U.S. FOMC Review

- FOMC Minutes: a few interesting points

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

The March FOMC Meeting

The March meeting opened with a discussion of balance sheet normalization, but the minutes did not reveal any meaningful information beyond that announced on the day of the meeting (trimming Treasury redemptions in May and ending the process in September). Much of the discussion focused on how to proceed after September. Some officials wanted to resume purchases of Treasury securities fairly soon to accommodate the natural growth of various Fed liabilities (such as currency, the Treasury's cash balance, and investment accounts held on behalf of foreign central banks). Others wanted to facilitate the growth of these liabilities by allowing bank reserves to continue to decline for a time. No decisions were made. The Committee also discussed, but drew no conclusions, about the desired maturity composition of the Treasury portfolio.

The FOMC has adopted a "patient" posture in its policy, a stance supported by the staff forecast presented to the Committee. The staff expected slightly slower GDP growth than it did previously, and it revised up slightly its assumption for labor force participation. As a result, resource utilization was not as tight as previously believed. The forecast had the economy growing at its potential rate this year and next before slipping below potential in 2021. Such an environment is conducive to contained inflation, and the staff nudged its inflation projection lower.

Fed officials seemed to focus on inflation and its surprising restraint. They cited restrained expectations of inflation as a possible explanation. Alternatively, labor market conditions might not be as tight as previously believed (i.e. the unemployment rate that represents full employment might be lower than previously believed). Some mentioned an improvement in productivity growth as a possible factor (productivity grew at an annual rate of 2.2 percent in the past three quarters, about a percentage point faster than the recent average).

The Committee briefly discussed policy beyond the current meeting, and a "majority" of officials felt that the outlook would likely warrant steady policy over the balance of the year. This view offered a striking sentence in the minutes, but it is consistent with the dot plot published at the meeting, where 11 of the 17 dots showed steady policy.

The Committee discussed the dot plot and its effectiveness as a communication tool, and some took a disparaging view, arguing that the median dot is often misinterpreted as an assessment of the appropriate level of the federal funds rate. This group also noted that the plot could imply that policy is on a preset course. Others, however, felt that the plot was a valuable component of the information provided by the FOMC.