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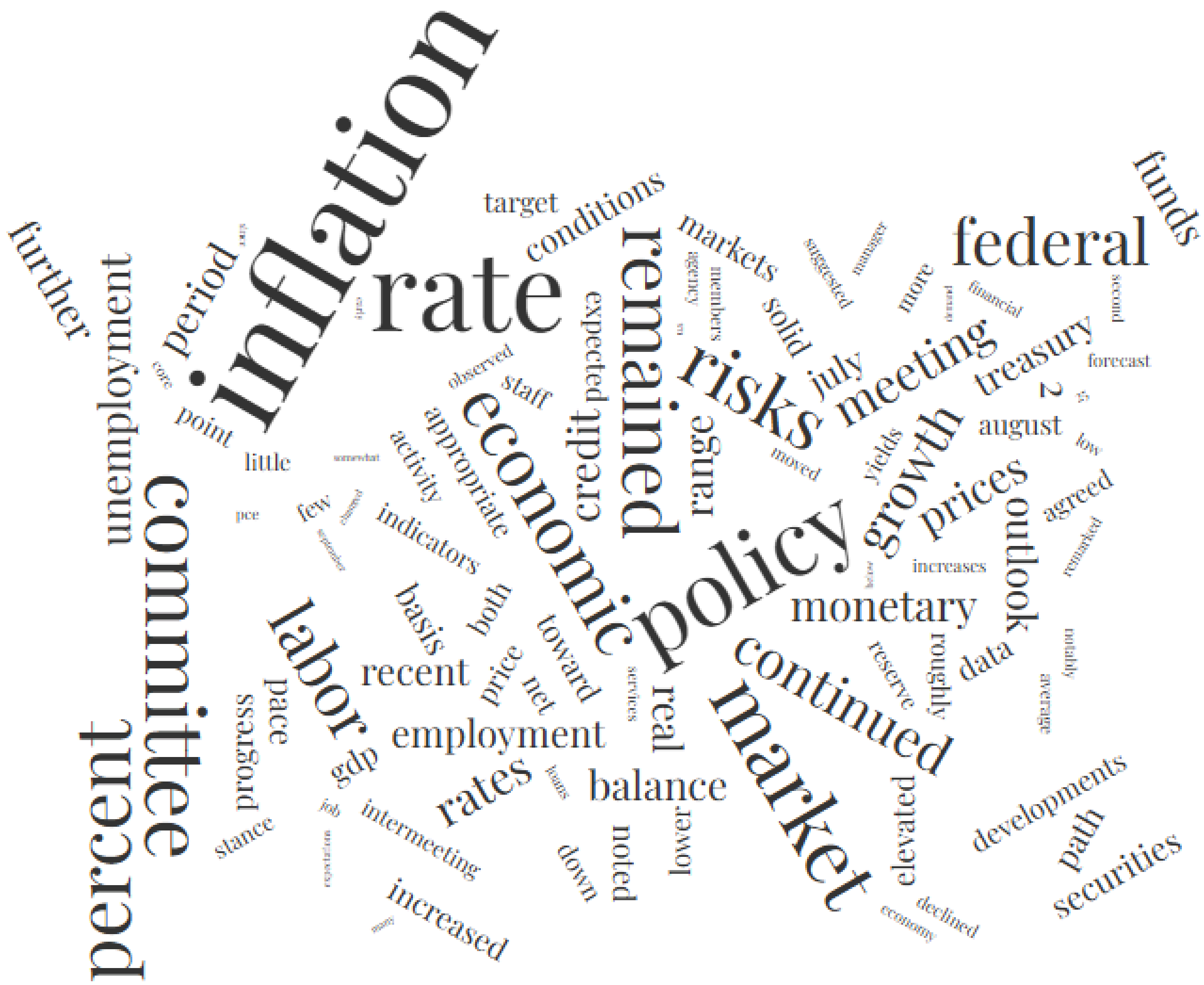
Data Insights: FOMC Minutes

Wednesday, October 9, 2024

September minutes   Key signaling language: Featured   Important   Very important



…In conjunction with this FOMC meeting, participants submitted their projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2024 through 2027 and over the longer run…

