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Data Insights: FOMC Minutes

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June minutes: key signaling language Featured Important Very important

…Participants resumed their discussion from the April 2021 FOMC meeting of considerations related to the establishment of a domestic standing repurchase agreement (repo) facility (SRF) and a standing Foreign International Monetary Authorities (FIMA) repo facility. Building on discussion at previous meetings, the staff presented considerations for how these facilities might be designed. The design considerations were guided by participants' general desire to have these facilities play a backstop role in fostering effective implementation of monetary policy and supporting smooth functioning of markets. In April, participants highlighted the importance of designing these facilities in a way that would leave ample room for private market activity while minimizing the potential for stigma, promote equitable access to an appropriately broad set of counterparties, and be governed by the FOMC. With these principles and goals in mind, the staff presented potential terms for each facility…

In their discussion of considerations related to the design of a domestic SRF, a substantial majority restated their view, conveyed at the April 2021 meeting, that the potential benefits of such a facility outweighed the potential costs…

… The median respondent to the Desk's surveys of primary dealers and market participants continued to expect the pace of Federal Reserve asset purchases to begin to decline in the first quarter of 2022, although most respondents also saw a reasonable chance that this decline could occur one quarter earlier or later. The median respondent expected purchases to end in the fourth quarter of 2022.

…In their discussion of current conditions, participants noted that progress on vaccinations had reduced the spread of COVID-19 in the United States. Amid this progress 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 generally noted that the path of the economy would depend significantly on the course of the virus. Progress on vaccinations would likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remained.

Participants observed that economic activity was expanding at a historically rapid pace, led by robust gains in consumer spending. A vast majority of participants revised up their projections for real GDP growth this year compared with the projections they had submitted in March, citing stronger consumer demand and improvements in vaccination rates as the primary reasons for these upgrades. That said, participants generally saw supply disruptions and labor shortages as constraining the expansion of economic activity this year. Participants' projections of real GDP growth in 2022 and 2023 were generally little changed.

…With respect to the business sector, most participants noted that activity in the service industries most adversely affected by the pandemic, such as in the leisure and hospitality sector, was rebounding as the economy reopened. A number of participants noted that business equipment investment was rising at a strong pace, but growth in manufacturing activity was being restrained by production bottlenecks and supply constraints. In addition, participants reported hearing from contacts in a broad range of industries that shortages of materials and labor as well as supply chain challenges were limiting the ability of firms to keep up with demand. Some business contacts indicated that they were responding to input shortages and bottlenecks by canceling shifts, raising compensation to attract and retain workers, raising prices, or focusing on cutting costs and increasing productivity, particularly through automation.

Participants commented on the continued improvement in labor market conditions in recent months. Job gains in April and May averaged more than 400,000, and the unemployment rate edged down, on net, to 5.8 percent over the period. Many participants pointed to the elevated number of job openings and high rates of job switching as further evidence of the improvement in labor market conditions. Many participants remarked, however, that the economy was still far from achieving the Committee's broad-based and inclusive maximum-employment goal, and some participants indicated that recent job gains, while strong, were weaker than they had expected. A number of participants noted that the labor market recovery continued to be uneven across demographic and income groups and across sectors.

Participants noted that their District contacts had reported having trouble hiring workers to meet demand, likely reflecting factors such as early retirements, concerns about the virus, childcare responsibilities, and expanded unemployment insurance benefits. Some participants remarked that these factors were making people either less able or less inclined to work in the current environment. Citing recent wage data and reports from business contacts, many participants judged that labor shortages were putting upward pressure on wages or leading employers to provide additional financial incentives to attract and retain workers, particularly in lower-wage occupations. Participants expected labor market conditions to continue to improve, with labor shortages expected to ease throughout the summer and into the fall as progress on vaccinations continues, social distancing unwinds further, more schools reopen, and expanded unemployment insurance benefits expire.

