
Data Insights: FOMC Minutes

Wednesday, May 24, 2017

[May minutes](#): key signaling language

Participants continued their discussion of issues related to potential changes to the Committee's policy of **reinvesting principal payments from securities held in the SOMA**. The staff provided a briefing that summarized a possible operational approach to reducing the System's securities holdings in a gradual and predictable manner. ... **the Committee would announce a set of gradually increasing caps, or limits, on the dollar amounts of Treasury and agency securities that would be allowed to run off each month, and only the amounts of securities repayments that exceeded the caps would be reinvested each month.** ... **The caps would initially be set at low levels and then be raised every three months, over a set period of time, to their fully phased-in levels.** ... **Nearly all policymakers expressed a favorable view of this general approach.** ... **Policymakers agreed that the Committee's Policy Normalization Principles and Plans should be augmented soon to provide additional details** about the operational plan to reduce the Federal Reserve's securities holdings over time. Nearly all policymakers indicated that as long as the economy and the path of the federal funds rate evolved as currently expected, **it likely would be appropriate to begin reducing the Federal Reserve's securities holdings this year.** Policymakers agreed to **continue in June their discussion of plans.** ...

In their discussion of the economic situation and the outlook, meeting participants agreed... **the labor market had continued to strengthen even as growth in economic activity slowed in the first quarter.** ... Although the incoming data showed that aggregate spending in the first quarter had been weaker than participants had expected, **they viewed the slowing as likely to be transitory.** ... Some participants judged that **the low reading on GDP growth also could partly reflect residual seasonality** and so would likely be followed by stronger GDP growth in subsequent quarters, repeating a pattern evidenced in recent years.

... Overall, participants continued to see the near-term risks to the economic outlook as roughly balanced. ... Many participants continued to view the possibility of expansionary fiscal policy changes in the United States as posing upside risks to their forecasts for U.S. economic growth, although they also noted that prospects for enactment of a more expansionary fiscal program, as well as its size, composition, and timing, remained highly uncertain. Regarding the outlook for inflation, a couple of participants expressed concern that a substantial undershooting of the longer-run normal rate of unemployment could pose an appreciable upside risk to inflation. However, several others continued to see downside risks to the inflation outlook, particularly given the low readings on inflation over the intermeeting period and the still-low measures of inflation compensation and inflation expectations.

... a couple of participants pointed out that uncertainty about both the longer-run normal rate of unemployment and labor force trends made it difficult to assess the scope for additional sustainable increases in labor utilization. Generally, participants continued to expect that if economic growth stayed moderate, as they projected, the unemployment rate would remain, for the next few years, below their estimates of its longer-run normal level. A few participants continued to anticipate a substantial undershooting of the longer-run normal level of the unemployment rate.

... some participants ... noted variously that the decline in longer-term interest rates and the modest depreciation of the dollar over the intermeeting period would provide some stimulus to aggregate demand, that the Committee's recent policy actions had not resulted in a tightening of financial conditions...

... participants ... judged that a continued gradual removal of monetary policy accommodation remained appropriate. ... Most participants judged that if economic information came in about in line with their expectations, it would soon be appropriate for the Committee to take another step in removing some policy accommodation. A number of participants pointed out that clarification of prospective fiscal and other policy changes would remove one source of uncertainty for the economic outlook...

Source: FOMC, TrendMacro analysis