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Data Insights: FOMC Minutes

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July minutes: key signaling language   Featured   Important   Very important

…In their discussion of the outlook for monetary policy beyond this meeting, participants generally favored an approach in which policy would be guided by incoming information and its implications for the economic outlook and that avoided any appearance of following a preset course. Most participants viewed a proposed quarter-point policy easing at this meeting as part of a recalibration of the stance of policy, or mid-cycle adjustment, in response to the evolution of the economic outlook over recent months. A number of participants suggested that the nature of many of the risks they judged to be weighing on the economy, and the absence of clarity regarding when those risks might be resolved, highlighted the need for policymakers to remain flexible and focused on the implications of incoming data for the outlook…

…Participants also discussed the timing of ending the reduction in the Committee's aggregate securities holdings in the SOMA. Ending the reduction of securities holdings in August had the advantage of avoiding the appearance of inconsistency in continuing to allow the balance sheet to run off while simultaneously lowering the target range for the federal funds rate. But ending balance sheet reduction earlier than under its previous plan posed some risk of fostering the erroneous impression that the Committee viewed the balance sheet as an active tool of policy. Because the proposed change would end the reduction of its aggregate securities holdings only two months earlier than previously indicated, policymakers concluded that there were only small differences between the two options in their implications for the balance sheet and thus also in their economic effects...

With regard to the current monetary policy framework, participants agreed that this framework had served the Committee and the U.S. economy well over the past decade. They judged that forward guidance and balance sheet actions had provided policy accommodation during the ELB period and had supported economic activity and a return to strong labor market conditions while also bringing inflation closer to the Committee's longer-run goal of 2 percent than would otherwise have been the case. In addition, participants noted that the Committee's balanced approach to promoting its dual mandate of maximum employment and price stability had facilitated Committee policy actions aimed at supporting the labor market and economic activity even during times when the provision of accommodation was potentially associated with the risk of inflation running persistently above 2 percent. Participants further observed that such inflation risks—along with several of the other perceived risks of providing substantial accommodation through nontraditional policy tools, including possible adverse implications for financial stability—had not been realized. In particular, a number of participants commented that, as many of the potential costs of the Committee's asset purchases had failed to materialize, the Federal Reserve might have been able to make use of balance sheet tools even more aggressively over the past decade in providing appropriate levels of accommodation. However, several participants remarked that considerable uncertainties remained about the costs and efficacy of asset purchases, and a couple of participants suggested that, taking account of the uncertainties and the perceived constraints facing policymakers in the years following the recession, the Committee's decisions on the amount of policy accommodation to provide through asset purchases had been appropriate.

In their discussion of policy tools, participants noted that the experience acquired by the Committee with the use of forward guidance and asset purchases has led to an improved understanding of how these tools operate; as a result, the Committee could proceed more confidently and preemptively in using these tools in the future if economic circumstances warranted. Participants discussed the extent to which forward guidance and balance sheet actions could substitute for reductions in the policy rate when the policy rate is constrained by the ELB. Overall, participants judged that the Federal Reserve's ability to provide monetary policy accommodation at the ELB through the use of forward guidance and balance sheet tools, while helpful in mitigating the effects of the constraint on monetary policy arising from the lower bound, did not eliminate the risk of protracted periods in which the ELB hinders the conduct of policy. If policymakers are not able to provide sufficient accommodation at the ELB through the use of forward guidance or balance sheet actions, the constraints posed by the ELB could be an impediment to the attainment of the Federal Reserve's dual-mandate objectives over time and put at risk the anchoring of inflation expectations at the Committee's longer-run inflation objective.

