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# Data Insights: FOMC Minutes

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June minutes: key signaling language Featured Important Very important

…In their discussion of current economic conditions, participants noted that overall economic activity appeared to have picked up after edging down in the first quarter. Job gains had been robust in recent months, and the unemployment rate had remained low. Inflation remained elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. Participants recognized that the invasion of Ukraine by Russia was causing tremendous human and economic hardship for the Ukrainian people. Participants judged that the invasion and related events were creating additional upward pressure on inflation and were weighing on global economic activity. In addition, participants indicated that COVID-related lockdowns in China were likely to exacerbate supply chain disruptions. Against this background, participants stated that they were highly attentive to inflation risks.

With regard to the economic outlook, participants noted that recent indicators suggested that real GDP growth was expanding in the current quarter, with consumption spending remaining strong. Participants generally judged that growth in business fixed investment appeared to be slowing, and activity in the housing sector appeared to be softening, in part as a result of a sharp rise in mortgage rates. Correspondingly, participants indicated that they had revised down their projections of real GDP growth for this year, consistent with ongoing supply chain disruptions and tighter financial conditions. Participants noted that the imbalance between supply and demand across a wide range of product markets was contributing to upward pressure on inflation. They saw an appropriate firming of monetary policy and associated tighter financial conditions as playing a central role in helping address this imbalance and in supporting the Federal Reserve's goals of maximum employment and price stability. An easing of supply bottlenecks, a further rise in labor force participation, and the waning effects of pandemic-related fiscal policy support were cited as additional factors that could help reduce the supply–demand imbalances in the economy and therefore lower inflation over the next few years. That said, the timing and magnitude of these effects were uncertain. Participants saw little evidence to date of a substantial improvement in supply constraints, and some of them judged that the economic effects of these constraints were likely to persist longer than they had previously anticipated. Participants stressed the need to adjust the stance of policy in response to incoming information regarding the evolution of these and other factors.

In their discussion of the household sector, participants indicated that consumption spending had remained robust, in part reflecting strong balance sheets in the household sector and a tight labor market. Several participants noted that household spending patterns appeared to be shifting away from goods to services. Several participants indicated that some of their contacts reported that the pace of consumer spending, though strong, was beginning to moderate. One reason cited for this moderation was that the purchasing power of households was being reduced by higher prices for food, energy, and other essentials. Participants generally expected higher mortgage interest rates to contribute to further declines in home sales, and a couple of participants noted that housing activity in their Districts had begun to slow noticeably. Against the backdrop of rising borrowing costs and higher gasoline and food prices, a couple of participants commented that consumer sentiment had dropped notably in June, according to the preliminary reading in the Michigan survey.

With respect to the business sector, participants observed that their contacts generally reported that sales remained strong, although some contacts indicated that sales had begun to slow and that they had become less optimistic about the outlook. In many industries, the ability of firms to meet demand continued to be limited by labor shortages and supply chain bottlenecks. Firms relying on international sources for their inputs were seen as encountering particularly acute supply chain disruptions. Supply constraints, labor shortages, and rising input costs were also reportedly limiting energy and agricultural producers' ability to take advantage of the higher prices of their products by investing and expanding their production capacity. Similarly, a few participants noted that, in other sectors of the economy, their contacts reported that they were postponing investment or construction projects because of rising input and financing costs. With supply challenges still widespread, contacts continued to assess that supply constraints overall were significant, and many of them judged that these constraints were likely to persist for some time.

Participants noted that the demand for labor continued to outstrip available supply across many parts of the economy. They observed that various indicators pointed to a very tight labor market. These indicators included an unemployment rate near a 50-year low, job vacancies at historical highs, and elevated nominal wage growth. Additionally, most business contacts had continued to report persistent wage pressures as well as difficulties in hiring and retaining workers. However, some contacts reported that, because of previous wage hikes, hiring and retention had improved and pressure for additional wage increases appeared to be receding.

Employment growth, while moderating somewhat from its pace earlier in the year, had remained robust. Several participants observed that labor force participation remained below its pre-pandemic level because of the unusually large number of retirements during the pandemic and judged that the labor force participation rate was unlikely to move up considerably in the near term. A couple of participants raised the possibility that tight labor markets would spur investment in automation by firms, boosting labor productivity.

While labor markets were anticipated to remain tight in the near term, participants expected labor demand and supply to come into better balance over time, helping to ease upward pressure on wages and prices. As in the case of product markets, they anticipated that an appropriate firming of monetary policy would play a central role in helping address imbalances in the labor market. With the tightness in labor markets anticipated to diminish over time, participants generally expected the unemployment rate to increase, as the median projection of the unemployment rate in the June SEP showed a gradual rise over the next few years, reaching 4.1 percent in 2024. In light of the very high level of job vacancies, a number of participants judged that the expected moderation in labor demand relative to supply might primarily affect vacancies and have a less significant effect on the unemployment rate.

Participants noted that inflation remained much too high and observed that it continued to run well above the Committee's longer-run 2 percent objective, with total PCE prices having risen 6.3 percent over the 12 months ending in April. They also observed that the 12-month change in the CPI in May came in above expectations. Participants were concerned that the May CPI release indicated that inflation pressures had yet to show signs of abating, and a number of them saw it as solidifying the view that inflation would be more persistent than they had previously anticipated. They commented on the hardship caused by elevated inflation, with low- and moderate-income households especially affected. These households had to spend more of their budgets on essentials such as food, energy, and housing and were less able to bear the rapidly rising costs of these essentials. In that context, some participants noted that their contacts had reported that low- and moderate-income consumers were shifting purchases to lower-cost goods. Participants also stressed that persistently high inflation would impede the achievement of maximum employment on a sustained basis.

