mni

All Signal, No Noise

MARKET ANALYSIS

Fed Review: September 2020

Contents

Instant Answers (released 1400ET):

- Changes to Interest Rate Paid on Excess Reserves (IOER) / minimum bid rate on overnight repo? **NO**
- Does the statement replace the current reference to the "symmetric 2 percent inflation objective"? **YES, changed to "achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent."**
- Does the statement alter language on asset purchases, and/or does the Fed announce changes to purchases with regard to size, duration, and/or conditionality? **NO**
- Are there any changes to the longer-run medians in the SEP for fed funds (in June: 2.5%), unemployment (4.1%), or Inflation (2.0%)? **NO**
- What is the median estimate for headline PCE inflation in 2023? **2.0%**
- Forward guidance added: **The FOMC "expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."**

Market Reaction:

- **The market reaction to the September FOMC meeting suggested a modestly hawkish interpretation.**
- The dollar strengthened slightly as the Fed was seen falling short of dovish expectations.
- The key reaction in the US Treasury curve was modest bear steepening as Chair Powell in the press conference did not provide much in the way of reassurance that the Fed would soon expand QE / purchase longer-dated securities.
- And despite the addition of new language in the statement conditioning rate hikes on achieving the inflation target (incl overshoot) and full employment, breakeven inflation expectations ended the press conference basically unchanged from pre-decision.

FOMC Links:

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200916a.htm

SEP/Dot Plot: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200916.htm

Implementation note:
https://www.federalreserve.gov/newsevents/pressreleases/monetary20200916a1.htm

Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20200916.htm

MNI REVIEW:
Fed Seeking Overshoot May Hold Rates Into 2024

By Jean Yung and Pedro Nicolaci da Costa

WASHINGTON (MNI) – The Fed pledged Wednesday to keep interest rates near zero until the economy reaches full employment and inflation is poised to "moderately exceed 2% for some time," disappointing those seeking more action during the deepest recession since at least the 1930s and clarity about prices overshooting.

Updated quarterly economic projections show just four of 17 officials expected to lift rates in 2023, even as the FOMC boosted expectations for medium-term growth, employment and inflation.

The surprise move adding economic milestones to rates guidance comes weeks after the Fed changed its long-term framework, targeting inflation averaging 2% over time and shortfalls from full employment. Market reaction was muted with equities down 1% over the course of Fed Chair Jay Powell's press conference.

"Rates will remain highly accommodative until the economy is far along in its recovery and that should be a very powerful statement in supporting economic stability," Powell said. "This very strong, very powerful guidance shows both our confidence and our determination."

The Fed will continue to increase its securities holdings "at least at the current pace over coming months," it reaffirmed Wednesday, which has been USD80 billion of Treasuries and USD40 billion of MBS a month. "There are various ways and margins there we can adjust our tools going forward and we'll continue to monitor developments and we're prepared to adjust our plans as appropriate," Powell said.

--OVERSHOOT PARAMETERS VAGUE

Powell defined maximum employment as a judgment call that includes "low unemployment, high labor force participation, wages" and a broad range of other factors. But as to how much of an inflation overshoot and for how long is more vague. A moderate overshoot Powell explained was "not large" and "not very high above 2%." "For a time" means "not permanently and not for a sustained period," he said.

"We're resisting the urge to try to create some sort of a rule or a formula here," Powell said. "We want to achieve inflation that averages 2% over time. And if we do that, inflation expectations will be right at 2% and that will help us achieve 2% inflation over time and avoid the situation where the central bank loses its ability to support the economy."

Two dissenters on the new forward guidance represented views from both more hawkish and more dovish factions on the FOMC. Dallas Fed President Robert Kaplan preferred to "retain greater policy flexibility" and Minneapolis Fed President Neel Kashkari wanted to maintain the current policy stance until "core inflation has reached 2% on a sustained basis."

--INFLATION CRED

Analysts and investors have cast doubt on the Fed's ability to meaningfully improve its record on inflation soon, citing labor market slack and a lack of tools at the zero lower bound. Others were surprised the Fed didn't reduce its estimate of the appropriate long-term interest rate.

"The Fed missed the Great Recession, wrongly raised rates from 2015-2018 in the belief the U.S. was close to full employment when it wasn't. Now they have underestimated the economic consequences of the Great Pandemic on the labor market and assumed that unemployment will fall steadily through 2021 to an average of 5.5%. I suspect they will be for turning all too soon," Dartmouth College economist Danny Blanchflower told MNI.

The Fed's dot plot showed that even many FOMC members see some of their goals as long shots. Fewer than four policymakers expect headline PCE inflation to exceed 2% in the next three years, with the median projection at 2% in 2023. The median of FOMC policymakers shows unemployment falling to 4% in 2023, close to the median estimate of its longer-run value of 4.1%.

Powell also cited downside risk to the Fed's forecasts should no further fiscal stimulus be given. "More fiscal support is likely to be needed," he said. "If there isn't additional support, and there isn't a job for some of those people or from industries where it's going to be very hard to find new work then that will start to show up in economic activity."

In the earlier decision statement, the Fed also said "it 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."

Analyst Views – Fed Outlook

- **The prevailing sell-side consensus** is that while the Fed delivered on outcome-based forward guidance a little earlier than most had expected, it failed to have much of a dovish impact on an already-anchored short end of the Treasury curve / rates. The long end has weakened on disappointment over a lack of clarity at this meeting from the statement/Powell on a plan for asset purchase tweaks/expanded QE.
- **The outlook for further near-term Fed action now seems a bit confused.** Some are looking for the Fed to refine its forward guidance further, not considering the September statement changes to be the final word; others see the next move as being on asset purchases, but the outlook is more clouded since the Fed's communications at this meeting suggested a higher threshold for balance sheet action.
- **We usually provide a table summarizing sell-side** outlooks for Fed action – but that seems redundant at this point. Expectations of further-strengthened Forward Guidance seem half-hearted now with the change in wording in the September statement. And rate hikes are seen at least 3-4 years away.
- **And conviction calls for the Fed to adjust QE** (composition / pace / both) now appear to be largely put aside, due to the FOMC's apparent lack of enthusiasm on the subject.
- **BNP Paribas** says the Fed will "commit to large-scale asset purchases through 2021 and extend the weighted average maturity of UST purchases at its December meeting." **UBS** sees action on this front too by year-end.
- But others – **Goldman Sachs, Danske, TD,** for example, have cooled on the prospect, now expecting further asset purchase action to depend on further developments (supply-driven yield curve steepening, renewed slowdown in growth, etc).
- **While nobody is expecting the Fed to hike rates any time soon** (not really any sell-side expectations for a hike before 2023-24) **Goldman Sachs** have hinted at a potential slight change in forecast, citing the SEP as consistent with the first hike potentially in early 2024 (vs their baseline call of 2025). But that said, at least one analyst (**ABN Amro**) sees 2025-27 as the next potential date of hikes, so it's a distant prospect to say the least.

Analysts' Key Comments

ABN Amro: Strong Forward Guidance, But Could Be Stronger

- ABN's newly-updated base case sees rate hikes not happening until 2025-27.
- While the new fwd guidance "is a step forward in terms of making the Fed's intentions clearer, it stopped short of explicitly stating that the Fed would keep policy on hold until it had achieved its new average inflation target".
- ABN sees asset purchases continuing well into next year "and potentially longer if inflation fails to recover in line with current expectations".

BoAML: Fed Leaves Many Questions Unanswered

- BofAML says the Sept. FOMC "told us what we already knew, rates will be unchanged for the foreseeable future" – but also "left many questions unanswered", namely what "some time" and "moderately exceed(s)" mean (i.e., the Fed's reaction function to the inflation objective).
- They suggest the Fed may work out kinks in communications over the coming meetings; they're trying to preserve optionality. Given that uncertainty is extremely elevated, forecasts beyond this year are subject to large errors.

BMO: A Longer Road With Low Rates

- "Bottom line: Policy rates are now going to be low for even longer."

BNP Paribas: Guided Forward

- BNP had expected the Fed to deliver outcome-based forward guidance at this meeting, and anticipate changes to balance sheet policy are likely to come next.
- Specifically, they expect the FOMC "to commit to large-scale asset purchases through 2021 and extend the weighted average maturity of UST purchases at its December meeting." This would include the weighted average maturity shifting from 6.5 years to 8 years (closer to that of monthly Tsy issuance).
- "Unlike QE, the impact of forward guidance can be slow moving as seen in 2011-12. Indeed, it is procyclical in the sense that it is most powerful as the recovery gets going in earnest…[the] FOMC is signalling spot real rates at -2% even with employment effectively recovering to its maximum level"

BNY Mellon: No Dovish Surprise

- The Fed was vague to the point of sowing a bit of confusion around its approach to the AIT discussion. We still don't know precisely what "average inflation" means other than somewhere around 2%.
- So while the Fed will soon refine and communicate more on AIT, the takeaway from this FOMC is that rates will not rise for years to come. It's not clear how that qualifies as a dovish surprise – average inflation targeting is what they said they would do and what they did, nothing more.

