IMPROVING U.S. MONETARY POLICY COMMUNICATIONS

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FOMC Communications

- Enormous progress since 1993
  - Transparency fosters accountability and enhances credibility
  - Level and uncertainty of inflation declined markedly

- Communications reinforce commitment to mandate
  - Price stability
  - Maximum sustainable employment

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Can we find further improvements?

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Improving Communications

- Interviews

- Objectives
  - Link key communications to annual statement on goals
  - Simplify public statements (while conveying divergences of view)
  - Clarify how policy will react to changing conditions
  - Highlight policy uncertainty and risks

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Improving Communications

- Interviews

- **Objectives**
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  - Link key communications to annual statement on goals
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Our Analysis

- Interviews

- What we learn from the SEP

- Recommendations

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Interviews

- **Three open-ended questions**

  1. *What do you see as the primary objectives of FOMC communication?*

  2. *How do you think FOMC communication should evolve over the next five to ten years?*

  3. *What do you view as the greatest challenges to effective FOMC communication?*

- **24 respondents in writing and oral interviews**

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Frequency of Topics Mentioned
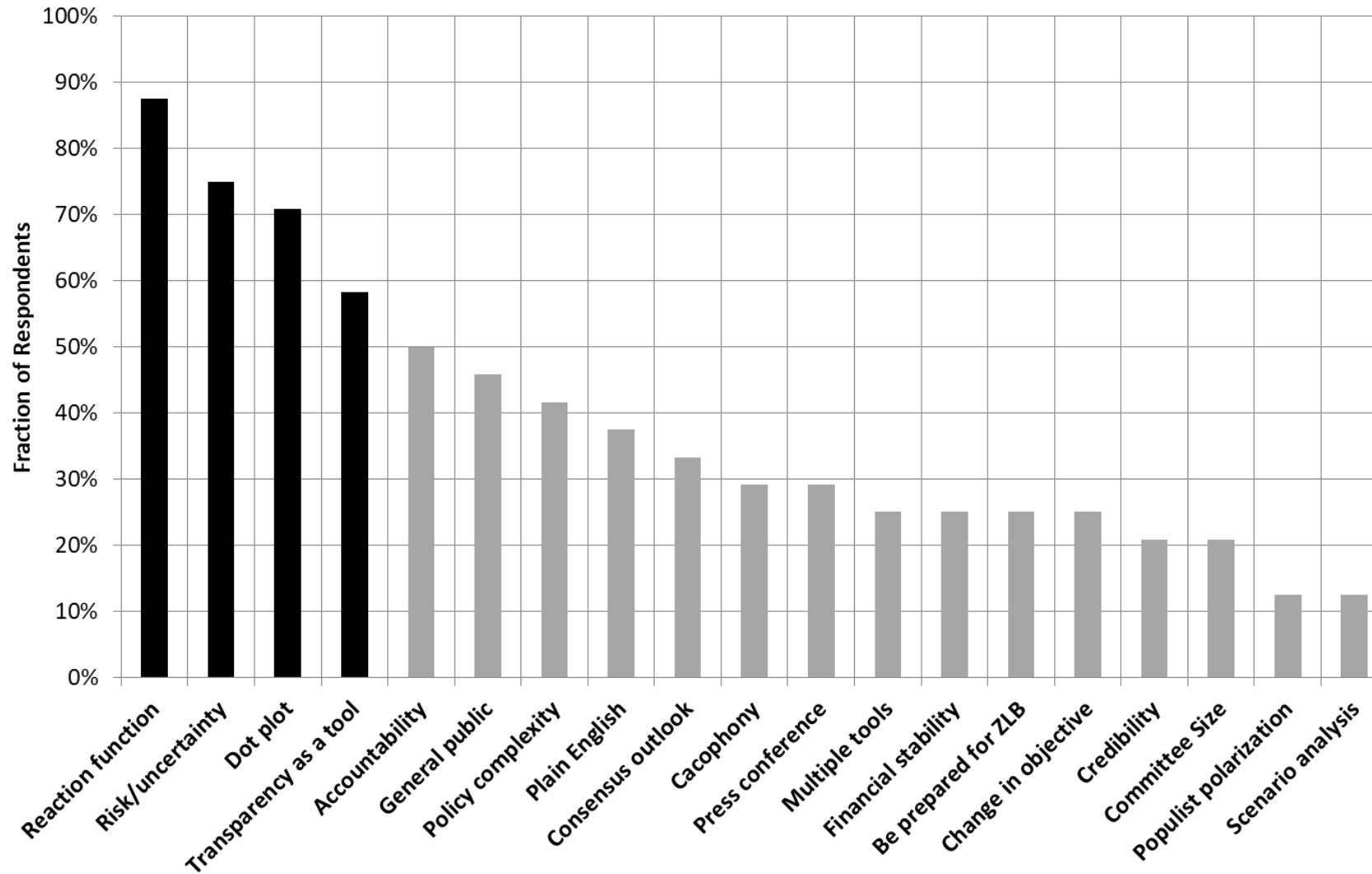
- Policy reaction function
- Uncertainty and risks
- Dot plot/matrix
- Transparency as a tool
- Communicating w/ public in plain English

