# Minutes of the Federal Open Market Committee
# December 13, 2011

A joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System was held in the offices of the Board of Governors in Washington, D.C., on Tuesday, December 13, 2011, at 8:30 a.m.

PRESENT:

Ben Bernanke, Chairman
William C. Dudley, Vice Chairman
Elizabeth Duke
Charles L. Evans
Richard W. Fisher
Narayana Kocherlakota
Charles I. Plosser
Sarah Bloom Raskin
Daniel K. Tarullo
Janet L. Yellen

Christine Cumming, Jeffrey M. Lacker, Dennis P. Lockhart, Sandra Pianalto, and John C. Williams, Alternate Members of the Federal Open Market Committee

James Bullard, Esther L. George, and Eric Rosengren, Presidents of the Federal Reserve Banks of St. Louis, Kansas City, and Boston, respectively

William B. English, Secretary and Economist
Deborah J. Danker, Deputy Secretary
Matthew M. Luecke, Assistant 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
David W. Wilcox, Economist

Thomas A. Connors, Loretta J. Mester, Simon Potter, David Reifschneider, Harvey Rosenblum, and Lawrence Slifman, Associate Economists

Brian Sack, Manager, System Open Market Account

Jennifer J. Johnson, Secretary of the Board, Office of the Secretary, Board of Governors

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

Maryann F. Hunter, Deputy Director, Division of Banking Supervision and Regulation, Board of Governors; William Wascher, Deputy Director, Division of Research and Statistics, Board of Governors

Andreas Lehnert, Deputy Director, Office of Financial Stability Policy and Research, Board of Governors

Andrew T. Levin, Special Advisor to the Board, Office of Board Members, Board of Governors

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

Seth B. Carpenter, Senior Associate Director, Division of Monetary Affairs, Board of Governors; Michael P. Leahy, Senior Associate Director, Division of International Finance, Board of Governors

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

Eric M. Engen, Michael T. Kiley, and Michael G. Palumbo, Associate Directors, Division of Research and Statistics, Board of Governors

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

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

Gordon Werkema, First Vice President, Federal Reserve Bank of Chicago

Jeff Fuhrer and Mark S. Sniderman, Executive Vice Presidents, Federal Reserve Banks of Boston and Cleveland, respectively

David Altig, Alan D. Barkema, Richard P. Dzina, Spencer Krane, and Christopher J. Waller, Senior Vice Presidents, Federal Reserve Banks of Atlanta, Kansas City, New York, Chicago, and St. Louis, respectively

Mary C. Daly, Group Vice President, Federal Reserve Bank of San Francisco

Alexander L. Wolman, Senior Economist and Research Advisor, Federal Reserve Bank of Richmond

Samuel Schulhofer-Wohl, Senior Economist, Federal Reserve Bank of Minneapolis

By unanimous vote, the Committee selected Steven B. Kamin to serve as Economist until the selection of a successor at the first regularly scheduled meeting of the Committee in 2012.

**Developments in Financial Markets and the Federal Reserve's Balance Sheet**

The Manager of the System Open Market Account (SOMA) reported on developments in domestic and foreign financial markets during the period since the Federal Open Market Committee (FOMC) met on November 1–2, 2011. He also reported on System open market operations, including the ongoing reinvestment into agency-guaranteed mortgage-backed securities (MBS) of principal payments received on SOMA holdings of agency debt and agency-guaranteed MBS as well as the operations related to the maturity extension program authorized at the September 20–21 FOMC meeting. 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 at the December 13 meeting indicated that U.S. economic activity expanded moderately despite some apparent slowing in the growth of foreign economies and strains in global financial markets. Conditions in the labor market seemed to have improved somewhat, while overall consumer price inflation continued to be more modest than earlier in the year and measures of long-run inflation expectations remained stable.

The unemployment rate dropped to 8.6 percent in November, and private nonfarm employment continued to increase moderately during the past two months. Nevertheless, employment at state and local governments declined further, and both long-duration unemployment and the share of workers employed part time for economic reasons remained elevated. Initial claims for unemployment insurance moved down, on net, since early November but were still at a level consistent with only modest employment gains, and indicators of job openings and businesses' hiring plans were little changed.