CIBC: Asset Purchase Shift To Await Fiscal Clarity

- CIBC's main takeaway is that the Fed's primary objective is to keep short-term rates pinned down, with asset-purchase firepower set to wait until there is clarity on fiscal policy: "it's likely that the FOMC wants to see some clarity around the fiscal outlook before adjusting asset purchases, and maybe even coax the federal government into providing more support before adding more monetary stimulus."
- They write that although the FOMC did not upgrade their assessment of the longer-run fed funds rate in the SEP, "there's little doubt that they'd like to be able to make such a change [in order to demonstrate AIT will get rates further away from the zero lower bound]… At the moment, however, the committee's goal is to keep expectations tempered."

Citi: Fed Eases Into Opportunistic Reflation

- The meeting was slightly hawkish, as the Fed codified the outcome of its Strategy review into present policy, but stopped short of sending any additional dovish impulses, including by avoiding more durable guidance on asset purchases.
- The Fed's 'opportunistic reflation' approach implies that Fed policy will probably only be a major market driver again if and when the economy weakens (and the Fed adds stimulus) or the economy has gained strength (and the Fed refuses to tighten), but not here and now.
- Powell characterized the outcome as in line with consensus expectations.
- The Statement changes are very significant, but have little short-term momentum.
- We suspect that the Fed would broadly aim for inflation at 2.25-2.50% for 6 months to a year, with all kinds of caveats and assuming some gradual decline over time, thereafter. But the Fed's current rhetoric still leaves open questions about triggers for further action and the effectiveness of their policies, which is why market pricing continues to give the Fed only partial credit.

Danske: Meeting A Slight Disappointment

- For Danske, the Fed was not as dovish as they had expected at this meeting (as it did not boost asset purchases) but not as hawkish as others had expected – with the main message being "keep calm and carry on". The Fed does not appear to be in a hurry to ease further.
- However, they see the meeting as a "slight disappointment" making it harder for the Fed to achieve its new inflation goal. Danske no longer expects the Fed to increase the pace of QE purchases "unless we see an economic setback or a more significant risk off". This could even happen in between meetings.
- "Given low inflation expectations among investors, consumers and even among the FOMC members, it seems strange the Fed did not think further easing was needed at this point."

Goldman Sachs: New Forward Guidance But No Change To Treasury Purchases

- The new fwd guidance was close to but a touch more dovish than our expectation (which expected max employment threshold + inflation at 2%, but not the “on track to exceed 2% for some time”). Also, had expected it to come at the Nov meeting because several FOMC presidents said they preferred to wait.
- The lack of changes to the composition of Tsy purchases means that the FOMC does not currently plan to extend purchase duration, contrary to GS’s previous expectation. Now, some additional trigger—such as a disorderly rise in yields at longer maturities or a deterioration of the economy—would likely be required, as the FOMC might have preferred to save duration extension as an option if the need arises.
- GS sees asset purchases continuing at the current pace until roughly a year before liftoff in rates, which would allow for tapering and a pause thereafter before the first rate hike. But specifying economic criteria to be met one year before liftoff is difficult, so statement language on asset purchases didn’t change.
- The SEP hinted at a risk of an earlier liftoff than GS’s early 2025 baseline, namely with 2023 showing unemp rate 4%, below 4.1% longer-run estimate, and inflation of 2% - a possible first hike in 2024.

ING: Fed Says Wait Until 2024

- In the Dot Plot, the Fed is telling us they don’t think that rates will need to rise until 2024, which is understandable given the new policy strategy.
- Neither of the dissents are hugely significant deviations from what was agreed and in any case the dot diagram of individual forecasts give us more specific views.
- The slack in the labour market means little prospect of imminent wage inflation so the chances of the Fed meaningfully improving on its hit rate for 2% inflation anytime soon don’t look great.
- Powell left the door open to further potential action, which would most likely involving additional QE, but emphasised that the Fed can’t generate demand (which would require fiscal action).
- On market reaction, the long-end is less protected than the short end; if there were to be a break-out from this meeting, it should be in the direction of a steeper curve from the back end. Any break out of flattening from here would frustrate the Fed.

JPMorgan: On Hold Until Inflation Overshoot Is “On Track”

- While JPM didn’t expect the FOMC to deliver on inflation outcome-based guidance at this meeting, they have “long expected” the Fed to make such a move, and “in the event, we believe they did the right thing, as letting the new policy framework “hang out to dry” for a few months before aligning it with the forward guidance would have been hard to justify.”
- JPM sees the new guidance helping keep rate expectations anchored for as long as is appropriate given price developments – “unless inflation surprises to the upside, Fed-watching could be a very boring activity for several years to come”.
- “While the change in asset purchase wording suggests a more traditional QE rationale (e.g. QE2 or QE3), Powell did not indicate there was any strong push on the Committee to, for example, extend the average maturity of their asset purchases. If inflation languishes below 2% in coming quarters or years there will inevitably be calls for the Fed to “do something,” and the presumption likely will be to increase the pace or duration of asset purchases.”
- However, “even the Fed’s own generally-favorable assessment of asset purchases conducted during the framework review cautioned about the diminishing effects of such purchases to support the economy.”

Morgan Stanley: Resilient, But Not Without Risks

- Forward guidance was as expected and consistent with the new framework.
- QE remains at the current pace "over the coming months". Defining the time frame for QE at the current pace “over the coming months” more clearly is a discussion that could come up in the minutes.
- Powell sounded more confident on weathering the loss of fiscal support thus far.
- Continued lack of clarity on how rates will evolve during the normalization phase post-2023 suggests that real yields may struggle to fall meaningfully in the short term, in turn failing to catalyze USD weakness.

NatWest: Higher Hurdle To More Changes To Forward Guidance

- On net, NatWest saw the new fwd guidance as a dovish development – it was flexible enough that it didn't provide too much specificity on forward guidance but incorporated the change to FAIT.

- But, "it seems there's a much higher hurdle than we expected heading into today's meeting that the Fed has set for additional action on upcoming changes to forward guidance." Also of interest was Powell's deflection of a question on whether the Fed would alter fwd guidance again in the future.
- While NatWest had seen an outcome-based inflation-linked fwd guidance for rates being adopted as soon as November, "that now seems premature".
- The statement retained maximum flexibility in that it didn't provide specificity on how much above 2% inflation will be tolerated before a rate hike. NW says that "judging by other Fed officials recent comments, in reality, a hike is more likely to require inflation reaching close to 2.5%."
- Small change to language on asset purchases shouldn't come as a big surprise.

Nomura: Clarification On Asset Purchase To Come At Future Meetings

- Nomura had expected stronger forward guidance to be introduced only later this year, so see the announcement as a surprise given apparent lack of FOMC consensus ahead of the meeting.
- Re dissents: "the lack of consensus on the FOMC weakens the forward guidance somewhat".
- But the new policy thresholds are stronger when they are combined.
- Powell's remarks during the presser suggested the FOMC does not yet have a clear plan for how asset purchases are likely to evolve over the medium term – Nomura expects clarification at coming meetings.
- "Altogether, the stronger interest rate forward guidance today was a surprise, but the meeting overall does not change our expectation for Fed policy over the medium term. The Committee still faces longer-term questions on its balance sheet, including maturity composition and pace, that will need to be addressed in coming months."

Nordea: En Route To Eternal Dovishness

- While there was "no news for markets" at this FOMC, the Fed is moving towards "almost eternal dovishness" writes Nordea, and "AIT means that a de facto 2.4% inflation target has been implemented."
- Neither the FOMC statement nor Powell came any closer to clarifying the "overshoot" message. "An average inflation targeting regime means easy policy for a looooooooooooong while, but it doesn't mean that the yield curve cannot steepen. It is on the contrary almost a promise that it will."
- Nordea sees the pace of QE upped "every single time financial conditions show signs of tightening as we have seen during the recent tech selloff" - "it was not enough to prompt an increase in the purchase tempo already this week, but it was probably a fairly close call".