The Survey of Economic Projections (SEP)

- Information in the median

- Incremental value of the matrix

- Unavoidable policy uncertainty

The Median Projections

- Assume representative policymaker

- Interpret simple reaction function

- Estimate annual equilibrium real rate

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SEP Median Implied Equilibrium Real Rates
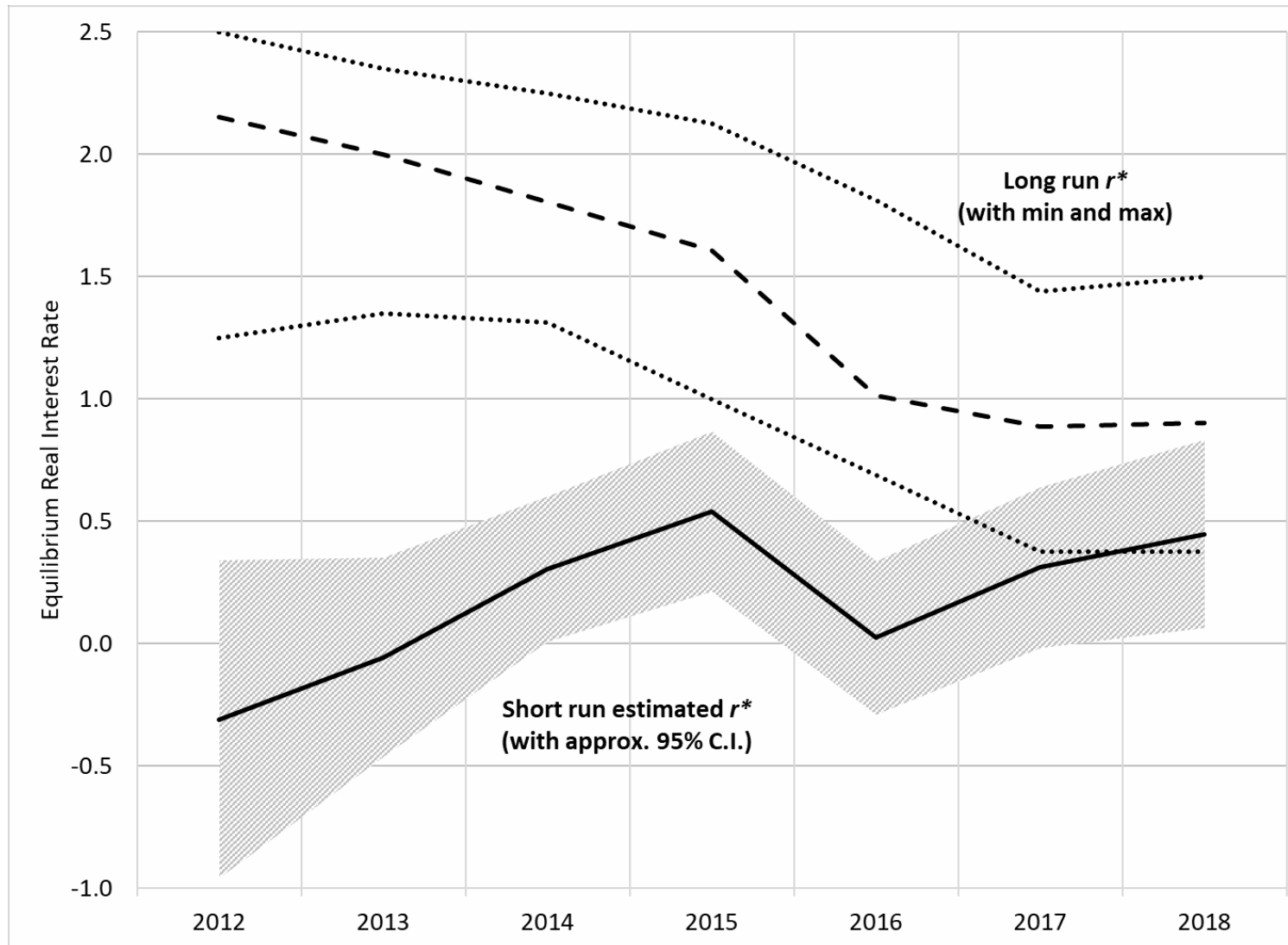
Long run r* falls:
   +2.15% to + 0.90%

