

Minutes of the Federal Open Market Committee

March 21–22, 2023

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 on Tuesday, March 21, 2023, at 10:00 a.m. and continued on Wednesday, March 22, 2023, at 9:00 a.m.¹

Attendance

Jerome H. Powell, Chair
 John C. Williams, Vice Chair
 Michael S. Barr
 Michelle W. Bowman
 Lisa D. Cook
 Austan D. Goolsbee
 Patrick Harker
 Philip N. Jefferson
 Neel Kashkari
 Lorie K. Logan
 Christopher J. Waller

Thomas I. Barkin, Raphael W. Bostic, Mary C. Daly,
 Loretta J. Mester, and Sushmita Shukla,² Alternate
 Members of the Committee

James Bullard and Susan M. Collins, Presidents of the
 Federal Reserve Banks of St. Louis and Boston,
 respectively

Kelly J. Dubbert, Interim President of the Federal
 Reserve Bank of Kansas City

Joshua Gallin, Secretary
 Matthew M. Luecke, Deputy Secretary
 Brian J. Bonis, Assistant Secretary
 Michelle A. Smith, Assistant Secretary
 Mark E. Van Der Weide, General Counsel
 Richard Ostrander, Deputy General Counsel
 Trevor A. Reeve, Economist
 Stacey Tevlin, Economist
 Beth Anne Wilson,³ Economist

Shaghil Ahmed,⁴ Roc Armenter, James A. Clouse,
 Brian M. Doyle, Andrea Raffo, Chiara Scotti, and
 William Wascher, Associate Economists

Roberto Perli, Manager, System Open Market Account
 Julie Ann Remache, Deputy Manager, System Open
 Market Account

Jose Acosta, Senior Communications Analyst, Division
 of Information Technology, Board

David Altig, Executive Vice President, Federal Reserve
 Bank of Atlanta

Kartik B. Athreya, Executive Vice President, Federal
 Reserve Bank of Richmond

Becky C. Bareford, First Vice President, Federal
 Reserve Bank of Richmond

Penelope A. Beattie,⁵ Section Chief, Office of the
 Secretary, Board

Daniel O. Beltran, Deputy Associate Director, Division
 of International Finance, Board

Jennifer J. Burns,⁵ Deputy Director, Division of
 Supervision and Regulation, Board

Mark A. Carlson, Adviser, Division of Monetary
 Affairs, Board

Todd E. Clark, Senior Vice President, Federal Reserve
 Bank of Cleveland

Daniel Cooper, Vice President, Federal Reserve Bank
 of Boston

Stephanie E. Curcuru, Deputy Director, Division of
 International Finance, Board

Wendy E. Dunn, Adviser, Division of Research and
 Statistics, Board

Burcu Duygan-Bump, Special Adviser to the Board,
 Division of Board Members, Board

Rochelle M. Edge, Deputy Director, Division of
 Monetary Affairs, Board

¹ The Federal Open Market Committee is referenced as the “FOMC” and the “Committee” in these minutes; the Board of Governors of the Federal Reserve System is referenced as the “Board” in these minutes.

² Elected as an Alternate by the Federal Reserve Bank of New York, effective March 2, 2023.

³ Attended through the discussion of the economic and financial situation.

⁴ Attended from the discussion of the economic and financial situation through the end of Wednesday’s session.

⁵ Attended through the discussion of developments in financial markets and open market operations.

Matthew J. Eichner,⁵ Director, Division of Reserve Bank Operations and Payment Systems, Board

Ozge Akinci Emekli, Economic Research Advisor, Federal Reserve Bank of New York

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

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

Glenn Follette, Associate Director, Division of Research and Statistics, Board

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

Christine Graham,⁵ Special Adviser to the Board, Division of Board Members, Board

Joseph W. Gruber, Executive Vice President, Federal Reserve Bank of Kansas City

Valerie S. Hinojosa, Section Chief, Division of Monetary Affairs, Board

Jane E. Ihrig, Special Adviser to the Board, Division of Board Members, Board

Michael T. Kiley, Deputy Director, Division of Financial Stability, Board

Don H. Kim, Senior Adviser, Division of Monetary Affairs, Board

Spencer Krane, Senior Vice President, Federal Reserve Bank of Chicago

Andreas Lehnert, Director, Division of Financial Stability, Board

Paul Lengermann, Assistant Director, Division of Research and Statistics, Board

Kurt F. Lewis, Special Adviser to the Board, Division of Board Members, Board

Laura Lipscomb, Special Adviser to the Board, Division of Board Members, Board

David López-Salido, Senior Associate Director, Division of Monetary Affairs, Board