Rabobank: Next Fed Meeting In A More Volatile Time Post-Election

- "A lot of words to describe FAIT, let's hope the FOMC will find a way to condense this message in upcoming meetings."
- In the SEP, "the really interesting time segment lies beyond 2023, but we will have to wait until September 2021 before we see that in the projections."
- Kaplan's dissent establishes him as the top hawk among the current voters, and highest dot in 2023.
- The change in asset purchase language suggest we are now closer to outright QE. While rate policy seems set through the end of 2023, we could see adjustments to asset purchases after coming months.
- "The Treasury has been undermining the Main Street program from the start. That is why it started so late and why it still has little take-up…[its] failure is by design, not by accident. It is just one example of the Fed's policies having an asymmetric impact"
- The Fed will meet in a more volatile environment next time. A significant setback in the economic recovery would force the Fed to rethink its monetary policy stance. This could even force the Fed beyond forward guidance. Given the Fed's aversion to negative rates, the next logical step would be yield curve control.

RBC: Real Argument For FOMC To Show A Hike Is Coming

- RBC saw no real surprises at this meeting.
- "There is a real argument to show a hike (especially in the context of the economic projections) but there is no way they were going to do that today."
- Interestingly, with the upward revision to growth, the Fed now has GDP getting back to the pre-COVID level by the end of 2021. Prior to these changes, they had it getting back to that level in 2022. "If their

estimate of growth comes to fruition, there would be no practical reason to not (at a minimum), start the process of normalizing rates over this window…They would rather be wrong on the upside than the downside. But we would then prefer that they just abandon the SEP altogether and save us the angst."

- That inflation only rises to the target (and not through) is part of the reason why they do not show a hike in the median FF dot at all. Still, there are 4 officials looking to hike in 2023 nonetheless. It is a high hurdle at this point to shift the median to a hike as it would take another 5 members to get onboard with that idea. Inflation will test this conviction quite a bit next year due to very easy year-ago comps from this year's pandemic-driven dis-inflation.
- "There were a few responses from Powell that just seemed a bit sloppy…this was one of the more difficult pressers for us to digest."

SEB: Still Scope For QE Shift

- The Fed managed to surprise by shifting to outcome-based forward guidance in Sept. and not later.
- The new guidance is more specific – and more dovish - than the previous guidance, but does not change anything right now, given that the Fed is still far from reaching its targets and the market was in any case not expecting any changes for a long time.
- SEB still sees "scope for an increase and/or shift to longer maturities to offset upward pressure on yields from for instance increased issuance due to more fiscal stimulus. However, rising yields due to rising inflation expectations and/or a faster recovery should be accepted since this is what the Fed is aiming for."

SocGen: Inflation In 2021 Will Challenge The Fed's Outlook

- SocGen says re the change in statement aligned with the new framework, "we can call this forward guidance", as it "is stronger than recent efforts, tying policy to inflation achieving 2.0% and reaching full employment." But it "falls short of the rule or quantitative approach many might have hoped for".
- They see the inflation path as "the critical factor in determining whether the Fed adheres to its September policy outlook. SocGen expect measures of inflation to rise above 2% by Spring 2021, "driven more by technical factors rather than fundamentals", yet it will challenge the Fed's sub-2.0% outlook.

Swedbank: Low For Long

- The new forecast shows a downward revision of the unemployment rate, an inflation rate that rises and reaches 2% in 2023 while the fed funds rate remains unchanged at 0.1%. This is a dovish signal as it confirms that rates will remain low for long, but it also shows that Fed sees a slow recovery in inflation.
- The vague language for forward guidance leaves the Fed with much flexibility as no digit is stated and "maximum employment" can't be precisely estimated.
- The guidance on the asset purchases remain somewhat ambiguous, it's not linked to the new framework and it wasn't excluded that more adjustments to it will come later. The rationale for the QE program gradually will shift and focus even more on the recovery, meaning that Fed sooner or later will buy more assets with longer maturities.

TD: When Dovish Is Not Enough

- TD saw the Fed as striking a dovish tone, but "held off on sending a clear signal on how much above 2% inflation needs to be to trigger tightening, suggested there were no plans for additional changes to forward guidance, and did not suggest that changes to the QE program to make it more accommodative are imminent." As such, the overall message was modestly less dovish than TD anticipated.
- While TD doesn't anticipate significant further changes to fwd guidance "anytime soon", they see "a high chance" of a change in QE composition in the months ahead to make the program "more accommodative". The case for a QE shift "would likely strengthen if growth slows more than assumed in officials' projections over the rest of this year. We think the projections are a bit too optimistic."
- That said, "we believe that it will take a deterioration in the economic trajectory, an undershooting of the Fed's projections, or a tightening in financial conditions (via a rise in rates) for the Fed to make any adjustments to their QE program", even though "the market may test the Fed in coming months as Treasury continues to ramp up supply".

UBS: Trying For More

- The FOMC “mostly provided” UBS’s expected outcome of a shift of fwd guidance to indicate that policy was on hold until inflation was overshooting 2%, w no reading on unemp rate as a trigger to hike. But the Fed was vague, not tying to the realized level of inflation but rather their own forecast for inflation.
- However, UBS’s expectation that the FOMC would extend duration of QE purchases was “wrong” – though because “this lever of policy is one of the few the FOMC has left, and we still expect them to deploy it by the end of the year”.
- Powell’s statement that the Fed has a lot more tools, and their expectation to miss on both aspects of their objective for three years, are hard to reconcile. UBS suspects “a lack of consensus resulted in action that was not fully coherent.” The 2 dissents reflect the lack of cohesion.

Unicredit: FOMC Wants To Remain Deliberately Vague

- Powell did not provide meaningful details on the new policy framework and guidance, specifically on what would constitute “moderately” above 2% inflation, the horizon over which it would be measured or the definition of maximum employment.
- Clearly, the FOMC wants to remain deliberately vague here, in order to retain a large degree of flexibility down the road.

Wells Fargo: Overall Tone Dovish, But That Was Expected

- WF sees the overall tone of the statement as dovish, but that was “widely expected”.
- Inflation likely to creep higher in coming quarters but remain below 2%. WF doesn’t expect the FOMC to take rates into negative territory, but “could eventually decide to dial up the rate of its asset purchases if inflation does not soon show signs of moving up toward 2%.”

FOMC Statement Comparison

Changes in September 16 Statement Compared to July 29

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The ~~coronavirus outbreak~~COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. ~~Following sharp declines, economic~~Economic activity and employment have picked up ~~somewhat~~ in recent months but remain well below their levels at the beginning of the year. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh ~~heavily~~ on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. ~~In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.~~

The Committee ~~will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its~~seeks to achieve maximum employment ~~objective~~ and ~~its symmetric~~inflation at the rate of 2 percent over the longer run. With inflation ~~objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of~~running persistently below this longerrun goal, the Committee will aim to achieve inflation ~~pressures and~~ moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations~~, and readings on financial and international developments.~~

~~To support the flow of credit to households and businesses,~~ remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency ~~residential and commercial~~ mortgage-backed securities at least at the current pace to sustain smooth market functioning~~,~~ and help foster accommodative financial conditions, thereby ~~fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor developments and is prepared to adjust its plans as appropriate~~supporting the flow of credit to households and businesses.

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

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Patrick Harker; ~~Robert S. Kaplan; Neel Kashkari;~~ Loretta J. Mester; and Randal K. Quarles.

Voting against the actions were Robert S. Kaplan, who expects that it will be appropriate to maintain the current target range until the Committee is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals as articulated in its new policy strategy statement, but prefers that the Committee retain greater policy rate flexibility beyond that point; and Neel Kashkari, who prefers that the Committee to indicate that it expects to maintain the current target range until core inflation has reached 2 percent on a sustained basis.