Industrial production rose in October, reflecting in part a rebound in motor vehicle production from the effects of supply chain disruptions earlier in the year. Factory output outside of the motor vehicle sector also continued to rise, and the rate of manufacturing capacity utilization moved up. However, motor vehicle assemblies were scheduled to only edge higher, on balance, in the coming months, and broader indicators of manufacturing activity, such as the diffusion indexes of new orders from the national and regional manufacturing surveys, were at levels that suggested only modest increases in production in the near term.

Revised estimates indicated that households' real disposable income declined in the second and third quarters, and the net wealth of households decreased in the third quarter. Nonetheless, overall real personal consumption expenditures (PCE) rose modestly in October following significant gains in the previous month, as spending for consumer goods continued to increase at a strong pace while outlays for consumer services were roughly flat. In November, nominal retail sales, excluding purchases at motor vehicle and parts outlets, expanded further, and sales of light motor vehicles stepped up. But consumer sentiment was still at a subdued level in early December despite some improvement in recent months.

Activity in the housing market continued to be depressed by the substantial inventory of foreclosed and distressed properties and by weak demand that reflected tight credit conditions for mortgage loans and uncertainty about future home prices. Starts and permits for new single-family homes in October stayed around the low levels that prevailed since the middle of last year. Sales of new and existing homes remained slow in recent months, and home prices moved down further.

Real business spending on equipment and software seemed to be decelerating. Nominal orders and shipments of nondefense capital goods excluding aircraft edged down in October, and the slowing accumulation of unfilled orders suggested that increases in outlays for business equipment would be muted in subsequent months. Also, survey measures of business conditions and sentiment remained at relatively downbeat levels in November. Real business spending for nonresidential construction moved up in October but was still at a low level, reflecting high vacancy rates and restricted credit conditions for construction loans. Inventories in most industries looked to be reasonably well aligned with sales, although motor vehicle stocks continued to be lean.

In the government sector, real federal defense purchases appeared to have stepped down in October and November from their level in the third quarter. At the state and local level, real purchases seemed to be decreasing at a slower pace in recent months than earlier in the year.

The U.S. international trade deficit narrowed in October, as imports decreased more than exports. Declines in imports of petroleum products (reflecting lower prices and lesser volumes), non-oil industrial supplies, and automotive products more than offset increases in capital goods, consumer goods, and food. Reductions in exports of industrial supplies and consumer goods, led by a few particularly volatile components, outweighed the gains in capital goods.

Inflation continued to decrease relative to earlier in the year. Indeed, the PCE price index edged down in October. Consumer prices for energy decreased, and survey data indicated that gasoline prices declined further in November. Increases in consumer food prices in October were substantially slower than the average pace in the preceding months of this year. Consumer prices excluding food and energy also continued to rise at a more modest pace in October than earlier in the year. Near-term inflation expectations from the Thomson Reuters/University of Michigan Surveys of Consumers declined in early December, and longer-term inflation expectations remained stable.

Measures of labor compensation indicated that nominal wage gains continued to be subdued. Compensation per hour in the nonfarm business sector increased moderately over the year ending in the third quarter, while the 12-month change in average hourly earnings for all employees remained low in October and November. Unit labor costs edged up over the past four quarters.

Foreign economic growth, especially in the euro area, appeared to weaken in recent months. Real gross domestic product (GDP) in the euro area barely edged up in the third quarter. Moreover, industrial production in the region fell sharply in September, and indicators of manufacturing activity in October and November pointed to lower output. Measures of business and consumer confidence in the euro area continued to decline in recent months. In other advanced foreign economies, real GDP in Japan rebounded in the third quarter from the effects of the earthquake in March, and real GDP recovered in Canada as oil production picked up after several months of shutdowns; however, available indicators of manufacturing activity in both of these economies pointed to declines during the fourth quarter. Among emerging market economies, real GDP in Brazil was flat in the third quarter, while exports from China slowed in recent months, although Chinese domestic demand appeared to remain strong.

**Staff Review of the Financial Situation**

The risks associated with the fiscal and financial difficulties in Europe remained the focus of attention in financial markets over the intermeeting period and contributed to heightened volatility in a wide range of asset markets. Investor concerns about developments in Europe intensified early in the period but subsequently eased a bit amid signs that European authorities were moving toward agreement on a comprehensive framework to address fiscal and financial vulnerabilities and after the Federal Reserve and five other major central banks announced enhanced currency swap arrangements, including lower charges on existing dollar liquidity swap lines. Nevertheless, investors appeared to remain cautious.