In their discussion of inflation developments, participants observed that inflation remained somewhat elevated, but almost all participants judged that recent monthly readings had been consistent with inflation returning sustainably to 2 percent. Some participants commented that, though food and energy prices had played an important part in the decline in the overall inflation rate, slower rates of price increases had become more evident across a broad range of goods and services. Notably, core goods prices had declined in recent months, and the rate of increase in core nonhousing services prices had moved down further. Many participants remarked that the recent inflation data were consistent with reports received from business contacts, who had indicated that their pricing power was limited or diminishing and that consumers were increasingly seeking discounts. Many participants also observed that inflation developments in the second and third quarters of 2024 suggested that the stronger-than-anticipated inflation readings in the first quarter had been only a temporary interruption of progress toward 2 percent. Participants remarked that even though the rate of increase in housing services prices had slowed, these prices were continuing to rise at an elevated rate, in contrast to many other core prices.

With regard to the outlook for inflation, almost all participants indicated they had gained greater confidence that inflation was moving sustainably toward 2 percent. Participants cited various factors that were likely to put continuing downward pressure on inflation. These included a further modest slowing in real GDP growth, in part due to the Committee's restrictive monetary policy stance; well-anchored inflation expectations; waning pricing power; increases in productivity; and a softening in world commodity prices. Several participants noted that nominal wage growth was continuing to slow, with a few participants citing signs that it was set to decline further. These signs included lower rates of increases in cyclically sensitive wages and data indicating that job switchers were no longer receiving a wage premium over other employees. A couple of participants remarked that, with wages being a relatively large portion of business costs in the services sector, that sector's disinflation process would be particularly assisted by slower nominal wage growth. In addition, several participants observed that, with supply and demand in the labor market roughly in balance, wage increases were unlikely to be a source of general inflation pressures in the near future. With regard to housing services prices, some participants suggested that a more rapid disinflationary trend might emerge fairly soon, reflecting the slower pace of rent increases faced by new tenants. Participants emphasized that inflation remained somewhat elevated and that they were strongly committed to returning inflation to the Committee's 2 percent objective.

Participants noted that labor market conditions had eased further in recent months and that, after being overheated in recent years, the labor market was now less tight than it had been just before the pandemic. As evidence, participants cited the slowdown in payroll employment growth and the uptick in the unemployment rate in the two employment reports received since the Committee's July meeting, lower readings on hiring and job vacancies, reduced quits and job-finding rates, and widespread reports from business contacts of less difficulty in hiring workers. Some participants highlighted the fact that the unemployment rate had risen notably, on net, since April 2023. Participants noted, however, that labor market conditions remained solid, as layoffs had been limited and initial claims for unemployment insurance benefits had stayed low. Some participants stressed that, rather than using layoffs to lower their demand for labor, businesses had instead been taking steps such as posting fewer openings, reducing hours, or making use of attrition. A few participants suggested that firms remained reluctant to lay off workers after having difficulty obtaining employees earlier in the post-pandemic period. Some participants remarked that the recent pace of payroll increases had fallen short of what was required to keep the unemployment rate stable on a sustained basis, assuming a constant labor force participation rate. Many participants observed that the evaluation of labor market developments had been challenging, with increased immigration, revisions to reported payroll data, and possible changes in the underlying growth rate of productivity cited as complicating factors. Several participants emphasized the importance of continuing to use disaggregated data or information provided by business contacts as a check on readings on labor market conditions obtained from aggregate data. Participants agreed that labor market conditions were at, or close to, those consistent with the Committee's longer-run goal of maximum employment.

With regard to the outlook for the labor market, participants noted that further cooling did not appear to be needed to help bring inflation back to 2 percent. Participants indicated that in their baseline economic outlooks, which included an appropriate recalibration of the Committee's monetary policy stance, the labor market would remain solid. Participants agreed that labor market indicators merited close monitoring, with some noting that as conditions in the labor market have eased, the risk had increased that continued easing could transition to a more serious deterioration.

Participants observed that economic activity had continued to expand at a solid pace and highlighted resilient consumption spending. A couple of participants noted that rising real household incomes had bolstered consumption, though some cited signs of a slowing in expenditures or of strains on household budgets, including increased delinquencies in credit card and automobile loans. A couple of participants suggested that the financial strains being experienced by low- and moderate-income households would likely imply slower consumption growth in coming periods. Various participants reported that their business contacts were optimistic about the economic outlook, though they were exercising caution in their hiring and investment decisions. Participants noted that favorable aggregate supply developments, including increases in productivity, had contributed to the recent solid expansion of economic activity, and a few participants discussed possible implications of the introduction of new technology into the workplace. Many participants emphasized that they expected that real GDP would grow at roughly its trend rate over the next few years.