Summary Of Economic Projections / Dot Plot Comparisons

SEPTEMBER 2020: Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. Source: Federal Reserve

Percent

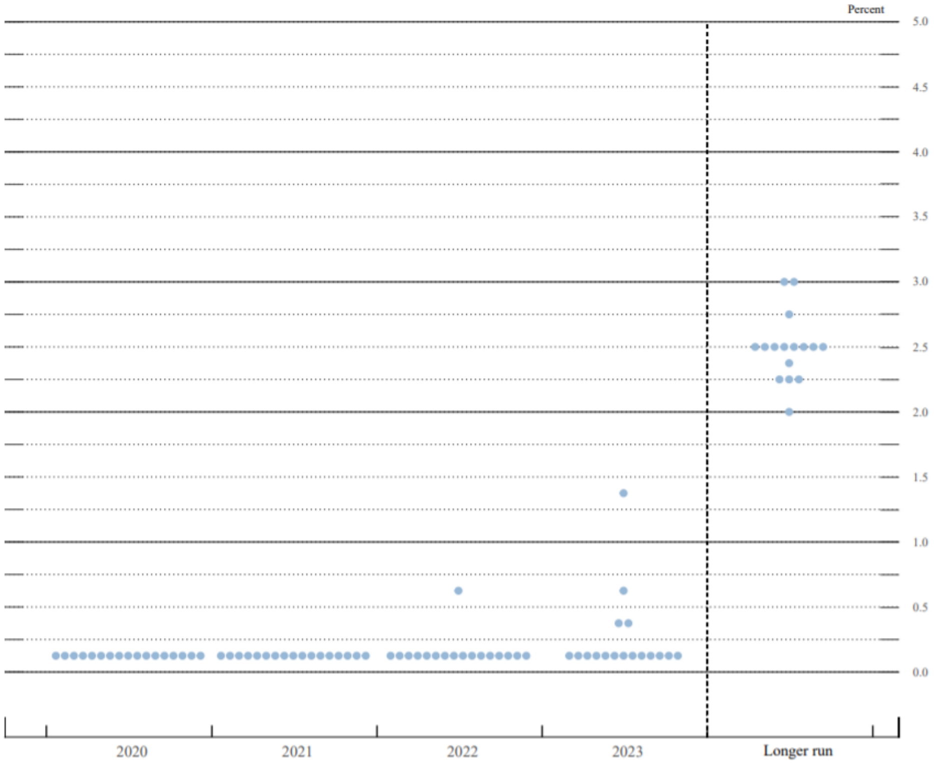
Variable	Median[1]					Central Tendency[2]					Range[3]				
	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9	-4.0–-3.0	3.6–4.7	2.5–3.3	2.4–3.0	1.7–2.0	-5.5–1.0	0.0–5.5	2.0–4.5	2.0–4.0	1.6–2.2
June projection	-6.5	5.0	3.5		1.8	-7.6–-5.5	4.5–6.0	3.0–4.5		1.7–2.0	-10.0–-4.2	-1.0–7.0	2.0–6.0		1.6–2.2
Unemployment rate	7.6	5.5	4.6	4.0	4.1	7.0–8.0	5.0–6.2	4.0–5.0	3.5–4.4	3.9–4.3	6.5–8.0	4.0–8.0	3.5–7.5	3.5–6.0	3.5–4.7
June projection	9.3	6.5	5.5		4.1	9.0–10.0	5.9–7.5	4.8–6.1		4.0–4.3	7.0–14.0	4.5–12.0	4.0–8.0		3.5–4.7
PCE inflation	1.2	1.7	1.8	2.0	2.0	1.1–1.3	1.6–1.9	1.7–1.9	1.9–2.0	2.0	1.0–1.5	1.3–2.4	1.5–2.2	1.7–2.1	2.0
June projection	0.8	1.6	1.7		2.0	0.6–1.0	1.4–1.7	1.6–1.8		2.0	0.5–1.2	1.1–2.0	1.4–2.2		2.0
Core PCE inflation[4]	1.5	1.7	1.8	2.0		1.3–1.5	1.6–1.8	1.7–1.9	1.9–2.0		1.2–1.6	1.5–2.4	1.6–2.2	1.7–2.1	
June projection	1.0	1.5	1.7			0.9–1.1	1.4–1.7	1.6–1.8			0.7–1.3	1.2–2.0	1.2–2.2		
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1	0.1–0.6	0.1–1.4	2.0–3.0
June projection	0.1	0.1	0.1		2.5	0.1	0.1	0.1		2.3–2.5	0.1	0.1	0.1–1.1		2.0–3.0

JUNE 2020 (Previous Edition):

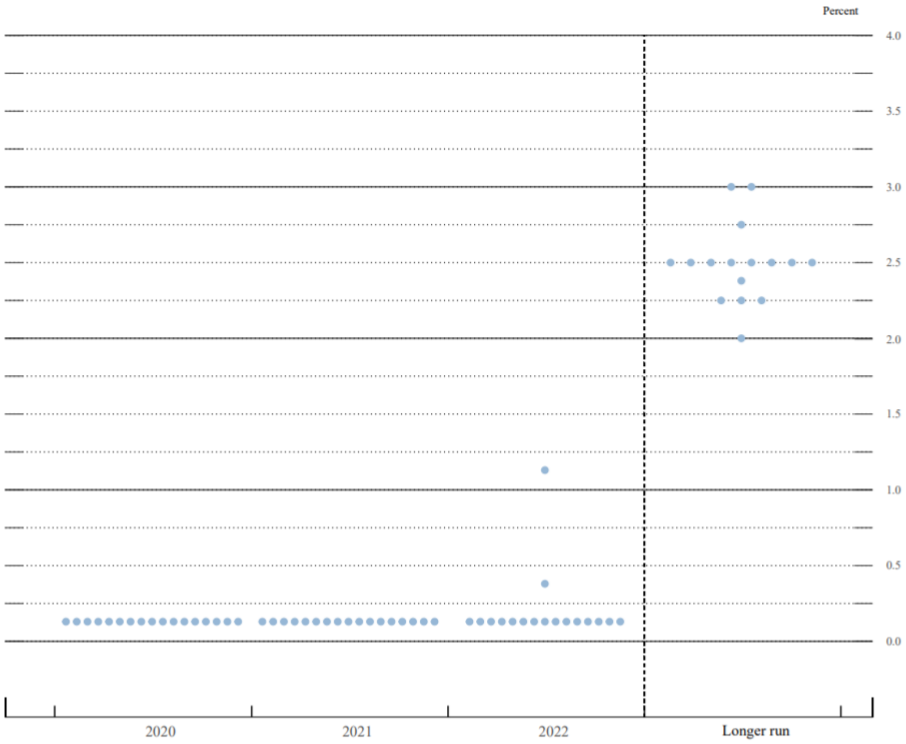
Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2020	2021	2022	Longer run	2020	2021	2022	Longer run	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8	-7.6–-5.5	4.5–6.0	3.0–4.5	1.7–2.0	-10.0–-4.2	-1.0–7.0	2.0–6.0	1.6–2.2
December projection	2.0	1.9	1.8	1.9	2.0–2.2	1.8–2.0	1.8–2.0	1.8–2.0	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
Unemployment rate	9.3	6.5	5.5	4.1	9.0–10.0	5.9–7.5	4.8–6.1	4.0–4.3	7.0–14.0	4.5–12.0	4.0–8.0	3.5–4.7
December projection	3.5	3.6	3.7	4.1	3.5–3.7	3.5–3.9	3.5–4.0	3.9–4.3	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
PCE inflation	0.8	1.6	1.7	2.0	0.6–1.0	1.4–1.7	1.6–1.8	2.0	0.5–1.2	1.1–2.0	1.4–2.2	2.0
December projection	1.9	2.0	2.0	2.0	1.8–1.9	2.0–2.1	2.0–2.2	2.0	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.0	1.5	1.7		0.9–1.1	1.4–1.7	1.6–1.8		0.7–1.3	1.2–2.0	1.2–2.2	
December projection	1.9	2.0	2.0		1.9–2.0	2.0–2.1	2.0–2.2		1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1	0.1	2.3–2.5	0.1	0.1	0.1–1.1	2.0–3.0
December projection	1.6	1.9	2.1	2.5	1.6–1.9	1.6–2.1	1.9–2.6	2.4–2.8	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3

SEPTEMBER 2020: Economic Projections / Dot Plot FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate. Source: Federal Reserve



JUNE 2020 (Previous Plot):



Press Conference Summary

As live-reported by MNI Analysts and Policy Reporters on our MainWire, Edge and Bullets services (transcript may not exactly match what what said).

Opening Statement (Source: Federal Reserve)

Good afternoon.

At the Federal Reserve, we are strongly committed to achieving the monetary policy goals that Congress has given us—maximum employment and price stability. Since the beginning of the pandemic, we have taken forceful actions to provide some relief and stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy. Today, my colleagues on the Federal Open Market Committee and I made some important changes to our policy statement, including an update to our guidance for the likely path of our policy interest rate. Guided by our new Statement on Longer-Run Goals and Monetary Policy Strategy that we announced a few weeks ago, these changes clarify our strong commitment over a longer time horizon.

Before describing today's policy actions, let me briefly review recent economic developments.

Economic activity has picked up from its depressed second-quarter level, when much of the economy was shut down to stem the spread of the virus. With the reopening of many businesses and factories and fewer people withdrawing from social interactions, household spending looks to have recovered about three-quarters of its earlier decline. Nonetheless, spending on services that typically require people to gather closely, including travel and hospitality, is still quite weak. The recovery in household spending also likely owes to federal stimulus payments and expanded unemployment benefits, which provided substantial and timely support to household incomes. Activity in the housing sector has returned to its level at the beginning of the year, and we are starting to see signs of an improvement in business investment. The recovery has progressed more quickly than generally expected, and forecasts from FOMC participants for economic growth this year have been revised up since our June Summary of Economic Projections. Even so, overall activity remains well below its level before the pandemic and the path ahead remains highly uncertain.

