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Data Insights: FOMC Minutes

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March minutes: key signaling language Featured Important Very important

…In their discussion following the Desk briefings, participants noted that the ON RRP facility had been very effective in establishing a firm floor for the federal funds rate and supporting monetary policy implementation. Participants commented that the facility would continue to be an important part of the monetary policy implementation framework going forward, particularly in coming months with reserve levels projected to rise rapidly. Participants broadly supported the proposed increase in the counterparty limit, and a few participants also noted that they would support removing the limit altogether. A few participants suggested that some type of dynamic or differential limit could be considered in the future to enable the ON RRP facility to adapt more readily to market developments. A few participants noted that the concerns at the time the facility was established about possible adverse effects of the ON RRP facility on financial stability and the structure of money markets had not materialized. Indeed, over the spring of 2020, the facility played an important role in helping stabilize money market conditions. In light of the potential for greater use of the ON RRP facility going forward in connection with the expansion of the Federal Reserve's balance sheet and associated downward pressure on overnight rates, a couple of participants noted that it might be useful to review lessons learned regarding the ON RRP facility since its inception.

Following the discussion, the Chair noted the potential for downward pressure on money market rates and suggested that, should undue downward pressure on overnight rates emerge, it might be appropriate to implement adjustments to administered rates at upcoming meetings or even between meetings to support effective policy implementation and ensure that the federal funds rate remains well within the target range.

…Incoming data on inflation were a little above what the staff had expected. The 12-month changes in total and core PCE prices were expected to transitorily move above 2 percent in coming months, as the low inflation readings from the spring of last year dropped out of the calculation window. In addition, inflation was forecast to be temporarily boosted this year by the expected emergence of some production bottlenecks and supply constraints. Following the transitory increase this year, inflation was projected to run a bit below 2 percent next year and then to reach 2 percent by 2023, reflecting tight resource utilization in product and labor markets.

The staff continued to see the uncertainty surrounding the outlook as elevated. Moreover, the uncertain course of the pandemic, particularly the emergence of more-contagious strains of the coronavirus in the United States and elsewhere, was still viewed as tilting the risks to the economic outlook to the downside. However, given the resilience of the economy in the face of the earlier surge in new COVID-19 cases, hospitalizations, and deaths and the magnitude of fiscal support enacted, the downside risks to the economic outlook were seen as smaller than for the previous projection. The staff viewed the risks of upside inflationary pressures as having increased since the previous forecast and now saw the risks to the inflation projection as balanced.

…Participants observed that the pace of the economic recovery had picked up recently and that the economy continued to show resilience in the face of the pandemic. They noted encouraging developments regarding the pandemic, including significant declines in the number of new cases, hospitalizations, and deaths over the intermeeting period as well as a pickup in the pace of vaccinations. In light of these developments as well as the extent of the recent fiscal policy support, participants significantly revised up their projections for real GDP growth this year compared with the projections they submitted last December. They noted, however, that economic activity and employment were currently well below levels consistent with maximum employment.

Participants observed that the economic downturn had not fallen equally on all Americans and that lower-income and Black and Hispanic households had been disproportionately affected by the pandemic. A number of participants stressed that recently enacted fiscal support would help address some of the hardships faced by these groups and that monetary policy would also help by promoting the economy's return to the Committee's goals of broad-based and inclusive maximum employment and price stability.

Participants observed that household spending had risen notably so far this year and anticipated that further gains in consumer spending would contribute significantly to the economic recovery. While household spending on services that typically require close personal contact remained weak, participants expected spending on these services would improve as vaccinations became more widespread, social-distancing measures were relaxed, and the public became less wary of close personal interactions. Participants anticipated consumer spending would be bolstered by the recently enacted fiscal stimulus packages as well as by accommodative monetary policy. Many participants also pointed to the elevated level of household savings and judged that the release of pent-up demand could boost consumption growth further as social distancing waned. Participants also observed that residential construction continued to be solid and home sales remained robust in part because of low interest rates. Low inventory was viewed as an important factor supporting strong gains in housing prices.

With respect to the business sector, participants observed that business equipment investment had continued to increase and that readings on new orders and shipments of capital goods remained strong. While some District contacts continued to report that firms in industries such as CRE or leisure, travel, and hospitality were struggling from pandemic-related social distancing, other District contacts reported that activity in these industries had started to improve. Participants noted that surveys of business activity had picked up recently and that many District contacts were growing increasingly optimistic about business prospects given ongoing progress on vaccinations. Participants also discussed reports of shortages in materials, key intermediate inputs, and labor as well as bottlenecks in shipping. A few participants noted that higher crop prices were continuing to boost income in the agricultural sector. Several participants judged that the support provided by the ARP could improve the financial positions of small firms that had been adversely affected by the pandemic.

