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… In their discussion of inflation developments, participants continued to observe that inflation had eased substantially from its peak, although core inflation remained somewhat elevated. Almost all participants judged that, though month-to-month movements would remain volatile, incoming data generally remained consistent with inflation returning sustainably to 2 percent. Participants commented that disinflationary progress had been seen across a broad range of core goods and services prices. Notably, in both the core goods and nonhousing services categories, prices were now increasing at rates close to those seen during earlier periods of price stability. Many participants noted that the slowing in these components of core inflation corroborated reports received from their business contacts that firms were more reluctant to increase prices, as consumers appeared to be more price sensitive and were increasingly seeking discounts. Some participants remarked that although increases in housing services prices remained somewhat elevated, they continued to expect that these increases would slow, as the more subdued pace of rent increases faced by new tenants would eventually be reflected further in housing services prices.

With regard to the outlook for inflation, participants indicated that they remained confident that inflation was moving sustainably toward 2 percent, although a couple noted the possibility that the process could take longer than previously expected. A few participants remarked that insofar as recent robust increases in real GDP reflected favorable supply developments, the strength of economic activity was unlikely to be a source of upward inflation pressures. Participants cited various factors likely to put continuing downward pressure on inflation, including waning business pricing power, the Committee's still-restrictive monetary policy stance, and well-anchored longer-term inflation expectations. Several participants noted that nominal wage growth had continued to move down and that the wage premium available to job switchers had diminished. In addition, some participants observed that, with supply and demand in the labor market being roughly in balance and in light of recent productivity gains, wage increases were unlikely to be a source of inflationary pressure in the near future.

In discussing labor market developments, participants generally viewed recent readings as consistent with labor market conditions remaining solid, although labor strikes and the devastating hurricanes had been important sources of temporary fluctuations in the employment data. Participants continued to cite declines in job vacancies, the quits rate, and turnover as consistent with a gradual easing in labor demand. Some participants reported that businesses were becoming more selective in hiring as they faced larger pools of more qualified job applicants, and job applicants were more willing to accept less accommodative work arrangements and more moderate wage offers. Participants generally noted, however, that there was no sign of rapid deterioration in labor market conditions, with layoffs remaining low. A few participants cited business contacts who were using attrition, instead of layoffs, to manage the size of their workforce. Some participants observed that the evaluation of underlying trends in labor market developments had continued to be challenging—with difficulties in measuring the effects of immigration on labor supply, revisions to data, and the effects of natural disasters and labor strikes among the factors cited as complicating this evaluation—and that assessments of the outlook for the labor market were associated with considerable uncertainty. Participants generally judged that current labor market conditions were broadly consistent with the Committee's longer-run goal of maximum employment.

With regard to the outlook for the labor market, participants generally anticipated that with an appropriate recalibration of the Committee's monetary policy stance over time, the labor market would remain solid. Participants generally agreed that labor market indicators merited close monitoring. Some participants still saw elevated risks that the labor market could deteriorate, though many participants saw the risk of an excessive cooling in the labor market as having diminished somewhat since the Committee's September meeting.

Participants observed that recent data on economic activity and consumer spending were largely stronger than anticipated, and they assessed that economic activity had continued to expand at a solid pace and consumer spending remained strong. Participants remarked that consumption had been supported by a solid labor market, rising real wages, and elevated household wealth. Many participants observed that recent upward revisions in data on household income and the saving rate had made these series' behavior more consistent with the strength in consumer spending. However, several participants cautioned that low- and moderate-income households continued to experience financial strains, which could damp their spending. A couple of participants cited recent increases in rates of delinquencies on credit card borrowing and automobile loans as signs of such strains.

Regarding the business sector, a few participants noted that favorable aggregate supply developments—including increases in labor supply, business investment, and productivity—continued to support solid expansion of business activity. A couple of participants remarked that there was considerable uncertainty about the durability of recent rates of increase in productivity. Although a few participants attributed some of the productivity gains to potentially transitory factors—such as one-time efficiency gains in response to earlier labor shortages—or the possible underestimation of labor inputs, some participants highlighted more durable factors, such as new business formation and investment, as well as the integration into the workplace of technological advances. A couple of participants discussed some of these recent trends, noting especially possible implications of the expanded use of artificial intelligence in the workplace. Several participants indicated that their District contacts reported larger corporations and firms in sectors like financial services, construction, professional services, and technology as having a generally more optimistic outlook than smaller businesses or firms in the manufacturing sector. Several participants remarked that the agricultural sector continued to face significant strains due to low crop prices and high input costs.