Short run r* rises:
   −0.31% to +0.44%

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The Matrix

- Infer individual reaction functions
  - Meeting by meeting, unless there are names
  - Without names, people will infer identities

- Assess stability of the median

- Foster systematic policy and enhance deliberations

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Uncertainty and risks

- Historical projection error ranges
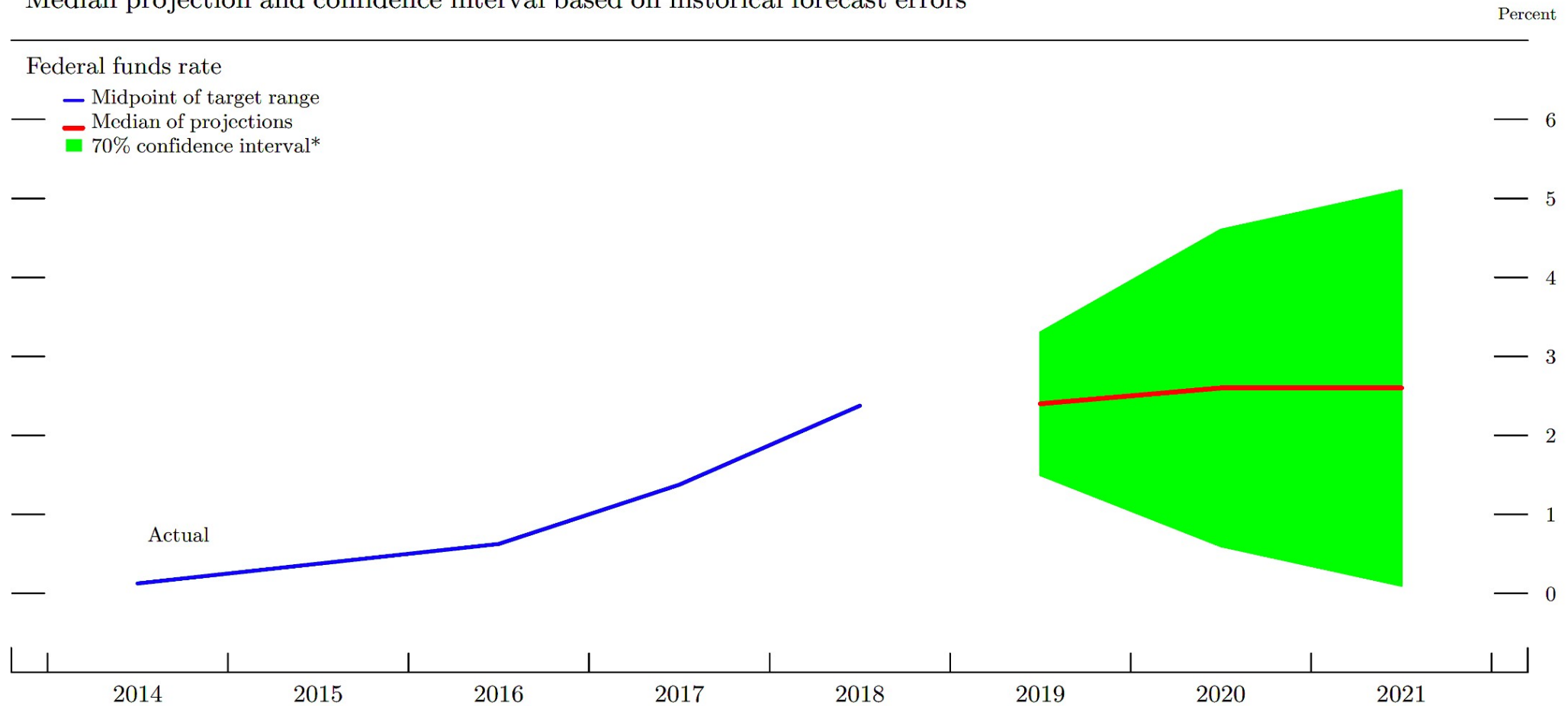- Published in the full SEP (with a lag)
- Severely underutilized

