Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

Data Insights: FOMC Minutes

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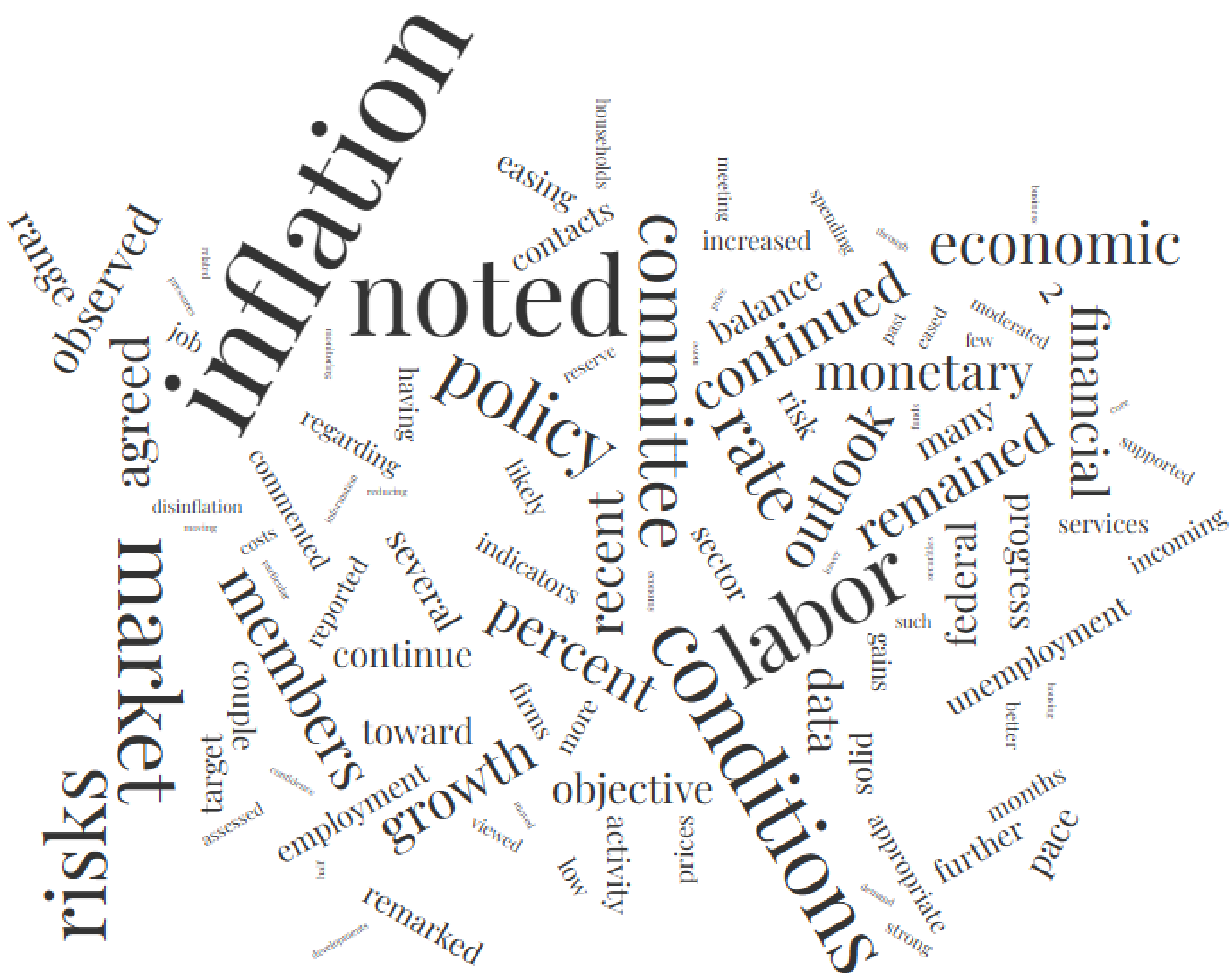
[July minutes](#) Key signaling language: Featured Important Very important



…Participants observed that inflation had eased over the past year but remained elevated and that, in recent months, there had been some further progress toward the Committee's 2 percent inflation objective. Participants noted that the recent progress on disinflation was broad based across the major subcomponents of core inflation. Core goods prices were about flat from March through June after having risen during the first three months of the year. Price inflation in June for housing services showed a notable slowing, which participants had been anticipating for some time. In addition, core nonhousing services prices had decelerated in recent months. Some participants noted that the recent data corroborated reports from their business contacts that firms' pricing power was waning, as consumers appeared to be more sensitive to price increases. Various contacts had also reported that they had cut prices or were offering discounts to stay competitive, or that declines in input costs had helped reduce pressure on retail prices.

