Accessible Version

Meeting of the Federal Open Market Committee
March 13, 2012 Presentation Materials

Presentation Materials (PDF)

Pages 188 to 213 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for
Financial Market Developments and Desk Operations

Brian Sack
March 13, 2012

Class II FOMC - Restricted (FR)

Exhibit 1

Top-left panel
(1)

Title: Equity Prices and Treasury Yields
Series: S&P 500 indexed to July 1, 2011, ten-year Treasury yield
Horizon: July 1, 2011 - March 9, 2012
Description: Equity prices have increased notably since late last year, but the 10-year Treasury yield was little changed over this period despite the shift in sentiment toward riskier assets.

Source: Bloomberg

Top-right panel
(2)

Title: Probability Distribution of First Increase in Federal Funds Target Rate
Series: Average probabilities of first increase in federal funds target rate by half-year, as assessed in Federal Reserve Bank of New York Survey of primary dealers
Horizon: H1 2012 - ≥ H2 2016
Description: Dealer survey respondents place sizable odds on policy remaining on hold for a long period. The distribution of expectations for the first federal funds rate increase shifted further into the future, concurrent with the FOMC extending its forward rate guidance to "at least through late 2014."

*Average probabilities from dealer responses.
Source: Federal Reserve Bank of New York Survey

Middle-left panel
(3)

Title: Macroeconomic Conditions That Would Prompt First Rate Hike
Series: Median estimates of combinations of unemployment and inflation that would prompt the FOMC to increase the federal funds rate, as estimated in the dealer survey
Horizon: September 2011, March 2012
Description: Respondents see a trade-off between unemployment and inflation, as they expect the FOMC would wait for a lower unemployment rate before raising the target federal funds rate if the inflation rate were lower. This schedule has moved lower since last September, suggesting some reevaluation of the FOMC's policy reaction function.

*Median dealer estimate of unemployment rate for given inflation rate. Source: Federal Reserve Bank of New York Survey

Middle-right panel
(4)

Title: Implied Volatility of Forward Interest Rates
Series: Implied volatility of one-year rate derived from swaption expiring in three years
Horizon: April 1, 2010 - March 9, 2012
Description: The amount of uncertainty perceived around the path of interest rates moved down on the "late 2014" announcement, as it had for the "mid 2013" announcement, and remains at very low levels despite having moved up slightly over the second half of the intermeeting period.

*Volatility of one-year rate derived from swaption expiring in three years. Source: Bloomberg

Bottom-left panel
(5)

Title: Term Premium for Ten-Year Treasury Yield
Series: Estimate of term premium embedded in zero-coupon ten-year Treasury yield, as estimated by Kim-Wright model
Horizon: January 1, 1997 - March 9, 2012

Description: The Kim-Wright estimate of the ten-year term premium stands at -50 basis points, which is about 125 basis points below its average level since the late 1990s. Much of this deviation is likely attributable to Federal Reserve balance sheet policies.

*Estimate from Kim-Wright model. Source: Federal Reserve Board of Governors

Bottom-right panel
(6)

Title: Breakeven Inflation Rates
Series: Five-year, five-year forward breakeven inflation rate and spot five-year breakeven inflation rate, as measured by the Federal Reserve Board of Governors
Horizon: April 1, 2010 - March 9, 2012
Description: The five-year breakeven inflation rate increased over the intermeeting period, partially due to increases in energy prices. Longer-term forward inflation expectations remain well-anchored, however, as the five-year, five-year forward rate was mostly unchanged over the intermeeting period.

Source: Federal Reserve Board of Governors

Exhibit 2

Top-left panel
(7)

Title: Euro Area Excess Liquidity
Series: Euro area excess reserves plus deposit facility balance at ECB, excluding fine-tuning operation days
Horizon: April 1, 2010 - March 9, 2012
Description: The ECB's recent operations, most notably the two 3-year longer-term refinancing operations (LTROs), have provided the euro area with considerable excess euro liquidity on the order of about €800 billion.

*Excess reserves plus deposit facility balance at ECB, excluding fine-tuning operation days.
Source: ECB

Top-right panel
(8)

Title: 3-Month Libor-OIS Spreads
Series: Euro-denominated and dollar-denominated three-month Libor-OIS
Horizon: April 1, 2010 - March 9, 2012
Description: Spreads indicating funding stresses decreased further over the intermeeting period, driven largely by the improvement in sentiment in the wake of the ECB's three-year LTRO operations.

Source: Bloomberg

Middle-left panel
(9)

Title: Euro Area Sovereign Debt Spreads
Series: Spanish and Italian two-year spreads to Germany
Horizon: April 1, 2010 - March 9, 2012
Description: Sovereign debt spreads for peripheral European countries have decreased notably, with two-year Spanish and Italian spreads to Germany returning to levels last observed in summer 2011.

*2-year spreads to Germany.
Source: Bloomberg

Middle-right panel
(10)

Title: Bank Holdings of Euro Area Sovereign Debt
Series: Euro area sovereign debt held by banks in Germany, France, Italy, and Spain
Horizon: November 2011 - January 2012
Description: Banks in peripheral euro area countries have increased their sovereign debt holdings, which is presumably attributable in large part to the ability to pledge this debt as collateral for the ECB's LTROs. German and French banks have not notably increased their sovereign debt holdings.

