Economic Research Department

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US

Fedwatch

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## Minutes of FOMC Meeting, April 30th 2008

- The minutes showed that expectations for 2008 had deteriorated since the previous meeting. Participants lowered their forecast for GDP growth in 2008 while revising up sharply their outlook for inflation.
- FOMC members expected a recovery in 2009, but admitted that downside risks to the outlook were significant. Risks to growth were linked to the enduring strains in the credit market, while risks to inflation were mainly associated with changing expectations.
- As long as their new base scenario materializes, the Fed is ready to pause.

The Fed minutes ratify the perception that the Fed is willing to pause. They acknowledged the poor performance of the economy in the first quarter, with deteriorated labor market conditions, soft manufacturing activity, and ever weakening household sentiment indices. Although financial conditions had improved in the inter-meeting period since March 18th, strains in some short-term funding markets increased and financial institutions had continued to tap the Fed's credit programs. The housing market had continued to weaken with little indication of bottoming in the near future.

When considering the worsening data, the Fed revised down the economic outlook for 2008. Mid year consumption was likely to be supported by the fiscal stimulus package, but the impact would be temporary. Projections for GDP growth fell to 0.3%-1.2% during 2008 (previously 1.3%-2%) and 2%-2.8% for 2009.

Inflation readings were mixed. They acknowledged that inflation had been contained up to that moment, but recognized the existence of raising inflationary risks, mainly coming from a potential increase in inflation expectations. Inflation forecasts were revised up to 3.1%-3.4% for 2008, but they continued to expect this inflationary outcome to be transitory, with PCE falling back to sustainable levels in 2009.

Some participants noted that rates were historically low given the inflationary outlook, but the statement was refuted by others who claimed that financial weakness more that justified current rates. Nonetheless, everyone agreed that the Fed should remain extremely alert to any growing perception that monetary policy had turned both accommodative and inflationary. Therefore they concluded that it was unlikely that they would again cut rates, even if they were faced with mild (and expected) deterioration of future activity.

Messrs. Fisher and Plosser were the dissenting votes regarding the 25 bp cuts announced after the meeting. They claimed that the cut was not required and that the Fed should be starting the pause right that moment.

Economic Projections of Federal Reserve Governors and Reserve Bank Presidents(Percent)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **Cenrtal Tendency (excludes three largest and lowest proyections)** | | | |
| Growth of real GDP | 0.3 to 1.2 | 2.0 to 2.8 | 2.6 to 3.1 |
| *January projections* | *1.3 to 2.0* | *2.1 to 2.7* | *2.5 to 3.0* |
| Unemployment rate | 5.5 to 5.7 | 5.2 to 5.7 | 4.9 to 5.5 |
| *January projections* | *5.2 to 5.3* | *5.0 to 5.3* | *4.9 to 5.1* |
| PCE inflation | 3.1 to 3.4 | 1.9 to 2.3 | 1.8 to 2.0 |
| *January projections* | *2.1 to 2.4* | *1.7 to 2.0* | *1.7 to 2.0* |
| Core PCE inflation | 2.2 to 2.4 | 1.9 to 2.1 | 1.7 to 1.9 |
| *January projections* | *2.0 to 2.2* | *1.7 to 2.0* | *1.7 to 1.9* |
| **Range (all proyetions)** | | | |
| Growth of real GDP | 0.0 to 1.5 | 1.8 to 3.0 | 2.0 to 3.4 |
| *January projections* | *1.0 to 2.2* | *1.8 to 3.2* | *2.2 to 3.2* |
| Unemployment rate | 5.3 to 6.0 | 5.2 to 6.3 | 4.8 to 5.9 |
| *January projections* | *5.0 to 5.5* | *4.9 to 5.7* | *4.7 to 5.4* |
| PCE inflation | 2.8 to 3.8 | 1.7 to 3.0 | 1.5 to 2.0 |
| *January projections* | *2.0 to 2.8* | *1.7 to 2.3* | *1.5 to 2.0* |
| Core PCE inflation | 1.9 to 2.5 | 1.7 to 2.2 | 1.3 to 2.0 |
| *January projections* | *1.9 to 2.3* | *1.7 to 2.2* | *1.4 to 2.0* |