Francesca Loria, Senior Economist, Division of Monetary Affairs, Board

Byron Lutz, Deputy Associate Director, Division of Research and Statistics, Board

Fernando M. Martin, Assistant Vice President, Federal Reserve Bank of St. Louis

Thomas Mertens, Vice President, Federal Reserve Bank of San Francisco

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

Giovanni Nicolò, Senior Economist, Division of Monetary Affairs, Board

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

Marcel A. Pribsch, Principal Economist, Division of Monetary Affairs, Board

Linda Robertson, Assistant to the Board, Division of Board Members, Board

Achilles Sangster II, Senior Information Manager, Division of Monetary Affairs, Board

Krista Schwarz, Principal Economist, Division of Monetary Affairs, Board

Nitish Ranjan Sinha, Special Adviser to the Board, Division of Board Members, Board

Yannick Timmer, Senior Economist, Division of Monetary Affairs, Board

Clara Vega, Special Adviser to the Board, Division of Board Members, Board

Annette Vissing-Jørgensen, Senior Adviser, Division of Monetary Affairs, Board

Jeffrey D. Walker,⁵ Associate Director, Division of Reserve Bank Operations and Payment Systems, Board

Min Wei, Senior Associate Director, Division of Monetary Affairs, Board

Paul R. Wood, Special Adviser to the Board, Division of Board Members, Board

Rebecca Zarutskie, Special Adviser to the Board, Division of Board Members, Board

Recent Developments in the Banking Sector

Before turning to other agenda items, the Chair asked the Vice Chair for Supervision to provide an update on recent developments in the banking sector. The Vice Chair for Supervision described the developments, including those at Silicon Valley Bank, Signature Bank, and

Credit Suisse. He also described actions taken by the Federal Reserve and other regulatory agencies in response. He noted that the U.S. banking system is sound and resilient. He also noted that he will be leading a review of the supervision and regulation of Silicon Valley Bank, and that the Federal Reserve System will apply what is learned from the review to strengthen its supervisory and regulatory practices as appropriate.

Developments in Financial Markets and Open Market Operations

The manager turned first to a review of U.S. financial market developments over the intermeeting period. Early in the period, firmer-than-expected data and policy communications pushed interest rates higher and equity prices lower. Developments in the banking sector later in the period were met with sharp reductions in Treasury yields, particularly at shorter tenors. Treasury market liquidity was poor and implied volatility was high, but the market remained functional amid substantial trading activity. Higher Treasury market volatility contributed to wider spreads for household and business borrowing.

Financial conditions tightened considerably over the intermeeting period as a whole. Market contacts observed that the recent developments in the banking system will likely result in a pullback in bank lending, which would not be reflected in most common financial conditions indexes. Following the banking-sector developments, equity prices for large U.S. banks underperformed the broad market; equity prices for U.S. regional banks generally underperformed by relatively more.

Regarding the outlook for inflation in the United States, market-based measures of inflation compensation over shorter horizons rose over the period, although compensation retraced a good portion of its increase later in the period as markets reacted to the developments in the banking sector. Forward inflation compensation measures continued to indicate that longer-term inflation expectations remained well anchored. Measures of inflation expectations from the Open Market Desk's Survey of Primary Dealers and Survey of Market Participants moved higher at shorter horizons and were little changed at longer horizons.

Regarding the outlook for monetary policy, market-based measures of policy expectations suggested that the federal funds rate would reach a peak in May 2023 and that the target range would then move lower. However, the medians of respondents' modal expectations of the federal funds rate from the Desk surveys did not show any declines in the target range through the end of 2023. Risk and liquidity premiums embedded in market prices

may have driven a good part of the difference between survey and market measures. The median respondent expected the Summary of Economic Projections (SEP) projections for the federal funds rate at the end of 2023 and 2024 to shift 25 basis points higher. However, information gathered after the Desk surveys closed suggests that those expectations had declined some, to a level comparable with the December SEP. Survey responses suggested only modest changes in expectations for balance sheet policy.

