U.S. FOMC Review

- FOMC minutes: officials encouraged by recent developments, but still hawkish

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The January 31-February 1 FOMC Meeting

- We can probably put less-than-normal weight on the minutes from the latest meeting of the Federal Open Market Committee because of the firm tone to some recent economic statistics (robust gains in employment and retail sales, and an uncomfortable reading on the CPI). Whatever leanings toward tighter policy the Committee had at the start of February, they have probably intensified in the past two weeks.

- Officials were generally pleased with the results of their tightening campaign, as economic growth showed signs of slowing. Although GDP rose 2.9 percent in Q4, policymakers focused on the increase of only 0.2 percent in private domestic final purchases (consumer spending, residential investment, and business fixed investment). Some officials noted the possibility of recession in 2023. Views on inflation also brightened, as a "few" officials felt that risks to inflation had become more balanced.

- While the economy and inflation were moving in the desired direction for the Committee, the minutes from the meeting still had a hawkish tilt. Although there were no dissents from the decision to raise the federal funds rate by 25 basis points, a "few" officials preferred to hike by 50 basis points. In addition, despite considerable tightening to date, all officials believed that ongoing increases in the federal funds rate would be appropriate. The case for continued tightening was bolstered by an easing in financial conditions, which "could necessitate a tighter stance of policy."

- The most notable argument for continued tightening was the tight conditions in the labor market. Officials noted "tentative" signs of improvement in the imbalance between labor supply and demand, but the Committee was still uncomfortable with the current setting. In addition, a couple of policymakers noted the poor performance in productivity in 2022 that complicated the situation in the labor market.

- The strength in the January employment report no doubt intensified the resolve of the FOMC to move to a restrictive stance. Some policymakers might argue more forcefully for a shift of 50 basis points in March, but we suspect that the Committee will stick with changes of 25, although policymakers might eventually have to go beyond the federal funds rate of 5.125 percent implied by the December dot plot.

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