

Recent FOMC Communications Initiatives

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On January 25, the Federal Open Market Committee (FOMC) took two important steps to provide more transparency about the operation of monetary policy in the United States. First, the FOMC provided a [statement](#) that outlines its longer-run goals and monetary policy strategy. This statement does not signal a change in the conduct of monetary policy. Instead, it explains how the FOMC interprets its statutory mandate of price stability and maximum employment.

The statement makes several important points:

- Over the longer run, price inflation is determined by monetary policy, and the FOMC judges that a 2% inflation target is most consistent with the Fed's statutory mandate.
- The maximum level of employment varies over time and depends on factors other than monetary policy. Still, this level can be estimated. FOMC participants' current estimates of the longer-run normal unemployment rate generally range from 5.2 to 6.0%.
- In setting monetary policy, the FOMC takes a balanced approach that seeks to guide inflation toward 2% and employment toward its estimated maximum level.

As a second step toward greater transparency, the FOMC also provided guidance about its expectations for future monetary policy in the form of [quantitative projections](#) of the federal funds rate. These policy rate projections, made by each of the 17 current Federal Reserve Presidents and Governors, are consistent with the associated inflation and unemployment forecasts that were also released.

The 17 funds rate projections are obviously not promises, but represent forecasts based on information available at the time. In addition, they are forecasts not necessarily of what the funds rate is likely to be, but what each individual FOMC participant believes it should be given current conditions and the Fed's statutory mandate.

These two FOMC initiatives to increase the transparency of monetary policy are a continuation of a long line of efforts to improve the public's understanding of what the Fed does. This information can help households and businesses make better-informed economic and financial decisions, reduce economic and financial uncertainty, increase the effectiveness of monetary policy, and enhance the Fed's accountability and legitimacy. The overarching goal of these communication efforts is to improve the performance of the U.S. economy.

Two new communications initiatives

Two FOMC initiatives to increase the transparency of monetary policy released on January 25:

1. Statement of FOMC's Longer-Run Goals and Monetary Policy Strategy
2. Quantitative guidance regarding FOMC expectations for future monetary policy

Longer-run goals: Inflation target

“The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation.”

“The Committee judges that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate.”

Longer-run goals: Employment objective

“The maximum level of employment is largely determined by nonmonetary factors . . . [so] the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision.”

“ . . . FOMC participants' estimates of the longer-run normal rate of unemployment had a central tendency of 5.2 percent to 6.0 percent . . . ”

Policy strategy: A balanced approach

“In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level.”

“These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them . . . ”

Communication of FOMC forecasts

In 1979, in response to a Congressional mandate to report on “prospects for the future,” the FOMC started to provide semiannual economic forecasts.

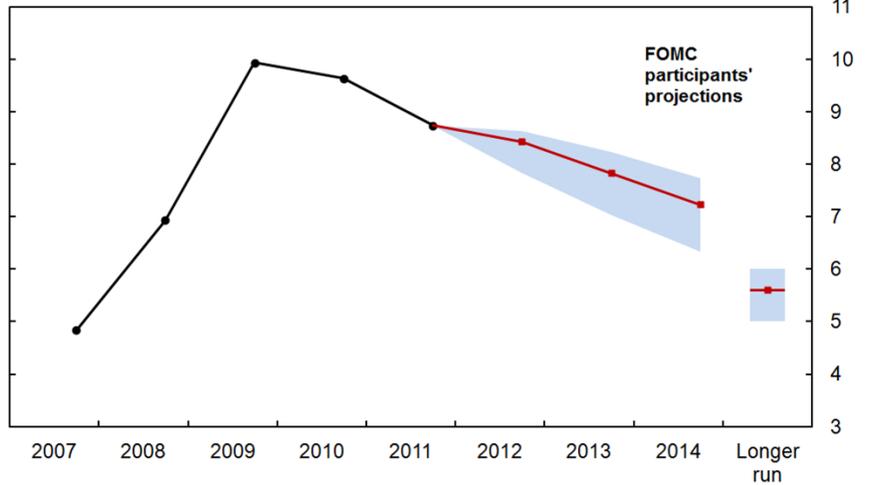
General appreciation of the value of such public central bank forecasts has grown over time.

