U.S. FOMC Review

- FOMC minutes: committed to 2 percent inflation

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December FOMC Minutes

- The minutes from the December meeting of the Federal Open Market Committee carried a hawkish tone similar to that of Chair Jerome Powell at his post-meeting press briefing. The Committee slowed its pace of tightening at the meeting (50 basis points rather than 75), but the minutes noted that the deceleration was not an indication of any weakening in the resolve of policymakers to achieve price stability. The slower pace was merely a reflection of the fact that the Committee had made significant progress in moving toward a restrictive stance and therefore it was appropriate to take account of the cumulative change and its lagged effect on the economy. Policymakers anticipated that the tightening process would be ongoing.

- To emphasize the ongoing nature of policy tightening, the minutes noted shifts in the dot plot published with the meeting materials. All Fed officials had raised the expected federal funds rate for year-end 2023 from the view shown in September. Moreover, no Fed officials expected to reduce interest rates this year, a marked difference from the pivot evident in futures contracts for federal funds. The minutes also noted that “several” policymakers cautioned against premature loosening in monetary policy.

- The need for a restrictive stance was evident in the economic forecast presented by the staff. The new outlook was slightly more favorable than the projection in November, and more important, the staff revised downward its estimate of potential GDP. The changes left a larger gap between expected and potential activity that would need to be closed in order to slow inflation. The adjustment to potential GDP followed a significant downward revision in September in response to disappointing labor force participation and productivity.

- The December meeting took place in a friendlier financial environment than some earlier meetings did. Market interest rates had eased and stock prices had picked up noticeably from their October lows. The foreign exchange value of the dollar had eased from its lofty readings in October. Because monetary policy affects the economy through shifts in broad financial conditions, officials seemed disappointed in the easing, as the minutes noted that the changes would complicate the Committee’s effort to restore price stability.

- Recent inflation reports were mildly encouraging, but Fed officials were not deeply impressed. As chair Powell noted in his press conference, the minutes also indicated that it would take “substantially more evidence” to suggest that inflation was on a sustained downward path.

- All told, a hawkish tone.