

U.S. FOMC Review

- FOMC Minutes: no new insights

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The January FOMC Minutes

Fed Chair Jerome Powell brought a hawkish tone to his press briefing after the January 26 meeting of the Federal Open Market Committee, but the minutes from that meeting were not quite as forceful. To be sure, the minutes recognized the strong labor market and noted that price pressure had broadened beyond the sectors most affected by the pandemic, but the meeting summary did not leave the impression that the Fed might be behind the inflation curve.

The minutes provided little discussion of possible paths for removing policy accommodation, most likely because possible changes were not under serious consideration as long as QE was still in place. The minutes noted, as did the policy statement from the meeting, that it would soon be appropriate to raise the target range for the federal funds rate. However, there was no information that would allow one to assess the probabilities of a 25 or 50 basis point shift to start or the likelihood of moving at consecutive meetings. The minutes noted that the pace of tightening would probably be faster than that in the previous cycle because the economy is stronger in this instance, but that does little to narrow the range of possibilities.

The Committee discussed the plan for reducing the size of the Fed's balance sheet, but the discussion focused on broad principles rather than operational details. The minutes provided a germ of information on the timing of balance sheet reduction, but only a germ: the process would most likely start sometime later this year.

The lack of urgency at this meeting was perhaps a reflection of the forecast presented by the staff of the FOMC, which saw an inflation rate of 2.6 percent in 2022. This view was revised up from the forecast of 2.1 percent presented in December, but it is still quite optimistic (almost unrealistic).