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Data Insights: FOMC Minutes

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December minutes: key signaling language Featured Important Very important

…Participants noted that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment had continued to recover but remained well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices had been holding down consumer price inflation. Overall financial conditions remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Participants agreed that the path of the economy would depend on the course of the virus and that the ongoing public health crisis would continue to weigh on economic activity, employment, and inflation in the near term and posed considerable risks to the economic outlook over the medium term.

Participants observed that the economy continued to show resilience in the face of the pandemic, though it was still far from having attained conditions consistent with the Committee's dual mandate. They noted that the economic recovery thus far had been stronger than anticipated—suggesting greater momentum in economic activity than had been previously thought—but viewed the more recent indicators as signaling that the pace of recovery had slowed. With the pandemic worsening across the country, the expansion was expected to slow even further in coming months. Nevertheless, the positive vaccine news received over the intermeeting period was viewed as favorable for the medium-term economic outlook.

Participants noted that household spending on goods, especially durables, had been strong. Participants commented that the rebound in consumer spending was due, in part, to fiscal programs such as federal stimulus payments and expanded unemployment benefits. These measures had provided essential support to many households. The support to incomes provided by fiscal programs, combined with reduced spending by households on some services, had contributed to a historically large increase in aggregate household savings. Participants also observed that residential investment and home sales remained robust. Accommodative monetary policy was viewed as having provided support to interest rate sensitive expenditure categories, including residential investment and consumer durables spending. Participants regarded the positive news on vaccine development as further strengthening the medium-term outlook for household spending. However, participants saw increased challenges for the economy in the coming months, as the ongoing surge of COVID-19 cases and the related mandatory and voluntary measures prompted greater social distancing and damped spending, especially on services requiring in-person contact. Several participants pointed out that readings on high-frequency economic indicators, such as individual mobility indexes and online restaurant reservation data, might already be registering the effects of the recent rise in virus cases. Various participants noted that low-income households were particularly hard hit by the effects of the resurgent virus, and that—with the looming expiration of the expanded unemployment benefits, eviction moratoria, and loan forbearance programs—their situations could deteriorate significantly if additional relief and support did not materialize.

With respect to the business sector, participants observed that business equipment investment had picked up further, with strong readings registered on new orders and shipments. A couple of participants remarked that the very low levels of inventories would likely be a factor supporting increases in production as demand continued to recover. Participants noted that the economic recovery had been uneven across firms and industries. Though many business contacts, particularly those in the durable goods or housing sectors, reported progress in adapting to the pandemic and improved business practices, others—especially those closely linked to the leisure, travel, and hospitality industries—were still struggling, and their problems were intensifying because of the resurgence of the virus. Furthermore, while larger firms were generally seen as recovering reasonably well, conditions remained worrisome for small businesses. A number of participants noted that many small businesses were in especially vulnerable positions and that further fiscal policy support would help such businesses weather the ongoing surge in the pandemic, especially over the coming months. Looking further ahead, participants observed that continuing positive developments on the vaccine front could further support business investment by helping reduce stresses in pandemic-sensitive industries and by boosting confidence.

Participants remarked that labor market conditions generally had continued to improve, but they were still a long way from those consistent with the Committee's maximum employment goal. Although the pace of employment gains had moderated in recent months, the overall recovery in employment thus far had been faster than anticipated, with a little more than half of the 22 million jobs lost over March and April having been regained. The unemployment rate had declined further, although several participants underlined the fact that the labor force participation rate remained below its pre-pandemic level—likely reflecting, in part, health concerns and additional childcare responsibilities associated with online schooling. Participants assessed that the ongoing surge in COVID-19 infections would be particularly challenging for the labor market in coming months, but they indicated that they expected employment to continue to recover over the medium term. Participants stressed that the burdens of the economic downturn had fallen unequally on different groups; in particular, high rates of job losses had been especially prevalent among lower-wage workers and among African Americans and Hispanics. Some participants expressed the concern that the longer the pandemic continued, the more lasting damage to the labor market there could be. They noted that the number of unemployed workers who had been permanently laid off had increased notably in recent months and that those workers historically often required a longer time to find a new job than those temporarily laid off. In light of these considerations, several participants assessed that improvements in the labor market were lagging that of economic activity, and they indicated that they had not revised their projections of labor market variables to the same extent as their revision of the outlook for economic activity.