Yields on nominal Treasury securities were little changed following the release of the November FOMC statement. Over the following weeks, movements in yields were reportedly driven by shifts in investors' assessments of the European situation and by U.S. economic data that were somewhat stronger than they expected. Both short-term nominal Treasury yields and the expected path of the federal funds rate implied by money market futures quotes were essentially unchanged, on balance, over the intermeeting period, while longer-dated Treasury yields ended the period slightly higher. Yields on current-coupon agency MBS also ended the period about unchanged. Indicators of inflation expectations derived from nominal and inflation-protected Treasury securities posted mixed changes, on net, over the period and remained at the low end of their recent ranges.

Early in the intermeeting period, conditions in short-term wholesale funding markets appeared to deteriorate somewhat. Following the six major central banks' currency swap announcement, some measures of short-term funding costs moderated, but they remained elevated. In dollar funding markets, the spread of the three-month London interbank offered rate (Libor) over the overnight index swap (OIS) rate of the same maturity widened noticeably during the intermeeting period. Some European financial institutions reportedly faced significant pressures in unsecured dollar funding markets. By contrast, in secured funding markets, spreads on asset-backed commercial paper were relatively steady for U.S. and most European-based issuers, and rates on repurchase agreements across various types of collateral were stable.

In the December 2011 Senior Credit Officer Opinion Survey on Dealer Financing Terms, dealers reported a moderate tightening of credit terms over the preceding three months on securities financing transactions and over-the-counter derivatives markets trades, particularly for financial counterparties. Dealers also noted that demand for funding all types of securities decreased over the same reference period.

Credit default swap (CDS) spreads and equity prices of large U.S. banking organizations remained volatile over the intermeeting period. While the S&P 500 index ended the period slightly higher, on net, equity prices for most major U.S. banking firms were lower and their CDS spreads widened. CDS spreads for European banks remained elevated as these institutions faced increasingly strained conditions in short-term funding markets. In the wake of the bankruptcy of MF Global, market participants also expressed renewed concerns about securities dealers that rely heavily on short-term wholesale funding markets, particularly those institutions not affiliated with commercial banking institutions.

Yields on investment-grade and speculative-grade corporate bonds rose, on balance, over the period, and their spreads over yields on comparable-maturity Treasury securities were somewhat wider. The debt of nonfinancial firms increased in November, with corporate bond issuance particularly robust, as some firms reportedly were eager to issue bonds before year-end. Nonfinancial commercial paper outstanding and commercial and industrial loans continued to expand at a moderate pace. In the leveraged loan market, the extension of loans stepped up somewhat in November but remained sluggish relative to its average pace earlier in the year.

Financing conditions for commercial real estate appeared to remain strained over the intermeeting period. Issuance of commercial mortgage-backed securities (CMBS) was light amid deteriorating liquidity conditions in the CMBS market. Prices of most types of commercial properties continued to be depressed, while both vacancy rates and delinquency rates for commercial properties stayed close to their recent highs.

Interest rates on residential mortgages were little changed, on net, over the intermeeting period and remained at historically low levels. But low mortgage rates appeared to have only modest effects on the rate of mortgage refinancing, likely because of tight underwriting standards and low levels of home equity. Indicators of home prices and the credit quality of older mortgage loans remained weak. The rate of newly delinquent prime mortgages—the pace at which mortgages transition from "current" to delinquent—seemed to have slowed, but overall delinquency rates on residential mortgages remained elevated. Market reaction to the announcements by Fannie Mae and Freddie Mac on November 15 regarding the expansion of the Home Affordable Refinance Program was limited.

Consumer credit rose slightly in the third quarter. The aggregate volume of credit card solicitations in recent months remained at levels comparable to those before the financial crisis in 2008, though the volume sent to low-income households was still well below the levels at that time. Meanwhile, consumer credit quality improved further in recent months, with delinquency rates on credit card loans declining nearly to historical lows and delinquency rates on nonrevolving credit at commercial banks retreating to pre-crisis levels. Issuance of consumer credit asset-backed securities increased substantially in November.

M2 expanded at a solid pace in November, likely reflecting increased demand for safe and liquid assets, given concerns over European financial developments. In part, offshore deposits, which are no longer excluded from the Federal Deposit Insurance Corporation assessment base, appeared to be shifting to onshore offices. In contrast, the monetary base declined in November. Although currency increased at a robust pace, reserve balances declined by more, reflecting a temporary decrease in the size of the SOMA as a result of lags in the settlement of MBS reinvestment transactions.

