U.S. FOMC Review

- FOMC minutes: more info on tapering

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The September FOMC Meeting

Fed Chair Jerome Powell provided a good bit on information in his latest press conference on plans for tapering the Fed's asset purchase program. The minutes from the September meeting of the Federal Open Market Committee went further by offering a strong hint on how the Committee might proceed. The staff presented an illustrative path on tapering that seemed well received by policymakers: monthly reductions of $10 billion on Treasury securities and $5 billion on mortgage-backed securities. This path would complete the tapering process and leave the Fed out of the markets in eight months, although the minutes noted that the path could be altered if economic conditions changed. The effort could commence in either mid-November or mid-December. Mid-December might have a slight edge, as the minutes noted that other central banks had minimized adverse market reactions by providing advance notice of the tapering plan. Of course, the minutes of this meeting could be viewed as advance notice of the Committee's plans.

We found the FOMC's discussion of inflation interesting, as most officials seemed to alter their views, now seeing price pressure as more pronounced and longer-lasting than previously believed. Some officials mentioned upside risks because of rents increasing in response to higher house prices, and a shift in inflation expectations was seen as possible if price pressures were to persist. At the same time, officials saw the pressure as largely the result of supply-chain bottlenecks that eventually would be resolved. Thus, despite surprising force and persistence, the recent elevated inflation rate was still viewed by most officials as transitory.

While changing views on inflation were sufficient to alter the median expectation of the Committee (the latest Summary of Economic Projections showed a noticeable pickup in core inflation this year and small upticks in the next two years), the minutes also suggested that some officials still have strong dovish leanings. Several meeting participants argued that the recent pickup in inflation was the result of a handful of items that were influenced by the pandemic. In addition, some officials argued that downward pressure on inflation was likely to be evident in the years ahead because of employment remaining below its maximum level. These officials saw interest rates staying near zero for the next couple of years.