Datanote: US FOMC Minutes, March

In one line: Some downside growth risks recognized, but attention mostly still on inflation

The March minutes repeatedly emphasize the uncertainty surrounding the outlook for both growth and inflation, but ongoing uncertainty over the near-term path of inflation dominated the discussion. Members "...anticipated that there would be some unevenness in monthly inflation readings as inflation returned to target" and "Some participants reported that business contacts had indicated that they were less able to pass on price increases or that consumers were becoming more sensitive to price changes". But they also "... expressed the view that recent data had not increased their confidence that inflation was moving sustainably down to 2%." The labor market was again said to be moving into better balance, and "Participants cited a variety of indicators that suggested some easing in labor market conditions, including declining job vacancies, a lower quits rate, and a reduced ratio of job openings to unemployed workers." But no one seems to have mentioned the plunge in NFIB hiring intentions or the surge in layoff announcements".

On the growth front, "...participants noted that consumption spending generally remained solid, although many commented that recent readings on retail sales had been soft. ...Many participants pointed to indicators such as higher credit card balances, greater use of buy-now-pay-later programs, or rising delinquency rates on some types of consumer loans as evidence that the finances of some lower- and moderate-income households might be coming under pressure." The continued strength of the payroll numbers, however, appears still to be trumping any emerging worries about both business and consumers' spending. That will change if payrolls soften as much as we expect in the second quarter.

The meeting began with a discussion of the balance sheet, in which "The vast majority of participants thus judged it would be prudent to begin slowing the pace of runoff fairly soon", with members "generally" in favor of cutting the pace of runoff by about half. The longer-run objective of having mostly Treasuries on the balance sheet was restated, and the slowdown in runoff will be achieved by adjusting the Treasury redemption cap, leaving the MBS cap unchanged.

The latest data will have reinforced worries over the stickiness of inflation and the strength of the labor market. If a Fed meeting were held today, we are confident that the outcome would be a forecast for no more than 50bp in easing this year. We worry this would not be enough, given the deterioration in many labor market leading indicators. But the Fed always puts more weight on backward-looking data, and this Fed, in particular, is still scarred by the “transitory” inflation fiasco. The risk that the Fed waits too long and moves too slowly is rising.