Central Banks

FOMC Minutes: March 15th – 16th Meeting

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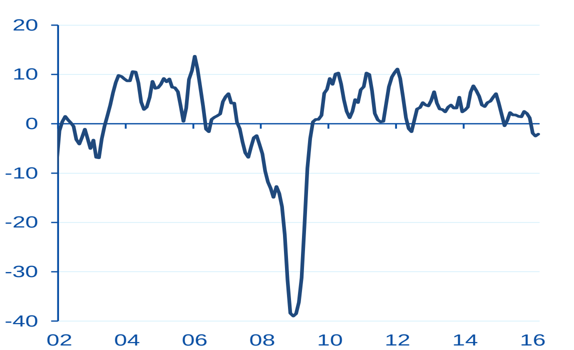
Hawks Fighting for Faster Action as Doves Maintain Cautious Approach

- **Stronger inflation and steady labor market improvement increase support for more immediate action**
- **Committee members divided on possible April announcement, though doves likely to win out due to heightened global uncertainty**
- **June remains in play for the next 25 basis point increase, closing out 2016 at 1.0%**

The minutes from the March FOMC meeting did not do much to clarify the Fed's policy plans for the coming months but instead confirmed the lingering uncertainties haunting the Committee. Views were mixed on the risks to the economic outlook as well as the appropriate response to incoming economic data. This builds off the latest round of post-meeting commentary from various FOMC members, with the pendulum swinging back and forth between hawkish and dovish. Despite Chair Yellen projecting a more dovish stance, there remains a wide range of views on how the Fed should proceed moving forward.

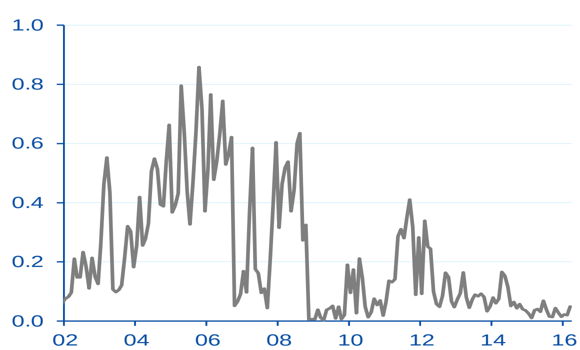
For the hawks, Esther George (FRB Kansas City) has taken the lead on urging the rest of the FOMC not to hold off any longer on reducing policy accommodation. She was the only dissenter at March's meeting, arguing that further delays "could increase financial distortions and risks to the economy and undermine the achievement of the Committee's longer-run objectives." Others have agreed that progress toward these objectives has been achieved and are jumping on the bandwagon for action sooner rather than later. A few more participants felt it was appropriate to increase the target range for the federal funds rate at the March meeting due to ongoing labor market improvements, stronger inflation data over recent months, and (at least some) stabilization in oil prices. They were also concerned that more gradual rate increases now may force faster increases later on that could cause economic and financial disruption. These hawks will certainly push for an increase at the April meeting and may gain further support if economic releases in the next few weeks are on par with expectations.

Chart 1
Labor Market Conditions Index (Index Change)



Source: FRB & BBVA Research

Chart 2
St. Louis Fed Price Pressures Measure (% Probability > 2.5% in 12 months)

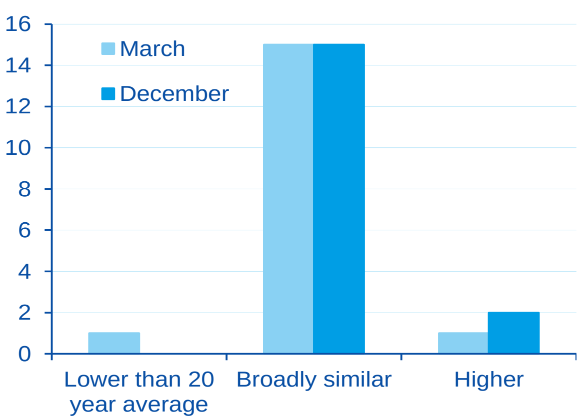


Source: St. Louis Fed & BBVA Research

Still, there are many doves left on the Committee who insist that “a cautious approach to raising rates would be prudent” and that “raising the target range as soon as April would signal a sense of urgency they did not think appropriate.” Although both employment and inflation data have met or exceeded expectations in recent months, the doves are still uncertain as to whether or not these improvements will last, particularly when it comes to inflation. Furthermore, the “asymmetry” argument – where the FOMC has less wiggle room to adjust if economic data prove to be weaker-than-expected but can move quicker on the upside – supports a more cautious strategy at this time.