In the labor market, roughly half of the 22 million jobs that were lost in March and April have been regained as many people returned to work. The unemployment rate declined over the past four months but remains elevated at 8.4 percent as of August. Although we welcome this progress, we will not lose sight of the millions of Americans who remain out of work. Looking ahead, FOMC participants project the unemployment rate to continue to decline; the median projection is 7.6 percent at the end of this year, 5.5 percent next year, and 4 percent by 2023.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been hardest hit. In particular, the high level of joblessness has been especially severe for lower-wage workers in the services sector, for women, and for African Americans and Hispanics. The economic dislocation has upended many lives and created great uncertainty about the future.

The pandemic has also left a significant imprint on inflation. For some goods, including food, supply constraints have led to notably higher prices, adding to the burden for those struggling with lost income. More broadly, however, weaker demand, especially in sectors that have been most affected by the pandemic, has held down consumer prices, and overall, inflation is running well below our 2 percent longer-run objective. The median inflation projection from FOMC participants rises from 1.2 percent this year to 1.7 percent next year and reaches 2 percent in 2023.

As the economy began its recovery, COVID-19 cases, hospitalizations, and deaths also rose. The reimposition of some social distancing restrictions as well as more cautious behavior by many individuals have succeeded in slowing the spread of the virus. As we have emphasized throughout the pandemic, the outlook for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check. All of us have a role to play in our nation's response to the pandemic. Following the advice of public health professionals to keep appropriate social distances and to wear masks in public will help get the economy back to full strength. A full economic recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities.

The path forward will also depend on the policy actions taken across all parts of the government to provide relief and to support the recovery for as long as needed. The Federal Reserve's response to this crisis has been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. We remain committed to using our full range of tools to support the economy in this challenging time.

The changes we made in today's policy statement reflect our strategy to achieve our dual mandate goals by seeking to eliminate shortfalls from maximum employment and achieve inflation that averages 2 percent over time, as we articulated in our Statement on Longer-Run Goals and Monetary Policy Strategy. We view maximum employment as a broad-based and inclusive goal and do not see a high level of employment as posing a policy concern unless accompanied by signs of unwanted increases in inflation or the emergence of other risks that could impede the attainment of our goals. And we believe that achieving inflation that averages 2 percent over time helps ensure that longer-term inflation expectations remain well anchored at our longer-run 2 percent objective. In turn, well-anchored inflation expectations enhance our ability to meet both our employment and inflation objectives, particularly in the new normal in which interest rates are closer to their effective lower bound even in good times.

Hence, as we say in our statement, with inflation running persistently below 2 percent, we will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. We expect to maintain an accommodative stance of monetary policy until these outcomes, including maximum employment, are achieved.

With regard to interest rates, we now indicate that we expect it will be appropriate to maintain the current 0 to 1/4 percent target range for the federal funds rate until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months we will continue to increase our holdings of Treasury securities and agency mortgage-backed securities at least at the current pace. These asset purchases are intended to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses. We believe the strong policy guidance we are providing today will serve the economy well by promoting our goals through the many possible paths the recovery may take.

Of course, as we note in our policy statement, we would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of our goals. The Federal Reserve has also been taking broad and forceful actions to more directly support the flow of credit in the economy for households, for businesses large and small, and for state and local governments. Preserving the flow of credit is essential for mitigating the damage to the economy and promoting a robust recovery. Many of our programs rely on emergency lending powers that require the support of the Treasury Department and are available only in very unusual circumstances, such as those we find ourselves in today. These programs serve as a backstop to key credit markets and appear to have restored the flow of credit from private lenders through normal channels. We have deployed these lending powers to an unprecedented extent, enabled in large part by financial backing and support from Congress and the Treasury. When the time comes, after the crisis has passed, we will put these emergency tools back in the toolbox.

As I have emphasized before, these are lending powers, not spending powers. The Fed cannot grant money to particular beneficiaries. We can only create programs or facilities with broad-based eligibility to make loans to solvent entities with the expectation that the loans will be repaid. Many borrowers are benefiting from these programs, as is the overall economy. But for many others, getting a loan that may be difficult to repay may not be the answer. In these cases, direct fiscal support may be needed. Elected officials have the power to tax and spend and to make decisions about where we, as a society, should direct our collective resources. The fiscal policy actions that have been taken thus far have made a critical difference to families, businesses, and communities across the country. Even so, the current economic downturn is the most severe in our lifetimes. It will take a while to get back to the levels of economic activity and employment that prevailed at the beginning of this year, and it may take continued support from both monetary and fiscal policy to achieve that. We understand that our actions affect communities, families, and businesses across the country.

Everything we do is in service to our public mission. We are committed to using our full range of tools to support the economy and to help assure that the recovery from this difficult period will be as robust as possible. Finally, I would like to take a moment to recognize the passing of our friend and colleague, Thomas Laubach. His outstanding analysis and advice have been indispensable to the FOMC, and have played a key role in the policy decisions that will define this era of the Federal Reserve. He will be remembered for his intellect, but also his kindness, his equanimity, and his dedication to achieving our mission on behalf of the American people. We will miss him.

Thank you, I will now be glad to take your questions.

Q&A

Q: *Good afternoon, chair Powell. Nick Timiraos from Wall Street journal. You've been very clear on the rates, not even thinking about raising rate and today is showing low rates even as unemployment falls to 4 percent and inflation rises to 2 percent. My question is about asset purchases. Does the guidance today apply to the current asset purchase base? Are there any macro-economic conditions under which you would favor increasing the monthly pace of treasury and NBS purchases and under what conditions would a decrease in the monthly pace of purchases be appropriate?*

A: Thank you, so, we say in our post meeting statement that we'll continue to increase our security's holdings at least at the current pace over coming months to sustain smooth market functioning and help foster accommodative financial conditions. That latter part is an updating of our guidance to reflect what I've been saying in these press conferences for some time and what other central banks have acknowledged which is that the purchases are fostering accommodative financial condition as well. That amounts to roughly 80 billion a month of treasury and 40 billion net per month for MBS so we do think these purchases have been effective in restoring early market conditions and have restored flow of credit to businesses and individuals which we think is a good thing. So, in terms of going forward, I would just say this. There are various ways and margins there we can adjust our tools going forward and we'll continue to monitor developments and we're prepared to adjust our plans as appropriate.

Q: *If I could follow up, I suppose the question I have is, why give guidance on one policy tool but not benefit guidance on the other policy tool when the Fed has talked about those two policy tools working together?*

A: So, we think our policy stance is appropriate today. And we're prepared to adjust it going forward as we see appropriate. And today, we believe that particularly, this very strong forward guidance, very powerful forward guidance that we've announced today will provide strong support for the economy. Effectively, we're saying that rates will remain highly accommodative until the economy is far along in its recovery and that should be a very powerful statement in supporting economic stability. Now we're buying 130 bill dollars a month across treasury. Also adding to Congress. We do have the flexibility to adjust that tool and rate tool and others as well but as for right now, we think that our policy setting is appropriate to export the expansion. We said from the beginning that we would first try to provide some support and stability and relief in the first phase of the crisis, the acute phase, and then we would support the expansion when it came. Well, it's here and it's well along and so that's why we changed our guidance today and we do have the flexibility to do more when we think it's appropriate.

Q: *Hi, Gina Smellick, New York times. I was wondering, you beefed up your statement on financial stability that you unveiled with your Jackson Hole speech last month. I'm wondering if you can kind of walk us through how you think about financial stability concern as a factor to guiding bid increases. Would financial stability increases on their own be enough to -- or would they have to come with an overheat on inflation or some sort of dramatic drop in the unemployment. If you can just sort of give us an outline of your thinking there.*

A: So, what we said in our statement on longer run goals and monetary policy strategy was that the committee's policy decisions reflect its longer run goals, its mood yum term outlook and its assessment of the balance of risks including risks to the financial system that could impede the attainment of the committee's goals so that's what we said about financial stability. And today we said we'd be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of our goals. But you asked specifically about financial stability. One thing I would say is that monetary policy should not be the first line of defense, is not the first line of defense on financial stability. We look to more appropriate tools in the first instance as a first line of defense and those would be regulation, supervision, high capital, high liquidity, stress testing, all of those things, macro prudential tools, all of those things are really the first line of defense on financial stability but we always leave open the idea that we will not ignore those kinds of risks and other kinds of risks more broadly that could impede the attainment of our goals in setting monetary policy. So, that's really how we think about it. Principally, that other tools are the first line, as I mentioned.

