

U.S. FOMC Review

- FOMC: fighting inflation and inflation expectations

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Minutes from the June FOMC Meeting

The minutes from the June meeting of the Federal Open Market Committee did not contain any notable revelations, but they supported the view that the Fed is on an aggressive path of tightening. When Fed officials first began to suggest an adjustment in their policy stance, they talked of moving to a neutral position. No longer; now officials are intent on moving to a restrictive position. As noted in the minutes: "Participants concurred that the economic outlook warranted moving to a restrictive stance of policy". Moreover, the minutes raised the possibility of a bold move: "...they recognized the possibility that an *even more restrictive* stance could be appropriate if elevated inflation pressures were to persist." (Emphasis added.)

Of course, the elevated rate of inflation is the driver behind the Fed's tightening effort, but officials also are focused on inflation expectations. The minutes indicated that officials saw a pickup in inflation expectations as a "significant risk" in slowing or preventing a return to the inflation target of two percent. Policymakers were concerned about the pickup in expectations in various surveys of consumers, but they were heartened to a degree by long-term views of professional forecasters and market participants that were consistent with the Fed's inflation objective. The still-favorable view on expectations presumably was referring the Philadelphia Fed's survey of professional forecasters and break-even rates on Treasury inflation-protected securities.

In terms of the near-term outlook for monetary policy, the minutes noted that an increase of 50 or 75 basis points was likely to be appropriate at the July 26-27 meeting. The minutes did not offer any clues on the 50-75 choice, but recent public comments from several policymakers suggested a leaning toward 75.