The manager turned next to a discussion of operations and money markets. Federal funds volumes fell sharply for a few days late in the period as Federal Home Loan Banks (FHLBs) sought to maintain liquidity in order to meet increased demand for advances by member banks. Money market rates remained broadly stable, and secured and unsecured money market rates, including the effective fed funds rate, traded well within the target range. Use of U.S. dollar liquidity swap lines with foreign central banks had been minimal, indicating that market participants did not face significant difficulties in obtaining dollar funding from private sources.

Borrowing from the new Bank Term Funding Program had been small relative to discount window borrowing, which had increased to record levels. Use of the overnight reverse repurchase agreement (ON RRP) facility fell, especially for money market mutual funds (MMFs), as the supply of short-term securities at attractive rates increased.

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 March 21–22 meeting indicated that labor market conditions remained tight in January and February, with robust job gains and the unemployment rate near a historical low. Consumer price inflation—as measured by the 12-month percent change in the price index for personal consumption expenditures (PCE)—was still elevated in January. Real gross domestic product (GDP) appeared to be expanding at a modest pace in the first quarter. Although financial market data had shown reactions to developments in the banking sector late in the intermeeting period, there were essentially no economic data available that covered this period.

Total nonfarm payroll employment increased at a faster monthly pace in January and February than in the fourth quarter of last year. The unemployment rate was little changed and stood at 3.6 percent in February. Over the past two months, the unemployment rate for African Americans was unchanged, on net, and the unemployment rate for Hispanics moved up; the unemployment rates for both groups remained above the aggregate measure. The aggregate measures of both the labor force participation rate and the employment-to-population ratio increased slightly. The private-sector job openings rate in January—as measured by the Job Openings and Labor Turnover Survey—was little changed, on balance, since November and remained high.

Recent indicators of nominal wage growth had slowed but continued to be elevated. In February, the 3-month change in average hourly earnings for all employees was at an annual rate of 3.6 percent, slower than its 12-month pace of 4.6 percent. Over the four quarters of 2022, total labor compensation per hour in the business sector—as measured by the Productivity and Costs data—increased 4.5 percent, below its pace in the previous year.

Consumer price inflation remained elevated early in the year. Total PCE price inflation was 5.4 percent over the 12 months ending in January, and core PCE price inflation—which excludes changes in consumer energy prices and many consumer food prices—was 4.7 percent. The trimmed mean measure of 12-month PCE price inflation constructed by the Federal Reserve Bank of Dallas was 4.6 percent in January. In February, the 12-month change in the consumer price index (CPI) was 6.0 percent, and core CPI inflation was 5.5 percent. The CPI, along with data from the producer price index, pointed to some slowing in PCE price inflation in February. The latest survey-based measures of longer-term inflation expectations from the University of Michigan Surveys of Consumers, the Survey of Professional Forecasters, and the Federal Reserve Bank of New York's Survey of Consumer Expectations remained within the range of their values reported in recent months, while near-term measures of inflation expectations from these surveys moved down.

Real GDP growth seemed to be expanding at a modest pace in the first quarter. Gains in consumer spending had picked up in recent months, but growth in business fixed investment was slowing and residential investment was continuing to decline. After contracting over the second half of last year, manufacturing output expanded moderately, on average, over January and February, but

near-term indicators—such as national and regional indexes for new orders—pointed to softening factory output in the coming months.

The nominal U.S. international trade deficit registered a record high in 2022. The trade deficit had been narrowing since March of last year but resumed widening in December and January. Real goods imports rose in December and January, led by increases in imports of consumer goods and automotive products. Real goods exports also increased, but by less than imports.

Indicators suggested that foreign economic growth rebounded in the first quarter of 2023 as China reopened rapidly from its COVID-19-related shutdowns and Europe's economy proved to be resilient to the energy price shock stemming from Russia's war against Ukraine and benefited from a mild winter that reduced energy demand. Manufacturing activity in emerging Asia showed signs of a turnaround from its pronounced slowdown since mid-2022. The recent developments in the banking sector led to some tightening of financial conditions abroad. Oil prices edged down despite China's rapid reopening and the implementation of the European Union's embargo on Russian refined oil products. Retail energy inflation continued to slow, contributing to an easing of headline consumer price inflation in many advanced foreign economies (AFEs). In contrast, core inflation has shown little sign of easing in most foreign economies amid tight labor markets. In response, many foreign central banks continued their monetary policy tightening, although some have either paused or indicated that a pause soon was possible, citing the importance of assessing the cumulative effects of past policy rate increases.