Over most of November, yields on many euro-area sovereign bonds—including those of Italy, Spain, Belgium, and France—along with yields on debt issued by the European Financial Stability Facility, rose sharply relative to the yield on German government bonds. But these spreads subsequently narrowed in anticipation of the European Union (EU) summit meeting on December 9 and in reaction to the swap announcement by the Federal Reserve and the other central banks on November 30. Near the end of the period, sovereign spreads widened again amid market participants' apparent concerns that the actions announced at the EU summit would prove to be less effective than they previously had anticipated. Spreads of yields on most peripheral euro-area countries' debt over yields on German debt ended the period higher on net. German sovereign yields increased as well.

Implied basis spreads from the foreign exchange swap market rose substantially over November, but reversed a portion of that increase immediately following the central banks' swap announcement. Against the background of higher dollar funding costs in the market and the reduction in the charge on dollar liquidity swaps, demand at the tender by the European Central Bank (ECB) of three-month dollar liquidity in December jumped to more than $50 billion from less than $500 million at the November auction. Euro funding pressures also moved higher over the period, with euro Libor–OIS spreads continuing to rise. In addition, maturities for repurchase agreements involving sovereign bonds of euro-area countries other than Germany reportedly shortened. Several European banks announced large declines in third-quarter profits, in part reflecting write-downs of their holdings of Greek sovereign debt. Equity prices in both advanced and emerging market economies fluctuated widely, with advanced country equities little changed, on net, and emerging market equities ending the period lower. The foreign exchange value of the dollar appreciated, on balance, over the intermeeting period.

With inflationary pressures waning and the downside risks to the global economic outlook increasing, some central banks eased policy. China's central bank cut its reserve requirements by 50 basis points, and the central bank of Brazil lowered its policy rate by the same amount. The ECB reduced its minimum bid rate by 25 basis points at both its November and December meetings, relaxed its collateral and reserve requirements, and stated that it would begin to offer three-year funds at fixed rates. As a precautionary measure, the Bank of England announced a new liquidity facility that will auction term sterling funds against a wide range of collateral.

**Staff Economic Outlook**

In the economic forecast prepared for the December FOMC meeting, the staff's projection for the increase in real GDP in the near term was little changed, as the recent data on spending, production, and the labor market were, on balance, in line with the staff's expectations at the time of the previous forecast. However, the medium-term projection for real GDP growth in the December forecast was lower than the one presented in November, primarily reflecting revisions to the staff's view regarding developments in Europe and their implications for the U.S. economy. Nonetheless, the staff continued to project that the pace of economic activity would pick up gradually in 2012 and 2013, supported by accommodative monetary policy, further increases in credit availability, and improvements in consumer and business sentiment. Over the forecast period, the gains in real GDP were anticipated to be sufficient to reduce the slack in product and labor markets only slowly, and the unemployment rate was expected to remain elevated at the end of 2013.

The staff's projection for inflation was little changed from the forecast prepared for the November FOMC meeting. The upward pressure on consumer prices from the increases in commodity and import prices earlier in the year was expected to continue to subside in the current quarter. With long-run inflation expectations stable and substantial slack in labor and product markets anticipated to persist over the forecast period, the staff continued to project that inflation would be subdued in 2012 and 2013.

**Participants' Views on Current Conditions and the Economic Outlook**

In their discussion of the economic situation and outlook, meeting participants agreed that the information received since their previous meeting indicated that economic activity was expanding at a moderate rate, notwithstanding some apparent slowing in global economic growth. Consumer spending continued to advance, but business fixed investment appeared to be decelerating, and home sales and construction remained at very low levels. Labor market conditions improved some in recent months, but the unemployment rate remained elevated despite a noticeable drop in November. Inflation moderated from the rates earlier in the year, and longer-term inflation expectations remained stable.

