

U.S. FOMC Review

- FOMC minutes: generally hawkish, but a few possibly friendly elements

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The May FOMC Meeting

The minutes from the May meeting of the Federal Open Market Committee did not carry any major surprises. Fed officials were focused on inflation and saw an urgency in reducing price pressure. Rapid inflation had become evident in a broad array of goods and services (interesting that the minutes noted service inflation), and the outlook had been worsened by the Russian invasion of Ukraine and by lockdowns in China. Thus, policymakers planned to move “expeditiously” to a neutral posture, and they recognized that a restrictive stance might become appropriate. “Most” Fed officials expected that shifts of 50 basis points would be appropriate at the next couple of meetings.

While inflation concerns dominated the discussion, the minutes contained a few hopeful elements. For example, business contacts of some Fed officials indicated that supply constraints had eased, although problems were still significant and would take time to be resolved. Similarly, some Fed officials noted that price pressures might no longer be worsening; that is, inflation may have peaked. However, pressures remained elevated and it was too early to be confident that inflation had peaked.

The most dovish element of the minutes was the suggestion of a pause in the tightening process. While officials recognized the possibility of moving to a restrictive stance, the immediate objective is to move to a neutral posture. Once at neutral, the minutes noted that many policymakers will want to assess the Committee’s stance:

Many participants judged that expediting the removal of policy accommodation would leave the Committee well positioned later this year to assess the effects of policy firming and the extent to which economic developments warranted policy adjustments.