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Data Insights: FOMC Minutes

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December minutes Key signaling language: Featured Important Very important

Developments in Financial Markets and Open Market Operations

…The manager noted that money market conditions continued to tighten over the intermeeting period and that the staff assessed that conditions were consistent with the level of reserves having declined to the ample region. Rates on Treasury repurchase agreements (repo) remained relatively elevated and volatile over the intermeeting period. Investors attributed firmness in repo rates to a decline in available liquidity and continued large Treasury debt issuance. Higher repo rates, along with a lower level of reserves, continued to contribute to upward pressure on the spread between the effective federal funds rate (EFFR) and the interest rate on reserve balances. The manager noted that the correlation between this spread and the level of reserve balances had risen notably over the past couple of months and that the EFFR had moved up faster than it had during the previous episode of balance sheet runoff. Consistent with elevated repo rates, usage of overnight reverse repo operations remained low, while both the frequency and volume of standing repo operations increased over the intermeeting period. Some other key indicators of reserve ampleness, such as the share of payments by banks occurring later in the day and the share of domestic banks borrowing in the federal funds market, also pointed to ample reserve conditions.

The manager next discussed the expected trajectory of key components of the Federal Reserve's balance sheet. Over the next several months, seasonal fluctuations in nonreserve liabilities were projected to lead to significant declines in reserves at the end of December, in late January, and especially in mid-to-late April if securities holdings in the System Open Market Account (SOMA) were to remain unchanged. The manager noted that the projected fall in reserves in April caused by tax inflows to the Treasury General Account (TGA)—which is a Federal Reserve liability—was particularly large and thus judged that reserves were likely to fall below the ample range if the size of the SOMA portfolio were to remain unchanged.

In light of this projected decline in reserves as well as recent developments in money markets, the manager recommended that the Committee consider starting reserve management purchases (RMPs) this month to maintain an ample level of reserves on an ongoing basis. Because of the substantial projected decline in reserves in mid-to-late April, the manager judged that it would be prudent to start RMPs soon, maintain a somewhat elevated pace of net purchases until then, and then decrease the monthly pace substantially thereafter. Respondents to the Desk survey expected RMPs to begin soon. Over one-third of respondents expected RMPs to be announced at this meeting and begin by next month, and most respondents anticipated them to begin before the end of the first quarter of 2026. While the estimated size of expected purchases varied considerably across respondents, on average, respondents anticipated net purchases of about $220 billion over the first 12 months of purchases…

Special Topic: Balance Sheet Issues

Participants discussed developments in money markets and whether starting RMPs was warranted to maintain reserves at levels consistent with the Committee's ample-reserves framework laid out in its 2019 Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization. With the continued increases in the spreads between money market interest rates and administered rates, as well as some other indicators of tightening money market conditions, participants judged that reserve balances had declined to ample levels. Accordingly, participants assessed that it was appropriate to begin RMPs and initiate purchases of shorter-term Treasury securities to maintain an ample supply of reserves over time.

The discussion was preceded by staff presentations. The staff emphasized that a range of levels of reserve balances was consistent with ample and presented indicators showing that money market conditions pointed to reserves being within the ample range. In particular, the spreads of the EFFR and of other money market rates to the interest rate on reserve balances had increased relatively quickly since mid-September. Additionally, several other indicators of liquidity in short-term funding markets, including the volatility of repo rates and their sensitivity to Treasury coupon issuance, pointed to reserves being within the ample range. The staff emphasized the role that standing repo operations had played in ensuring that the federal funds rate remained within its target range, even on days of elevated demand for nonreserve liabilities. The staff also noted the implications of reserves varying within the ample range for volatility and market functioning in money markets, the size of the Federal Reserve's balance sheet, and the use of standing repo operations.