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Error Bands: March 2019 SEP

March 2019 Survey of Economic Projections for 2021		
	Median Projection (%)	70 percent range (%)
Inflation	2.0	**0.9 to 3.1**
Growth	1.8	**–0.1 to 3.7**
Unemployment	3.9	**2.2 to 5.7**
Federal Funds Rate	2.6	**0.1 to 5.1**

Source: Federal Open Market Committee Survey of Economic Projections, March 2019 (published April 10, 2019).

Federal Funds Rate Projection Fan Chart
(with 70% confidence, March 2019 SEP)

Median projection and confidence interval based on historical forecast errors

Percent

Federal funds rate
— Midpoint of target range
— Median of projections
■ 70% confidence interval*

6

5

4

3

2

Actual

1

0

2014   2015   2016   2017   2018   2019   2020   2021

Source: Federal Open Market Committee Survey of Economic Projections, March 2019 (published April 10, 2019).

Recommendations

- Focus on objectives to improve communications
    - Link all key communications to annual statement on goals
    - Simplify public statements (while conveying divergences of view)
    - Clarify how policy will react to changing conditions
    - Highlight policy uncertainty and risks

Recommendations

- Focus on objectives to improve communications
  - Link all key communications to annual statement on goals
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- Two Examples
  - Post-Meeting Statement
  - Concise Inflation Report
  (Other possibilities include the minutes)

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Recommendations

- Post-Meeting Statement
  - Elements
    - Statement of the decision, including votes
    - Rationale for the decision, including the reason for dissents
    - Discussion of uncertainties and risks
  - Principles
    - Readable by a high-school senior
    - Link to the Statement on Longer-run Goals and Monetary Policy Strategy
   - Foster group accountability (use first-person plural pronouns)

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A Simpler Post-Meeting Statement

| Date	Number of Words		Flesch-Kincaid Grade Level	
	Original	**Alternative**	Original	**Alternative**
Dec 2017	427	**270**	16.3	**12.5**
Mar 2019	303	**300**	16.4	**10.7**

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Recommendations

- Post-Meeting Statement

- Concise Inflation Report
  - Elements
    - Fan charts for inflation, growth, unemployment and the interest rate
    - Short narrative describing modal outcome, uncertainty and risks
    - Data appendix: medians, dot plot, error ranges, and matrix
  - Principles
    - Readable by a high-school senior
    - Link to the Statement on Longer-run Goals and Monetary Policy Strategy
    - Foster group accountability (use first-person plural pronouns)

