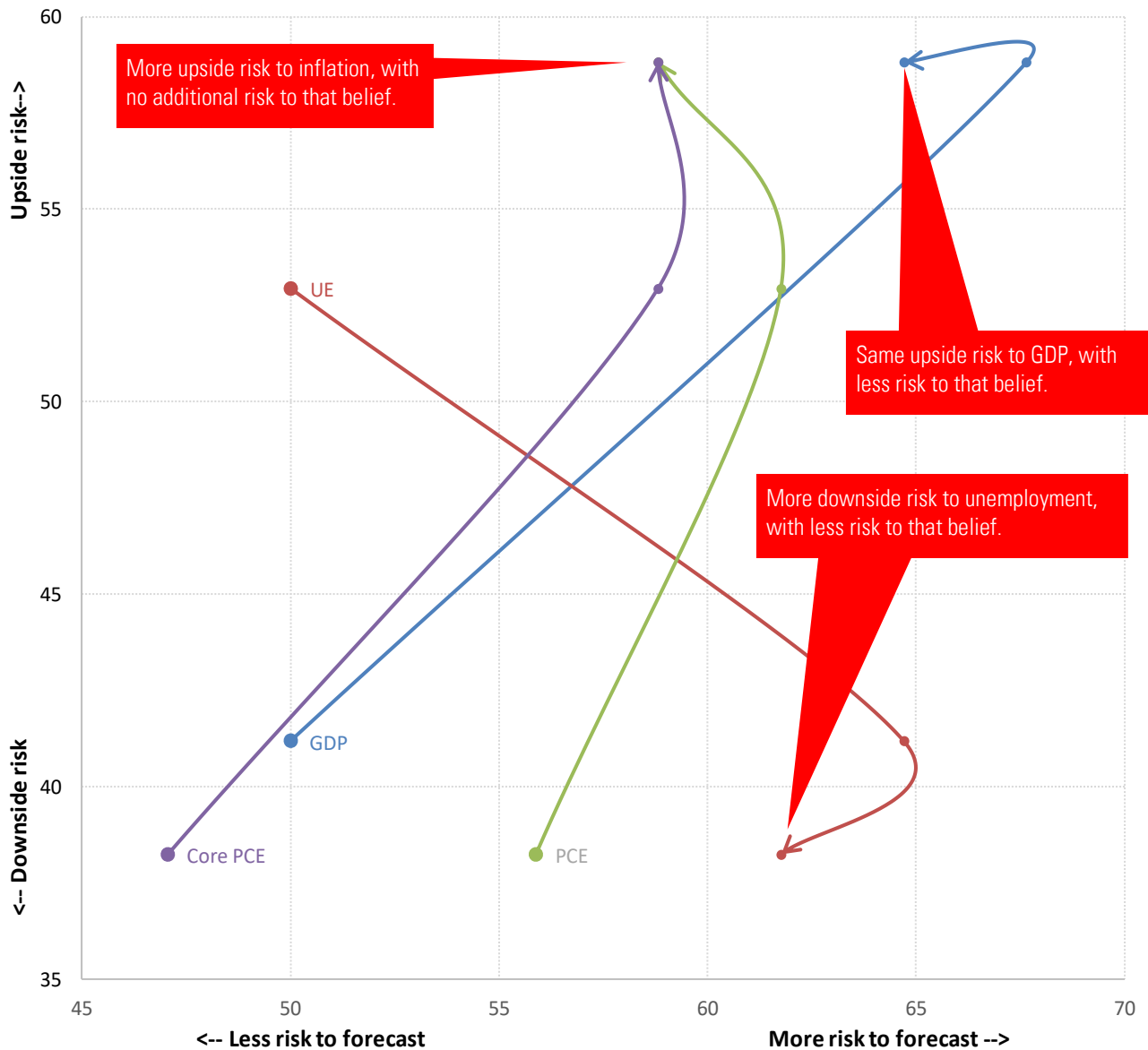


Data Insights: FOMC Minutes

Wednesday, April 5, 2017

Evolving "uncertainty" Diffusion indices of forecast risks in Summary of Economic Projections
 From ● September 16 FOMC to → March 17 FOMC



Source: FOMC, TrendMacro calculations

Participants' Views on Current Conditions and the Economic Outlook

...nearly all participants preferred that the timing of a change in reinvestment policy depend on an assessment of economic and financial conditions. ... Provided that the economy continued to perform about as expected, most participants anticipated that gradual increases in the federal funds rate would continue and judged that a change to the Committee's reinvestment policy would likely be appropriate later this year. Many participants emphasized that reducing the size of the balance sheet should be conducted in a passive and predictable manner. When the time comes to implement a change to reinvestment policy, participants generally preferred to phase out or cease reinvestments of both Treasury securities and agency MBS.

... Participants generally saw the incoming economic information as consistent, overall, with their expectations and indicated that their views about the economic outlook had changed little since the January-February FOMC meeting.

Participants generally judged that risks to the economic outlook remained roughly balanced overall. ... Participants continued to underscore the considerable uncertainty about the timing and nature of potential changes to fiscal policies as well as the size of the effects of such changes on economic activity. However, several participants now anticipated that meaningful fiscal stimulus would likely not begin until 2018. In view of the substantial uncertainty, about half of the participants did not incorporate explicit assumptions about fiscal policy in their projections. ... some participants and their business contacts saw downside risks to labor force and economic growth from possible changes to other government policies, such as those affecting immigration and trade.

... Participants generally agreed that recent momentum in the business sector had been sustained over the intermeeting period. Many reported that manufacturing activity in their Districts had strengthened further, and reports from the service sector were positive. Business optimism remained elevated in a number of Districts.

... Participants noted the continued stability of the labor force participation rate in the face of its demographically driven downward trend. A few participants interpreted that development as suggesting that slack in the labor market was minimal. A few others saw it as an indication that labor force participation could increase a bit more relative to trend and thus that some further reduction in labor market slack could occur.

... Many participants discussed the implications of the rise in equity prices over the past few months, with several of them citing it as contributing to an easing of financial conditions. A few participants attributed the recent equity price appreciation to expectations for corporate tax cuts or to increased risk tolerance among investors rather than to expectations of stronger economic growth. Some participants viewed equity prices as quite high relative to standard valuation measures.

... the neutral real rate--defined as the real interest rate that is neither expansionary nor contractionary when the economy is operating at or near its potential--still appeared to be low by historical standards. Furthermore, uncertainty about current and prospective values of the neutral real rate reinforced the argument for a gradual approach to removing monetary policy accommodation over the next few years.

Source: FOMC, TrendMacro analysis