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Data Insights: FOMC Minutes

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April minutes: key signaling language Featured Important Very important

...In their discussion of current conditions, participants noted that the COVID-19 pandemic was causing tremendous human and economic hardship across the United States and around the world. Amid progress on vaccinations and strong policy support, indicators of economic activity and employment had strengthened. The sectors most adversely affected by the pandemic remained weak but had shown improvement. Inflation had risen, largely reflecting transitory factors. 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 noted that the path of the economy would depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continued to weigh on the economy, and risks to the economic outlook remained.

Participants observed that economic activity had picked up sharply this year, with robust gains in consumer spending, housing-sector activity, business equipment investment, and manufacturing production. They noted that the acceleration in economic activity reflected positive developments associated with the rapid pace of vaccinations as well as continued support from fiscal and monetary policies. Nevertheless, participants generally noted that the economy remained far from the Committee's maximum-employment and price-stability goals.

In their discussion of the household sector, participants remarked that indicators of consumer spending surged in March and expected that further gains in spending would contribute significantly to the economic recovery. Many participants commented that fiscal stimulus, accommodative financial conditions, the release of pent-up demand, progress on widespread vaccination, and the ongoing reduction of social-distancing measures were important factors supporting spending. Many participants also noted that consumer spending would continue to be bolstered by these factors as well as by the elevated level of accumulated household savings. Several participants observed that housing market activity continued to be strong, supported in part by low interest rates.

With respect to the business sector, participants noted that business equipment investment continued to rise at a robust pace and manufacturing activity was expanding at a strong clip. That said, many participants discussed reports of shortages of materials and labor as well as supply chain bottlenecks as likely restraints to the pace of recovery in manufacturing and other business sectors. Many participants also noted that their District contacts had reported a pickup in activity in the leisure, travel, and hospitality sectors. Those contacts had grown increasingly optimistic about overall business conditions, given ongoing progress on vaccinations, easing of restrictions on in-person activities, and substantial fiscal support. A couple of participants reported improved conditions in the agricultural sector, with farmers' income supported by higher crop prices and federal aid payments.

Participants commented on the continued improvement in labor market conditions in recent months. Job gains in the March employment report were strong, and the unemployment rate fell to 6.0 percent. Even so, participants judged that the economy was far from achieving the Committee's broad-based and inclusive maximum-employment goal. Payroll employment was 8.4 million jobs below its pre-pandemic level. Some participants noted that the labor market recovery continued to be uneven across demographic and income groups and across sectors. Many participants also remarked that business contacts in their Districts reported having trouble hiring workers, likely reflecting factors such as early retirements, health concerns, childcare responsibilities, and expanded unemployment insurance benefits. Many participants noted as well that these factors were depressing the labor force participation rate, relative to its pre-pandemic level. Some of these factors were seen as likely to remain significant while pandemic-related risks persisted. Based on reports from business contacts, some participants noted that the step-up in demand for labor had started to put some upward pressure on wages. Moreover, over the medium term, participants expected labor market conditions to continue to improve, supported by accommodative fiscal and monetary policies as well as continued progress on vaccinations, unwinding of social distancing, and the associated recovery in economic activity. A couple of participants remarked that businesses in industries severely affected by the pandemic were downsizing or that some businesses were focused on cutting costs or increasing productivity, particularly through automation.

In their comments about inflation, participants anticipated that inflation as measured by the 12-month change of the PCE price index would move above 2 percent in the near term as very low readings from early in the pandemic fall out of the calculation. In addition, increases in oil prices were expected to pass through to consumer energy prices. Participants also noted that the expected surge in demand as the economy reopens further, along with some transitory supply chain bottlenecks, would contribute to PCE price inflation temporarily running somewhat above 2 percent. After the transitory effects of these factors fade, participants generally expected measured inflation to ease. Looking further ahead, participants expected inflation to be at levels consistent with achieving the Committee's objectives over time. A number of participants remarked that supply chain bottlenecks and input shortages may not be resolved quickly and, if so, these factors could put upward pressure on prices beyond this year. They noted that in some industries, supply chain disruptions appeared to be more persistent than originally anticipated and reportedly had led to higher input costs. Despite the expected short-run fluctuations in measured inflation, many participants commented that various measures of longer-term inflation expectations remained well anchored at levels broadly consistent with achieving the Committee's longer-run goals.

Participants judged that uncertainty was elevated and that the outlook was highly dependent on the course of the virus. Amid considerable progress on vaccinations, the unwinding of social distancing, and strong policy support, participants assessed that risks to the outlook were no longer as elevated as in previous months. Nevertheless, some participants remarked that the pandemic continued to pose downside risks to the economic outlook and noted the potential for an uneven recovery in light of new virus strains and potential hesitancy regarding vaccination. As upside risks, some participants mentioned that the release of pent-up demand, accumulated excess household savings, and rapid progress on vaccinations, amid continued fiscal and monetary support, could boost economic activity and bring individuals back into the labor force more quickly than currently expected. Some participants mentioned upside risks around the inflation outlook that could arise if temporary factors influencing inflation turned out to be more persistent than expected.

Participants who commented on financial stability agreed that the financial sector had shown resilience during the pandemic, in large part reflecting strong policy support. Some remarked that the capital positions and loan loss reserves at large banks remained high, and earnings were strong. A few participants noted that vulnerabilities from both business and household debt were at a moderate level. Nevertheless, a couple of participants highlighted that forbearance programs instituted in response to the pandemic could be masking vulnerabilities among households and businesses. Regarding asset valuations, several participants noted that risk appetite in capital markets was elevated, as equity valuations had risen further, IPO activity remained high, and risk spreads on corporate bonds were at the bottom of their historical distribution. A couple of participants remarked that, should investor risk appetite fall, an associated drop in asset prices coupled with high business and financial leverage could have adverse implications for the real economy. A number of participants commented on valuation pressures being somewhat elevated in the housing market. Some participants mentioned the potential risks to the financial system stemming from the activities of hedge funds and other leveraged investors, commenting on the limited visibility into the activities of these entities or on the prudential risk-management practices of dealers' prime-brokerage businesses. Some participants highlighted potential vulnerabilities in other parts of the financial system, including run-prone investment funds in short-term funding and credit markets. Various participants commented on the prolonged period of low interest rates and highly accommodative financial market conditions and the possibility for these conditions to lead to reach-for-yield behavior that could raise financial stability risks.

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 agreed that the economy was still far from the Committee's longer-run goals. Moreover, the path ahead continued to depend on the course of the virus, and risks to the economic outlook remained. 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 continue to be 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. Participants also noted that the existing outcome-based guidance implied that the path of the federal funds rate and the balance sheet would depend on actual progress toward reaching the Committee's maximum-employment and inflation goals. In particular, some participants emphasized that an important feature of the outcome-based guidance was that policy would be set based on observed progress toward the Committee's goals, not on uncertain economic forecasts. However, a couple of participants commented on the risks of inflation pressures building up to unwelcome levels before they become sufficiently evident to induce a policy reaction.

In their discussion of the Federal Reserve's asset purchases, various participants noted that it would likely be some time until the economy had made substantial further progress toward the Committee's maximum-employment and price-stability goals relative to the conditions prevailing in December 2020 when the Committee first provided its guidance for asset purchases. Consistent with the Committee's outcome-based guidance, purchases would continue at least at the current pace until that time. Many participants highlighted the importance of the Committee clearly communicating its assessment of 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 asset purchases. The timing of such communications would depend on the evolution of the economy and the pace of progress toward the Committee's goals. A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases.

Source: Federal Reserve Board