The staff noted that maintaining ample reserves over time would require the SOMA security portfolio to expand to accommodate trend growth in the demand for reserves and nonreserve liabilities. In addition, under the ample-reserves framework, the size of the SOMA portfolio would need to be sufficient to accommodate significant seasonal variation in the demand for nonreserve liabilities, such as that driven by fluctuations in TGA balances. The staff presented options for how the Desk could structure RMPs to maintain an ample supply of reserves. They noted the benefits of granting the Desk flexibility to adjust the sizes of RMPs in anticipation of or in response to swings in reserve demand and the demand for nonreserve liabilities. The staff also noted that, consistent with the goal of returning to a primarily Treasury portfolio expressed in the Committee's 2022 Principles for Reducing the Size of the Federal Reserve's Balance Sheet and a preference to shift the SOMA portfolio composition toward that of Treasury securities outstanding, RMPs could be conducted primarily in Treasury bills.

Participants agreed that recent money market conditions pointed to reserves being within the ample range and that beginning RMPs would be prudent to maintain a supply of ample reserves. A couple of participants remarked that the recent increase in the spread between the EFFR and the interest rate on reserve balances had been faster than during the Federal Reserve's 2017–19 runoff experience, and a couple of participants observed that triparty repo rates had been averaging somewhat above the interest rate on reserve balances. Participants expressed their preferences for purchases to be in Treasury bills so that the SOMA portfolio composition would begin to shift toward that of Treasury securities outstanding, though no decision was made on the composition of the portfolio in the long run. Policymakers generally emphasized the importance of communicating that RMPs would be made solely to ensure interest rate control and smooth market functioning and had no implications for the stance of monetary policy.

Participants generally agreed that providing the Desk flexibility to adjust the size and timing of RMPs was important because of the significant variation in the demand for Federal Reserve liabilities and the uncertainty surrounding projections of this demand. When discussing how to structure RMPs in light of this variation, several participants emphasized that they preferred to front-load purchases so that the total level of reserves supplied to the market would be enough to manage large anticipated seasonal swings in nonreserve liabilities without having to rely on standing repo operations. Some other participants, however, preferred to limit balance sheet size by conducting RMPs closer to periods of elevated demand for nonreserve liabilities and relying more on standing repo operations to damp upward pressure on rates. Several participants noted that aligning variation in SOMA

Treasury bill holdings with variation in nonreserve liabilities would insulate reserve supply from TGA changes, citing research by the Federal Reserve staff.

Participants also discussed the role of standing repo operations and commented on their importance for interest rate control in the ample-reserves regime. Some participants emphasized their preference that standing repo operations play a more active role in rate control, with material usage during periods of elevated pressures in money markets. A couple of participants added that effective standing repo operations may allow for a smaller balance sheet on average. Several participants preferred to rely more on RMPs to maintain an ample level of reserves.

Various participants noted that a more precise definition of "ample" would help clarify the Committee's intentions in implementing an ample-reserves framework. A few participants noted the difficulties of aiming to target an appropriate level of reserves because of the potential shifts in reserve demand. Some participants offered a view that an ample-reserves definition should focus on the level of money market rates in relation to the interest rate on reserve balances, with a few of those participants highlighting that such an approach would avoid some of the challenges of targeting a particular level of reserves given potential shifts in reserve demand. A couple of participants expressed the view that a definition of "ample reserves" that resulted in a larger supply of reserves than necessary to implement the Committee's framework could lead to excessive risk-taking by leveraged investors…

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 2025 through 2028 and over the longer run. The projections were based on participants' individual assessments of appropriate monetary policy, including their projections of the federal funds rate. Participants also provided their individual assessments of the level of uncertainty and the balance of risks associated with their projections. The Summary of Economic Projections was released to the public after the meeting.

Participants observed that overall inflation had moved up through September since earlier in the year and remained somewhat above the Committee's 2 percent longer-run goal, but more recent inflation data produced by the government were unavailable. Most participants remarked that core inflation had been pushed up by higher tariffs that boosted goods prices, even as some participants noted that housing services inflation had moved down closer to levels seen during previous periods when inflation was near 2 percent. A couple of participants commented that inflation in some nonmarket services categories had been affected by special factors, and thus were unlikely to provide a clear signal about broader inflationary pressures. A majority of participants remarked that overall inflation had been above target for some time and had not moved closer to the 2 percent objective over the past year.