In participants' evaluation of the risks and uncertainties associated with the economic outlook, upside risks to the inflation outlook were seen as little changed, while downside risks to employment and growth were seen as having decreased somewhat. Among the upside risks to inflation cited by participants were the possibility of sudden disruptions in global supply chains due to geopolitical developments, a larger-than-anticipated easing in financial conditions, stronger-than-expected consumption, more-persistent shelter price increases, or sharp rises in insurance charges for health, autos, or homes. Some participants pointed to various downside risks to economic activity and employment, including weaker global growth, sharply worsening financing conditions due to an escalation of geopolitical tensions or a sizable asset price correction, or an unwelcome weakening of the labor market. Almost all participants judged the risks to the attainment of their dual-mandate objectives of maximum employment and price stability to be roughly in balance.

In their discussion of financial stability, participants who commented noted vulnerabilities to the financial system that they assessed warranted monitoring. A couple of participants observed that the banking system was sound but that there continued to be potential risks associated with unrealized losses on bank assets. Many participants discussed vulnerabilities associated with CRE exposures, focusing on risks in the office sector. A few of these participants noted signs that the deterioration of conditions in this sector of the CRE market might be lessening. A couple of participants noted concerns about asset valuation pressures in other markets. Some participants commented on cyber risks that could impair the operation of financial institutions, financial infrastructure, and, potentially, the overall economy; these participants noted, in particular, vulnerabilities that could emanate from third-party service providers. A couple of participants also mentioned third-party service providers in the context of risks associated with brokered and reciprocal deposit arrangements. Several participants noted that leverage in the market for Treasury securities remained a risk and commented that it would be important to monitor developments regarding the market's resilience. A few participants discussed vulnerabilities posed by the growth of private credit and potential links to banks and other financial institutions. 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. A couple of participants remarked on the successful implementation of the Securities and Exchange Commission's money fund rules, noting that it would reduce financial stability risks posed by domestic MMFs.

In their consideration of monetary policy at this meeting, participants noted that inflation had made progress toward the Committee's objective but remained somewhat elevated. Participants also observed that recent indicators suggested that economic activity had continued to expand at a solid pace, labor market conditions had generally eased since earlier in the year, 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 support of the Committee's goals, all participants viewed it as appropriate to lower the target range for the federal funds rate by 25 basis points to 4-1/2 to 4-3/4 percent. Participants observed that such a further recalibration of the monetary policy stance would help maintain the strength in the economy and the labor market while continuing to enable further progress on inflation. 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 continuing to move down sustainably to 2 percent and the economy remaining near maximum employment, it would likely be appropriate to move gradually toward a more neutral stance of policy over time. Participants noted that monetary policy decisions were not on a preset course and were conditional on the evolution of the economy and the implications for the economic outlook and the balance of risks; they stressed that it would be important for the Committee to make this clear as it adjusted its policy stance. While emphasizing that monetary policy would be data dependent, many participants noted the volatility of recent economic data and highlighted the importance of focusing on underlying economic trends and the evolution of the outlook when assessing incoming information. Some participants remarked that, at a future meeting, there would be value in the Committee considering a technical adjustment to the rate offered at the ON RRP facility to set the rate equal to the bottom of the target range for the federal funds rate, thereby bringing the rate back into an alignment that had existed when the facility was established as a monetary policy tool.

In discussing risk-management considerations that could bear on the outlook for monetary policy, almost all participants agreed that risks to achieving the Committee's employment and inflation goals remained roughly in balance. Some participants judged that downside risks to economic activity or the labor market had diminished. Participants noted that monetary policy would need to balance the risks of easing policy too quickly, thereby possibly hindering further progress on inflation, with the risks of easing policy too slowly, thereby unduly weakening economic activity and employment. In discussing the positioning of monetary policy in response to potential changes in the balance of risks, some participants noted that the Committee could pause its easing of the policy rate and hold it at a restrictive level if inflation remained elevated, and some remarked that policy easing could be accelerated if the labor market turned down or economic activity faltered. Many participants observed that uncertainties concerning the level of the neutral rate of interest complicated the assessment of the degree of restrictiveness of monetary policy and, in their view, made it appropriate to reduce policy restraint gradually.

Source: Federal Reserve Board