

# Communicating Monetary Policy at the Zero Bound

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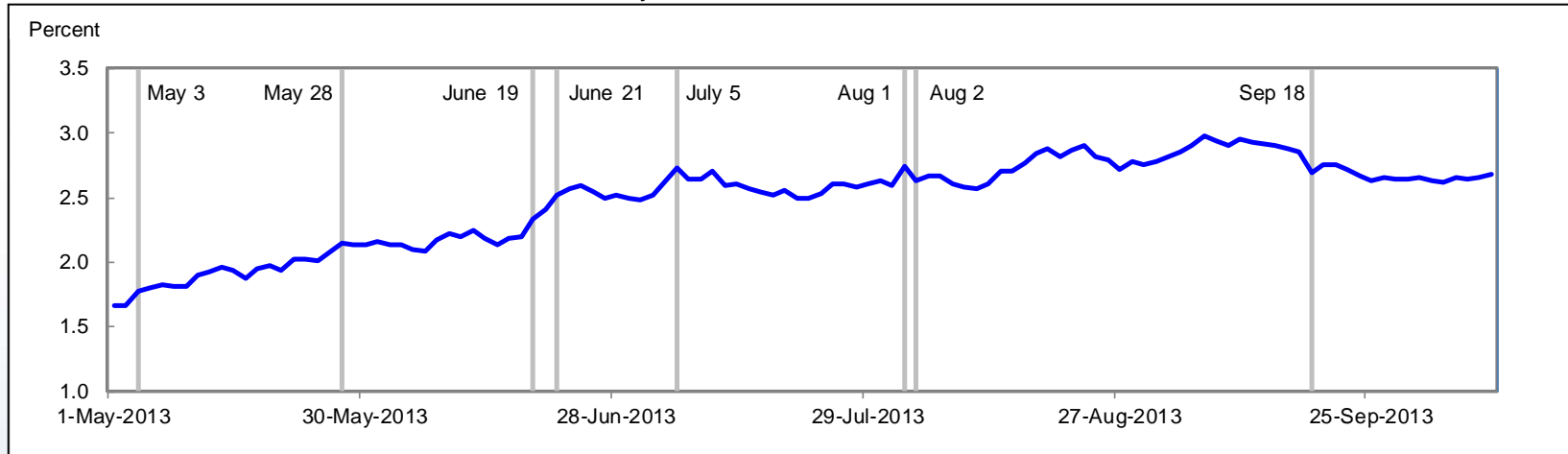
# Communication Challenges at the “Zero Bound”

- Policy tools include communication about sequence and nature of future actions
- Impact is highly dependent on reaction of a range of economic actors
- Lack of historical precedent for recent policy actions makes it difficult to gauge the precise impact of our communications

# Figure 1

## Largest Daily Changes in 10-Year Treasury Yield

May 1, 2013 - October 9, 2013



| Date               | 10-Year Treasury Bond Yield at Constant Maturity (%) | One-Day Change in Basis Points | Coincident Event   |
|--------------------|--|--------------------------------|--|
| May 3, 2013        | 1.78   | 12                             | Employment Release   |
| May 28, 2013       | 2.15   | 14                             |  |
| June 19, 2013      | 2.33   | 13                             | FOMC Meeting (with Press Conference)                                 |
| June 21, 2013      | 2.52   | 11                             |  |
| July 5, 2013       | 2.73   | 21                             | Employment Release   |
| August 1, 2013     | 2.74   | 14                             | Day after FOMC Meeting, Unemployment Insurance Weekly Claims Release |
| August 2, 2013     | 2.63   | -11                            | Employment Release   |
| September 18, 2013 | 2.69   | -17                            | FOMC Meeting (with Press Conference)                                 |

Source: Federal Reserve Board / Haver Analytics

# Sizable Reaction to Policy Announcements

- Challenge to the view that unconventional policies have little impact – large interest-rate and asset-price movements
- Interest-sensitive sectors have responded
- Powerful tools, but imprecise and unpredictable in terms of impact

# How Best to Use Communication?

- Primary objective is to clarify how potential current and future actions are consistent with achieving maximum employment and price stability
- Support achievement of dual mandate in acceptable time frame – currently missing on both elements of dual mandate
- Wide variety of events outside of the control of monetary policy – recent fiscal disruptions
- Monetary policy should always be data-driven and flexible enough to respond to unexpected shocks

# Optimal Policy

- Base decisions on full set of economic data
- Respond to data suggesting we are not on the desired path for the economy
- While it is appropriate to have a data-driven policy, it is a communication challenge – less clarity or guidance than desired
- Also, participants have varied interpretations of data

# Perhaps a Clear and Transparent Communication Approach?

- Could provide a calendar date – very transparent and clear communication
  - But a calendar guidance is not flexible
  - If the economy's path diverges from expectation, may be “locked” into inappropriate policy

# Intermediate Approach

- Tie communication to important economic variable
- Transparent and easily communicated
- Potential downside – What if the variable stops serving as an accurate proxy for economic conditions?
  - Possible example: unemployment rate
- Markets translate economic outcomes into calendar dates; tune out caveats about conditionality



# Figure 2

## Primary Dealer Survey Results: Distribution of Probabilities for the Timing of First Reduction

Survey Results as of September 9, 2013

| Average Distribution of Probabilities for the Timing of the Announcement of the First Reduction in Pace of Asset Purchases |              |          |          |                 |
|--|--------------|----------|----------|-----------------|
| Longer-Term Securities   | FOMC Meeting |          |          |                 |
|  | Sep 2013     | Oct 2013 | Dec 2013 | Later than 2013 |
| Treasuries   | 58%          | 12%      | 21%      | 9%              |
| Agency MBS   | 52%          | 12%      | 26%      | 10%             |

Source: Federal Reserve Bank of New York, *Survey of Primary Dealers*, September 2013

# Data-Driven Policy Can Be Difficult to Communicate

- September FOMC
  - Weaker economic data over the summer
  - Higher market interest rates than I expected
  - Risk of fiscal disruption
- Asset purchases not on a preset course, but communication has been challenging
- We have more to learn about communicating in uncertain and unprecedented times
- Our mandate remains the focus of policy