Regarding the outlook for inflation, participants generally expected inflation to remain somewhat elevated in the near term before moving gradually to 2 percent. Many participants emphasized that they expected that the effects of tariffs on core goods inflation would wane, although some expressed uncertainty about when these effects would diminish or the extent to which tariffs would ultimately be passed through to final goods prices. Some participants stated that their business contacts had reported persistent input cost pressures unrelated to tariffs, although several of these participants noted that weaker demand limited the ability of some firms to raise prices or that business productivity gains might enable some firms to manage these cost pressures. A majority of participants expected continued disinflation in housing services, and a few participants expected continued disinflation in core nonhousing services. Participants generally judged that the risks to inflation remained tilted to the upside, although several participants commented that they considered these upside risks to have decreased. Some participants highlighted the risk that elevated inflation might prove more persistent than expected.

Participants noted that market- and survey-based measures of longer-term inflation expectations remained stable. A few participants remarked that measures of near-term inflation expectations had been elevated earlier in 2025 but had declined from those peaks. Participants emphasized the importance of maintaining well-anchored longer-run inflation expectations to help return inflation to the Committee's 2 percent objective in a timely manner, and some participants noted concerns that a more prolonged period of above-target inflation could risk an increase in longer-run expectations.

With regard to the labor market, participants observed that labor market conditions had continued to soften and that the unemployment rate had edged up in September. Participants reported relying on private-sector and limited government data, as well as information provided by businesses and community contacts, to assess more recent labor market conditions. Most participants remarked that some of the most recent indicators of labor market conditions, including survey-based measures of job availability or reports of planned layoffs, pointed to continued softening. Some participants noted, however, that other indicators, such as weekly initial unemployment insurance claims and measures of job postings, suggested more stability. Several participants commented that lower-income households were especially concerned about their employment prospects. Participants observed that hiring had remained subdued, and some participants pointed to survey-based measures or reports from business contacts that suggested that current hiring plans remained muted. Participants generally viewed the low dynamism in the labor market as reflecting both lower labor demand amid economic uncertainty or efforts by businesses to contain costs and decreased labor supply associated with lower immigration, the aging of the population, or reduced labor force participation.

Participants generally assessed that, under appropriate monetary policy, the labor market likely would stabilize next year but noted that their outlook for the labor market was still quite uncertain, especially amid the delays in the release of government data. Most participants judged that risks to the labor market remained tilted to the downside. Several participants viewed the rise in the unemployment rates for groups historically more sensitive to cyclical changes in economic activity, the possibility that layoffs could push the unemployment rate sharply higher in a low-hiring environment, or the concentration of job gains in a few less cyclically sensitive sectors as potentially signaling greater fragility in the labor market.

Participants observed that overall economic activity appeared to be expanding at a moderate pace. Many participants viewed aggregate consumption spending as solid, although several pointed to signs of some recent slowing. A majority of participants mentioned evidence of stronger spending growth for higher-income households, while lower-income households had become increasingly price sensitive and were making adjustments to their spending in response to the outsized cumulative increase in the prices of basic goods and services over the past several years. A couple of participants remarked that the housing sector showed some signs of stabilizing and that recent declines in mortgage rates would provide support to the sector. Some participants commented that economic activity had also been supported by robust business fixed investment, with several pointing to investment by the technology sector in particular. A couple of participants commented that the agricultural sector continued to face headwinds because of high input costs or reduced capacity in the food processing industry even though prices for many agricultural products had risen over the past year. Several participants noted that there could be swings in measures of economic activity associated with the government shutdown, which could make it more difficult over coming months to determine the underlying trend in growth.

Participants generally anticipated that the pace of economic growth would pick up in 2026 and that, in the medium term, economic activity would expand at about the same pace as potential output. Many participants expected growth to be supported by fiscal policy, changes in regulatory policy, or somewhat favorable financial market conditions. Nevertheless, participants judged that uncertainty about their forecast of real GDP growth remained high. Moreover, a number of participants noted that structural factors such as technological progress and higher productivity growth, possibly reflecting increasing use of AI, could boost economic growth without generating price pressures and could also damp job creation. These participants remarked that it could be difficult in real time to determine the extent to which economic conditions reflect such structural factors as opposed to cyclical ones.