Staff Review of the Financial Situation

Over the first several weeks of the intermeeting period, incoming economic data and FOMC communications appeared to refocus market participants on upside risks to inflation and policy rates, with the market-implied policy rate path steepening, nominal Treasury yields rising, near-term inflation compensation measures increasing, and broad stock market price indexes declining. Financing conditions for businesses, households, and municipalities had tightened during this period and were moderately restrictive overall, as borrowing costs increased notably with the expected path of policy rates and Treasury yields and as some lenders appeared to tighten nonprice borrowing terms. Nonetheless, lending volumes were generally solid. Credit quality was strong

overall, although it had worsened a bit for some borrowers. Expectations for future credit quality continued to deteriorate in some markets.

Pricing in financial markets changed notably in the latter part of the intermeeting period, amid developments in the banking sector. Treasury yields and policy rate expectations moved down significantly, while broad stock price indexes rose somewhat. The market-implied policy rate path shifted down sizably, with the federal funds rate expected to peak in May before decreasing afterward. Further out, OIS (overnight index swap) quotes at the end of the intermeeting period indicated that the expected federal funds rate at year-end 2024 was 3.28 percent, about 50 basis points lower than before the closures of Silicon Valley Bank and Signature Bank but somewhat higher than at the time of the February FOMC meeting. Treasury yields declined, especially at shorter maturities, reflecting downward revisions in policy rate expectations and the effects of flight to safety. Inflation compensation declined, especially at short maturities, likely reflecting, in part, a relatively larger decline in risk premiums on nominal Treasury securities relative to Treasury Inflation-Protected Securities due to strong safe-haven demands.

Late in the intermeeting period, U.S. bank stock prices declined notably. Regional banks with unusually large reliance on uninsured deposits and holdings of securities with significant unrealized mark-to-market losses experienced larger declines in stock prices. Broad equity prices rose somewhat after the closures of Silicon Valley Bank and Signature Bank, reportedly driven by investors' reassessment of the outlook for interest rates, and after the announcement that UBS had agreed to buy Credit Suisse. The VIX—the one-month option-implied volatility on the S&P 500—increased to about 26.5 percent following the closures of Silicon Valley Bank and Signature Bank, but it subsequently declined to 21 percent—around the 70th percentile of its historical distribution. Swaption-implied volatilities of short-term interest rates increased notably during this period, reflecting increased uncertainty about the interest rate outlook. Some of the pricing moves in asset markets may have been amplified by impaired liquidity conditions. Despite deteriorating liquidity conditions in Treasury, bond, and equity markets, market functioning remained orderly.

Over the intermeeting period, foreign financial markets were volatile as investors' focus shifted from resilience in economic activity and stubbornly high core inflation across advanced economies earlier in the period to

stresses in the global banking sector more recently. Earlier in the period, yields and market-based measures of inflation expectations in the AFEs increased notably, driven by spillovers from U.S. Treasury yields as well as upside surprises in economic and inflation data for AFEs. Later in the period, developments in the banking sector led to large declines in advanced-economy yields, and, on net, AFE yields declined slightly. Additionally, for the intermeeting period overall, the staff's dollar index rose moderately, corporate and emerging market economy sovereign credit spreads widened, and foreign equity indexes generally moved lower, with bank equities falling notably.

U.S. unsecured funding markets showed some signs of pressure later in the intermeeting period. Issuance of commercial paper (CP) and negotiable certificates of deposit (NCDs) dropped a touch over the entire period, and the fraction of CP issuance with overnight maturities increased but remained within normal ranges. Spreads of term CP and NCDs widened some, and spreads for issuers with lower credit ratings rose more, but other unsecured spreads remained within normal ranges. Prime MMFs experienced outflows, while government MMFs had inflows.

The effective federal funds rate was little changed after the closures of Silicon Valley Bank and Signature Bank. Amid these developments, federal funds volumes initially declined sharply as the FHLBs reduced their activity in the federal funds market in order to meet increased demand for advances by member banks; market volume subsequently rebounded partially. Activity in the repurchase agreement market was robust, and trading volume remained within recent ranges. ON RRP take-up remained within recent ranges as well.