***Q:** I guess, just to follow up quickly, if other tools aren't forthcoming, would financial stability concerns in and of themselves be enough to warrant a rate hike.*

A: Again, what we said in the longer run, you know b, in our consensus statement is that we, policy decisions reflect the balance ever risks including risks to the financial system that could impede the attainment of the committee's goal so the test would be, does a majority of the committee feel that monetary policy is triggering that and that would be the test. It's not something that we've done. We do monitor financial stability concerns, of course, intensely and regularly. We try to use our other tools on them but we do keep them in mind as we think about monetary policy.

***Q:** Mr. Chairman, I wonder if you could help me understand how the projections of the committee line up with the goals of the committee. You've now altered the projections to, the statement to interview inflation above 2 percent but when I look at the SEP, I don't see the committee believe in a single year in the next four years that you are ever above 2 percent. In fact, for each year, you're below it until 2023 was the first time that you actually hit 2 percent. So, do you think, are you confident, does this suggest the committee is not confident that not only can did not hit its 2 percent goal but that now it can't hit its goal of being above 2 percent.*

A: Not at all and you also don't see markets pricing in liftoff above zero either. I guess there are four exceptions out of a committee of 17 during the forecast period so we don't reach 2 percent but we get very close to it in the forecast. We reach 2 percent, I guess the median is 2 percent at the end of 2023.

So, you know what the guidance says. It says that we expect that the current setting of our rates will be, what we expected will be appropriate until such time as we reach 2 percent inflation that we feel in a labor market conditions are consistent with our assessment of maximum unemployment and that we're on track to achieve inflation moderately above so that's the test. I don't think there's any conflict between those two because the way they're set up, the projections don't show the out years. You asked about confidence. I would say this very strong, very powerful guidance shows both our confidence and our determination. It shows our confidence that we can reach this goal and our determination to do so.

***Q:** I'm sorry, if I could just follow up without being simplistic about this. But why wouldn't, if the committee was confident that it could reach its new goal of aiming for inflation above 2 percent, why wouldn't one of those years at least show inflation being above 2 percent on a median forecast?*

A: Because we think looking at everything, we know about inflation dynamics and the United States and around the world over recent decades, we expect it will take some time. We expect that the economy will recover quickly now but that that pace will slow as people go back to work and we'll still have an area of the economy, a big area of the economy that struggles. There will be slack in the economy. The economy will be, maximum employment below full demand and that will tend to wear, put downward pressure on inflation so we think once we get closer to maximum employment, we think inflation will come back generally and that's sort of what happened during the last long expansion. It's a slow process, but there is a process there. Inflation does move up over time. We do expect that will continue today and we expect that our guidance is effective. We think that effectively saying policy will remain accommodative until the economy is very far along in its recovery should provide strong support for the economy and get us there sooner rather than later.

***Q:** Hi, chair Powell. Thanks very much for taking my question. I wanted to ask if you anticipate a slowing in the pace of the recovery if there is not another stimulus package and specifically, if there are particular* *holes still remaining in the economy that you think could be helped by more aid from Congress.*

A: Sure. So, first, if you look at the summary of economic projections that my colleagues and I filed for this meeting, what you'll see is an expectation that the recovery will continue, that it will continue at a reasonable pace through 2021, 22, and 23. We do expect that that pace will slow just because you would expect that the pace would be fastest right at the beginning of the recovery because you had such a sharp decline, you would expect that the third quarter should be, the fastest gains and that after that, the pace should slow down to a more normal pace so we do expect that. In terms of fiscal policy. You asked about fiscal policy, so, one thing, I guess I would start by saying that the initial response from fiscal authorities was rapid. It was forceful. And pretty effective. And we're seeing the results of that today in income and household spending data, labor market, construction data, data of business equipment spending and the fact that businesses are staying in business and the pace of defaults and things Luke that has really slowed so there's been a really positive effect. That said. My sense is that more fiscal support is likely to be needed. Of course, the details for that are for Congress, not for the Fed but I would just say there are still roughly 11 million people still out of work due to the pandemic and a good part of those people were working in industries that are likely to struggle. Those people may need additional support as they try to find their way through what will be a difficult time for them. We've also got struggling small businesses, especially those in the business of facing directly to the public. And we have state and local governments dealing with a drop in revenue at the same time spending has gone up, much of it related to the pandemic and economic effects. So, again, I would say the fiscal support has been essential in the good progress we see now. And finally, I'll note that just about all, the overwhelming majority of private forecasters who project an ongoing recovery are assuming there will be a substantial additional fiscal support.

***Q:** Should we expect any further evolutions in forward guidance, say, maybe, an adoption of something akin to the Evans rule that we had a few years ago or is there something else that the Fed might be considering in the future?*

A: Well, so, we think that the forward guidance we adopted today is appropriate. As I mentioned, powerful. Effectively, what it says is that we'll, we will keep policy where it is now. Keep the rate policy where it is now until unemployment reaches the committee's assessments or levels that are, sorry, not unemployment. Labor market conditions reach levels that are consistent with the committee's assessment of national unemployment until it's on track to go above 2 percent moderately for some time so that's very strong forward guidance and we think that will be durable guidance that will provide significant support to the economy in coming years so that's really our thinking on forward guidance and rights.

***Q:** So to follow up on Mike's question there, since you describe this guidance as durable, you set up a three-part test here for rate hikes. Levels consistent with assessments of maximum employment, inflation has risen to 2 percent and you're on track to moderately exceed 2 percent for some time. Each of these have modifiers and I wondered if you would explain them a little bit more. How do we pin down assessments of maximum employment? When you say that inflation has risen to 2 percent, does that mean 2 percent for a day? A month? Six months? And when you say on track to moderately exceed, how should we define moderately and how should we define for some time?*

A: So, as you know, maximum employment is not something that can be reduced to a number the way inflation can. It's a broad range of factors, it really always has been and really, substantial number of factors that we've indicated we would look at so it's broader labor conditions, consistent with our committee's assessment of maximum employment. That would mean low unemployment, high labor force, wages, a whole range of things and we're not looking at a rule, we're looking at a judgmental assessment which I think we'll be very transparent about as we go forward. In terms of inflation, this is a committee that is both confident and committed to and determined to reach our goals and the idea that we would look for the quickest way out is just not who we are. There's no message of that here. We would not be looking for one month of 2 percent inflation. We said, return to achieve 2 percent inflation so just to understand that we're strongly committed to achieving our goals andle overshoot so that should tell you about that. In terms of, okay, so, what moderate means? It means not large. It means not very high above 2 percent. It means, moderate. I think that's a fairly well understood word. In terms of for I a time, what it means is not permanently and not for I a sustained period. We're resisting the urge to try to create some sort of a rule or a formula here and I think the public will understand pretty well what we want. It's actually pretty straightforward. We want to achieve inflation that averages 2 percent over time. And if we do that, inflation expectations will be right at 2 percent and that will help us achieve 2 percent inflation over time and avoid the situation where the central bank loses its ability to support the economy.

Q: *Do you consider today's enhanced forward guidance to actual accommodation to the economy from a monetary perspective? And sort of deliver further support for the economy, or is it just a tweak to your existing policy stance? And in terms of fiscal support, do you assume in your own projections, not just the, you know, private forecaster's, that additional fiscal support will be forthcoming or do you expect a whacker growth or a larger contraction rather this year if no fiscal support is forthcoming.*

A: So, in terms of the effects, so, I think what we've done is more or less aligned with the consensus statement today. So, it's in line with what might have been expected. As I mentioned, I think over time, it will provide very powerful support for this economy as we move forward. In a sense, it's consistent with expectation so I'm not looking for a big reaction right now but over time, again, guidance we expect to maintain the current stance until the economy has moved very far toward our goals is a strong and powerful thing and I think that we'll be supportive of the economy over time. In terms of additional fiscal support, I guess your question is what would happen if, yeah, so, people have different assessments and different participants in the FOMC made different assessments on their own. I think broadly, though, there is an expectation among private forecasters and FOMC participants there will be some further fiscal action and there does seem to be an appetite on the part of all the relevant players to doing something. The question is how much and when. I would just say, if, it's very hard to say. So far, the economy has proven resilient to the lapsing of the CARES Act unemployment, enhanced unemployment benefits, but, there's certainly a risk, though, that those who were unemployed have saved, appear to have saved some of those benefits and they'll now spend them and that as the months pass, if there's no follow-up on that, if there isn't additional support, and there isn't a job for some of those people or from industries where it's going to be very hard to find new work then that will start to show up in economic activity. It will also show up in things like evictions and foreclosures and things that will scar and damage the economy. So, that's a downside risk. So, I think the real question is when and how much and what will be the contents. No one has any certainty around that. But, broadly speaking, if we don't get that, then there would certainly be downside risks through the channel I mentioned.