In their discussions on inflation, participants stated that they had expected inflation to move above 2 percent in the near term, in part as the drop in prices from early in the pandemic fell out of the calculation and past increases in oil prices passed through to consumer energy prices. However, participants remarked that the actual rise in inflation was larger than anticipated, with the 12-month change in the PCE price index reaching 3.6 percent in April. Participants attributed the upside surprise to more widespread supply constraints in product and labor markets than they had anticipated and to a larger-than-expected surge in consumer demand as the economy reopened. They noted that many of their District contacts had reported that higher input costs were putting upward pressure on prices. Most participants observed that the largest contributors to the rise in measured inflation were sectors affected by supply bottlenecks or sectors where price levels were rebounding from levels depressed by the pandemic. Looking ahead, participants generally expected inflation to ease as the effect of these transitory factors dissipated, but several participants remarked that they anticipated that supply chain limitations and input shortages would put upward pressure on prices into next year. Several participants noted that, during the early months of the reopening, uncertainty remained too high to accurately assess how long inflation pressures will be sustained. Some participants commented that recent readings of inflation measures that exclude volatile components, such as trimmed mean measures, had been relatively stable at or just below 2 percent. In their comments on longer-term inflation expectations, a number of participants noted that, despite increases earlier this year, measures of longer-term inflation expectations had remained in ranges that were broadly consistent with the Committee's longer-run inflation goal. Others noted that it was this year's increases that had brought these measures to levels that were broadly consistent with the Committee's longer-run inflation goal.

Participants noted that overall financial conditions remained highly accommodative, in part reflecting the stance of monetary policy, which continued to deliver appropriate support to the economy. Several participants highlighted, however, that low interest rates were contributing to elevated house prices and that valuation pressures in housing markets might pose financial stability risks.

In discussing the uncertainty and risks associated with the economic outlook, participants commented that the process of reopening the economy was unprecedented and likely to be uneven across sectors. Some participants judged that supply chain disruptions and labor shortages complicated the task of assessing progress toward the Committee's goals and that the speed at which these factors would dissipate was uncertain. Accordingly, participants judged that uncertainty around their economic projections was elevated. Although they generally saw the risks to the outlook for economic activity as broadly balanced, a substantial majority of participants judged that the risks to their inflation projections were tilted to the upside because of concerns that supply disruptions and labor shortages might linger for longer and might have larger or more persistent effects on prices and wages than they currently assumed. Several participants expressed concern that longer-term inflation expectations might rise to inappropriate levels if elevated inflation readings persisted. Several other participants cautioned that downside risks to inflation remained because temporary price pressures might unwind faster than currently anticipated and because the forces that held down inflation and inflation expectations during the previous economic expansion had not gone away or might reinforce the effect of the unwinding of temporary price pressures.

. . . Participants discussed the Federal Reserve's asset purchases and progress toward the Committee's goals since last December when the Committee adopted its guidance for asset purchases. The Committee's standard of "substantial further progress" was generally seen as not having yet been met, though participants expected progress to continue. Various participants mentioned that they expected the conditions for beginning to reduce the pace of asset purchases to be met somewhat earlier than they had anticipated at previous meetings in light of incoming data. Some participants saw the incoming data as providing a less clear signal about the underlying economic momentum and judged that the Committee would have information in coming months to make a better assessment of the path of the labor market and inflation. As a result, several of these participants emphasized that the Committee should be patient in assessing progress toward its goals and in announcing changes to its plans for asset purchases. Participants generally judged that, as a matter of prudent planning, it was important to be well positioned to reduce the pace of asset purchases, if appropriate, in response to unexpected economic developments, including faster-than-anticipated progress toward the Committee's goals or the emergence of risks that could impede the attainment of the Committee's goals.

Various participants offered their views on the Committee's agency MBS purchases. Several participants saw benefits to reducing the pace of these purchases more quickly or earlier than Treasury purchases in light of valuation pressures in housing markets. Several other participants, however, commented that reducing the pace of Treasury and MBS purchases commensurately was preferable because this approach would be well aligned with the Committee's previous communications or because purchases of Treasury securities and MBS both provide accommodation through their influence on broader financial conditions. In coming meetings, participants agreed to continue assessing the economy's progress toward the Committee's goals and to begin to discuss their plans for adjusting the path and composition of asset purchases. In addition, participants reiterated their intention to provide notice well in advance of an announcement to reduce the pace of purchases.

With regard to the implementation of monetary policy, participants had observed downward pressure on money market rates over the intermeeting period and viewed the possibility of further downward pressure on these rates in the near term as likely. Consequently, they noted that an adjustment to the Federal Reserve's administered rates would help keep the federal funds rate well within the target range and support smooth market functioning of short-term funding markets. Participants agreed that this technical adjustment had no bearing on the appropriate path for the federal funds rate or the stance of monetary policy.

Source: Federal Reserve Board