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# Data Insights: FOMC Minutes

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## November minutes: key signaling language

... Participants acknowledged that hurricane-related disruptions and rebuilding would continue to affect economic activity in the near term, and they noted that, in October, wildfires in California had displaced many households. Past experience, however, suggested that the economic effects of the hurricanes and other natural disasters would be mostly temporary and unlikely to materially alter the course of the national economy over the medium term. Participants saw the incoming information on spending and the labor market as consistent with continued above-trend economic growth and a further strengthening in labor market conditions, although the hurricanes, in particular, made it more difficult than usual to interpret some of this information. …Near-term risks to the economic outlook appeared to be roughly balanced, but participants agreed that it would be important to continue to monitor inflation developments closely.

…Several participants reported that business contacts appeared to be more confident about the economic outlook and thus more inclined to undertake capital expansion plans. In that context, it was noted that the expansion in business fixed investment could be given additional impetus if legislation involving tax reductions was enacted; a few participants judged that the prospects for significant tax cuts had risen recently.

…Overall, wage increases were generally seen as modest. A couple of participants expressed the view that, when the rate of labor productivity growth was taken into account, the pace of recent wage gains was consistent with an economy operating near full employment. …Reports from District contacts indicated that some businesses facing tight labor markets found it more effective to expand their workforces by using a variety of nonpecuniary means, including offering greater job flexibility and training, rather than by increasing wages.

… Many participants judged that much of the recent softness in core inflation reflected temporary or idiosyncratic factors and that inflation would begin to rise once the influence of these factors began to wane. Most participants continued to think that the cyclical pressures associated with a tightening labor market were likely to show through to higher inflation over the medium term.

With core inflation readings continuing to surprise on the downside, however, many participants observed that there was some likelihood that inflation might remain below 2 percent for longer than they currently expected, and they discussed possible reasons for the recent shortfall. Several participants pointed to a diminished responsiveness of inflation to resource utilization, to the possibility that the degree of labor market tightness was less than currently estimated, or to lags in the response of inflation to greater resource utilization as plausible explanations for the continued soft readings on inflation. A few noted that secular influences, such as the effect of technological innovation in disrupting existing business models, were likely offsetting cyclical upward pressure on inflation and contributing to below-target inflation.

In discussing the implications of these developments, several participants expressed concern that the persistently weak inflation data could lead to a decline in longer-term inflation expectations or may have done so already; they pointed to low market-based measures of inflation compensation, declines in some survey measures of inflation expectations, or evidence from statistical models suggesting that the underlying trend in inflation had fallen in recent years. In addition, the possibility was raised that monetary policy actions or communications over the past couple of years, while inflation was below the Committee's 2 percent objective, may have contributed to a decline in longer-run inflation expectations below a level consistent with that objective.

… They worried that a sharp reversal in asset prices could have damaging effects on the economy. It was noted, however, that elevated asset prices could be partly explained by a low neutral rate of interest. It was also observed that regulatory changes had contributed to an appreciable strengthening of capital and liquidity positions in the financial sector over recent years, increasing the resilience of the financial system to potential reversals in valuations.

.A few participants mentioned the limited reaction in financial markets to the announcement and initial implementation of the Committee's plan for gradually reducing the Federal Reserve's securities holdings. It was noted that, consistent with that limited response, market participants had characterized the Committee's communications regarding the balance sheet normalization program as clear and effective.

…Many participants observed, however, that continued low readings on inflation, which had occurred even as the labor market tightened, might reflect not only transitory factors, but also the influence of developments that could prove more persistent. A number of these participants were worried that a decline in longer-term inflation expectations would make it more challenging for the Committee to promote a return of inflation to 2 percent over the medium term. These participants' concerns were sharpened by the apparently weak responsiveness of inflation to resource utilization and the low level of the neutral interest rate, and such considerations suggested that the removal of policy accommodation should be quite gradual. In contrast, some other participants were concerned about upside risks to inflation in an environment in which the economy had reached full employment and the labor market was projected to tighten further, or about still very accommodative financial conditions. They cautioned that waiting too long to remove accommodation, or removing accommodation too slowly, could result in a substantial overshoot of the maximum sustainable level of employment that would likely be costly to reverse or could lead to increased risks to financial stability.

… Consistent with their expectation that a gradual removal of monetary policy accommodation would be appropriate, many participants thought that another increase in the target range for the federal funds rate was likely to be warranted in the near term if incoming information left the medium-term outlook broadly unchanged. Several participants indicated that their decision about whether to increase the target range in the near term would depend importantly on whether the upcoming economic data boosted their confidence that inflation was headed toward the Committee's objective. A few other participants thought that additional policy firming should be deferred until incoming information confirmed that inflation was clearly on a path toward the Committee's symmetric 2 percent objective. A few participants cautioned that further increases in the target range for the federal funds rate while inflation remained persistently below 2 percent could unduly depress inflation expectations or lead the public to question the Committee's commitment to its longer-run inflation objective.

In view of the persistent shortfall of inflation from the Committee's 2 percent objective and questions about whether longer-term inflation expectations were consistent with achievement of that objective, a couple of participants discussed the possibility that potential alternative frameworks for the conduct of monetary policy could be helpful in fulfilling the Committee's statutory mandate. One question, for example, was whether a framework that generally sought to keep the price level close to a gradually rising path--rather than the current approach in which the Committee does not seek to make up for past deviations of inflation from the 2 percent goal--might be more effective in fostering the Committee's objectives if the neutral level of the federal funds rate remains low.

Source: FOMC, TrendMacro analysis