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Data Insights: FOMC Minutes

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November minutes: key signaling language Featured Important Very important

The Chair began with a discussion of ethical standards and acknowledged the great privilege and heavy responsibility that come with being entrusted to make policy decisions. There was agreement that the Federal Reserve can be effective only when there is a foundation of public trust. Participants reaffirmed the importance of holding themselves and their staffs accountable for knowing and following the high ethical standards that are set in the Committee's policies, including those on financial transactions and disclosure and on external communications…

… volatility in international financial markets contributed to volatility in U.S. core fixed-income markets. In markets for U.S. Treasury securities, some measures of market-implied volatility approached pandemic-era levels. Spreads of yields on agency mortgage-backed securities (MBS) over yields on Treasury securities widened sharply, reflecting the sensitivity of these spreads to increased volatility. The increased volatility appeared to contribute to a decline in measures of market liquidity in core fixed-income markets, in particular around the period associated with U.K. volatility, but market functioning remained orderly…

…Foreign asset prices were volatile over the intermeeting period as investors grappled with the combination of a deteriorating global growth outlook and synchronous policy tightening undertaken by major central banks in response to high inflation. Fiscal and political developments in the United Kingdom added to market volatility but left little net imprint. On balance, sovereign bond yields in most advanced foreign economies rose modestly and equity prices were mixed. The U.S. dollar appreciated against most major currencies, driven by widening yield differentials between the United States and the rest of the world and further deterioration of the foreign growth outlook. The Japanese yen weakened against the dollar, on net, even though Japanese authorities intervened to support the yen. The

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…In their discussion of current economic conditions, participants noted that recent indicators pointed to modest growth of spending and production. Nonetheless, 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 food and energy prices, and broader price pressures. Participants recognized that Russia's war against Ukraine was causing tremendous human and economic hardship. The war and related events were creating additional upward pressure on inflation and were weighing on global economic activity. Against this background, participants continued to be highly attentive to inflation risks.

With regard to current economic activity and the near-term outlook, participants observed that although real GDP rebounded in the third quarter, recent data suggested that economic activity in the near term appeared likely to expand at a pace below its trend growth rate. Participants noted a softening in consumer and business spending growth, and some participants remarked that there had been a notable slowing in interest rate-sensitive sectors, particularly housing, in response to the tightening of financial conditions associated with the Committee's policy actions. With inflation remaining far too high and showing few signs of moderating, participants observed that a period of below-trend real GDP growth would be helpful in bringing aggregate supply and aggregate demand into better balance, reducing inflationary pressures, and setting the stage for the sustained achievement of the Committee's objectives of maximum employment and price stability.

...Participants observed that the labor market had remained very tight, with the unemployment rate near a historically low level, the number of job vacancies very high, a low pace of layoffs, robust employment gains, and elevated nominal wage growth. Some participants remarked that employers in certain sectors, such as health care, leisure and hospitality, or construction, faced particularly acute labor shortages and that these shortages were contributing to especially strong wage pressures in those sectors. Participants commented on the labor market having remained strong to date, even alongside the slowing in economic activity. A number of participants remarked that some businesses were keen to retain workers after their recent experiences of labor shortages and hiring challenges. These participants noted that this consideration had limited layoffs even as the broader economy had softened or that this behavior could limit layoffs if aggregate economic activity were to soften

further. Nevertheless, many participants noted tentative signs that the labor market might be moving slowly toward a better balance of supply and demand; these signs included a lower rate of job turnover and a moderation in nominal wage growth. Participants anticipated that imbalances in the labor market would gradually diminish and that the unemployment rate would likely rise somewhat from its current very low level, while vacancies would likely fall…

Participants remarked that, overall, measures of medium- and longer-term inflation expectations obtained from surveys of households and businesses as well as from financial markets quotes appeared to have remained well anchored. A couple of participants observed that longer-term inflation expectations were stable even as measures of near-term inflation expectations responded to realized inflation in line with historical patterns. Participants noted that longer-term inflation expectations were an important influence on inflation's behavior and stressed that the Committee's ongoing monetary policy tightening would be essential for ensuring that these expectations remained well anchored. Several participants expressed the concern that the longer inflation remained well above the 2 percent goal, the greater the risk that longer-term inflation expectations could become unanchored. Such a development, if it materialized, would make it much more costly to bring inflation down and to achieve the Committee's statutory objectives of maximum employment and price stability. A couple of participants discussed the high dispersion of longer-term inflation expectations across respondents in various surveys: These participants noted that the higher dispersion may signal increased uncertainty about the inflation outlook and was a reason not to be complacent about longer-term inflation expectations remaining well anchored.

Participants discussed the length of the lags in the response of the economy to monetary policy actions, taking into account historical experience and the various estimates of timing relationships provided in economic research, as well as the high degree of uncertainty involved in applying the evidence on lags to the current situation. They noted that monetary policy tightening typically produced rapid effects on financial conditions but that the full effects of changes in financial conditions on aggregate spending and the labor market, and then on inflation, likely took longer to materialize. With regard to current circumstances, many participants remarked that, even though the tightening of monetary policy had clearly influenced financial

conditions and had had notable effects in some interest rate-sensitive sectors, the timing of the effects on overall economic activity, the labor market, and inflation was still quite uncertain, with the full extent of the effects yet to be realized. Several participants observed that, because of the difficulties in isolating the effects of monetary policy, changes in economic structure, or increasing transparency over time regarding monetary policy decisions, the historical record did not provide definitive evidence on the length of these lags. In addition, some participants noted that the post-pandemic dynamics of the economy may differ from those prevailing prior to the pandemic.

