-contagious, more-vaccine-resistant COVID-19 variants—seemed more likely than outcomes that would be more favorable than in the baseline forecast. The staff continued to view the risks around the inflation projection as roughly balanced. On the upside, bottlenecks, supply disruptions, and historically high rates of resource utilization were seen as potential sources of greater-than-expected inflationary pressures, particularly if there were a significant rise in inflation expectations that altered inflation dynamics. On the downside, if the effects of supply constraints proved to be transitory, as expected, then the inflation record from the past 25 years suggested the possibility that low underlying trend inflation and a flat Phillips curve could cause inflation to revert to relatively low levels despite a strengthening economy.

Participants' Views on Current Economic 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 progress on vaccinations had reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment had strengthened. The sectors most adversely affected by the pandemic remained weak but had shown improvement. Inflation had risen, largely reflecting transitory factors. 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 generally noted that the path of the economy would depend significantly on the course of the virus. Progress on vaccinations would likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remained.

Participants observed that economic activity was expanding at a historically rapid pace, led by robust gains in consumer spending. A vast majority of participants revised up their projections for real GDP growth this year compared with the projections they had submitted in March, citing stronger consumer demand and improvements in vaccination rates as the primary reasons for these upgrades. That said, participants generally saw supply disruptions and labor shortages as constraining the expansion of economic activity this year. Participants' projections of real GDP growth in 2022 and 2023 were generally little changed.

In their discussion of the household sector, participants remarked that indicators of consumer spending had continued to surge and expected that further gains in spending would contribute significantly to the economic recovery. Many participants commented that accommodative financial conditions, the release of pent-up demand, progress on widespread vaccination, the ongoing reduction of social-distancing measures, and fiscal stimulus were important factors supporting spending. Some participants also noted that consumer spending would likely continue to be bolstered by the ongoing effects from these factors as well as by households' elevated level of accumulated savings and generally healthy balance sheets. A majority of participants observed that housing market activity remained strong.

With respect to the business sector, most participants noted that activity in the service industries most adversely affected by the pandemic, such as in the leisure and hospitality sector, was rebounding as the economy reopened. A number of participants noted that business equipment investment was rising at a strong pace, but growth in manufacturing activity was being restrained by production bottlenecks and supply constraints. In addition, participants reported hearing from contacts in a broad range of industries that shortages of materials and labor as well as supply chain challenges were limiting the ability of firms to keep up with demand. Some business contacts indicated that they were responding to input shortages and bottlenecks by canceling shifts, raising compensation to attract and retain workers, raising prices, or focusing on cutting costs and increasing productivity, particularly through automation.

Participants commented on the continued improvement in labor market conditions in recent months. Job gains in April and May averaged more than 400,000, and the unemployment rate edged down, on net, to 5.8 percent over the period. Many participants pointed to the elevated number of job openings and high rates of job switching as further evidence of the improvement in labor market conditions. Many participants remarked, however, that the economy was still far from achieving the Committee's broad-based and inclusive maximum-employment goal, and some participants indicated that recent job gains, while strong, were weaker than they had expected. A number of participants noted that the labor market recovery continued to be uneven across demographic and income groups and across sectors.

Participants noted that their District contacts had reported having trouble hiring workers to meet demand, likely reflecting factors such as early retirements, concerns about the virus, childcare responsibilities, and expanded unemployment insurance benefits. Some participants remarked that these factors were making people either less able or less inclined to work in the current environment. Citing recent wage data and reports from business contacts, many participants judged that labor shortages were putting upward pressure on wages or leading employers to provide additional financial incentives to attract and retain workers, particularly in lower-wage occupations. Participants expected labor market conditions to continue to improve, with labor shortages expected to ease throughout the summer and into the fall as progress on vaccinations continues, social distancing unwinds further, more schools reopen, and expanded unemployment insurance benefits expire.

