U.S. FOMC Review

- FOMC Minutes: upbeat views on the economy, but still highly supportive

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The September FOMC Meeting

The minutes from the September meeting of the Federal Open Market Committee had a generally positive tone, at least as positive as one can expect when the economy is dealing with a pandemic and still operating well below potential. The minutes noted that recent statistics had been stronger than expected and that policymakers and staff economists had revised up their forecasts. The more favorable views of Fed governors and Reserve Bank presidents were evident in the Summary of Economic Projections, which showed an upward revision to expected growth this year from -6.5 percent to -3.7 percent (less of a decline). The shift in the staff view was evident in that its alternative pessimistic scenario was now viewed as less likely than the baseline forecast. The staff had previously viewed the baseline and alternative projections as about equally likely.

This meeting was notable in that the Committee altered its forward guidance, providing clearer direction to market participants. The new guidance indicated that officials planned to maintain the current policy stance (fed funds target of 0.00% to 0.25%) until inflation reached two percent and was on track to “moderately” exceed two percent “for some time.” Thereafter, officials planned to maintain an “accommodative” stance until inflation was “moderately” above two percent “for some time.” The minutes did not provide additional insight into the meaning of “moderate” (i.e. how much inflation beyond two percent might be tolerated) or to the phrase “for some time” (i.e. how long will inflation be allowed to run above two percent). However, the minutes were careful to note (twice) that the new guidance did not represent an “unconditional commitment” to a particular policy path. If the economic outlook changed meaningfully, so too would the policy plans of the FOMC.

There was one policy change decided at the meeting that had not been previously revealed: because of improved market functioning, the Committee altered its purchase program on commercial mortgage-backed securities. Rather than seek to expand its holdings of these securities, the FOMC instructed the New York trading desk to purchase CMBS only to the extent necessary to sustain smooth market functioning. In addition, the desk was instructed to cease reinvesting repayments of CMBS. Although this change had not been previously announced, it could have been inferred by observing the Fed’s activity in this market. Purchases in recent weeks were often zero or only a few million (versus \$1 to \$2 billion per week when the program began in late March and usually well above \$200 million through May).