With regard to the outlook for inflation, participants judged that recent data had increased their confidence that inflation was moving sustainably toward 2 percent. Almost all participants observed that the factors that had contributed to recent disinflation would likely continue to put downward pressure on inflation in coming months. These factors included a continued waning of pricing power, moderating economic growth, and the runoff in excess household savings accumulated during the pandemic. Many participants noted that the moderation of growth in labor costs as labor market conditions rebalanced would continue to contribute to disinflation, particularly in core nonhousing services prices. Some participants noted that the lags in the time it takes for housing rental conditions for new tenants to show through to aggregate price data for housing services meant that the disinflationary trend in this component would likely continue. Participants also observed that longer-term inflation expectations had remained well anchored and viewed this anchoring as underpinning the disinflation process. A couple of participants noted that inflation pressures might persist for some time, as they assessed that the economy had considerable momentum, and that, even with some easing of the demand for labor, the labor market remained strong.

Participants assessed that supply and demand conditions in the labor market had continued to come into better balance. The unemployment rate had moved up but remained low, having risen 0.7 percentage point since its trough in April 2023 to 4.1 percent in June. The monthly pace of payroll job gains had moderated from the first quarter but had been solid in recent months. However, many participants noted that reported payroll gains might be overstated, and several assessed that payroll gains may be lower than those needed to keep the unemployment rate constant with a flat labor force participation rate. Participants observed that other indicators also pointed to easing in labor market conditions, including a lower hiring rate and a downtrend in job vacancies since the beginning of the year. Participants noted that the rebalancing of labor market conditions over the past year was also aided by an expansion of the supply of workers, reflecting increases in the labor force participation rate among individuals aged 25 to 54 and a strong pace of immigration. Participants noted that, with continued rebalancing of labor market conditions, nominal wage growth had continued to moderate. Many participants cited reports from District contacts that supported the view that labor market conditions had been easing. In particular, contacts reported that they had been experiencing less difficulty in hiring and retaining workers and that they saw limited wage pressures. Participants generally assessed that, overall, conditions in the labor market had returned to about where they stood on the eve of the pandemic—strong but not overheated.

Regarding the outlook for the labor market, participants discussed various indicators of layoffs, including initial claims for unemployment benefits and measures of job separations. Some participants commented that these indicators had remained at levels consistent with a strong labor market. Participants agreed that these and other indicators of labor market conditions merited close monitoring. Several participants said that their District contacts reported that they were actively managing head counts through selective hiring and attrition.

Participants noted that real GDP growth was solid in the first half of the year, though slower than the robust pace seen in the second half of last year. PDFP growth, which usually gives a better signal than GDP growth of economic momentum, also moderated in the first half, but by less than GDP growth. PDFP expanded at a solid pace, supported by growth in consumer spending and business fixed investment. Participants viewed the moderation in the growth of economic activity to be largely in line with what they had anticipated.

Regarding the household sector, participants observed that consumer spending had slowed from last year's robust pace, consistent with restrictive monetary policy, easing of labor market conditions, and slowing income growth. They noted, however, that consumer spending had still grown at a solid pace in the first half of the year, supported by the still-strong labor market and aggregate household balance sheets. Some participants observed that 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 were evident in indicators such as rising credit card delinquency rates and an increased share of households paying the minimum due on balances, and warranted continued close monitoring. Several participants cited reports that consumers, especially those in lower-income households, were shifting away from discretionary spending and switching to lower-cost food items and brands. A couple of participants remarked that spending by some higher-income households was likely being bolstered by wealth effects from equity and housing price appreciation. Participants noted that residential investment was weak in the second quarter, likely reflecting the pickup in mortgage rates from earlier in the year.

Regarding the business sector, participants noted that conditions varied by firm size, sector, and region. A couple of participants noted that their District contacts had reported larger firms as having a generally stable outlook, while the outlook for smaller firms appeared more uncertain. A few participants said that their contacts reported that conditions in the manufacturing sector were somewhat weaker, while the professional and business services sector and technology-related sectors remained strong. A few participants noted that the agricultural sector continued to face strains stemming from low food commodity prices and high input costs.