In their discussions on inflation, participants stated that they had expected inflation to move above 2 percent in the near term, in part as the drop in prices from early in the pandemic fell out of the calculation and past increases in oil prices passed through to consumer energy prices. However, participants remarked that the actual rise in inflation was larger than anticipated, with the 12-month change in the PCE price index reaching 3.6 percent in April. Participants attributed the upside surprise to more widespread supply constraints in product and labor markets than they had anticipated and to a larger-than-expected surge in consumer demand as the economy reopened. They noted that many of their District contacts had reported that higher input costs were putting upward pressure on prices. Most participants observed that the largest contributors to the rise in measured inflation were sectors affected by supply bottlenecks or sectors where price levels were rebounding from levels depressed by the pandemic. Looking ahead, participants generally expected inflation to ease as the effect of these transitory factors dissipated, but several participants remarked that they anticipated that supply chain limitations and input shortages would put upward pressure on prices into next year. Several participants noted that, during the early months of the reopening, uncertainty remained too high to accurately assess how long inflation pressures will be sustained. Some participants commented that recent readings of inflation measures that exclude volatile components, such as trimmed mean measures, had been relatively stable at or just below 2 percent. In their comments on longer-term inflation expectations, a number of participants noted that, despite increases earlier this year, measures of longer-term inflation expectations had remained in ranges that were broadly consistent with the Committee's longer-run inflation goal. Others noted that it was this year's increases that had brought these measures to levels that were broadly consistent with the Committee's longer-run inflation goal.

Participants noted that overall financial conditions remained highly accommodative, in part reflecting the stance of monetary policy, which continued to deliver appropriate support to the economy. Several participants highlighted, however, that low interest rates were contributing to elevated house prices and that valuation pressures in housing markets might pose financial stability risks.

In discussing the uncertainty and risks associated with the economic outlook, participants commented that the process of reopening the economy was unprecedented and likely to be uneven across sectors. Some participants judged that supply chain disruptions and labor shortages complicated the task of assessing progress toward the Committee's goals and that the speed at which these factors would dissipate was uncertain. Accordingly, participants judged that uncertainty around their economic projections was elevated. Although they generally saw the risks to the outlook for economic activity as broadly balanced, a substantial majority of participants judged that the risks to their inflation projections were tilted to the upside because of concerns that supply disruptions and labor shortages might linger for longer and might have larger or more persistent effects on prices and wages than they currently assumed. Several participants expressed concern that longer-term inflation expectations might rise to inappropriate levels if elevated inflation readings persisted. Several other participants cautioned that downside risks to inflation remained because temporary price pressures might unwind faster than currently anticipated and because the forces that held down inflation and inflation expectations during the previous economic expansion had not gone away or might reinforce the effect of the unwinding of temporary price pressures.

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 generally agreed that the economic recovery was incomplete and that risks to the economic outlook remained. Although inflation had risen more than anticipated, the increase was seen as largely reflecting temporary factors, and participants expected inflation to decline toward the Committee's 2 percent longer-run objective.

Participants judged that the current stance of monetary policy and policy guidance remained appropriate to promote maximum employment as well as to achieve inflation that averages 2 percent over time and longer-term inflation expectations that are well anchored at 2 percent. Participants also reiterated that the existing outcome-based guidance implied that the paths of the federal funds rate and the balance sheet would depend on actual progress toward reaching the Committee's maximum-employment and inflation goals. In light of the incoming data and the implications for their economic outlooks, a few participants mentioned that they expected the economic conditions set out in the Committee's forward guidance for the federal funds rate to be met somewhat earlier than they had projected in March. Several participants emphasized, however, that uncertainty around the economic outlook was elevated and that it was too early to draw firm conclusions about the paths of the labor market and inflation. In their view, this heightened uncertainty regarding the evolution of the economy also implied significant uncertainty about the appropriate path of the federal funds rate. Some participants noted that communications about the appropriate path of policy would be a focus of market participants in the current environment and commented that it would be important to emphasize that the Committee's reaction function or commitment to its monetary policy framework had not changed.

