Federal Reserve favors more predictability on rates

By Editor Test *Wed, Jan 4, 2012*

But “a number of members noted their dissatisfaction with the Committee's current approach for communicating its views regarding the appropriate path for monetary policy,” said the minutes of the Dec. 13 FOMC meeting, published this week.

In a move that recalls Alan Greenspan’s policy of telegraphing his Treasury rate hikes in the middle of the last decade, the Federal Reserve board revealed yesterday that it would be “incorporating information about participants’ projections of appropriate future monetary policy into the Summary of Economic Projections (SEP), which the FOMC releases four times each year.”

The new position was announced in the minutes of the December 13, 2011, meeting of the Federal Open Market Committee, which were released January 3, 2012.

While the step toward greater transparency seemed consistent with Fed chairman Ben Bernanke’s established policy of keeping the target range of the federal funds rate at zero to 0.25% until mid-2013—a policy that was reconfirmed in the Dec. 13 minutes—the Governors’ approval of a change in communication strategy wasn’t unanimous.

“A number of members noted their dissatisfaction with the Committee’s current approach for communicating its views regarding the appropriate path for monetary policy,” the FOMC minutes said. “Some participants expressed concern that publishing information about participants’ individual policy projections could confuse the public.”

“They saw an appreciable risk that the public could mistakenly interpret participants’ projections of the target federal funds rate as signaling the Committee’s intention to follow a specific policy path rather than as indicating members’ conditional projections for the federal funds rate given their expectations regarding future economic developments.”

In new comments on the Fed’s popularly-called “Operation Twist,” the FOMC minutes said, “The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion.”

The minutes continued, “The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion.”