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## April FOMC minutes: Economic outlook broadly unchanged, higher fed funds rate still expected by year-end

- According to the minutes of the April 28-29 FOMC meeting, participants discussed to what extent the unexpected weakness in domestic economic activity in the first quarter was temporary. The disappointing domestic demand performance in Q1 was primarily attributed to transitory factors (adverse winter weather conditions and West Coast port strikes), with some participants highlighting potential seasonal weakness in the first quarter of each year. On balance, the Committee noted a number of fundamental factors that could boost private consumption including low interest rates, improving consumer confidence, and rising household real income. Nevertheless, some participants suggested that the negative effect of the earlier dollar appreciation on net exports and the damping impact from the earlier decline in energy prices on firms' investment spending might be larger and longer-lasting than previously expected.
- The outlook for US growth and inflation has not changed significantly, while risks are tilted to the downside. More specifically, the medium-term staff projection for real GDP growth was revised modestly higher in April from March, mainly due to a lower projected path for the foreign exchange value of the dollar. Regarding the inflation outlook, the staff forecast was revised modestly higher in the near term, reflecting the slightly higher-than-expected recent monthly core CPI readings and a bit higher projected path for crude oil prices.
- In addition, the Committee noted that the pace of improvement in labor market conditions had slowed, probably due to layoffs in energy-related sectors. Other information received from business contacts suggested a tightening in labor markets, with shortages of skilled workers reported in some sectors and increased transitions of workers to better-paying jobs. In addition, the majority of FOMC members argued that rising wage growth should not play a decisive role in their assessment for the timing of a rate tightening cycle, as there was only a loose relationship between nominal wage growth and inflation.

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<sup>1</sup> <http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150429.pdf>

- As far as the timing of the first rate hike is concerned, a few FOMC participants suggested that the expected improvement in the economic outlook would be sufficient by the time of the June meeting to warrant a Fed funds rate hike. However, many participants thought it might be unlikely that the economic improvement by June would justify a hike. In our view, the Central Bank may start its monetary normalization process in September, at the earliest. Nevertheless, we do not rule out entirely the Fed to delay the first interest rate increase until Q4 2015, especially if inflation remains well below its medium-term 2% inflation target and the USD remains well supported.

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