Participants discussed the Federal Reserve's asset purchases and progress toward the Committee's goals since last December when the Committee adopted its guidance for asset purchases. The Committee's standard of "substantial further progress" was generally seen as not having yet been met, though participants expected progress to continue. Various participants mentioned that they expected the conditions for beginning to reduce the pace of asset purchases to be met somewhat earlier than they had anticipated at previous meetings in light of incoming data. Some participants saw the incoming data as providing a less clear signal about the underlying economic momentum and judged that the Committee would have information in coming months to make a better assessment of the path of the labor market and inflation. As a result, several of these participants emphasized that the Committee should be patient in assessing progress toward its goals and in announcing changes to its plans for asset purchases. Participants generally judged that, as a matter of prudent planning, it was important to be well positioned to reduce the pace of asset purchases, if appropriate, in response to unexpected economic developments, including faster-than-anticipated progress toward the Committee's goals or the emergence of risks that could impede the attainment of the Committee's goals.

Various participants offered their views on the Committee's agency MBS purchases. Several participants saw benefits to reducing the pace of these purchases more quickly or earlier than Treasury purchases in light of valuation pressures in housing markets. Several other participants, however, commented that reducing the pace of Treasury and MBS purchases commensurately was preferable because this approach would be well aligned with the Committee's previous communications or because purchases of Treasury securities and MBS both provide accommodation through their influence on broader financial conditions. In coming meetings, participants agreed to continue assessing the economy's progress toward the Committee's goals and to begin to discuss their plans for adjusting the path and composition of asset purchases. In addition, participants reiterated their intention to provide notice well in advance of an announcement to reduce the pace of purchases.

With regard to the implementation of monetary policy, participants had observed downward pressure on money market rates over the intermeeting period and viewed the possibility of further downward pressure on these rates in the near term as likely. Consequently, they noted that an adjustment to the Federal Reserve's administered rates would help keep the federal funds rate well within the target range and support smooth market functioning of short-term funding markets. Participants agreed that this technical adjustment had no bearing on the appropriate path for the federal funds rate or the stance of monetary policy.

Committee Policy Action

In their discussion of monetary policy for this meeting, members agreed that progress on vaccinations had reduced the spread of COVID-19 in the United States. They noted that amid progress and strong policy support, indicators of economic activity and employment had strengthened. Although the sectors most adversely affected by the pandemic remained weak, they had shown improvement. Inflation had risen, largely reflecting transitory factors. 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 agreed that the path of the economy would depend significantly on the course of the virus. Progress on vaccinations would likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remained.

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 having run 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 keep 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 MBS 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 concurred 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.

Members judged that the economic outlook had continued to improve and that the most negative effects of the pandemic on the economy most likely had occurred. As a result, they agreed to remove references in the FOMC statement that noted that the virus was "causing tremendous human and economic hardship" and that "the ongoing public health crisis continues to weigh on the economy." Instead, they agreed to say that progress on vaccinations had reduced the spread of COVID-19 and would likely continue to reduce the negative economic effects of the public health crisis.

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

> "Effective June 17, 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 0.05 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.
>
> Progress on vaccinations has reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors. 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. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.
>
> The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run 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 raise the interest rates on required and excess reserve balances to 0.15 percent. Setting the interest rate paid on required and excess reserve balances 15 basis points above the bottom of the target range for the federal funds rate is intended to foster trading in the federal funds market at rates well within the Federal Open Market Committee's target range and to support the smooth functioning of short-term funding markets. The Board of Governors also voted unanimously to approve establishment of the primary credit rate at the existing level of 0.25 percent, effective June 17, 2021.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, July 27–28, 2021. The meeting adjourned at 10:40 a.m. on June 16, 2021.

Notation Vote

By notation vote completed on May 18, 2021, the Committee unanimously approved the minutes of the Committee meeting held on April 27–28, 2021.

James A. Clouse
Secretary