Borrowing costs for businesses, households, and municipalities rose notably in the early part of the intermeeting period, mostly in line with increases in the federal funds rate and Treasury yields. Since the closures of Silicon Valley Bank and Signature Bank, spreads on corporate bonds, municipal bonds, and leveraged loans rose, with speculative-grade corporate bond spreads registering the largest moves; spreads remained at moderate levels relative to their historical distributions. Investment-grade corporate yields and municipal yields were down moderately, whereas speculative-grade corporate yields and leveraged loan yields were up modestly. Mortgage rates were unchanged amid an increase in mortgage-backed securities (MBS) spreads.

Based on data that do not cover the period following the closures of Silicon Valley Bank and Signature Bank,

nonprice terms and standards appeared to tighten somewhat in a number of markets. Nevertheless, generally solid funding flows suggest that most firms and households had remained broadly able to access funding. Data on credit conditions following the developments in the banking sector were limited. After the two bank closures, issuance of municipal bond and leveraged loans was sluggish, and gross issuance of corporate bonds fell to near zero. Mortgage loans to households remained available.

The credit quality of businesses and households was largely stable over the intermeeting period. However, measures of credit performance showed some signs of weakening. Leveraged loan credit quality deteriorated somewhat after the closures of Silicon Valley Bank and Signature Bank. Credit quality for residential mortgages remained unchanged.

Staff Economic Outlook

For some time, the forecast for the U.S. economy prepared by the staff had featured subdued real GDP growth for this year and some softening in the labor market. Given their assessment of the potential economic effects of the recent banking-sector developments, the staff's projection at the time of the March meeting included a mild recession starting later this year, with a recovery over the subsequent two years. Real GDP growth in 2024 was projected to remain below the staff's estimate of potential output growth, and then GDP growth in 2025 was expected to be above that of potential. Resource utilization in both product and labor markets was forecast to be much less tight than in the January projection. The level of real output was projected to move below the staff's estimate of potential output in early 2024, more than a year sooner than in the previous projection. Likewise, the unemployment rate was projected to rise above the staff's estimate of its natural rate early next year.

On a four-quarter change basis, total PCE price inflation was forecast to be 2.8 percent this year, with core inflation at 3.5 percent. Core goods inflation was projected to move down further this year and then remain subdued; housing services inflation was expected to peak later this year and then move down, while core nonhousing services inflation was forecast to slow gradually as nominal wage growth eased further. Reflecting the effects of less projected tightness in product and labor markets, core inflation was forecast to slow sharply next year. With steep declines in consumer energy prices and a substantial moderation in food price inflation expected for this year, total inflation was projected to step down

markedly this year and then to track core inflation over the following two years. In 2024 and 2025, both total and core PCE price inflation were expected to be near 2 percent.

The staff judged that the uncertainty around the baseline projection was much greater than at the time of the previous forecast. In particular, the staff viewed the risks around the baseline projection as determined importantly by banking conditions and the implications for financial conditions. If the effects of the recent developments in the banking sector on macroeconomic conditions were to abate quickly, then the risks around the baseline would be tilted to the upside for both economic activity and inflation. If banking and financial conditions and their effects on macroeconomic conditions were to deteriorate more than assumed in the baseline, then the risks around the baseline would be skewed to the downside for both economic activity and inflation, particularly because historical recessions related to financial market problems tend to be more severe and persistent than average recessions.

Participants' Views on Current Conditions and the Economic Outlook

In conjunction with this FOMC meeting, participants submitted their projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2023 through 2025 and over the longer run. The projections were 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. An SEP was released to the public following the conclusion of the meeting.

In their discussion of current economic conditions, participants noted that recent indicators pointed to modest growth in spending and production. At the same time, though, participants noted that job gains had picked up in recent months and were running at a robust pace; the unemployment rate had remained low. Inflation remained elevated. Participants agreed that the U.S. banking system remained sound and resilient. They commented that recent developments in the banking sector were likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. Participants agreed that the extent of these effects was uncertain. Against this

background, participants continued to be highly attentive to inflation risks.

In assessing the economic outlook, participants noted that since they met in February, data on inflation, employment, and economic activity generally came in stronger than expected. They also noted, however, that the developments in the banking sector that had occurred late in the intermeeting period affected their views of the economic and policy outlook and the uncertainty surrounding that outlook. Based on incoming economic data, participants' assessments of the effects of cumulative policy firming, and their initial views on the likely economic effect of the recent banking-sector developments, participants generally expected real GDP to grow this year at a pace well below its long-run trend rate. With inflation remaining unacceptably high, participants expected that a period of below-trend growth in real GDP would be needed to bring aggregate demand into better balance with aggregate supply and thereby reduce inflationary pressures. Many participants remarked that the incoming data before the onset of the banking-sector stresses had led them to see the appropriate path for the federal funds rate as somewhat higher than their assessment at the time of the December meeting. After incorporating the banking-sector developments, participants indicated that their policy rate projections were now about unchanged from December.

