Daiwa Capital Markets

U.S. FOMC Review

- FOMC Minutes: as might be expected (and hoped), focused on inflation

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

The September FOMC Meeting

- While Fed officials discussed current and prospective economic growth (modest with downside risks), they focused their discussion on inflation, and the tone was generally negative. The following phrases relating to inflation appeared at various points in the minutes:

  not yet responded appreciably to policy tightening
  declining more slowly than expected
  expected to persist in the near term

- Officials were more optimistic regarding the medium and long-term outlook because inflation expectations remained largely anchored.

- The minutes did not mention recession, but they made frequent referenced to "below-trend growth". Officials recognized that slower economic growth and higher unemployment are necessary to push inflation back to 2 percent. They seemed to welcome such a development.

- Not only are officials planning a restrictive policy stance that will slow growth, but they intend to hold to that position for some time. The minutes noted that officials planned to remain on a restrictive course even as the labor market softened. A "couple of" policymakers noted that history showed the danger of prematurely ending periods of tight monetary policy intended to bring down inflation.

- A need for tight policy also was evident in the economic forecast presented by the staff. The new projection was revised lower, but the staff made a larger downward adjustment in its estimate of potential growth, reflecting disappointing productivity growth and sluggish gains in labor force participation. Expected growth was above potential, which implied little progress in reducing inflation with the current policy stance.