Participants discussed the risks and uncertainties associated with the economic outlook. Almost all participants saw upside risks to the inflation outlook as having diminished, while downside risks to employment were seen as having increased. As a result, those participants now assessed the risks to achieving the Committee's dual-mandate goals as being roughly in balance. A couple of participants, however, did not perceive an increased risk of a significant further weakening in labor market conditions. Several participants cited risks of a sharper-than-expected slowing in consumer spending in response to labor market cooling or to continuing strains on the budgets of low- and moderate-income households. Risks to achieving the Committee's price-stability goal had diminished significantly since the target range for the federal funds rate was last raised, and the vast majority of participants saw the risks to inflation as broadly balanced. A couple of participants specifically noted upside inflation risks associated with geopolitical developments. In addition, some participants cited risks that progress toward the Committee's 2 percent inflation objective could be stalled by a larger-than-anticipated easing in financial conditions, stronger-than-expected consumption growth, or continued strong increases in housing services prices.

In their consideration of monetary policy at this meeting, participants noted that inflation had made further progress toward the Committee's objective but remained somewhat elevated. Almost all participants expressed greater confidence that inflation was moving sustainably toward 2 percent. Participants also observed that recent indicators suggested that economic activity had continued to expand at a solid pace, job gains had slowed, and the unemployment rate had moved up but remained low. Almost all participants judged that the risks to achieving the Committee's employment and inflation goals were roughly in balance. In light of the progress on inflation and the balance of risks, all participants agreed that it was appropriate to ease the stance of monetary policy. Given the significant progress made since the Committee first set its target range for the federal funds rate at 5-1/4 to 5-1/2 percent, a substantial majority of participants supported lowering the target range for the federal funds rate by 50 basis points to 4-3/4 to 5 percent. These participants generally observed that such a recalibration of the stance of monetary policy would begin to bring it into better alignment with recent indicators of inflation and the labor market. They also emphasized that such a move would help sustain the strength in the economy and the labor market while continuing to promote progress on inflation, and would reflect the balance of risks. Some participants noted that there had been a plausible case for a 25 basis point rate cut at the previous meeting and that data over the intermeeting period had provided further evidence that inflation was on a sustainable path toward 2 percent while the labor market continued to cool. However, noting that inflation was still somewhat elevated while economic growth remained solid and unemployment remained low, some participants observed that they would have preferred a 25 basis point reduction of the target range at this meeting, and a few others indicated that they could have supported such a decision. Several participants noted that a 25 basis point reduction would be in line with a gradual path of policy normalization that would allow policymakers time to assess the degree of policy restrictiveness as the economy evolved. A few participants also added that a 25 basis point move could signal a more predictable path of policy normalization. A few participants remarked that the overall path of policy normalization, rather than the specific amount of initial easing at this meeting, would be more important in determining the degree of policy restriction. Participants 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 anticipated that if the data came in about as expected, with inflation moving down sustainably to 2 percent and the economy near maximum employment, it would likely be appropriate to move toward a more neutral stance of policy over time. Participants emphasized that it was important to communicate that the recalibration of the stance of policy at this meeting should not be interpreted as evidence of a less favorable economic outlook or as a signal that the pace of policy easing would be more rapid than participants' assessments of the appropriate path. Those who commented on the degree of restrictiveness of monetary policy observed that they believed it to be restrictive, though they expressed a range of views about the degree of restrictiveness. Participants generally remarked on the importance of communicating that the Committee's monetary policy decisions are conditional on the evolution of the economy and the implications for the economic outlook and balance of risks and therefore not on a preset course. Several participants discussed the importance of communicating that the ongoing reduction in the Federal Reserve's balance sheet could continue for some time even as the Committee reduced its target range for the federal funds rate.

… Governor Bowman preferred at this meeting to lower the target range for the federal funds rate by 25 basis points to 5 to 5-1/4 percent in light of core inflation remaining well above the Committee's objective, a labor market that is near full employment, and solid underlying growth. She also expressed her concern that the Committee's larger policy action could be seen as a premature declaration of victory on the price-stability part of the dual mandate.

Source: Federal Reserve Board