Participants agreed that the actions taken so far by the Federal Reserve in coordination with other government agencies, as well as actions taken by foreign authorities to address banking and financial stresses outside the U.S., had helped calm conditions in the banking sector. Even with the actions, participants recognized that there was significant uncertainty as to how those conditions would evolve. Participants assessed that the developments so far would likely lead to some weakening of credit conditions, as some banks were likely to tighten lending standards amid rising funding costs and increased concerns about liquidity. Participants noted that it was too early to assess with confidence the magnitude of the effect of a credit tightening on economic activity and inflation, and that it was important to continue to closely monitor developments and update assessments of the actual and expected effects of credit tightening. Several participants noted that regional and community banks, a small number of which had come under significant stress, were important in small business and middle-market lending and were providing critical and unique financial services to many communities and industries.

In their discussion of the household sector, participants noted that incoming data on real consumer expenditures showed a pickup in spending in January and February. They attributed the pickup to strong job gains, rising real disposable income, and households continuing to run down excess savings accumulated during the pandemic. They also noted that an atypically warm start to this year, along with challenges in seasonally adjusting data, likely contributed to the pickup in the reported data. A few participants observed that credit card delinquencies, particularly for lower-income households, had risen in the face of elevated inflation and higher nominal interest rates. Participants noted that recent developments in the banking sector and the associated rise in uncertainty would likely weigh on consumer sentiment and that increased caution on the part of consumers could restrain spending. A couple of participants observed that high-frequency measures of consumer sentiment had not yet shown a significant change following the recent developments in the banking sector, although they also acknowledged that the situation was fluid.

Regarding the business sector, participants observed that growth in business fixed investment was being restrained by tighter financial conditions that reflected cumulative policy firming to date. Participants expected the likely tightening of credit conditions due to the recent developments in the banking sector to further weigh on investment spending. In addition, the banking-sector developments could damp business confidence and increase firms' caution, reducing their willingness to hire new workers. However, a few participants mentioned that their nonbank business contacts reported that the banking-sector developments so far had not resulted in significant changes in their hiring and capital spending plans or sales expectations, though their contacts also acknowledged increased uncertainties around their outlooks.

Participants agreed that the labor market remained very tight. Job gains had picked up to a robust pace in January and February, and the unemployment rate remained low. Participants noted some signs of improvement in the imbalances between demand and supply in the labor market, including further declines in the quits rate as well as an increase in the overall labor force participation rate and the return of the prime-age participation rate to pre-pandemic levels. Furthermore, participants observed that wage growth appeared to be slowing gradually amid this apparent easing in labor demand and increase in labor supply. However, participants assessed that labor demand continued to substantially exceed labor supply, and several participants pointed out that wage growth

was still well above the rates that would be consistent over the longer run with the 2 percent inflation objective, given current estimates of trend productivity growth. Participants expected that, under appropriate monetary policy, supply and demand conditions in the labor market will come into better balance over time, easing upward pressures on wages and prices.

With inflation still well above the Committee's longer-run goal of 2 percent, participants agreed that inflation was unacceptably high. Participants commented that recent inflation data indicated slower-than-expected progress on disinflation. In particular, they noted that revisions to the price data had indicated less disinflation at the end of last year than had been previously reported and that inflation was still quite elevated. Participants noted that, on a 12-month basis, core goods price inflation declined as supply chains continued to improve, but the pace of the decline had slowed, highlighting the still uncertain nature of the disinflationary process. Participants expected that housing services inflation would likely begin to slow in coming months, reflecting continued smaller increases, or potentially declines, in rents on new leases. Regarding prices for core services excluding housing, participants agreed that there was little evidence pointing to disinflation in this component. Participants generally judged that some more easing in labor market tightness and slowing in nominal wage growth would be necessary for sustained disinflation. Additionally, participants observed that indicators of short-term inflation expectations from surveys of households and businesses had come down further, while longer-term inflation expectations remained well anchored. Participants also discussed the potential effect on inflation of the developments in the banking sector. They noted that a tightening of credit conditions was likely to weigh on aggregate demand, which in turn could help reduce inflationary pressures. However, participants observed that the size of such an effect was highly uncertain.