Such forecasts are considered important for “transparency, predictability, accountability.”

FOMC projections for unemployment

Unemployment Rate, Q4

Range of FOMC projections in blue; midpoint of central tendencies in red

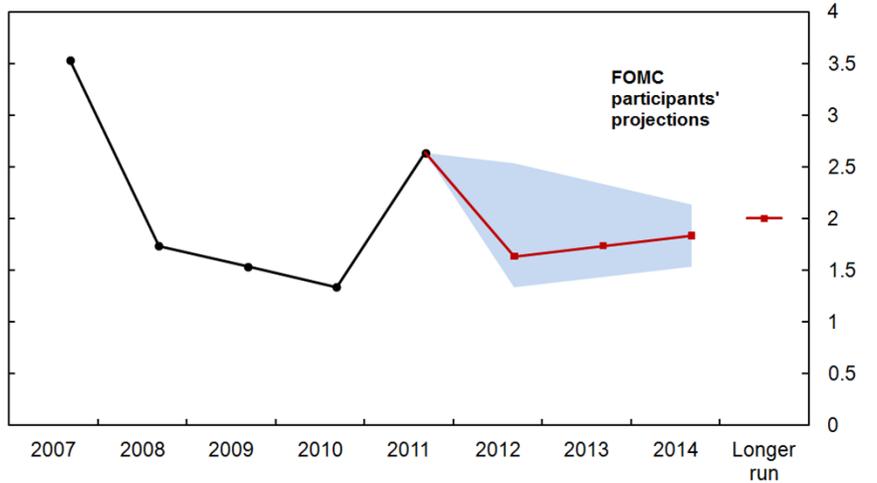


Note: The range includes all FOMC participants' projections, from lowest to highest. The central tendency excludes the three highest and lowest projections. Projections were released on January 25, 2012.

FOMC projections for inflation

PCE Inflation, Q4/Q4

Range of FOMC projections in blue; midpoint of central tendencies in red

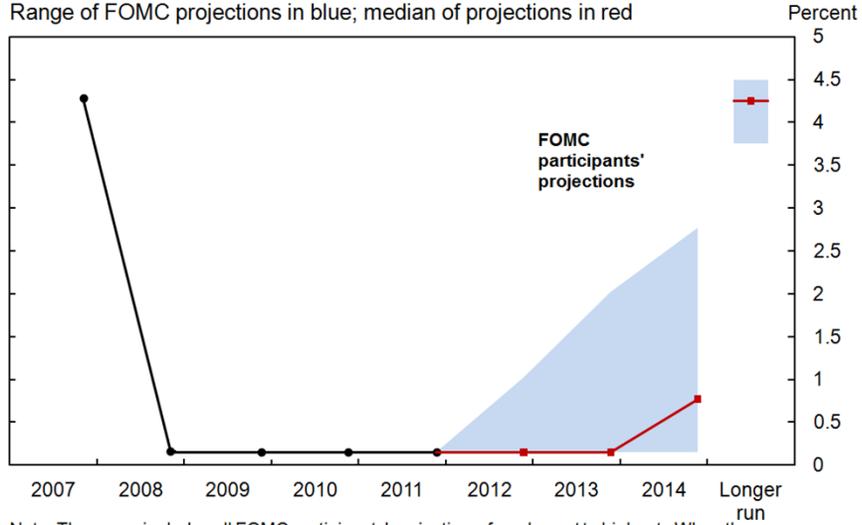


Note: The range includes all FOMC participants' projections, from lowest to highest. The central tendency excludes the three highest and lowest projections. Projections were released on January 25, 2012.

FOMC projections for fed funds rate

Target Federal Funds Rate, End of Year

Range of FOMC projections in blue; median of projections in red



Note: The range includes all FOMC participants' projections, from lowest to highest. When the projections are ranked in ascending order, the median is the middle one. Projections were released on January 25, 2012.

Timing of initial increase in funds rate

In which year should the funds rate first be raised?