Participants generally noted that the uncertainty associated with their economic outlooks was high and that the risks to the inflation outlook remained tilted to the upside. Participants observed that recent inflation had been higher and more persistent than anticipated. Some participants noted the risk that energy prices could rise sharply again amid geopolitical tensions. A few participants commented that the ongoing tightness in the labor market could lead to an emergence of a wage–price spiral, even though one had not yet developed.

A number of participants judged that the risks regarding the outlook for economic activity were weighted to the downside, with various global headwinds being prominently cited. These global headwinds included a slowdown in economic activity occurring in China and the ongoing international economic implications of Russia's war against Ukraine. Participants observed that, because of high inflation pressures prevailing globally, monetary policy tightening was under way in many other economies—a development likely to affect foreign economic activity and carrying the potential for spillovers to the U.S. economy.

In their discussion of issues related to financial stability, participants noted the importance of orderly functioning of the market for U.S. Treasury securities for the transmission of monetary policy, for meeting the financing needs of the federal government, and for the operation of the global financial system. Participants observed that, despite elevated interest rate volatility and indications of strained liquidity conditions, the functioning of the Treasury securities market had been orderly. Noting that the value of resilience of the market for Treasury securities was underlined by recent gilt market disruptions in the United Kingdom, a number of

participants discussed a range of issues that could be considered by the appropriate authorities regarding market resilience, including potential interactions of capital and liquidity regulations with market activity, oversight of key market participants, clearing and settlement practices, and the role and structure of the Federal Reserve's standing facilities. A few participants noted the importance of being prepared to address disruptions in U.S. core market functioning in ways that would not affect the stance of monetary policy, especially during episodes of monetary policy tightening. Several participants noted the risks posed by nonbank financial institutions amid the rapid global tightening of monetary policy and the potential for hidden leverage in these institutions to amplify shocks…

In their discussion of the effects of monetary policy actions and communications to date, participants concurred that the Committee had taken forceful steps to moderate aggregate demand in order to bring it into better alignment with aggregate supply. Financial conditions had tightened significantly in response to the Committee's policy actions, and their effects were clearly evident in the most interest rate-sensitive sectors of the economy, including residential investment and some components of business investment. Several participants commented that monetary policy actions and communications had helped keep longer-term inflation expectations well anchored—a situation that would help facilitate the return of inflation to the Committee's longer-run goal of 2 percent. Nevertheless, with realized inflation well above that goal and the labor market still very tight, participants agreed that ongoing increases in the target range for the federal funds rate would be appropriate and would help keep longer-term inflation expectations well anchored. Participants noted that, with regard to both real economic activity and inflation, it would take time for the full effects of monetary restraint to be realized and that these lags complicated an assessment of the effects of monetary policy.

In discussing potential policy actions at upcoming meetings, participants reaffirmed their strong commitment to returning inflation to the Committee's 2 percent objective, and they continued to anticipate that ongoing increases in the target range for the federal funds rate would be appropriate in order to attain a sufficiently restrictive stance of policy to bring inflation down over time. Many participants commented that there was significant uncertainty about the ultimate level of the federal funds rate needed to achieve the Committee's goals and that their assessment of that level

would depend, in part, on incoming data. Even so, various participants noted that, with inflation showing little sign thus far of abating, and with supply and demand imbalances in the economy persisting, their assessment of the ultimate level of the federal funds rate that would be necessary to achieve the Committee's goals was somewhat higher than they had previously expected.

Participants mentioned a number of considerations that would likely influence the pace of future increases in the target range for the federal funds rate. These considerations included the cumulative tightening of monetary policy to date, the lags between monetary policy actions and the behavior of economic activity and inflation, and economic and financial developments. A number of participants observed that, as monetary policy approached a stance that was sufficiently restrictive to achieve the Committee's goals, it would become appropriate to slow the pace of increase in the target range for the federal funds rate. In addition, a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate. A slower pace in these circumstances would better allow the Committee to assess progress toward its goals of maximum employment and price stability. The uncertain lags and magnitudes associated with the effects of monetary policy actions on economic activity and inflation were among the reasons cited regarding why such an assessment was important. A few participants commented that slowing the pace of increase could reduce the risk of instability in the financial system. A few other participants noted that, before slowing the pace of policy rate increases, it could be advantageous to wait until the stance of policy was more clearly in restrictive territory and there were more concrete signs that inflation pressures were receding significantly.

With monetary policy approaching a sufficiently restrictive stance, participants emphasized that the level to which the Committee ultimately raised the target range for the federal funds rate, and the evolution of the policy stance thereafter, had become more important considerations for achieving the Committee's goals than the pace of further increases in the target range. Participants agreed that communicating this distinction to the public was important in order to reinforce the Committee's strong commitment to returning inflation to the 2 percent objective.

Participants discussed a number of risk-management considerations related to the conduct of monetary policy. In light of the continuing broad-based and unacceptably high level of inflation and upside risks to the inflation outlook, participants remarked that purposefully moving to a more restrictive policy stance was consistent with risk-management considerations. Some participants observed that there had been an increase in the risk that the cumulative policy restraint would exceed what was required to bring inflation back to 2 percent. Several participants commented that continued rapid policy tightening increased the risk of instability or dislocations in the financial system. There was wide agreement that heightened uncertainty regarding the outlooks for both inflation and real activity underscored the importance of taking into account the cumulative tightening of monetary policy, the lags with which monetary policy affected economic activity and inflation, and economic and financial developments.

. . . Members agreed that, in determining the pace of future increases in the target range, they would take into account the cumulative tightening of monetary policy, the lags with which monetary policy affected economic activity and inflation, and economic and financial developments...

Source: Federal Reserve Board