Participants generally observed that the recent developments in the banking sector had further increased the already-high level of uncertainty associated with their outlooks for economic activity, the labor market, and inflation. Participants saw risks to economic activity as weighted to the downside. As a source of downside risk to activity, they noted the possibility that banks would reduce the supply of credit by more than expected, which could restrain economic activity significantly. Participants mentioned potential intensification of Russia's war against Ukraine as an additional source of downside risk to the economic outlook. Participants generally saw risks to inflation as weighted to the upside,

though they also recognized some downside risks to inflation. As a source of upside risk to inflation, participants cited the possibility of more-persistent-than-anticipated price pressures, due to, for example, surprisingly resilient labor demand. As a source of downside risk to inflation, participants noted that if banks reduce the supply of credit by more than expected, the likely restraint on economic activity and hiring could put additional downward pressure on inflation.

In their consideration of appropriate monetary policy actions at this meeting, participants concurred that inflation remained well above the Committee's longer-run goal of 2 percent and that the recent data on inflation provided few signs that inflation pressures were abating at a pace sufficient to return inflation to 2 percent over time. Participants also noted that recent developments in the banking sector would likely result in tighter credit conditions for households and businesses and weigh on economic activity, hiring, and inflation, though the extent of these effects was highly uncertain. Against this backdrop, all participants agreed that it was appropriate to raise the target range for the federal funds rate 25 basis points to $4\frac{3}{4}$ to 5 percent. All participants also agreed that it was appropriate to continue the process of reducing the Federal Reserve's securities holdings, as described in its previously announced Plans for Reducing the Size of the Federal Reserve's Balance Sheet.

Several participants noted that, in their policy deliberations, they considered whether it would be appropriate to hold the target range steady at this meeting. They noted that doing so would allow more time to assess the financial and economic effects of recent banking-sector developments and of the cumulative tightening of monetary policy. However, these participants also observed that the actions taken by the Federal Reserve in coordination with other government agencies helped calm conditions in the banking sector and lessen the near-term risks to economic activity and inflation. Consequently, these participants judged it appropriate to increase the target range 25 basis points because of elevated inflation, the strength of the recent economic data, and their commitment to bring inflation down to the Committee's 2 percent longer-run goal.

Some participants noted that given persistently high inflation and the strength of the recent economic data, they would have considered a 50 basis point increase in the target range to have been appropriate at this meeting in the absence of the recent developments in the banking sector. However, due to the potential for banking-sector developments to tighten financial conditions and to

weigh on economic activity and inflation, they judged it prudent to increase the target range by a smaller increment at this meeting. These participants noted that doing so would also allow the Committee time to better assess the effects of banking-sector developments on credit conditions and the economy as the Committee moved toward a sufficiently restrictive stance of monetary policy.

Participants observed that the actions taken by the Federal Reserve in coordination with other government agencies in the days preceding the meeting had served to calm conditions in the banking sector. Participants noted that the most significant issues appeared to have been limited to a small number of banks with poor risk-management practices and that the banking system remained sound and resilient. Participants emphasized that the Federal Reserve should use its liquidity and lender-of-last-resort tools, as well as its microprudential and macroprudential regulatory and supervisory tools, to address stress in the banking sector and to mitigate future financial stability risks. Participants agreed that recent banking developments would factor into the Committee's monetary policy decisions to the extent that these developments affect the outlook for employment and inflation and the risks surrounding the outlook. Participants reaffirmed their strong commitment to returning inflation to the Committee's 2 percent objective.

In discussing the policy outlook, participants observed that inflation remained much too high and that the labor market remained tight; as a result, they anticipated that some additional policy firming may be appropriate to attain a sufficiently restrictive policy stance to return inflation to 2 percent over time. Many participants noted that the likely effects of recent banking-sector developments on economic activity and inflation had led them to lower their assessments of the federal funds rate target range that would be sufficiently restrictive compared with assessments based solely on the recent economic data. In determining the extent of future increases in the target range, participants judged that it would be appropriate to take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

In light of the highly uncertain economic outlook, participants underscored the importance of closely monitoring incoming information and assessing the implications for future monetary policy decisions. Participants noted that it would be particularly important to review

incoming information regarding changes in credit conditions and credit flows as well as broader changes in financial conditions and to assess the implications for economic activity, labor markets, and inflation. Several participants emphasized the need to retain flexibility and optionality in determining the appropriate stance of monetary policy given the highly uncertain economic outlook.