Q: *Re inequality and distributional issues in the economy, how can Fed address?*
A: We monitor everything that is important in the U.S. economy. You mentioned inequality. So, disparities in income and in financial well-being by various demographic and racial category is something we monitor carefully. Inequality which I would point it, it's a multifaceted thing but I would point to the relative stagnation of incomes for people at the lower end of the income spectrum and also lower mobility so those are things that hold back our economy. They are. The thing is, we don't really have the tools to address those. The we have interest rates and bank supervision and financial stability policy and things like that, but we can't get at those things through our tools. When we lower the federal funds rate, that supports the economy across a broad range of people and activities, but we don't have the ability to target particular groups. Notwithstanding that, we do talk about it because these are important features of our economy and I think those distributional issues are issues that are really for our elected officials. And I would say, I take them seriously as holding back our economy. The productive capacity of the economy is limited when not everyone has the opportunity, has the educational background and the healthcare and all the things you need to be an active participant in our workforce. So, I think we can, if we want to have the highest potential output and the best output for our economy, we need that prosperity to be very broadly spread in the longer randy would just say, the Fed, we can talk about those things a lot and when we think about maximum employment, in particular, we do look at individual groups. So, the high unemployment in a particular racial group like African Americans when, you know, we would look at that as we think about whether we're really at maximum employment. We would look at that along with a lot of other data. So, the answer is, we do look at all those things and do what we can with our tools but ultimately, these are issues for elected representatives.

Q: *I just wanted some clarity here. At what point do you think it's prudent to shift the bond purchases from market stability from shorter term to more longer-term for stimulus related?*

A: So, you know, we think our, we think that our asset purchases are doing both those things today. We think clearly there's been great progress in terms of market function. If you remember early in the spring where the acute 48 of the pandemic hit, market was really low. In many places is in a good place now. We also think these asset purchases which total 120 billion a month which is much larger than for example the last asset purchase program during the global financial crisis and the recovery there from. We think that's also important to providing accommodating positions and supporting growth and that's fine. We also think there are ways we can adjust that to do various things to make it smaller and larger and also make it a, continue to monitor investments and we're prepared to adjust our plans as appropriate.

Q: *I wanted to ask about a couple of things. First of all, if we don't get a vaccine until well into next year, what does that mean for the economy? And then, somewhat related, I was wondering if you could provide any more detail about the stress scenarios you guys are going to release for the big banks and whether that is going to be another full blown stress test, whether we're going to publicly see those results and what it might mean for bank payouts.*

A: Great, so, on the first one, what's happening is basically right now we're learn to go live with COVID and engage in economic activity. All of this recovery we've seen is in a context where people are still at risk of catching it and yet we're able to resume lots and lots of economic activities. And that involves, I think the more social distancing we can reserve as we come back into the workforce, wearing masks, keeping our distance, that sort of thing, the better we'll be able to get economic activity back up close to where it was. I do think, though, there are areas of the economy that are just going to really struggle until we have a vaccine that's in wide usage or widely trusted. Those are the ones getting close together. I also think testing to the extent you have cheap and rapid testing; you can do a lot with that in the workforce. You can build confidence in the workforce if you have regular, very regular testing, it doesn't cost very much, and you get the results very quickly. If you do that, you'll be able to open a lot of workforces, particularly in cities where the other overall case numbers are quite low and that will help a lot. So, I think we're going to be finding lots and lots of ways to get out towards, you know, as far as we can. For some time, there's going to be certain activities that will be hard to resume so I think that's the only way I can say it and I think trying to, we all, when we make a forecast, we make assessments about that but it's really hard to say. There is no template here. There's no experience with this. So, frankly, for the last 60 days or so, the economies recovered faster than expected. Did they continue? Or not? We just need to get those things under control to make sure we can recover as quickly as possible. The main thing is wearing a mask and keeping your distance while you're in the workforce. That's something we can all do that will limit spread, let people go back to work, avoid major outbreaks or things like that. In terms of stress test. There's nothing really I can publicly say, I don't have anything for you.

Q: *You have emphasized many times including today that the Fed can only lend and not spend and sometimes the latter is what's really needed, but to the extent that a 600-billion dollar lending program for small and mid-sized companies could help, what exactly is wrong with the design or function design or function. Eric Rosen said recently that Congress should clarify how much risk it wants the program to take, but Congress has already appropriated substantial funds for the 13-three programs. These are funds that are designed to absorb losses. Meanwhile, my colleagues who cover the banking sector say they're being told like commercial banks that the treasury department is advising them to target zero losses. Zero losses in mine stream program loans. So, if I may, why is it that federal reserve, the Congress, apparently should not review on the loss partners that should be applied to the Main Street lending program. In a way, badly needed credit.*

A: A couple things about Main Street, it reaches the whole nation, it's got more than half of the banking Assets signed up among the banks that are part of it and it's making loans. The number is more like, it's close to $2 billion now. The numbers are going up. Banks are joining. Borrowers are coming. And it's significant, it's relatively small now. If you look, surveys find that a lot of CCDP, bank credit lines, there's a lot of credit being led out there. But, you're right. We are looking at things. Some lenders are concerned about the lending expectations. So, banks are going to, their approach is likely to be that they're going to underwrite this loan the same as they underwrite any loan. They're keeping part of it and what they know, the payments should take deferrals in place and it's really for companies and borrowers that don't have access to regular way borrowing. Otherwise, why would we need Main Street? So, that's what we're working on. We'll be doing some, making some changes I saw what President Rosengren said. I can't really comment directly on that. I just would say that this is 13-three. If you look at the law under 13-three, it's very clear that we are to make loans only to solvent borrowers and the CARES Act is quite specific in keeping all of the terms of section 13-three in effect including the requirement that we gather good evidence that the borrower was solvent. This law was amended under Dodd Frank. Now we're using that same law for smaller business borrowers and it's not a perfect fit and I would also just say, for many borrowers, they're in a situation where their business is still relatively shut down and they won't be able to service a loan and so, they may need more fiscal support. Having said that, we're continuing to work to improve Main Street to make it more broadly available. Make it pretty much to any company that needs it and that can service a loan.

Q: *Could you just very briefly address the reports that the treasury is advising banks to target zero losses. Is that appropriate?*
A: I can't say. I don't know about that. I haven't heard those reports. Again, if you want to think about it, we weren't, we were going to have to go through the banking system to do this. We're not going to have 100,000 or a million loan officers working for the Fed and the treasury so we're going to go through the banking system and the banks like to make good loans. That's what they do. They're trained to make good loans so you should expect, and we expect that they will do some underwriting. We also want them to take some risk obviously because that was the point of it and the question is how you dial that in. It's not an easy thing to do. We're getting some loans made and we're hopeful that we'll clarify this, and that credit will continue to flow.

Q: *Chair Powell, you've talked a couple of times about parts of the economy that may not recover as fast as we've seen so far, presumably, referring to airlines, hotels, other sections, parts of the economy that rely on close contact, how are you thinking about that in terms of its overall impact? Is that sector large enough to say, keep unemployment above, far above your maximum goals? Are you expecting that to come back with a scene or are a lot of those folks going to have to find new jobs and new industries and should we expect the Fed will keep rates at zero until all of that reallocation is done?*

A: Of course, we quant be really sure we know the answers to those questions, but I would say the likely path is that the economy, that the it will take time for the expansion. But the parts it didn't involve, getting large groups together. To feed them, fly them, put them in hotel, entertainment, things like that. Those are going to be the things that are very challenging. So, those will also be the laces that are effective. We have 11 million, particularly if the pace of returning to work slows down, it's going to leave a large group of people, it will be maximum benefit. We want the sense of our forward guidance is that policy will remain, as we said, highly accommodative until the expansion is well along, really very close to our goals and even after, if we do lift off, we will keep policy accommodative until we actually have a moderate overshoot of inflation for some time. So, those are powerful commitments that we think will support the full recovery including those people as long as it takes.

Q: *Based on what you were just saying on keeping the economy policy for a long time into the cognitive for your projections, is that basically it for the Fed? In other words, since interest rates are your main tool, the things you will do on interest rates, is it really the case now? That only additional stimulus that can come to the economy is from the fiscal side.*
A: Well, no, I wouldn't -- I certainly wouldn't say that we're out of ammo. Not at all. So, first of all, we do have lots of tools. We've got the lending tools. We've got the balance sheet. We've got further forward guidance. There's still plenty more that we can do. We do think that our rate mols stance is an appropriate one to support the economy. We think it's powerful. And as I mentioned, you know, this is the kind of guidance that will provide support for the economy over time. The idea being that policy will remain highly accommodative until the recovery is well along, really very close to our goals and then will remain accommodative even after we left off so I think that's a really strong place for rate policy to be but again, we have the other margins we can still use so no, certainly, we're not out of ammo.

