Federal Open Market Committee (FOMC) Meeting Results:

Date: June 13-14, 2017

Fed increased rate by 0.25%

New range for the federal funds rate increased to 1 to 1-1/4 percent

Major Changes Scheduled for Fed's Balance Sheet

Location: Marriner S. Eccles Federal Reserve Board Building, Washington DC

Economic Highlights: *Labor Markets seen as improving and inflation declining*

- **"Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising moderately so far this year.**
- **Job gains have moderated but have been solid, on average, since the beginning of the year, and the unemployment rate has declined.**
- **Household spending has picked up in recent months, and business fixed investment has continued to expand.**
- **On a 12-month basis, inflation has declined recently and, like the measure excluding food and energy prices, is running somewhat below 2 percent.**
- **Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance."**

Policy Announcements: *Rate increase by 0.25%*

- **The Committee decided to raise the target range for the federal funds rate to 1.0 to 1.25 percent, up from 0.75 to 1.00 percent.**

- **The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.**

Fed's Security Holdings: *No change in reinvestment policy yet, but big future changes in Fed balance sheet are planned.*

- **"The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.**

- **The Committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated.**

- **This program, which would gradually reduce the Federal Reserve's securities holdings by decreasing reinvestment of principal payments from those securities, is described in the accompanying addendum to the Committee's Policy Normalization Principles and Plans."**

Plan to Reduce the Size of the Fed's Balance Sheet: Fed plans slow and gradually reduction in Balance Sheet, but claims interest rate adjustment to be primary policy tool!

“The Committee intends to gradually reduce the Federal Reserve's securities holdings by decreasing its reinvestment of the principal payments it receives from securities held in the System Open Market Account. Specifically, such payments will be reinvested only to the extent that they exceed gradually rising caps.

- **For payments of principal that the Federal Reserve receives from maturing Treasury securities, the Committee anticipates that the cap will be $6 billion per month initially and will increase in steps of $6 billion at three-month intervals over 12 months until it reaches $30 billion per month.**

- **For payments of principal that the Federal Reserve receives from its holdings of agency debt and mortgage-backed securities, the Committee anticipates that the cap will be $4 billion per month initially and will increase in steps of $4 billion at three-month intervals over 12 months until it reaches $20 billion per month.**

- **The Committee also anticipates that the caps will remain in place once they reach their respective maximums so that the Federal Reserve's securities holdings will continue to decline in a gradual and predictable manner until the Committee judges that the Federal Reserve is holding no more securities than necessary to implement monetary policy efficiently and effectively.**

Gradually reducing the Federal Reserve's securities holdings will result in a declining supply of reserve balances. The Committee currently anticipates reducing the quantity of reserve balances, over time, to a level appreciably below that seen in recent years but larger than before the financial crisis; the level will reflect the banking system's demand for reserve balances and the Committee's decisions about how to implement monetary policy most efficiently and effectively in the future. The Committee expects to learn more about the underlying demand for reserves during the process of balance sheet normalization.

The Committee affirms that changing the target range for the federal funds rate is its primary means of adjusting the stance of monetary policy. However, the Committee would be prepared to resume reinvestment of principal payments received on securities held by the Federal Reserve if a material deterioration in the economic outlook were to warrant a sizable reduction in the Committee's target for the federal funds rate.

Moreover, the Committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate."

Forward Guidance: *Rates to rise slowly and gradually going forward!*

- **"The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.**
- **The federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.**
- **However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."**

Voting Results*: One dissenting vote at this meeting.*

- ***Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; and Jerome H. Powell.***
- ***Voting against the action was Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.***

Next Meeting: **July 25-26, 2017**