Regarding the economic outlook, participants continued to anticipate that economic activity would expand at a moderate rate in the coming quarters and that, consequently, the unemployment rate would decline only gradually. The factors that participants cited as likely to restrain the pace of the economic expansion included an expectation that financial markets would remain unsettled until the fiscal and banking issues in the euro area were more fully addressed. Other factors that were expected to weigh on the pace of economic activity were the slowdown of economic activity abroad, fiscal tightening in the United States, high levels of uncertainty among households and businesses, the weak housing market, and household deleveraging. In assessing the economic outlook, participants judged that strains in global financial markets continued to pose significant downside risks. With the rate of increase in economic activity anticipated to remain moderate, most participants expected that inflation would settle over coming quarters at or below levels consistent with their estimates of its longer-run mandate-consistent rate.

In discussing the household sector, meeting participants generally commented that consumer spending in recent months had been stronger than expected, and several reported cautious optimism among some of their business contacts about prospects for the holiday shopping season. A few participants thought that the recent strength in motor vehicle sales and other consumer spending could reflect pent-up demand from households for goods and services, and so thought that it might persist for a time. However, others noted that real disposable personal income had weakened and that households remained pessimistic about their income prospects and uncertain about the economic outlook. As a result, a number of those participants suggested that the recent stronger pace of consumer spending might not be sustained. Moreover, some participants mentioned that households were likely still adjusting to the loss of wealth over the past few years, which would weigh on consumer spending going forward. Participants generally saw few signs of recovery in the housing market, with house prices continuing to decline in most areas and the overhang of foreclosed and distressed properties still substantial. Several participants observed that the ongoing weakness in the housing market came despite low borrowing rates and government initiatives to resolve problems in the foreclosure process. However, one participant noted that some homebuilders were reporting that land prices were edging up and that financing was available from nontraditional sources, suggesting that conditions in the housing market could be improving.

Reports from business contacts indicated that, in addition to the rise in consumer spending, activity in the manufacturing, energy, and agriculture sectors continued to advance in recent months. Nonetheless, businesses generally reported that they remained cautious regarding capital spending and hiring because of a high level of uncertainty about the economic outlook and the political environment. In particular, some contacts raised concerns about the uncertain fiscal outlook in the United States or the possible drag on sales and production from an economic slowdown abroad, while others cited uncertainty about the cost implications of potential changes in regulatory policies. Several participants noted that their contacts had ready access to credit at attractive rates. However, some participants continued to view credit as tight, particularly in mortgage markets or among small businesses in their Districts that were facing difficulties meeting collateral requirements and obtaining bank loans.

A number of recent indicators showed some improvement in labor market conditions: Payroll employment had posted moderate gains for five months, new claims for unemployment insurance had drifted lower, and the unemployment rate had turned down. One participant noted that the series of upward revisions to the initial estimates of payroll employment in recent months was an encouraging sign of sustained hiring, although several participants remarked that they saw the labor market as still improving only slowly. Others indicated that because part of the recent decline in the jobless rate was associated with a reduction in labor force participation, the drop in the unemployment rate likely overstated the overall improvement in the labor market. Moreover, unemployment, particularly longer-term unemployment, remained high, and the number of involuntary part-time workers was still elevated. Some participants again expressed concern that the persistence of high levels of long-duration unemployment and the underutilization of the workforce could eventually lead to a loss of skills and an erosion of potential output. Another participant suggested that the unemployment rate was a more useful indicator of cyclical labor market developments than the level of employment relative to the size of the population, which was more likely to be influenced by structural changes in labor demand and supply. Participants expressed a range of views on the current extent of slack in the labor market. It was noted that because of factors including ongoing changes in the composition of available jobs and workers' skills, some part of the increase in unemployment since the beginning of the recession had been structural rather than cyclical. Others pointed out that the very modest increases in labor compensation of late suggested that underutilization of labor was still significant.

Meeting participants observed that financial markets remained volatile over the intermeeting period in large part because of developments in Europe. Participants noted the recent moves by the European authorities to strengthen their commitment to fiscal discipline and to provide greater resources to backstop sovereign debt issuance. But many anticipated that further efforts to implement and perhaps to augment these policies would be necessary to fully resolve the area's fiscal and financial problems and commented that financial markets would remain focused on the situation in Europe as it evolves. It was noted that the changes to the central bank currency swap lines announced in late November helped to ease dollar funding conditions facing European institutions, but such conditions were still strained. However, participants generally saw little evidence of significant new constraints on credit availability for domestic borrowers. The balance sheets of most U.S. banks appeared to have improved somewhat, and domestic banks reported increases in commercial lending, even as some European lenders were pulling back. Several participants commented on strains affecting some community banks, which reportedly had led to tighter credit conditions for their small business clients.

