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Data Insights: FOMC Minutes

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June minutes Key signaling language: Featured Important Very important

… The SEP was released to the public after the meeting.

In their discussion of inflation developments, participants noted that after a significant decline in inflation during the second half of 2023, the early part of this year had seen a lack of further progress toward the Committee's 2 percent objective.

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Participants judged that although inflation remained elevated, there had been modest further progress toward the 2 percent goal in recent months. Participants observed that some of this progress was evident in the smaller monthly change in the core PCE price index and a lower trimmed mean inflation rate for April, with the May CPI reading providing additional evidence. Recent data had also indicated improvements across a range of price categories, including market-based services. Some participants commented that sustained achievement of the 2 percent inflation objective would be aided by lower overall services price inflation, and some noted that shelter price inflation had so far been slow to come down. A few participants also highlighted the strong increases recorded this year in core import prices. Nevertheless, participants suggested that a number of developments in the product and labor markets supported their judgment that price pressures were diminishing. In particular, a few participants emphasized that nominal wage growth, though still above rates consistent with price stability, had declined, notably in labor-intensive sectors. A few participants also noted reports that various retailers had cut prices and offered discounts. Participants further indicated that business contacts reported that their pricing power had declined. Participants suggested that evidence of firms' reduced pricing power reflected increased customer resistance to price increases, slower growth in economic activity, and a reassessment by businesses of prospective economic conditions.

With regard to the outlook for inflation, participants emphasized that they were strongly committed to their 2 percent objective and that they remained concerned that elevated inflation continued to harm the purchasing power of households, especially those least able to meet the higher costs of essentials like food, housing, and transportation. Participants highlighted a variety of factors that were likely to help contribute to continued disinflation in the period ahead. The factors included continued easing of demand–supply pressures in product and labor markets, lagged effects on wages and prices of past monetary policy tightening, the delayed response of measured shelter prices to rental market developments, or the prospect of additional supply-side improvements. The latter prospect included the possibility of a boost to productivity associated with businesses' deployment of artificial intelligence–related technology. Participants observed that longer-term inflation expectations had remained well anchored and viewed this anchoring as underpinning

the disinflation process. Participants affirmed that additional favorable data were required to give them greater confidence that inflation was moving sustainably toward 2 percent.

Participants remarked that demand and supply in the labor market had continued to come into better balance. Participants observed that many labor market indicators pointed to a reduced degree of tightness in labor market conditions. These included a declining job openings rate, a lower quits rate, increases in part-time employment for economic reasons, a lower hiring rate, a further step-down in the ratio of job vacancies to unemployed workers, and a gradual uptick in the unemployment rate. In addition, a few participants indicated that business contacts were reporting less difficulty in hiring and retaining workers, although contacts in several Districts continued to report tight labor market conditions in certain sectors, such as health care, construction, or specialty manufacturing. Many participants noted that labor supply had been boosted by increased labor force participation rates as well as by immigration. A few participants noted that it was unlikely that immigration would continue at the pace seen in recent years. However, several participants judged that, with recent immigrants gradually becoming part of the workforce, past immigration likely would continue to add to labor supply. A few participants observed that increases in labor force participation would likely now be limited and so would not be a major source of additional labor supply. In considering recent payrolls data, some participants observed that, although increases in payrolls had continued to be strong, the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigration. Several participants also suggested that the establishment survey may have overstated actual job gains. Several participants remarked that a variety of indicators, including wage gains for job switchers, suggested that nominal wage growth was slowing, consistent with easing labor market pressures. A number of participants noted that, although the labor market remained strong, the ratio of vacancies to unemployment had returned to pre-pandemic levels and there was some risk that further cooling in labor market conditions could be associated with an increased pace of layoffs. Some participants observed that, with the risks to the Committee's dual-mandate goals having now come into better balance, labor market conditions would need careful monitoring. Participants generally observed that continued labor market strength could be

consistent with the Committee achieving both its employment and inflation goals, though they noted that some further gradual cooling in the labor market may be required.

Participants noted that recent indicators suggested that economic activity had continued to expand at a solid pace. Participants expected that real GDP growth this year would be below the strong pace recorded in 2023, and they remarked that recent data on economic activity were largely consistent with the anticipated slowing. Participants observed that a lower rate of output growth this year could aid the disinflation process while also being consistent with a strong labor market. Participants generally viewed the Committee's restrictive monetary policy stance as having a restraining effect on growth in consumption and investment spending and as contributing to a gradual slowing in the pace of economic activity. A couple of participants particularly stressed that the Committee's past policy tightening had contributed to higher rates for home mortgage loans and other longer-term borrowing, which were moderating spending and production, including households' discretionary purchases and residential construction activity. A few participants remarked that spending by some higher-income households was likely being bolstered by increasing asset prices. Many participants observed that, in contrast, lower- and moderate-income households were encountering increasing strains as they attempted to meet higher living costs after having largely run down savings accumulated during the pandemic. These participants noted that such strains, which were evident in rising credit card utilization and delinquency rates as well as motor vehicle loan delinquencies, were a significant concern.