Participants looked forward to a detailed discussion over coming meetings of alternative strategies for monetary policy. Some participants offered remarks on general features of some of the monetary policy strategies that they would be discussing and on the relationship between those strategies and the current framework. A few of the options mentioned were "makeup strategies," in which the realization of inflation below the 2 percent objective would give rise to policy actions designed to deliver inflation above the objective for a time. In principle, such makeup strategies could be designed to promote a 2 percent inflation rate, on average, over some period. In such circumstances, market expectations that the central bank would seek to "make up" inflation shortfalls following periods during which the ELB was binding could help ease overall financial conditions and thus help support economic activity during ELB episodes. However, many participants noted that the benefits of makeup strategies in supporting economic activity and stabilizing inflation depended heavily on the private sector's understanding of those strategies and confidence that future policymakers would take actions consistent with those strategies. A few participants suggested that an alternative means of delivering average inflation equal to the Committee's longer-run objective might involve aiming for inflation somewhat in excess of 2 percent when the policy rate was away from the ELB, recognizing that inflation would tend to move lower when the policy rate was constrained by the ELB. Another possibility might be for the Committee to express the inflation goal as a range centered on 2 percent and aim to achieve inflation outcomes in the upper end of the range in periods when resource utilization was high. A couple of participants noted that an adoption of a target range would be consistent with the practice of some other central banks. A few other participants suggested that the adoption of a range could convey a message that small deviations of inflation from 2 percent were unlikely to give rise to sizable policy responses. A couple of participants expressed concern that if policymakers regularly failed to respond appropriately to persistent, relatively small shortfalls of inflation below the 2 percent longer-run objective, inflation expectations and average observed inflation could drift below that objective…

Expectations for near-term domestic policy easing had occurred against the backdrop of a global shift toward more accommodative monetary policy. Several central banks had eased policy over the past month and a number of others shifted to an easing bias. Market participants were particularly attentive to a statement after the European Central Bank's Governing Council meeting that was perceived as affirming expectations for further easing and additional asset purchases. These changes to the policy outlook in the United States and across a number of countries appeared to play an important role in supporting financial conditions and offsetting some of the drag on growth from trade tensions and other risks…

Participants continued to view a sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. This outlook was predicated on financial conditions that were more accommodative than earlier this year. More accommodative financial conditions, in turn, partly reflected market reaction to the downward adjustment through the course of the year in the Committee's assessment of the appropriate path for the target range of the federal funds rate in light of weak global economic growth, trade policy uncertainty, and muted inflation pressures.

Participants generally noted that incoming data over the intermeeting period had been largely positive and that the economy had been resilient in the face of ongoing global developments. The economy continued to expand at a moderate pace, and participants generally expected GDP growth to slow a bit to around its estimated potential rate in the second half of the year. However, participants also observed that global economic growth had been disappointing, especially in China and the euro area, and that trade policy uncertainty, although waning some over the intermeeting period, remained elevated and looked likely to persist. Furthermore, inflation pressures continued to be muted, notwithstanding the firming in the overall and core PCE price indexes in the three months ending in June relative to earlier in the year.

In their discussion of the business sector, participants generally saw uncertainty surrounding trade policy and concerns about global growth as continuing to weigh on business confidence and firms' capital expenditure plans. Participants generally judged that the risks associated with trade uncertainty would remain a persistent headwind for the outlook, with a number of participants reporting that their business contacts were making decisions based on their view that uncertainties around trade were not likely to dissipate anytime soon. Some participants observed that trade uncertainties had receded somewhat, especially with the easing of trade tensions with Mexico and China. Several participants noted that, over the intermeeting period, business sentiment seemed to improve a bit and commented that the data for new capital goods orders had improved. Some participants expressed the view that the effects of trade uncertainty had so far been modest and referenced reports from business contacts in their Districts that investment plans were continuing, though with a more cautious posture…

In their discussion of the labor market, participants judged that conditions remained strong, with the unemployment rate near historical lows and continued solid job gains, on average, in recent months. Job gains in June were stronger than expected, following a weak reading in May. Looking ahead, participants expected the labor market to remain strong, with the pace of job gains slower than last year but above what is estimated to be necessary to hold labor utilization steady. Reports from business contacts pointed to continued strong labor demand, with many firms reporting difficulty finding workers to meet current demand. Several participants reported seeing notable wage pressures for lower-wage workers. However, participants viewed overall wage growth as broadly consistent with the modest average rates of labor productivity growth in recent years and, consequently, as not exerting much upward pressure on inflation. Several participants remarked that there seemed to be little sign of overheating in labor markets, citing the combination of muted inflation pressures and moderate wage growth.