Participants observed that inflation had moderated in recent months as the effects of the earlier run-up in commodity prices subsided. Retail prices of gasoline had declined, and prices of non-oil imported goods had softened. In addition, labor compensation had risen only slowly, and productivity continued to rise. Some business contacts suggested that pricing pressures had diminished. Longer-run inflation expectations were still well anchored. Most participants anticipated that inflation would continue to moderate. Although some energy prices had recently increased, many participants judged that the favorable trends in commodity prices might persist in the near term, particularly in light of softer global activity, and one noted that expanded crop production, if realized, would hold down agricultural prices. More broadly, many participants judged that the moderate expansion in economic activity that they were projecting and the associated gradual reduction in the current wide margins of slack in labor and product markets would be consistent with subdued inflation going forward. Indeed, some expressed the concern that, with the persistence of considerable resource slack, inflation might run below mandate-consistent levels for some time. However, a couple of participants noted that the rate of inflation over the past year had not fallen as much as would be expected if the gap in resource utilization were large, suggesting that the level of potential output was lower than some current estimates. Some participants were concerned that inflation could rise as the recovery continued, and some business contacts had reported that producers expected to see an increase in pricing power over time. A few participants argued that maintaining a highly accommodative stance of monetary policy over the medium run would erode the stability of inflation expectations.

**Committee Policy Action**

Members viewed the information on U.S. economic activity received over the intermeeting period as suggesting that the economy was expanding moderately. While overall labor market conditions had improved some in recent months, the unemployment rate remained elevated relative to levels that the Committee anticipated would prevail in the longer run. Inflation had moderated, and longer-term inflation expectations remained stable. However, available indicators pointed to some slowing in the pace of economic growth in Europe and in some emerging market economies. Members continued to expect a moderate pace of economic growth over coming quarters, with the unemployment rate declining only gradually toward levels consistent with the Committee's dual mandate. Strains in global financial markets continued to pose significant downside risks to economic activity. Members also anticipated that inflation would settle, over coming quarters, at levels at or below those consistent with the dual mandate.

In their discussion of monetary policy for the period ahead, Committee members generally agreed that their overall assessments of the economic outlook had not changed greatly since their previous meeting. As a result, almost all members agreed to maintain the existing stance of monetary policy at this meeting. In particular, they agreed to continue the program of extending the average maturity of the Federal Reserve's holdings of securities as announced in September, to retain the existing policies regarding the reinvestment of principal payments from Federal Reserve holdings of securities, and to keep the target range for the federal funds rate at 0 to ¼ percent. With regard to the forward guidance to be included in the statement to be released following the meeting, several members noted that the reference to mid-2013 might need to be adjusted before long. A number of members noted their dissatisfaction with the Committee's current approach for communicating its views regarding the appropriate path for monetary policy, and looked forward to considering possible enhancements to the Committee's communications. For now, however, the Committee agreed to reiterate its anticipation that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. A number of members indicated that current and prospective economic conditions could well warrant additional policy accommodation, but they believed that any additional actions would be more effective if accompanied by enhanced communication about the Committee's longer-run economic goals and policy framework. A few others continued to judge that maintaining the current degree of policy accommodation beyond the near term would likely be inappropriate given their outlook for economic activity and inflation, or questioned the efficacy of additional monetary policy actions in light of the nonmonetary headwinds restraining the recovery. For this meeting, almost all members were willing to support maintaining the existing policy stance while emphasizing the importance of carefully monitoring economic developments given the uncertainties and risks attending the outlook. One member preferred to undertake additional accommodation at this meeting and dissented from the policy decision.

With respect to the statement, members agreed that only relatively small modifications were needed to reflect the modest changes to economic conditions seen in the recent data and to note that the Committee would continue to implement its policy steps from recent meetings.

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 System Account in accordance with the following domestic policy directive:

> "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability."

The vote encompassed approval of the statement below to be released at 2:15 p.m.:

> "Information received since the Federal Open Market Committee met in November suggests that the economy has been expanding moderately, notwithstanding some apparent slowing in global growth. While indicators point to some improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but business fixed investment appears to be increasing less rapidly and the housing sector remains depressed. Inflation has moderated since earlier in the year, and longer-term inflation expectations have remained stable.
>
> Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward

levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies 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. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability."