Participants judged that strong aggregate demand, together with supply constraints that had been larger and longer lasting than expected, continued to contribute to price pressures across a broad array of goods and services. They noted that the surge in prices of oil and other commodities associated with Russia's invasion of Ukraine was boosting gasoline and food prices and putting additional upward pressure on inflation. Participants commented on the global nature of inflation pressures, and a few of them added that many foreign central banks were also firming the stance of monetary policy. Several participants judged that a shift in spending from goods to services was likely to be associated with less upward pressure on prices in the goods sector, but also an intensification of upward pressure on prices in the services sector. Participants had revised up their PCE inflation projections for 2022 in their June SEP submissions, largely in response to higher-than-expected inflation readings and the slower anticipated resolution of supply constraints. They expected that the appropriate firming of monetary policy and an eventual easing of supply and demand imbalances would bring inflation back down to levels roughly consistent with the Committee's longer-run objectives by 2024 and keep longer-term inflation expectations well anchored.

Participants observed that some measures of inflation expectations had moved up recently, including the staff index of common inflation expectations and the expectations of inflation over the next 5 to 10 years provided in the Michigan survey. With respect to market-based measures, however, a few participants noted that medium-term measures of inflation compensation fell over the intermeeting period and longer-term measures were unchanged. While measures of longer-term inflation expectations derived from surveys of households, professional forecasters, and market participants were generally judged to be broadly consistent with the Committee's longer-run 2 percent inflation objective, many participants raised the concern that longer-run inflation expectations could be beginning to drift up to levels inconsistent with the 2 percent objective. These participants noted that, if inflation expectations were to become unanchored, it would be more costly to bring inflation back down to the Committee's objective.

In their discussion of risks, participants emphasized that they were highly attentive to inflation risks and were closely monitoring developments regarding both inflation and inflation expectations. Most agreed that risks to inflation were skewed to the upside and cited several such risks, including those associated with ongoing supply bottlenecks and rising energy and commodity prices. Participants judged that uncertainty about economic growth over the next couple of years was elevated. In that context, a couple of them noted that GDP and gross domestic income had been giving conflicting signals recently regarding the pace of economic growth, making it challenging to determine the economy's underlying momentum. Most participants assessed that the risks to the outlook for economic growth were skewed to the downside. Downside risks included the possibility that a further tightening in financial conditions would have a larger negative effect on economic activity than anticipated as well as the possibilities that the Russian invasion of Ukraine and the COVID-related lockdowns in China would have larger-than-expected effects on economic growth.

In their consideration of the appropriate stance of monetary policy, participants concurred that the labor market was very tight, inflation was well above the Committee's 2 percent inflation objective, and the near-term inflation outlook had deteriorated since the time of the May meeting. Against this backdrop, almost all participants agreed that it was appropriate to raise the target range for the federal funds rate 75 basis points at this meeting. One participant favored a 50 basis point increase in the target range at this meeting instead of 75 basis points. All participants judged that it was appropriate to continue the process of reducing the size of the Federal Reserve's balance sheet, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that the Committee issued in May. In light of elevated inflation pressures and signs of deterioration in some measures of inflation expectations, all participants reaffirmed their strong commitment to returning inflation to the Committee's 2 percent objective. Participants observed that a return of inflation to the 2 percent objective was necessary for creating conditions conducive to a sustainably strong labor market over time.

In discussing potential policy actions at upcoming meetings, participants continued to anticipate that ongoing increases in the target range for the federal funds rate would be appropriate to achieve the Committee's objectives. In particular, participants judged that an increase of 50 or 75 basis points would likely be appropriate at the next meeting. Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist.

Participants noted that, with the federal funds rate expected to be near or above estimates of its longer-run level later this year, the Committee would then be well positioned to determine the appropriate pace of further policy firming and the extent to which economic developments warranted policy adjustments. They also remarked that the pace of rate increases and the extent of future policy tightening would depend on the incoming data and the evolving outlook for the economy. Many participants noted that the Committee's credibility with regard to bringing inflation back to the 2 percent objective, together with previous communications, had been helpful in shifting market expectations of future policy and had already contributed to a notable tightening of financial conditions that would likely help reduce inflation pressures by restraining aggregate demand. Participants recognized that ongoing policy firming would be appropriate if economic conditions evolved as expected.

At the current juncture, with inflation remaining well above the Committee's objective, participants remarked that moving to a restrictive stance of policy was required to meet the Committee's legislative mandate to promote maximum employment and price stability. In addition, such a stance would be appropriate from a risk management perspective because it would put the Committee in a better position to implement more restrictive policy if inflation came in higher than expected. Many participants judged that a significant risk now facing the Committee was that elevated inflation could become entrenched if the public began to question the resolve of the Committee to adjust the stance of policy as warranted. On this matter, participants stressed that appropriate firming of monetary policy, together with clear and effective communications, would be essential in restoring price stability.

Participants remarked that developments associated with Russia's invasion of Ukraine, the COVID-related lockdowns in China, and other factors restraining supply conditions would affect the inflation outlook and that it would likely take some time for inflation to move down to the Committee's 2 percent objective. Participants also judged that maintaining a strong labor market during the process of bringing inflation down to 2 percent would depend on many factors affecting demand and supply. Participants recognized that policy firming could slow the pace of economic growth for a time, but they saw the return of inflation to 2 percent as critical to achieving maximum employment on a sustained basis…

…Voting against this action: Esther L. George.

…President George dissented because she judged that a large increase in the target range for the federal funds rate would add to uncertainty about policy concurrent with the beginning of balance sheet runoff in ways that could unsettle households and businesses and could also adversely affect the ability of small banks to meet the credit needs of their communities.

Source: Federal Reserve Board