



The Fed

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Selected text of FOMC minutes

WASHINGTON (MarketWatch) — The following is a look at selected sections of the Federal Open Market Committee minutes from the Jan. 29-30 meeting, released Wednesday.

On the economy: Meeting participants indicated that they viewed the information received during the intermeeting period as suggesting that, apart from some temporary factors that had led to a pause in overall output growth in recent months, the economy remained on a moderate growth path. In particular, participants saw the economic outlook as little changed or modestly improved relative to the December meeting.



Reuters

President and CEO of the Federal Reserve Bank of St. Louis James Bullard gestures during an interview at the Federal Reserve Bank of St. Louis June 8, 2011.

Most participants judged that there had been some reduction in downside risks facing the economy: Strains in global financial markets had eased somewhat, and U.S. fiscal policymakers had come to a partial resolution of the so-called fiscal cliff. Supported by a highly accommodative stance of monetary policy, the housing sector was strengthening, and the unemployment rate appeared likely to continue its gradual decline. Nearly all participants anticipated that inflation over the medium-term would run at or below the Committee's 2% objective.

On the benefits of more bond buys: Most participants commented that the Committee's asset purchases had been effective in easing financial conditions and helping stimulate economic activity, and many pointed, in particular, to the support that low longer-term interest rates had provided to housing or consumer durable purchases. In addition, the Committee's highly accommodative policy was seen as helping keep inflation over the medium term closer to its longer-run goal of 2% than would otherwise have been the case.

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expose the Federal Reserve to significant capital losses when these holdings were unwound, but others pointed to offsetting factors and one noted that losses would not impede the effective operation of monetary policy. A few also raised concerns about the potential effects of further asset purchases on the functioning of particular financial markets, although a couple of other participants noted that there had been little evidence to date of such effects.

On what to do: Several participants emphasized that the Committee should be prepared to vary the pace of asset purchases, either in response to changes in the economic outlook or as its evaluation of

On the costs of more bond buys: Several participants discussed the possible complications that additional purchases could cause for the eventual withdrawal of policy accommodation, a few mentioned the prospect of inflationary risks, and some noted that further asset purchases could foster market behavior that could undermine financial stability. Several participants noted that a very large portfolio of long-duration assets would, under certain circumstances,

the efficacy and costs of such purchases evolved. For example, one participant argued that purchases should vary incrementally from meeting to meeting in response to incoming information about the economy. A number of participants stated that an ongoing evaluation of the efficacy, costs, and risks of asset purchases might well lead the Committee to taper or end its purchases before it judged that a substantial improvement in the outlook for the labor market had occurred.

Several others argued that the potential costs of reducing or ending asset purchases too soon were also significant, or that asset purchases should continue until a substantial improvement in the labor market outlook had occurred. A few participants noted examples of past instances in which policymakers had prematurely removed accommodation, with adverse effects on economic growth, employment, and price stability; they also stressed the importance of communicating the Committee's commitment to maintaining a highly accommodative stance of policy as long as warranted by economic conditions. In this regard, a number of participants discussed the possibility of providing monetary accommodation by holding securities for a longer period than envisioned in the Committee's exit principles, either as a supplement to, or a replacement for, asset purchases.

On economic thresholds in the rate guidance: On the whole, participants judged that financial markets had adapted to the shift from date-based communication to guidance based on economic thresholds without difficulty, although a few participants stated that communications challenges remained. For example, one participant commented that some market participants appeared to have incorrectly interpreted the thresholds as triggers that, when reached, would necessarily lead to an immediate rise in the federal funds rate. A couple of participants noted that this policy tool would be more effective if the Committee were able to communicate a consensus expectation for the path of the federal funds rate after a threshold was crossed. One participant also indicated a preference for lowering the threshold for the unemployment rate as a means of providing additional accommodation.

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