In their consideration of monetary policy at this meeting, participants noted that inflation had moved up since earlier in the year and remained somewhat elevated. Participants further noted that available indicators suggested that economic activity had been expanding at a moderate pace. They observed that job gains had slowed this year and that the unemployment rate had edged up through September. Participants assessed that more recent indicators were consistent with these developments. In addition, they judged that downside risks to employment had risen in recent months.

Against this backdrop, most participants supported lowering the target range for the federal funds rate at this meeting, while some preferred to keep the target range unchanged. A few of those who supported lowering the policy rate at this meeting indicated that the decision was finely balanced or that they could have supported keeping the target range unchanged. Those who favored lowering the target range for the federal funds rate generally judged that such a decision was appropriate because downside risks to employment had increased in recent months and upside risks to inflation had diminished since earlier in 2025 or were little changed. Some of these participants emphasized that lowering the target range for the federal funds rate at this meeting was in line with a forward-looking approach to the pursuit of the Committee's dual-mandate objectives. These participants noted that reducing the policy rate at this meeting would be consistent with the projected decline in inflation over coming quarters while contributing to a strengthening of economic activity in 2026 that would help stabilize labor market conditions after this year's cooling. Those who preferred to keep the target range for the federal funds rate unchanged at this meeting expressed concern that progress toward the Committee's 2 percent inflation objective had stalled in 2025 or indicated that they needed to have more confidence that inflation was being brought down sustainably to the Committee's objective. These participants also noted that longer-term inflation expectations could rise should inflation not return to 2 percent in a timely manner. Some participants who favored or could have supported keeping the target range unchanged suggested that the arrival of a considerable amount of labor market and inflation data over the coming intermeeting period would be helpful in making judgments on whether a rate reduction was warranted. A few participants judged that lowering the federal funds rate target range at this meeting was not justified because data received over the intermeeting period did not suggest any significant further weakening in the labor market. One participant agreed with the need to move toward a more neutral monetary policy stance but preferred lowering the target range by 1/2 percentage point at this meeting.

In considering the outlook for monetary policy, participants expressed a range of views about the restrictiveness of the Committee's policy stance. Most participants judged that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation declined over time as expected. With respect to the extent and timing of additional adjustments to the target range for the federal funds rate, some participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for some time after a lowering of the range at this meeting. A few participants observed that such an approach would allow policymakers to assess the lagged effects on the labor market and economic activity of the Committee's recent moves toward a more neutral policy stance while also giving policymakers time to acquire more confidence about inflation returning to 2 percent. All participants agreed that monetary policy was not on a preset course and would be informed by a wide range of incoming data, the evolving economic outlook, and the balance of risks.

In discussing risk-management considerations that could bear on the outlook for monetary policy, participants generally judged that upside risks to inflation remained elevated and that downside risks to employment were elevated and had increased since the middle of 2025. Most participants noted that a move toward a more neutral policy stance would help forestall the possibility of a major deterioration in labor market conditions. Many of these participants also judged that the available evidence pointed to a reduced probability that tariffs would lead to persistent inflation pressures. These participants observed that it was appropriate for the Committee to ease its policy stance in response to downside risks to employment, thereby helping to bring the risks to achieving the dual-mandate goals into better balance, and suggested that a move toward a more neutral policy stance at this meeting would leave policymakers well positioned to determine the extent and timing of additional adjustments to the policy rate, with these judgments being based on the incoming data, the evolving outlook, and the balance of risks. By contrast, several participants pointed to the risk of higher inflation becoming entrenched and suggested that lowering the policy rate further in the context of elevated inflation readings could be misinterpreted as implying diminished policymaker commitment to the 2 percent inflation objective. Participants judged that a careful balancing of risks was required and agreed on the importance of well-anchored longer-term inflation expectations in achieving the Committee's dual-mandate objectives.

…Voting for this action: Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Philip N. Jefferson; Alberto G. Musalem; and Christopher J. Waller.

Voting against this action: Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting; and Austan D.

Goolsbee and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting.

Source: Federal Reserve Board