**Voting for this action:** Ben Bernanke, William C. Dudley, Elizabeth Duke, Richard W. Fisher, Narayana Kocherlakota, Charles I. Plosser, Sarah Bloom Raskin, Daniel K. Tarullo, and Janet L. Yellen.

**Voting against this action:** Charles L. Evans.

Mr. Evans dissented because he continued to view additional policy accommodation as appropriate in circumstances where his outlook was for growth to be too slow to make sufficient progress in reducing the unemployment rate and for inflation to drop below levels consistent with the Committee's dual mandate. He continued to support the use of more-explicit forward guidance about the economic conditions under which the federal funds rate could be maintained in its current range, and he suggested that the Committee also consider additional asset purchases.

**Monetary Policy Communications**

After the Committee's vote, participants turned to a further consideration of ways in which the Committee might enhance the clarity and transparency of its public communications. The subcommittee on communications recommended an approach for incorporating information about participants' projections of appropriate future monetary policy into the Summary of Economic Projections (SEP), which the FOMC releases four times each year. In the SEP, participants' projections for economic growth, unemployment, and inflation are conditioned on their individual assessments of the path of monetary policy that is most likely to be consistent with the Federal Reserve's statutory mandate to promote maximum employment and price stability, but information about those assessments has not been included in the SEP.

A staff briefing described the details of the subcommittee's recommended approach and compared it with those taken by several other central banks. Most participants agreed that adding their projections of the target federal funds rate to the economic projections already provided in the SEP would help the public better understand the Committee's monetary policy decisions and the ways in which those decisions depend on members' assessments of economic and financial conditions. One participant suggested that the economic projections would be more understandable if they were based on a common interest rate path. Another suggested that it would be preferable to publish a consensus policy projection of the entire Committee. Some participants expressed concern that publishing information about participants' individual policy projections could confuse the public; for example, they saw an appreciable risk that the public could mistakenly interpret participants' projections of the target federal funds rate as signaling the Committee's intention to follow a specific policy path rather than as indicating members' conditional projections for the federal funds rate given their expectations regarding future economic developments. Most participants viewed these concerns as manageable; several noted that participants would have opportunities to explain their projections and policy views in speeches and other forms of communication.

Nonetheless, some participants did not see providing policy projections as a useful step at this time.

At the conclusion of their discussion, participants decided to incorporate information about their projections of appropriate monetary policy into the SEP beginning in January. Specifically, the SEP will include information about participants' projections of the appropriate level of the target federal funds rate in the fourth quarter of the current year and the next few calendar years, and over the longer run; the SEP also will report participants' current projections of the likely timing of the first increase in the target rate given their projections of future economic conditions. An accompanying narrative will describe the key factors underlying those assessments as well as qualitative information regarding participants' expectations for the Federal Reserve's balance sheet. A number of participants suggested further enhancements to the SEP; the Chairman asked the subcommittee to explore such enhancements over coming months.

Following up on the Committee's discussion of policy frameworks at its November meeting, the subcommittee on communications presented a draft statement of the Committee's longer-run goals and policy strategy. Participants generally agreed that issuing such a statement could be helpful in enhancing the transparency and accountability of monetary policy and in facilitating well-informed decisionmaking by households and businesses, and thus in enhancing the Committee's ability to promote the goals specified in its statutory mandate in the face of significant economic disturbances. However, a couple of participants expressed the concern that a statement that was sufficiently nuanced to capture the diversity of views on the Committee might not, in fact, enhance public understanding of the Committee's actions and intentions. Participants commented on the draft statement, and the Chairman encouraged the subcommittee to make adjustments to the draft and to present a revised version for the Committee's further consideration in January.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, January 24–25, 2012. The meeting adjourned at 4:00 p.m. on December 13, 2011.

**Videoconference Meeting of November 28**

On November 28, 2011, the Committee met by videoconference to discuss a proposal to amend and augment the Federal Reserve's temporary liquidity swap arrangements with foreign central banks in light of strains in global financial markets. The proposal included a six-month extension of the sunset date and a 50 basis point reduction in the pricing on the existing liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the ECB, and the Swiss National Bank, as well as the establishment, as a contingency measure, of swap arrangements that would allow the Federal Reserve to provide liquidity in the currencies of the foreign central banks should the need arise. The proposal was aimed at helping to ease strains in financial markets and thereby to mitigate the effects of such strains on the supply of credit to U.S. households and businesses, in support of the economic recovery.

