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Weekly Commentary

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Minutes show FOMC's tough talk softening

Just how far the Federal Reserve is willing to go to slay inflation might be up for debate following the release of the minutes from the July Federal Open Market Committee (FOMC) meeting, released last week.

On the one hand, the committee didn't change its tune because, "there was little evidence to date that inflation pressures were subsiding." Policymakers reasserted they would not hesitate to continue raising rates "to appropriately restrictive levels, if inflation were to run higher than expected." That the debate among them—also playing out in the fed funds futures market--is between a 50 or 75 basis-point hike in September gives credence to this. Both would be large jumps.

But on the other hand, some participants were open to a pause in the near future, during which they would assess the impact of the hikes so far, "to ensure that inflation was firmly on a path back [down]." This is probably what gave Fed Chair Jerome Powell the confidence to say in his press conference following the July FOMC meeting that smaller increases likely soon would be more appropriate (the Fed's favorite word). But the mention that rates might peak in at least the medium term was telling.

While Powell will give a well-watched speech at the Fed's Jackson Hole, Wyo., monetary policy symposium, the data points that follow might not offer enough signs inflation truly is abating. However, the return to price stability might not be as far away as it seemed earlier in the year.

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