In their comments about inflation, participants noted that increases in consumer prices had been soft of late, as prices of products in those categories most affected by social distancing—such as hotel accommodations and air travel—continued to be depressed and increases in rents remained low. These patterns were expected to continue in the near term as pandemic concerns intensified over the winter. However, participants generally saw these downward pressures on inflation starting to abate next year, with widespread distribution of vaccines reducing social-distancing concerns and spurring economic activity. A couple of participants suggested that, as a result of ongoing technology-enabled disruption to business models and practices or lasting pandemic-induced restraint on firms' pricing power, downward pressure on inflation could persist. Several participants noted a pickup in market-based measures of inflation compensation. Participants expected that, with continued monetary policy support, inflation would rise over time. In their SEP submissions, seven participants—five more than in the September SEP—expected overall inflation to be above the Committee's 2 percent longer-run objective in 2023.

. . . All participants supported enhancing the Committee's guidance on asset purchases at this meeting and, in particular, adopting qualitative, outcome-based guidance indicating that increases in asset holdings would continue, with purchases of Treasury securities of at least $80 billion per month and of agency MBS of at least $40 billion per month, until substantial further progress has been made toward reaching the Committee's maximum employment and price stability goals. In their discussions of this change, participants noted that the new guidance regarding balance sheet policy brought the statement's references to purchases into better alignment with the Committee's outcome-based guidance on the federal funds rate, offered more clarity about the role played by the asset purchase program in providing accommodation to meet the Committee's economic goals, and underscored the responsiveness of balance sheet policy to unanticipated economic developments. A few participants stressed that all of the Committee's policy tools were now well positioned to respond to the evolution of the economy. For example, if progress toward the Committee's goals proved slower than anticipated, the new guidance relayed the Committee's intention to respond by increasing monetary policy accommodation through maintaining the current level of the target range of the federal funds rate for longer and raising the expected path of the Federal Reserve's balance sheet. A couple of participants remarked that, against this background, it was important to convey to the public that the federal funds rate remained the Committee's primary policy tool.

A number of participants discussed considerations related to determining the eventual attainment of "substantial further progress" toward reaching the Committee's maximum employment and price stability goals. Participants commented that this judgment would be broad, qualitative, and not based on specific numerical criteria or thresholds. Various participants noted the importance of the Committee clearly communicating its assessment of actual and expected progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of purchases.

Regarding the decisions on the pace and composition of the Committee's asset purchases, all participants judged that it would be appropriate to continue those purchases at least at the current pace, and nearly all favored maintaining the current composition of purchases, although a couple of participants indicated that they were open to weighting purchases of Treasury securities toward longer maturities. Participants generally judged that the asset purchase program as structured was providing very significant policy accommodation. Some participants noted that the Committee could consider future adjustments to its asset purchases—such as increasing the pace of securities purchases or weighting purchases of Treasury securities toward those that had longer remaining maturities—if such adjustments were deemed appropriate to support the attainment of the Committee's objectives. A few participants underlined the importance of continuing to evaluate the balance of costs and risks associated with asset purchases against the benefits arising from purchases.

Participants shared their views on the appropriate evolution of asset purchases once substantial further progress had been made toward the Committee's maximum employment and price stability goals. A number of participants noted that, once such progress had been attained, a gradual tapering of purchases could begin and the process thereafter could generally follow a sequence similar to the one implemented during the large-scale purchase program in 2013 and 2014.

Source: Federal Reserve Board