TrendMacro

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Data Insights: FOMC Minutes

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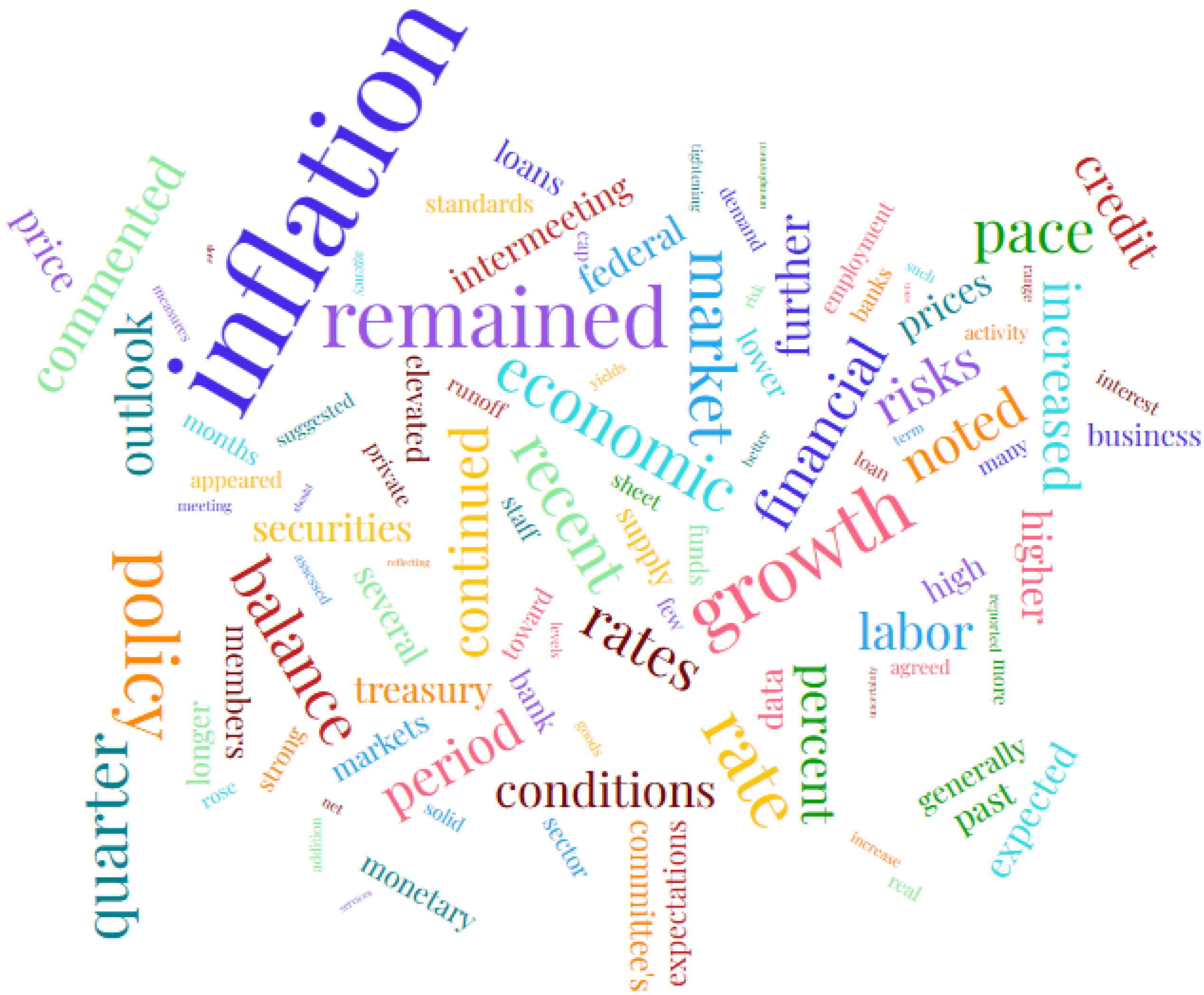
December minutes   Key signaling language: Featured   Important   Very important



number of alternative scenarios. After incorporating the recent data and preliminary placeholder assumptions about potential policy changes, real GDP growth was projected to be slightly slower than in the previous baseline forecast, and the unemployment rate was expected to be a bit higher but to remain near the staff's estimate of its natural rate.

