Minutes of the MONETARY POLICY ADVISORY PANEL

Meeting of October 11, 2013

Present: External advisors: Gauti Eggertsson, Mark Gertler, John Leahy, Frederic Mishkin, Ricardo Reis, Julio Rotemberg, Alberto Torres Garcia. Internal Staff: Stefania Albanesi, Richard Crump, William Dudley, Stefano Eusepi, Marc Giannoni, Linda Goldberg, Jamie McAndrews, Jonathan McCarthy, Paolo Pesenti, Simon Potter, Robert Rich, Aysegul Sahin, Argia Sbordone.

The roundtable discussion largely was centered on the items in the meeting agenda: a perspective on the current outcome-based asset purchase program and the markets' reactions to recent FOMC communication. The panelists also discussed and offered their views on other current economic issues.

Interpretation of the September decision "not to taper"

The panelists first discussed some of the issues associated with the communication of an outcome-based policy strategy. Then they offered their views on whether the September FOMC decision was consistent with the illustrative scenario laid out by the Fed Chairman at the June press conference, as well as their suggestions on how better communication could have mitigated market reactions.

Panelists were divided on the extent to which the market reaction to the September FOMC decision reflected poor communication on the part of the FOMC—leading markets to be surprised—or some misinterpretation of the communications on the part of market participants. On the one hand it was acknowledged that the Chairman had stated at the June press conference that the path of purchases would be conditional on the evolution of the economy. On the other hand, panelists noted that it was difficult to determine precisely which economic variables and their evolution to associate with a purchase path. Panelists also noted that the Chairman did not mention that the evolution of LSAPs would also depend on financial conditions, and these turned out to change following the June FOMC meeting and may have influenced the September decision.

Panelists supporting no tapering at this time pointed out that economic conditions had retreated from early June, and the risks associated with the fiscal situation were adversely affecting the outlook. Those panelists who favored tapering at this time noted instead that the economy had evolved roughly consistently with the indicative path laid out by the Chairman and that markets had read the June press conference as a quasi-commitment to taper. In addition, they noted that the FOMC might have wavered because it was taken by surprise by the strong market reaction to the communications in June.

Panelists suggested several indicators that the FOMC could point to in order to provide more guidance to the future path of purchases, but one panelist warned against providing too much specific information about the conditions that would warrant changes in the pace of purchases, as such information invariably could not capture all the nuances in such decisions, and thus may not be properly understood by markets.

Addressing the difficulty of communicating the evolution of the purchase program, panelists also pointed out that the apparent diversity of views among FOMC members might have contributed to creating some confusion among market participants.

There was a suggestion from some panelists to point to the continued underperformance of inflation to support delaying dialing down the purchase program.

Other issues

In addressing more generally ways to make the communication more effective, panelists agreed that the statement has become a little too long, and that a more complete explanation of the Committee decisions should be offered through statements at more frequent press conferences. It was also suggested that more representation should be given to the views of the non-voters.

The discussion also covered possible consequences of a US fiscal crisis and a possible default on federal government debt.