Q: *If I can follow up, in terms of the balance sheet, are you concerned that your actions are more likely to produce asset price inflation than goods and services inflation? In other words, are you risking a bubble on Wall Street?*
A: So, of course, we monitor financial conditions very carefully. These are not new questions. These were questions that were very much in the air a decade ago more when the Fed first started doing QE. I would say if you look at the long experience of the ten year, eight month expansion, the longest in our recorded history included a lot of quantitative easing and low rates for seven years and I would say it was notable for the lack of the emergence of some sort of a financial bubble, the popping of which could threaten the expansion. That didn't happen. And frankly, it hasn't really happened around the world since then. That doesn't mean that it won't happen but of course it's something we monitor carefully. After the financial

crisis, we started a new whole division of the Fed to focus on financial stability. We look at it from every perspective, the FOMC gets briefed on a quarterly basis. At the board here, we talk about it more or less on an ongoing basis so it is something we monitor but I don't know that the connection between asset purchases and financial stability is a tight one, but, again, we won't be just assuming that. We'll be checking carefully as we go and by the way, the kinds of tools we would use to address those things are not really monetary policy. It would be more tools that strengthen the financial system.

Q: *I would like to ask you about the labor market. As you know, in August, there were about 30 million persons claiming unemployment benefits. If the DLS jobs reported for August showed about 13 and a half million unemployed, only about 6 million more than before the pandemic, I wonder how you reconcile that and what you think the average tool in labor market conditions are.*

A: So, I think the overall picture, take a step back from this, is clear, that the labor market has been recovering but it's a long way from maximum unemployment. I think that's the bottom line on it. So, within that, though, take claims in particular. The number of claims. The quantity of claims. The fact that PUA claims are new. That's a new system that had to be set up. The actual counting of the claims is volatile and it's very difficult to take much signal about the particular level. So, because people were setting those systems up and when they got them set up, they counted them all at once. I think, though, what you've seen certainly the level of initial claims has declined very sharply from the very high levels of March and April and is now at a lower level, continues to be either flat or gradually decline. That's G. it's worth noting that that level is maybe five times the level of what claims were. Claims were around 200,000. Now they're 900,000N that range weekly for initial claims. That just tells you the labor market has improved but it's a long way. Until it will be some time getting back there. I think that's the best way to think about it. In many parts of the economy, there's just a lot of disruption. It's really hard to say precisely where we are. I'll give you an example. We say unemployment is 8.4 percent but if you count those people who are misidentified as employed when they're actually unemployed and you add back some part of the participation. If you add those back, the level of unemployment is probably 3 percent higher. On the other hand, by that metric, the unemployment rate would have been in the 20s in April. so, the improvement has been quite substantial under New Mexico, but the level is still quite high.

Q: *If I can follow up, is it the Fed saying to get back to 3.5 percent or even lower?*

A: Yes. Absolutely. I can't be precise about particular number but let me just say, it's not a magic number. No one would say that number is the touch stone or that is maximum employment. I would just say, you asked about three half percent, showed gains going at the bottom end of the spectrum. It showed labor force coming up above many estimates of its trend as people who had been out of the labor force were being pulled into a tight job market. There's a lotto it to like about a tight job market. Particularly in a world with where we didn't see inflation so yes, we'd love to get back to that. So, I would say, we would like to get back rather than to a particular number, of course, we need a labor to perform in line with our framework but the good news is, think we can have quite low unemployment without raising the level of inflation.

Q: *Chair Powell, want to follow up on the wealth gap issue. I know you were saying you have limited tools but are there things you can do to maybe expand your research on racial economic gaps.*

A: We do, we are gifted with a substantial group of researchers who really cover the waterfront and we do a significant amount of research on racial disparities across multiple variables including wealth, as you asked about. So, we do that. We also have, remember we have area division of consumer affairs which is present in communities around the country and the reserve bank all have very active community affairs group. They're present it in communities around the country. So, it isn't just the Fed listens events. It's more just over a long period of time we are in contact with people in those communities to understand their experience of the economy. We serve all Americans and we know that and we're going to use our tools to reflect that so the answer is yes, we do quite a bit of research and I suppose we could do more but we really consider those fields and assessments of the state of the economy. We do that not just because it's interesting and important but because it's important for the economy and for our mandate. We are assigned maximum unemployment. What does that mean? As I mentioned earlier, it doesn't mean a particular headline unemployment number. What it means is maximum unemployment. So, we look at that in many, many different variables and we ask ourselves whether those variables are the labor market conditions are consistent with our assessment. That would include all of the things that we're talking about.

***Q:** I want to go back to the new forward guidance that you have. You say that it's powerful but it, you've already had two dissenting voters on it and I was wondering if there's other people who argued against it and what do you say to the two who dissented. It looks like president Kashkari wanted a simpler guidance and President Kaplan thought that the current guidance you had was fine for now so how did you argue back on those arguments?*

A: I wouldn't, I don't want to comment particularly on the two dissenters, but they dissented from of course different perspectives and that should be clear. That's, they're not, they're sort of on two sides of the discussion. But I would say this. I am blessed with having a committee of highly thoughtful people who bring diverse life experiences and diverse careers and of course diverse views to our work and I wouldn't have it any other way. I wouldn't. So, I would just say, the whole committee. Very, very broad support. Unanimous support for that. Everyone sees the changes in the underlying economy and sees in their own way the need to address those and including the changes we made to the employment mandate and to inflation so that we're now flexible average inflation targeting. Of course, there would be. We're the first major central bank to adopt this framework. There's no cookbook and this is the first guidance under our new framework so of course there would be a wide range of views and you would expect that and it's actually a healthy thing, so I welcome that discussion. I would also say this. This is all about credibility and we understand perfectly that we have to earn credibility. This facility, this framework has to, we have to support it with our actions. And I think today is a very good first step in doing that. It is strong powerful guidance, it ties in, we had quite a robust discussion, there are different ideas how to do that. That's just the way it is when you have a diverse group of highly thoughtful and effective people, so I'm pleased with where it came out.

***Q:** I wanted to ask about commercial real estate. I was just wondering if you've had any other continued discussions on this and if there's any potential way that the Fed could step in that area.*

A: We've actually spent quite a bit off time on this as Secretary Mnuchin I think mentioned the other day. I'll say just a couple things. First, our facilities are essentially always, they have to be, under the law, broad based and not so much targeting any single sector. Also, it's important to remember that CRE, commercial real estate, benefits from several of our existing facilities so the TALF takes commercial securities and SBA he purchases. Main Street, it helps businesses pay their rent so we're helping real estate in a number of other ways, commercial real estate. Also, CMBS issues have resumed. Spreads have tightened on CMBS. There are a couple of issues. One is just that commercial properties with CMBS loans often have covenants that prevent them from taking on more debt so you have situation where's a legal change or some kind of innovation defies discovery so far, you have a hard time providing mass releech with regard to commercial mortgage back securities. So, we're still working on it. We're still looking. I will say it may be that further support for commercial real estate will require further action from Congress.

***Q:** It seems like a lot of the inflation framework about inflation expectations but the average American, confuse us to why the Fed is overshooting inflation so what's your explanation to Main Street to average people, what the Fed is trying to do here and what the outcome would be for that.*

A: It's a very good question. I actually spoke about this recently. It is intuitive that high inflation is a bad thing. It's less intuitive that inflation can be too low. The way I would explain it is that inflation that's too low will mean that interest rates are lower. There's an expectation of future inflation that's built into every interest rate and to extent inflation gets lower and lower and lower, interest rates get lower and lower and then the Fed will have less room to support rates to -- cut rates to support the economy. This isn't some idle academic theory. This is what's happening all over the world. If you look at many, many large jurisdictions around the world, you are seeing that phenomenon so we want inflation to be, we want it to be 2 percent and we want it to average 2 percent so if inflation averages 2 percent the public will expect that and that will be what's built into interest rates and that's all we want. So, we're not looking to have high inflation. We just want inflation to average 2 percent and that means that in a down turn these days, what happens to inflation as it happens now it moves well below 2 percent and that means we said before, we would like to see and we will conduct policies so that inflation moves for some time moderately above

2 percent so it won't be, these won't be large overshoots and they won't be permanent but to help anchor inflation expect aces at 2 percent so yes, it's a challenging concept for a lot of people but nonetheless, the economic importance, the economic importance of it is large and those are the people we're serving and we serve them best if we can actually achieve serve them best if we can improve inflation.

Q&A concludes.