The staff provided briefings on financial and economic developments in Europe. In recent weeks, financial markets appeared to have become increasingly concerned that a timely resolution of the European sovereign debt situation might not occur despite the measures that authorities there announced in October; pressures on European sovereign debt markets had increased, and conditions in European funding markets had deteriorated appreciably. The greater financial stress appeared likely to damp economic activity in the euro area and could pose a risk to the economic recovery in the United States.

Meeting participants discussed a range of considerations surrounding the proposed changes to the swap arrangements. Most participants agreed that such changes would represent an important demonstration of the commitment of the Federal Reserve and the other central banks to work together to support the global financial system. Some participants indicated that, although they did not anticipate that usage would necessarily be heavy, they felt that lower pricing on the existing swap lines could reduce the possible stigma associated with the use of the lines by financial institutions borrowing dollars from the foreign central banks, and so would contribute to improved functioning in dollar funding markets in Europe and elsewhere. A few noted that the risks associated with the swap lines were low because the Federal Reserve's counterparties would be the foreign central banks themselves, and the foreign central banks would be responsible for the loans to banks in their jurisdictions. However, some participants commented that the proposed changes to the swap lines would not by themselves address the need for additional policy action by European authorities. Several participants questioned whether the changes to the swap lines were necessary at this time and worried that such changes could be seen as suggesting greater concern about financial strains than was warranted. It was also noted that the proposed reduction in pricing of the existing swap arrangements could put the cost of dollar borrowing from foreign central banks below the Federal Reserve's primary credit rate and that non-U.S. banks might be perceived to have an advantage in meeting their short-term funding needs as a result. However, U.S. banks did not face difficulties obtaining liquidity in short-term funding markets, and some participants felt that a cut in the primary credit rate at the present time might incorrectly be seen as suggesting concern about U.S. financial conditions.

At the conclusion of the discussion, all but one member agreed to support the changes to the existing swap line arrangements and the establishment of the new foreign currency swap agreements and approved the following resolution:

> "The Federal Open Market Committee directs the Federal Reserve Bank of New York to extend the existing temporary reciprocal currency arrangements ("swap arrangements") for the System Open Market Account with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank through February 1, 2013.
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> In addition, the Federal Open Market Committee authorizes the Federal Reserve Bank of New York to enter into additional swap arrangements for the System Open Market Account with the Bank of Canada, Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank to support the provision by the Federal Reserve of liquidity in Canadian dollars, British pounds, Japanese yen, euros, and Swiss francs. The swap arrangements for provision of liquidity in each of those currencies shall be subject to the same size limits, if any, currently in force for the swap arrangements for provision of liquidity in U.S. dollars to that foreign central bank. These arrangements shall terminate on February 1, 2013. Requests for drawings on the foreign currency swap lines and distribution of the proceeds to U.S. financial institutions shall be initiated by the appropriate Reserve Bank and approved by the Chairman in consultation with the Foreign Currency Subcommittee. The Foreign Currency Subcommittee will consult with the Federal Open Market Committee prior to the initial drawing on the foreign currency swap lines if possible under the circumstances then prevailing.
>
> The Chairman shall establish the rates on the swap arrangements by mutual agreement with the foreign central banks and in consultation with the Foreign Currency Subcommittee. He shall keep the Federal Open Market Committee informed, and the rates shall be consistent with principles discussed with and guidance provided by the Committee."

**Voting for this action:** Ben Bernanke, William C. Dudley, Elizabeth Duke, Charles L. Evans, Richard W. Fisher, Narayana Kocherlakota, Sarah Bloom Raskin, Daniel K. Tarullo, and Janet L. Yellen.

**Voting against this action:** Jeffrey M. Lacker. Mr. Lacker voted as alternate member for Mr. Plosser at this meeting. Mr. Lacker dissented because of his opposition to arrangements that support Federal Reserve lending in foreign currencies, which he viewed as amounting to fiscal policy. He also opposed lowering the interest rate on swap arrangements to below the primary credit rate.

**Notation Vote**

By notation vote completed on November 21, 2011, the Committee unanimously approved the minutes of the FOMC meeting held on November 1–2, 2011.

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**William B. English**
**Secretary**