In the staff's baseline projection, the inflation forecast for 2024 was slightly higher than the one prepared for the previous meeting, reflecting upside surprises in some recent data. Inflation in 2025 was expected to remain at about the same rate as in 2024, as the effects of the staff's placeholder trade policy assumptions held inflation up. Thereafter, inflation was forecast to decline to 2 percent by 2027, the same as in the projection at the November meeting.

The staff continued to view the uncertainty around the baseline projection as within the range seen over the past 20 years, a period that encompassed a number of episodes during which uncertainty about the economy and federal policy changes was elevated. The staff judged that the risks around the baseline forecasts for employment and real GDP growth were balanced, as concerns about downside risks from a marked cooling in labor market conditions had eased in recent months. The risks around the inflation forecast were seen as tilted to the upside, as core inflation had not come down as much as expected in 2024 and the effects of trade policy changes could be larger than the staff had assumed.

In their discussion of inflation developments, participants noted that although inflation had eased substantially from its peak in 2022, it remained somewhat elevated. Participants commented that the overall pace of disinflation had slowed over 2024 and that some recent monthly price readings had been higher than anticipated. Nevertheless, most remarked that disinflationary progress continued to be apparent across a broad range of core goods and services prices. Notably, some participants observed that in the core goods and market-based core services categories, excluding housing, prices were increasing at rates close to those seen during earlier periods of price stability. Many participants noted that the slowing in these components of 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. With respect to core services prices, a majority of participants remarked that increases in some components had exceeded expectations over recent months; many noted, however, that the increases were concentrated largely in non-market-based price categories and that price movements in such categories typically have not provided reliable signals about resource pressures or the future trajectory of inflation. Most participants also remarked that increases in housing services prices remained somewhat elevated, though they continued to slow gradually, as the pace of rent increases for new tenants continued to moderate and would eventually be reflected further in housing services prices.

With regard to the outlook for inflation, participants expected that inflation would continue to move toward 2 percent, although they noted that recent higher-than-expected readings on inflation, and the effects of potential changes in trade and immigration policy, suggested that the process could take longer than previously anticipated. Several observed that the disinflationary process may have stalled temporarily or noted the risk that it could. A couple of participants judged that positive sentiment in financial markets and momentum in economic activity could continue to put upward pressure on inflation. All participants judged that uncertainty about the scope, timing, and economic effects of potential changes in policies affecting foreign trade and immigration was elevated. Reflecting that uncertainty, participants took varied approaches in accounting for these effects. A number of participants indicated that they incorporated placeholder assumptions to one degree or another into their projections. Other participants indicated that they did not incorporate such assumptions, and a few participants did not indicate whether they incorporated such assumptions.

Several participants remarked that insofar as recent solid 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 as being 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. Some participants noted that nominal wage growth had continued to move down. Further, several observed that, with supply and demand in the labor market being roughly in balance and in light of recent productivity gains, labor market conditions were unlikely to be a source of inflationary pressure in the near future. However, several remarked that nominal wage growth remained slightly above the pace likely to be consistent over time with 2 percent inflation.

In discussing labor market developments, participants viewed recent readings on a range of indicators as consistent with an ongoing gradual easing in labor market conditions even as the unemployment rate remained low. Participants cited declines in job vacancies, the quits rate, the rate at which the unemployed were obtaining jobs, and turnover as consistent with a gradual easing in labor demand. Participants generally noted, however, that there were no signs of rapid deterioration in labor market conditions, as layoffs remained low. 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 anticipated that under appropriate monetary policy, conditions in the labor market would likely remain solid. Participants generally noted that labor market indicators merited close monitoring. Several participants observed that the evaluation of underlying trends in labor market developments had continued to be challenging and that assessments of the outlook for the labor market were associated with considerable uncertainty. Some participants noted that the labor market could soften further, as the recent pace of payroll growth had been below the rate that would likely keep the unemployment rate constant, given a stable labor force participation rate.

Participants observed that economic activity had continued to expand at a solid pace and that recent data on economic activity and consumer spending in particular were, on balance, stronger than anticipated. Participants remarked that consumption had been supported by a solid labor market, rising real wages, and elevated household net worth. Several participants cautioned that low- and moderate-income households continued to experience financial strains, which could damp their spending. A couple of participants cited continued increases in rates of delinquencies on credit card borrowing and automobile loans as signs of such strains.