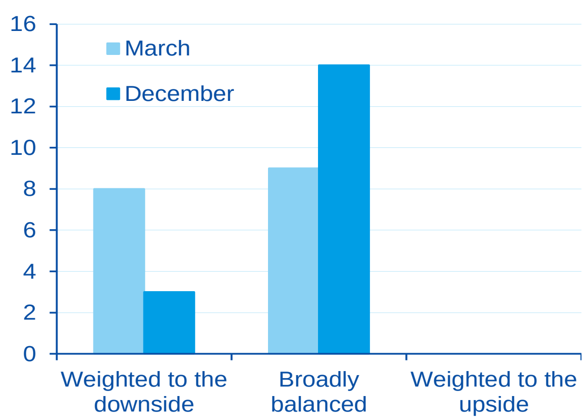
Global risks are still playing a big role in the Fed’s planning, with the doves pointing to ongoing financial market volatility as yet another reason not to rush ahead in policy normalization. According to the meeting minutes, heightened uncertainty regarding global growth “still posed appreciable downside risks to the domestic economic outlook.” In March, more Committee members agreed that risks to growth were tilted to the downside compared to the December meeting. Overall uncertainty remains broadly similar to average levels in the past 20 years.

Chart 3
Uncertainty about GDP Growth (# of participants)



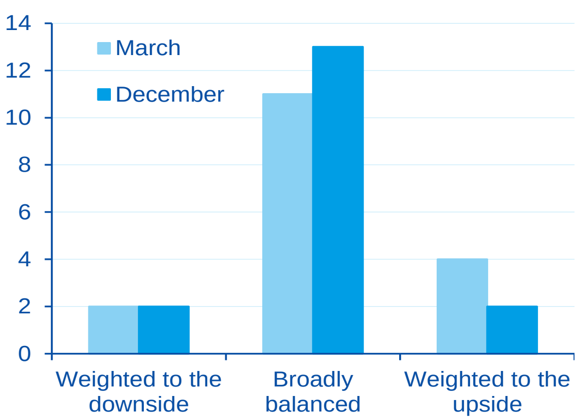
Source: FRB & BBVA Research

Chart 4
Risks to GDP Growth (# of participants)



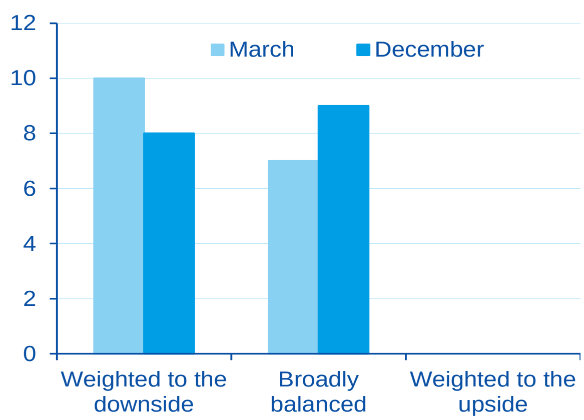
Source: FRB & BBVA Research

Chart 5
Risks to Unemployment Rate (# of participants)



Source: FRB & BBVA Research

Chart 6
Risks to Core PCE Inflation (# of participants)



Source: FRB & BBVA Research

Bottom Line: April Rate Rise Still Unlikely Despite Push from Hawks

The FOMC could be on the brink of another federal funds rate increase in the next few months, so long as economic data continue to evolve in line with their expectations. Still, a few days can make a world of difference, with the Fed more willing to hold off on further action if data surprises to the downside. Dovish undertones from the FOMC should not be taken for granted, as the hawks are making a push to move things along. However, they may be facing an uphill battle as ongoing economic and financial uncertainty plays right into the hands of the doves. There likely won't be enough support to encourage a rate increase at the April 26-27th meeting, but June remains very much in play. We continue to expect the next 25 basis point rise in June and another towards the end of the year, closing out 2016 at 1.0%.