



## TD Economics

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### Data Release: Federal Reserve minutes show debate over tapering purchases continues

- The minutes of the Federal Open Market Committee (FOMC) meeting on April 30/May 1 showed little change in the economic outlook of participants, but an ongoing debate about how long and to what extent to continue asset purchases.
- The most notable item in the minutes was the discussion of tapering asset purchases. A growing number of FOMC members appear willing to adjust down the pace of purchases sooner rather than later.
  - In particular, “a number of participants expressed willingness to adjust the flow of purchases downward as early as the June meeting if the economic information received by that time showed evidence of sufficiently strong and sustained growth; however views differed about what evidence would be necessary and the likelihood of that outcome.”
- At the same time, the prevailing view of the committee appeared to be on maintaining its flexibility to either raise or lower the pace of purchases as the economic outlook changes.

### Key Implications

- Financial markets appeared to greet the minutes (as well as Chairman Bernanke’s earlier testimony to Congress) as indicating a tightening bias among Fed members. Both stocks and bond markets sold off after the release. This is an overreaction. What the minutes really indicate is an FOMC that is waiting on the economic data to confirm its story.
- A tapering of asset purchases by June does not appear to be in the cards, especially given the string of economic data since the Fed’s meeting on April 30-May 1. In particular, as Bernanke noted earlier, inflation has continued to fall further below the Federal Reserve’s target. Alongside declining commodity prices, this raises the chance that the Fed will have to lower rather than raise its outlook for inflation.
- The bottom line is that with sequestration weighing on growth, the economy is unlikely to accelerate to a pace consistent with a sustainable improvement in the labor market until the second half of this year. This will stay the Fed’s hand on tapering purchases, likely until their meeting in September.

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