With regard to the business sector, several participants noted that favorable aggregate supply developments—including increases in labor supply, business investment, and productivity—continued to support a solid expansion of business activity. A majority of participants remarked that the behavior of equity markets reflected positive sentiment on the part of investors. Many participants also remarked that District contacts generally reported greater optimism about the economic outlook, stemming in part from an expectation of an easing in government regulations and changes in tax policies. In contrast, some participants noted that contacts reported increased uncertainty regarding potential changes in federal government policies. A couple of participants remarked that the agricultural sector continued to face significant strains stemming from low crop prices and high input costs.

In their evaluation of the risks and uncertainties associated with the economic outlook, the vast majority of participants judged the risks to the attainment of the Committee's dual-mandate objectives of maximum employment and price stability to be roughly in balance. In particular, participants saw two-sided risks to achieving those goals. Almost all participants judged that upside risks to the inflation outlook had increased. As reasons for this judgment, participants cited recent stronger-than-expected readings on inflation and the likely effects of potential changes in trade and immigration policy. Other reasons mentioned included possible disruptions in global supply chains due to geopolitical developments, a larger-than-anticipated easing in financial conditions, stronger-than-expected household spending, and more persistent shelter price increases. A few participants remarked that, in the period ahead, it might be difficult to distinguish more persistent influences on inflation from potentially temporary ones, such as those stemming from changes in trade policy that could lead to shifts in the level of prices. Most participants noted that risks to the achievement of the Committee's maximum-employment goal appeared to be roughly balanced, though some saw risks to the labor market as tilted to the downside. Participants pointed to various risks to economic activity and employment, including downside risks associated with weaker output growth abroad, increased financial vulnerabilities stemming from overvaluation of risky assets, or an unexpected weakening of the labor market, and upside risks associated with increased optimism and continued strength in domestic spending as upside factors.

In their consideration of monetary policy at this meeting, participants generally 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. The vast majority of participants viewed it as appropriate to lower the target range for the federal funds rate by 25 basis points to 4¼ to 4½ percent. They assessed that such a further lowering of the target range for the policy rate would help maintain the strength in the economy and the labor market while continuing to enable further progress on inflation. A majority of participants noted that their judgments about this meeting's appropriate policy action had been finely balanced. Some participants stated that there was merit in keeping the target range for the federal funds rate unchanged. These participants suggested that the risk of persistently elevated inflation had increased in recent months, and several of these participants stressed the need for monetary policy to help foster financial conditions that would be consistent with inflation returning sustainably to 2 percent. 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 indicated that the Committee was at or near the point at which it would be appropriate to slow the pace of policy easing. They also indicated 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 be appropriate to continue to move gradually toward a more neutral stance of policy over time. Some participants observed that, with the target range for the federal funds rate having been lowered a total of 100 basis points with this meeting's decision, the policy rate was now significantly closer to its neutral value than when the Committee commenced policy easing in September. In addition, many participants suggested that a variety of factors underlined the need for a careful approach to monetary policy decisions over coming quarters. These factors included recent elevated inflation readings, the continuing strength of spending, reduced downside risks to the outlook for the labor market and economic activity, and increased upside risks to the outlook for inflation. A substantial majority of participants observed that, at the current juncture, with its policy stance still meaningfully restrictive, the Committee was well positioned to take time to assess the evolving outlook for economic activity and inflation, including the economy's responses to the Committee's earlier policy actions. Participants noted that monetary policy decisions were not on a preset course and were conditional on the evolution of the economy, the economic outlook, and the balance of risks.

In discussing risk-management considerations that could bear on the outlook for monetary policy, the vast majority of participants agreed that risks to achieving the Committee's employment and inflation goals remained roughly in balance. Many participants observed that the current high degree of uncertainty made it appropriate for the Committee to take a gradual approach as it moved toward a neutral policy stance. Participants noted that although inflation was on course to return sustainably to 2 percent over the next few years and the Committee was determined to restore and maintain price stability, the likelihood that elevated inflation could be more persistent had increased. Most participants remarked that, with the stance of monetary policy now significantly less restrictive, the Committee could take a careful approach in considering adjustments to the stance of monetary policy. Many participants noted that the Committee could hold the policy rate at a restrictive level, or ease policy more slowly, if inflation remained elevated, and several remarked that policy easing could take place more rapidly if labor market conditions deteriorated, economic activity faltered, or inflation returned to 2 percent more quickly than anticipated.

Source: Federal Reserve Board