Participants discussed the risks and uncertainties around the economic outlook. Upside risks to the inflation outlook were seen as having diminished, while downside risks to employment were seen as having increased. Participants saw risks to achieving the inflation and employment objectives as continuing to move into better balance, with a couple noting that they viewed these risks as more or less balanced. Some participants noted that as conditions in the labor market have eased, the risk had increased that continued easing could transition to a more serious deterioration. As sources of upside risks to inflation, some participants cited the potential for disruptions to supply chains and a further deterioration in geopolitical conditions. A few participants noted that an easing of financial conditions could boost economic activity and present an upside risk to economic growth and inflation.

In their discussion of financial stability, participants who commented noted vulnerabilities to the financial system that they assessed warranted monitoring.

Some participants observed that the banking system was sound but noted risks associated with unrealized losses on securities, reliance on uninsured deposits, and interconnections with nonbank financial intermediaries. In their discussion of bank funding, several participants commented that, because the discount window is an important liquidity backstop, the Federal Reserve should continue to improve the window's operational efficiency and to communicate effectively about the window's value. Participants generally noted that some banks and nonbank financial institutions likely have vulnerabilities associated with high CRE exposures through loan portfolios and holdings of CMBS. Most of these participants remarked that risks related to CRE exposures depend importantly on the property type and the local market conditions of the properties involved. A couple of participants noted concerns about asset valuation pressures in other markets as well. Many participants commented on cyber risks that could impair the operation of financial institutions, financial infrastructure, and, potentially, the overall economy. Many participants remarked that because a few firms play a substantial role in the provision of information technology services to the financial sector and because of the highly interconnected nature of some firms in the financial industry itself, there was an increased risk that significant cyber disruptions at a small number of key firms could have widespread effects. Several participants noted that leverage in the Treasury market remained a risk, that it would be important to monitor developments regarding Treasury market resilience amid the move to central clearing, or that it is valuable to communicate about the Federal Reserve's standing repo facility as a liquidity backstop. A couple of participants commented on the financial condition of low- and moderate-income households that have exhausted their savings and the importance of monitoring rising delinquency rates on credit cards and auto loans.

In their consideration of monetary policy at this meeting, participants observed that recent indicators suggested that economic activity had continued to expand at a solid pace, job gains had moderated, and the unemployment rate had moved up but remained low. While inflation remained somewhat above the Committee's longer-run goal of 2 percent, participants noted that inflation had eased over the past year and that recent incoming data indicated some further progress toward the Committee's objective. All participants supported maintaining the target range for the federal funds rate at 5-1/4 to 5-1/2 percent, although several observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision. 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 growth in economic activity had been solid, there had been some further progress on inflation, and conditions in the labor market had eased. Almost all participants remarked that while the incoming data regarding inflation were encouraging, additional information was needed to provide greater confidence that inflation was moving sustainably toward the Committee's 2 percent objective before it would be appropriate to lower the target range for the federal funds rate. Nevertheless, participants viewed the incoming data as enhancing their confidence that inflation was moving toward the Committee's objective. The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting. Many participants commented that monetary policy continued to be restrictive, although they expressed a range of views about the degree of restrictiveness, and a few participants noted that ongoing disinflation, with no change in the nominal target range for the policy rate, by itself results in a tightening in monetary policy. Most participants remarked on the importance of communicating the Committee's data-dependent approach and emphasized, in particular, that monetary policy decisions are conditional on the evolution of the economy rather than being on a preset path or that those decisions depend on the totality of the incoming data rather than on any particular data point. Several participants stressed the need to monitor conditions in money markets and factors affecting the demand for reserves amid the ongoing reduction in the Federal Reserve's balance sheet.

In discussing risk-management considerations that could bear on the outlook for monetary policy, participants highlighted uncertainties affecting the outlook, such as those regarding the amount of restraint currently provided by monetary policy, the lags with which past and current restraint have affected and will affect economic activity, and the degree of normalization of the economy following disruptions associated with the pandemic. A majority of participants remarked that the risks to the employment goal had increased, and many participants noted that the risks to the inflation goal had decreased. Some participants noted the risk that a further gradual easing in labor market conditions could transition to a more serious deterioration. Many participants noted that reducing policy restraint too late or too little could risk unduly weakening economic activity or employment. A couple participants highlighted in particular the costs and challenges of addressing such a weakening once it is fully under way. Several participants remarked that reducing policy restraint too soon or too much could risk a resurgence in aggregate demand and a reversal of the progress on inflation. These participants pointed to risks related to potential shocks that could put upward pressure on inflation or the possibility that inflation could prove more persistent than currently expected...

Source: Federal Reserve Board