Participants observed that labor market conditions had improved recently, as payroll employment registered strong gains in February and the unemployment rate fell to 6.2 percent. Even so, payroll employment was about 9.5 million jobs below its pre-pandemic level, and labor market conditions for those in the most disadvantaged communities were viewed as lagging behind those of other households. Moreover, participants noted that employment in the leisure and hospitality sector was still down substantially from its pre-pandemic level despite a sharp rebound in February. Participants generally expected strong job gains to continue over coming months and into the medium term, supported by accommodative fiscal and monetary policies as well as by continued progress on vaccinations, further reopening of sectors most affected by the pandemic, and the associated recovery in economic activity. However, participants noted that the economy was far from achieving the Committee's broad-based and inclusive goal of maximum employment. Some participants commented that labor force participation continued to be held down by workers' health concerns and additional childcare responsibilities associated with virtual schooling and that the pace of recovery in the labor market would depend importantly on how rapidly those affected by these issues could rejoin the labor force. Several participants noted that the speed of the labor market recovery also depended on factors such as the movement of workers across industries and occupations in a restructuring economy or the effects of technological change on the demand for labor. Several participants suggested that the ARP could hasten the recovery, which could help limit longer-term damage in labor markets caused by the pandemic.

Participants observed that headline PCE inflation continued to run below 2 percent. In the near term, the 12-month change in PCE prices was expected to move above 2 percent as the low inflation readings from the spring of last year drop out of the calculation. Most participants also pointed to supply constraints that could contribute to price increases for some goods in coming months as the economy continued to reopen. After the transitory effects of these factors fade, however, participants generally anticipated that annual inflation readings would edge down next year. Subsequently, participants expected that inflation would likely move along a trajectory consistent with achieving the Committee's objectives over time, supported by strong aggregate demand, which participants expected would be driven in part by accommodative monetary and fiscal policies.

Participants discussed market- and survey-based measures of longer-term inflation expectations and their implications for the inflation outlook. Market-based measures of inflation compensation at the 5- and 10-year horizons had continued to move up over the intermeeting period, while survey-based measures of inflation expectations were little changed on balance. A number of participants indicated that the increases in market-based measures of inflation compensation from the very low levels of last spring were consistent with the view that inflation was likely to move along a path over time consistent with the Committee's goals.

Participants noted that overall financial conditions remained highly accommodative, in part reflecting the stance of monetary policy. Participants commented on the notable rise in longer-term Treasury yields that occurred over the intermeeting period and generally viewed it as reflecting the improved economic outlook, some firming in inflation expectations, and expectations for increased Treasury debt issuance. Disorderly conditions in Treasury markets or a persistent rise in yields that could jeopardize progress toward the Committee's goals were seen as cause for concern. While overall financial conditions were still seen as accommodative, a number of participants remarked that financing conditions remained challenging for many small businesses. A couple of participants expressed concern that highly accommodative financial conditions could lead to excessive risk-taking and the buildup of financial imbalances.

While generally acknowledging that the medium-term outlook for real GDP growth and employment had improved, participants continued to see the uncertainty surrounding that outlook as elevated. Participants agreed that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations. Most participants indicated that the pandemic continued to pose considerable risks to the economic outlook, including risks associated with new more-contagious virus strains, obstacles in getting sufficient numbers of the public vaccinated, or social-distancing fatigue. A few participants pointed to risks associated with stress in the CRE sector or to risks associated with the unwinding of mortgage forbearance and eviction moratoriums provided to households. With regard to upside risks, some participants pointed to the possibility that fiscal policy could have a more expansionary effect than anticipated, that households could display a greater-than-expected willingness to spend out of accumulated savings, or that widespread vaccinations and easing of social distancing could result in a more rapid boost to spending and employment than anticipated.

Most participants noted that they viewed the risks to the outlook for inflation as broadly balanced. Several remarked that supply disruptions and strong demand could push up price inflation more than anticipated. Several participants commented that the factors that had contributed to low inflation during the previous expansion could again exert more downward pressure on inflation than expected.

In their consideration of the stance of monetary policy, participants reaffirmed the Federal Reserve's commitment to using its full range of tools to support the U.S. economy during this challenging time, thereby promoting the Committee's statutory goals of maximum employment and price stability. Participants noted that indicators of economic activity and employment had turned up recently after a period of moderation, although the sectors most adversely affected by the pandemic remained weak. Despite these positive indicators and an improved public health situation, participants agreed that the economy remained far from the Committee's longer-run goals and that the path ahead remained highly uncertain, with the pandemic continuing to pose considerable risks to the outlook. Consequently, participants judged that the current stance of policy and policy guidance remained appropriate to foster further economic recovery as well as to achieve inflation that averages 2 percent over time and longer-term inflation expectations that remain well anchored at 2 percent.

Participants judged that the Committee's current guidance for the federal funds rate and asset purchases was serving the economy well. They noted that a benefit of the outcome-based guidance was that it did not need to be recalibrated often in response to incoming data or the evolving outlook. Participants also noted the importance of communicating to the public that the existing guidance, together with the new monetary policy framework as delineated in the revised Statement on Longer-Run Goals and Monetary Policy Strategy, meant that the path of the federal funds rate and the balance sheet depend on actual progress toward reaching the Committee's maximum-employment and inflation goals. In particular, various participants noted that changes in the path of policy should be based primarily on observed outcomes rather than forecasts…

Source: Federal Reserve Board