Minutes of the MONETARY POLICY PANEL

Meeting of February 17, 2012

Present: External advisors: Markus Brunnermeier, Mark Gertler, Nobuhiro Kiyotaki, Frederic Mishkin, Ricardo Reis, Chris Sims, Michael Woodford. Internal Staff: Tobias Adrian, James Bergen, Christine Cumming, William Dudley, Gauti Eggertsson, Jon Faust (Board of Governors), Marc Giannoni, Tom Klitgaard, Jamie McAndrews, Jonathan McCarthy, Meg McConnell, Rania Perry, Simon Potter, Argia Sbordone.

The roundtable discussion developed around the main items laid out in the meeting Agenda, the new communication tools and the modified forward guidance, touching upon the issues of available tools for further policy accommodation and the European situation towards the end of the meeting.

New communications tools

On the Long-Run Goals and Policy Strategy Statement

MPP members were supportive of the general idea of providing such a statement, with some stating that it would help in better framing policy decisions and the communications surrounding policy decisions. In particular, they favored providing a numerical goal for inflation as well as giving estimates of the longer-run normal rate of unemployment while also stating reasons for why it is not appropriate to provide an explicit employment goal. The panelists were also generally supportive of the idea behind the policy strategy paragraph of a balanced approach to addressing deviations from the FOMC's goals. Nevertheless, some members suggested some enhancements to the statement and the communication surrounding it. These suggestions included:

- Issuing a Monetary Policy Report, similar to those put out by some central banks (e.g., Riksbank, Norges Bank), to be published along with the FOMC policy statement.
- Clarifying more explicitly to the public that core PCE and overall PCE inflation are expected to converge over the longer run, and that core PCE inflation constitutes an important signal for future overall inflation.
- Providing further clarification over time to the policy strategy portion of the document.
- Providing further clarification to the concepts of longer run "normal" unemployment rate and "maximum employment", as well as explaining the reasons behind changes in estimates of the natural rate of unemployment that will be necessary over time.
- Possibly including financial stability as an explicit objective.

On the FFR projections in the SEP

MPP members generally stated that publishing FFR projections in the SEP is a useful step in providing greater transparency of monetary policy, but many suggested that the economic forecasts and the FFR projections of individual FOMC participants should be linked. Such linking would provide context for the differences in the FFR projections across FOMC participants, helping to understand whether they should be attributed to different reaction functions of the participants or to their different forecasts.

Some MPP members noted that there could be some improvement in the communication of uncertainty and risks from the current practices in the SEP. There was also some discussion of aggregating the SEP projections across FOMC participants, although it was noted that the size of the FOMC and the possible inclusion of non-voting participants would make it difficult to construct a FOMC policy rate path from the SEP.

Modified forward guidance

Most MPP members saw the lengthening of the guidance period ("exceptionally low levels of the federal funds rate at least through late 2014") as providing additional reasonable accommodation. For the most part, the panelists expressed the view that the public did not understand this guidance as an unconditional commitment. While some members argued that it would be desirable to eliminate the date altogether as it has the potential to create confusion about the nature of the commitment for future policy, other argued instead that the date announcement may provide a useful signal to the markets.

There was also discussion concerning adjusting the date in the forward guidance. Generally, members believed that for reasons of credibility, the date should not be adjusted often and any adjustments should be discrete. It was also noted that because of the exit strategy principles released by the FOMC, adjusting the date would also have implications for the expected path of the Federal Reserve balance sheet.

Additional issues

MPP members also discussed policy options in the current environment if economic developments would warrant further accommodation. Consistent with the previous discussion, most members saw extending forward guidance as the preferable option, although many said that the threshold for extending the forward guidance is probably higher than it was in the January FOMC statement.

Members said that a further expansion of the Federal Reserve balance sheet could be considered, but they generally saw this as a less desirable option because (1) the benefits from a further expansion were less certain; (2) there is public concerns about the expansion of reserves (as was evident at the onset of the second large scale asset purchase in November 2010); and (3) an even larger balance sheet complicates the exit from extraordinary accommodation.

In the last part of the meeting, members discussed financial stability issues and the situation in Europe. Participants expressed concern for the delays in addressing the sovereign debt crisis, arguing that it was imperative now to take advantage of the time provided by the LTRO to make the necessary reforms in the region to put sovereign debt, growth, and financial stability in these countries on a sustainable path.