Inflation Fan Chart: Uncertainty & Risks, Mar 2019
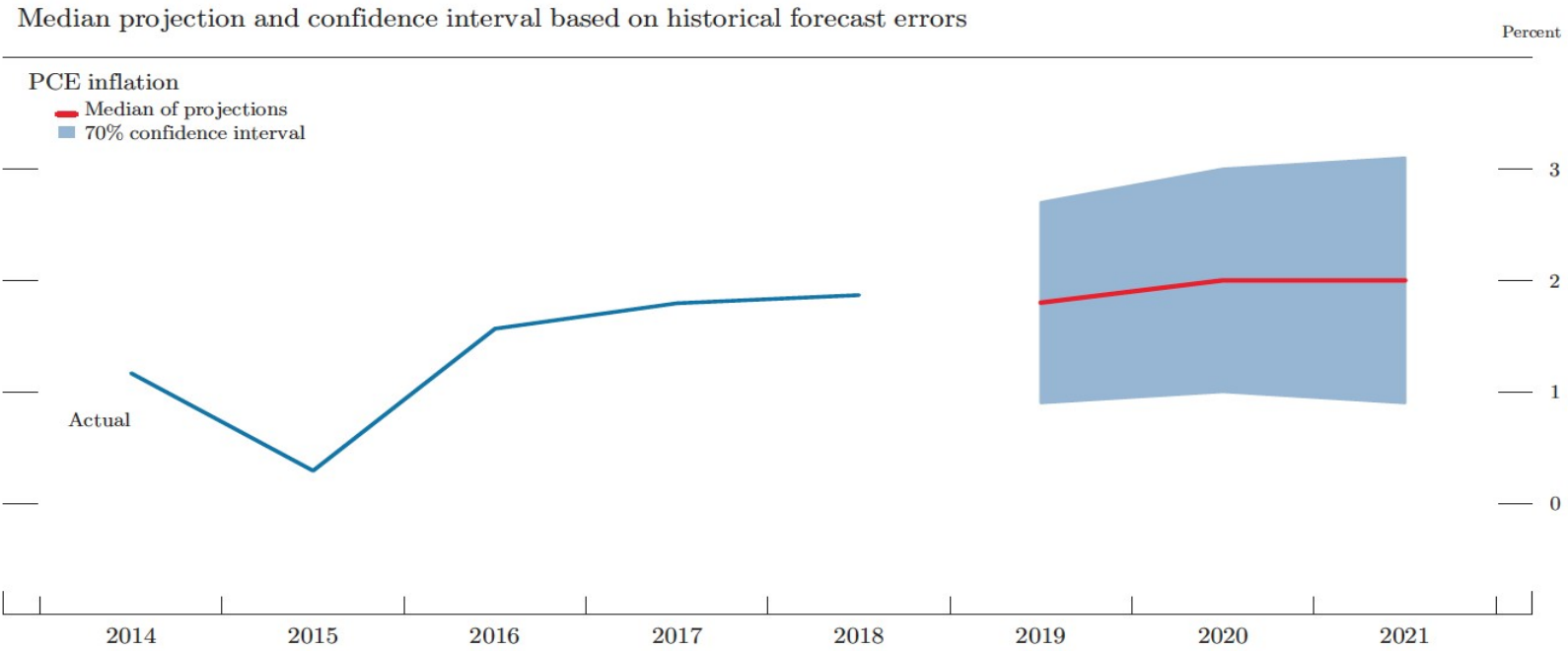
Median projection and confidence interval based on historical forecast errors
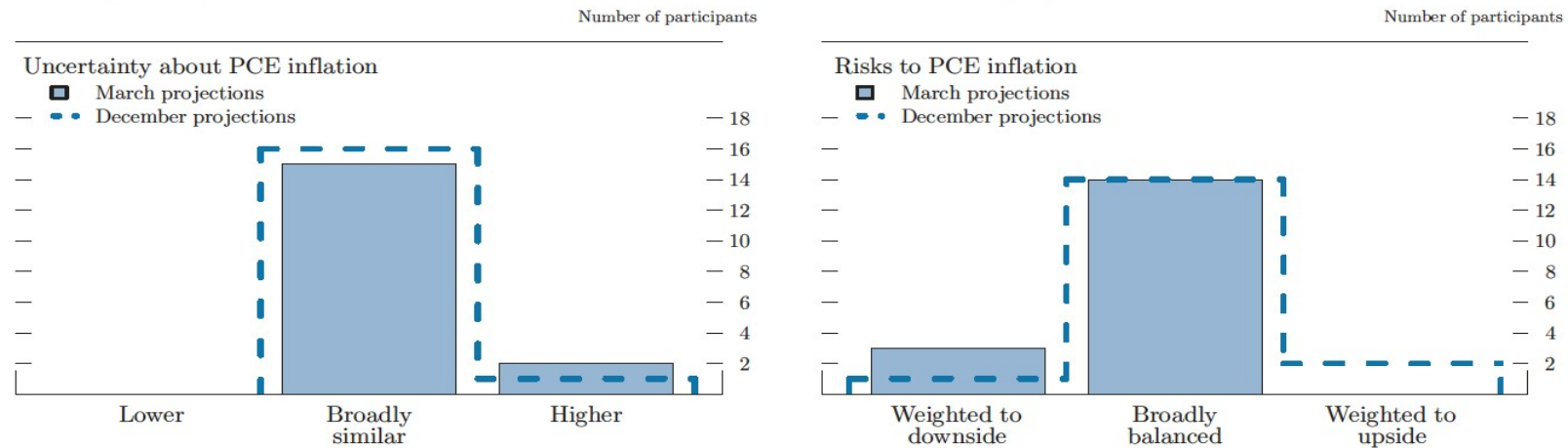
Recommendations

- Post-Meeting Statement

- Concise Inflation Report

- Benefits
  - Emphasizes link to longer-run goals
  - Broadens public access
  - Shifts focus to uncertainties and risks
  - Coordinates external communication
  - Improves quality of internal debate

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