Regarding inflation developments, some participants stressed that, even with the firming of readings for consumer prices in recent months, both overall and core PCE price inflation rates continued to run below the Committee's symmetric 2 percent objective; the latest reading on the 12-month change in the core PCE price index was 1.6 percent. Furthermore, continued weakness in global economic growth and ongoing trade tensions had the potential to slow U.S. economic activity and thus further delay a sustained return of inflation to the 2 percent objective. Many other participants, however, saw the recent inflation data as consistent with the view that the lower readings earlier this year were largely transitory, and noted that the trimmed mean measure of PCE price inflation constructed by the Federal Reserve

Bank of Dallas was running around 2 percent. A few participants noted differences in the behavior of measures of cyclical and acyclical components of inflation. By some estimates, the cyclical component of inflation continued to firm; the acyclical component, which appeared to be influenced by sectoral and technological changes, was largely responsible for the low level of inflation and not likely to respond much to monetary policy actions…

Participants generally judged that downside risks to the outlook for economic activity had diminished somewhat since their June meeting. The strong June employment report suggested that the weak May payroll figures were not a precursor to a more material slowdown in job growth. The agreement between the United States and China to resume negotiations appeared to ease trade tensions somewhat. In addition, many participants noted that the recent agreement on the federal debt ceiling and budget appropriations substantially reduced near-term fiscal policy uncertainty. Moreover, the possibility of favorable outcomes of trade negotiations could be a factor that would provide a boost to economic activity in the future. Still, important downside risks persisted. In particular, participants were mindful that trade tensions were far from settled and that trade uncertainties could intensify again. Continued weakness in global economic growth remained a significant downside risk, and some participants noted that the likelihood of a no-deal Brexit had increased…

In their discussion of monetary policy decisions at this meeting, those participants who favored a reduction in the target range for the federal funds rate pointed to three broad categories of reasons for supporting that action.

First, while the overall outlook remained favorable, there had been signs of deceleration in economic activity in recent quarters, particularly in business fixed investment and manufacturing. A pronounced slowing in economic growth in overseas economies—perhaps related in part to developments in, and uncertainties surrounding, international trade—appeared to be an important factor in this deceleration. More generally, such developments were among those that had led most participants over recent quarters to revise down their estimates of the policy rate path that would be appropriate to promote maximum employment and stable prices.

Second, a policy easing at this meeting would be a prudent step from a risk-management perspective. Despite some encouraging signs over the intermeeting period, many of the risks and uncertainties surrounding the economic outlook that had been a source of concern in June had remained elevated, particularly those associated with the global economic outlook and international trade. On this point, a number of participants observed that policy authorities in many foreign countries had only limited policy space to support aggregate demand should the downside risks to global economic growth be realized.

Third, there were concerns about the outlook for inflation. A number of participants observed that overall inflation had continued to run below the Committee's 2 percent objective, as had inflation for items other than food and energy. Several of these participants commented that the fact that wage pressures had remained only moderate despite the low unemployment rate could be a sign that the longer-run normal level of the unemployment rate is appreciably lower than often assumed. Participants discussed indicators for longer-term inflation expectations and inflation compensation. A number of them concluded that the modest increase in market-based measures of inflation compensation over the intermeeting period likely reflected market participants' expectation of more accommodative monetary policy in the near future; others observed that, while survey measures of inflation expectations were little changed from June, the level of expectations by at least some measures was low. Most participants judged that long-term inflation expectations either were already below the Committee's 2 percent goal or could decline below the level consistent with that goal should there be a continuation of the pattern of inflation coming in persistently below 2 percent.

A couple of participants indicated that they would have preferred a 50 basis point cut in the federal funds rate at this meeting rather than a 25 basis point reduction. They favored a stronger action to better address the stubbornly low inflation rates of the past several years, recognizing that the apparent low sensitivity of inflation to levels of resource utilization meant that a notably stronger real economy might be required to speed the return of inflation to the Committee's inflation objective.

Several participants favored maintaining the same target range at this meeting, judging that the real economy continued to be in a good place, bolstered by confident consumers, a strong job market, and a low rate of unemployment. These participants acknowledged that there were lingering risks and uncertainties about the global economy in general, and about international trade in particular, but they viewed those risks as having diminished over the intermeeting period. In addition, they viewed the news on inflation over the intermeeting period as consistent with their forecasts that inflation would move up to the Committee's 2 percent objective at an acceptable pace without an adjustment in policy at this meeting. Finally, a few participants expressed concerns that further monetary accommodation presented a risk to financial stability in certain sectors of the economy or that a reduction in the target range for the federal funds rate at this meeting could be misinterpreted as a negative signal about the state of the economy.

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Source: Federal Reserve Board