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**

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

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

<table>
<thead>
<tr>
<th>Average Distribution of Probabilities for the Timing of the Announcement of the First Reduction in Pace of Asset Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Longer-Term Securities</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Treasuries</td>
</tr>
<tr>
<td>Agency MBS</td>
</tr>
</tbody>
</table>

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