Participants continued to assess that the risks to achieving their employment and inflation goals had moved toward better balance over the past year. Participants cited a number of downside risks to economic activity, including those associated with a sharper-than-anticipated slowing in aggregate demand alongside a marked deterioration in labor market conditions, or with strains on lower- and moderate-income households' budgets leading to an abrupt curtailment of consumer spending. A few participants pointed to downside risks to economic activity associated with the fragility of some parts of the CRE sector or the vulnerable balance sheet positions of some banks. Some participants highlighted reasons why inflation could remain above 2 percent for longer than expected. These participants pointed to risks that inflation

could stay elevated as a result of worsening geopolitical developments, heightened trade tensions, more persistent shelter price inflation, financial conditions that might be or could become insufficiently restrictive, or U.S. fiscal policy becoming more expansionary than expected; the latter two scenarios were also seen as implying upside risks to economic activity. Several participants also cited the risk of an unanchoring of longer-term inflation expectations.

In their consideration of monetary policy at this meeting, participants observed that incoming data indicated continued solid growth in economic activity and a strong labor market while also pointing to modest further progress toward the Committee's 2 percent inflation objective in recent months. Participants remained highly attentive to inflation risks. All participants judged that, in light of current economic conditions and their implications for the outlook for employment and inflation, as well as the balance of risks, it was appropriate to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. Participants furthermore judged that it was appropriate to continue the process of reducing the Federal Reserve's securities holdings.

In discussing the outlook for monetary policy, participants noted that progress in reducing inflation had been slower this year than they had expected last December. They emphasized that they did not expect that it would be appropriate to lower the target range for the federal funds rate until additional information had emerged to give them greater confidence that inflation was moving sustainably toward the Committee's 2 percent objective. In discussing their individual outlooks for the target range for the federal funds rate, participants emphasized the importance of conditioning future policy decisions on incoming data, the evolving economic outlook, and the balance of risks. Several participants noted that financial market reactions to data and feedback received from contacts suggested that the Committee's policy approach was generally well understood. Some participants suggested that further clarity about the FOMC's reaction function might be provided by communications that emphasized the Committee's data-dependent approach, with monetary policy decisions being conditional on the evolution of the economy rather than being on a preset path. A couple of participants remarked that providing more information about the Committee's views on the economic outlook and the risks around the outlook would improve the public's understanding of the Committee's decisions.

In discussing risk-management considerations that could bear on the outlook for monetary policy, participants assessed that, with labor market tightness having eased and inflation having declined over the past year, the risks to achieving the Committee's employment and inflation goals had moved toward better balance, leaving monetary policy well positioned to deal with the risks and uncertainties faced in pursuing both sides of the Committee's dual mandate. The vast majority of participants assessed that growth in economic activity appeared to be gradually cooling, and most participants remarked that they viewed the current policy stance as restrictive. Some participants noted that there was uncertainty about the degree of restrictiveness of current policy. Some remarked that the continued strength of the economy, as well as other factors, could mean that the longer-run equilibrium interest rate was higher than previously assessed, in which case both the stance of monetary policy and overall financial conditions may be less restrictive than they might appear. A couple of participants noted that the longer-run equilibrium interest rate was a better guide for determining where the federal funds rate may need to move over the longer run than for assessing the restrictiveness of current policy. Participants noted the uncertainty associated with the economic outlook and with how long it would be appropriate to maintain a restrictive policy stance. Some participants emphasized the need for patience in allowing the Committee's restrictive policy stance to restrain aggregate demand and further moderate inflation pressures. Several participants observed that, were inflation to persist at an elevated level or to increase further, the target range for the federal funds rate might need to be raised. A number of participants remarked that monetary policy should stand ready to respond to unexpected economic weakness. Several participants specifically emphasized that with the labor market normalizing, a further weakening of demand may now generate a larger unemployment response than in the recent past when lower demand for labor was felt relatively more through fewer job openings.

- Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5.5 percent and with an aggregate operation limit of $500 billion.

- Conduct standing overnight reverse repurchase agreement operations at an offering rate of 5.3 percent and with a per-counterparty limit of $160 billion per day.

Source: Federal Reserve Board