Participants emphasized a number of risk-management considerations related to the conduct of monetary policy. Some participants observed that downside risks to growth and upside risks to unemployment had increased because of the risk that banking-sector developments could lead to further tightening of credit conditions and weigh on economic activity. Some participants also noted that, with inflation still well above the Committee's longer-run goal and the recent economic data remaining strong, upside risks to the inflation outlook remained a key factor shaping the policy outlook, and that maintaining a restrictive policy stance until inflation is clearly on a downward path toward 2 percent would be appropriate from a risk-management perspective. Several participants noted the importance of longer-term inflation expectations remaining anchored and remarked that the longer inflation remained elevated, the greater the risk of inflation expectations becoming unanchored. Participants generally agreed on the importance of closely monitoring incoming information and its implications for the economic outlook, and that they were prepared to adjust their views on the appropriate stance of monetary policy in response to the incoming data and emerging risks to the economic outlook.

Committee Policy Actions

In their discussion of monetary policy for this meeting, members agreed that recent indicators pointed to modest growth in spending and production. They also concurred that job gains had picked up in recent months and were running at a robust pace, that the unemployment rate had remained low, and that inflation remains elevated. Members concurred that the U.S. banking system is sound and resilient. They also agreed that recent developments were likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation, but that the extent of these effects was uncertain. Members also concurred that they remained highly attentive to inflation risks.

Members agreed that the Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals,

members agreed to raise the target range for the federal funds rate to 4¾ to 5 percent. Members agreed that they would closely monitor incoming information and assess the implications for monetary policy. Given recent developments, members anticipated that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. Members concurred that, in determining the extent of future increases in the target range, they would take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, members agreed that they would continue reducing the Federal Reserve's holdings of Treasury securities and agency debt and agency MBS, as described in its previously announced plans. All members affirmed that they remained strongly committed to returning inflation to its 2 percent objective.

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. They 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. Members agreed that their assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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

“Effective March 23, 2023, 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 4¾ to 5 percent.
- Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5 percent and with an aggregate operation limit of \$500 billion.
- Conduct standing overnight reverse repurchase agreement operations at an offering rate of 4.8 percent and with a per-counterparty limit of \$160 billion per day.

- Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds a cap of \$60 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
- Reinvest into agency mortgage-backed securities (MBS) the amount of principal payments from the Federal Reserve's holdings of agency debt and agency MBS received in each calendar month that exceeds a cap of \$35 billion per month.
- Allow modest deviations from stated amounts for 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.:

“Recent indicators point to modest growth in spending and production. Job gains have picked up in recent months and are running at a robust pace; the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4¾ to 5 percent. The Committee will closely monitor incoming information and assess the implications for monetary policy. The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining

the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

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 labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

Voting for this action: Jerome H. Powell, John C. Williams, Michael S. Barr, Michelle W. Bowman, Lisa D. Cook, Austan D. Goolsbee, Patrick Harker, Philip N. Jefferson, Neel Kashkari, Lorie K. Logan, and Christopher J. Waller.

Voting against this action: None.

To support the Committee's decision to raise the target range for the federal funds rate, the Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on reserve balances to 4.9 percent, effective March 23, 2023. The Board of Governors of the Federal Reserve System voted unanimously to approve a $\frac{1}{4}$ percentage point increase in the primary credit rate to 5 percent, effective March 23, 2023.⁶

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, May 2–3, 2023. The meeting adjourned at 10:15 a.m. on March 22, 2023.

Notation Vote

By notation vote completed on February 21, 2023, the Committee unanimously approved the minutes of the Committee meeting held on January 31–February 1, 2023.

Joshua Gallin
Secretary

⁶ In taking this action, the Board approved requests to establish that rate submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Kansas City, Dallas, and San Francisco. The vote also encompassed approval by the Board of Governors of the establishment of a 5 percent primary credit rate by the remaining Federal Reserve Banks, effective on the later of

March 23, 2023, or the date such Reserve Banks inform the Secretary of the Board of such a request. (Secretary's note: Subsequently, the Federal Reserve Banks of Cleveland, Chicago, St. Louis, and Minneapolis were informed of the Board's approval of their establishment of a primary credit rate of 5 percent, effective March 23, 2023.)