Source: ECB

Bottom-left panel
(11)

Title: Financial CDS Spreads
Series: Five-year credit default swap spreads for Morgan Stanley, Bank of America, Goldman Sachs, and JPMorgan Chase
Horizon: April 1, 2010 - March 9, 2012
Description: Although financial CDS spreads have declined since late last year, they remain well above the levels observed in mid-2011, indicating that investors remain cautious on the outlook for financials despite a general improvement in risk sentiment.

Source: Bloomberg

Bottom-right panel
(12)

Title: Dollar Exchange Rates
Series: Dollar-euro exchange rate, Federal Reserve Board of Governors' trade-weighted dollar measure, dollar-Japanese yen exchange rate
Horizon: April 1, 2010 - March 9, 2012
Description: Though the dollar was flat to slightly lower on a trade-weighted basis and against the euro over the intermeeting period, it appreciated sharply against the yen. This movement in part reflected the recent decision by the Bank of Japan to increase the amount of its asset purchases, as well as the erosion in Japan's trade balance.

Source: Bloomberg, Federal Reserve Board of Governors

Exhibit 3

Top-left panel
(13)Operations for Maturity Extension Program (Through 03/12/12)

	Purchases	Sales
Par Amount ($ Bil.)	237.8	242.0
Bid-to-Cover (Median)	3.0	7.5
Duration (Years)	10.4	1.5
10-Year Equivalents ($ Bil.)	287.8	42.3

Source: Federal Reserve Bank of New York

Top-right panel
(14)

Title: Average Duration of SOMA Portfolio Holdings
Series: Average duration of Treasury holdings, overall SOMA holdings, and agency MBS holdings
Horizon: January 1, 2006 - February 29, 2012
Description: Consistent with the net longer-duration purchases as shown in (13), the duration of the Treasury portion of the SOMA portfolio has increased since the beginning of the maturity extension program. The average duration of the overall portfolio is roughly unchanged over the past year, however, as the duration of MBS holdings has fallen with the decline in longer-term interest rates.

Source: Federal Reserve Bank of New York Survey

Middle-left panel
(15)

Title: Shorter-Term Interest Rates
Series: Two-year Treasury yield, overnight Treasury repo rate, overnight federal funds rate, and three-month Treasury bill rate
Horizon: July 1, 2011 - March 9, 2012
Description: Shorter-term interest rates have increased somewhat since the beginning of the year.

Source: Bloomberg, Federal Reserve Bank of New York

Middle-right panel
(16)

Title: MBS Purchases and Principal Paydowns (Since Start of Reinvestments)
Series: Federal Reserve Bank of New York purchases of MBS and principal paydowns on the MBS portfolio by coupon
Horizon: October 3, 2011 - March 9, 2012
Description: MBS purchases under the reinvestment program have been largely concentrated in lower-coupon securities, while the paydowns have come mostly from the Desk's holdings of higher-coupon securities, consistent with the decrease in longer-term interest rates.

Source: Federal Reserve Bank of New York

Bottom-left panel
(17)

Title: MBS Option-Adjusted Spread to Treasury
Series: FNMA 30-year current coupon MBS option-adjusted spread to Treasury securities, spliced with 3.5% coupon option-adjusted spread to Treasury when current coupon rate is below 3.5%
Horizon: March 1, 2011 - March 9, 2012
Description: The option-adjusted MBS spread to Treasury securities decreased in the intermeeting period, extending declines seen since late 2011.

*Current coupon spread spliced with 3.5% coupon spread when current coupon rate is below 3.5%.
Source: Barclays Capital

Bottom-right panel
(18)

Title: Probability of Additional Policy Actions
Series: Federal Reserve Bank of New York Survey additional policy action responses by primary dealers
Horizon: Current meeting & 1 year
Description: Participants placed some probability on the possibility of additional easing over the next year, with about a 50 percent probability of further asset purchases or guidance on the size of SOMA. Expectations for any additional policy actions at the March meeting were minimal.

Source: Federal Reserve Bank of New York Survey

Appendix 2: Materials used by Mr. Wascher

Material for:
Forecast Summary

Bill Wascher
March 13, 2012

Class II FOMC - Restricted (FR)

Forecast Summary

Confidence Intervals Based on Tealbook Track Record

Real GDP

	70% CI, upper bound	70% CI, lower bound	January TB	March TB
2011:Q1	ND	ND	ND	0.36
2011:Q2	ND	ND	ND	1.34
2011:Q3	ND	ND	ND	1.81
2011:Q4	ND	ND	2.93	3.08
2012:Q1	1.82	1.82	1.57	1.82
2012:Q2	2.94	1.46	1.82	2.17
2012:Q3	3.71	1.63	2.31	2.60
2012:Q4	4.28	1.61	2.70	2.88
2013:Q1	3.87	0.75	2.06	2.26
2013:Q2	4.28	0.89	2.18	2.57
2013:Q3	4.58	1.02	2.42	2.78
2013:Q4	4.79	1.13	2.76	3.02

Real GDP

	70% CI, upper bound	70% CI, lower bound	January TB	March TB
2011:Q1	ND	ND	ND	9.00
2011:Q2	ND	ND	ND	9.10
2011:Q3	ND	ND	ND	9.10
2011:Q4	ND	ND	8.70	8.70
2012:Q1	8.36	8.36	8.68	8.36
2012:Q2	8.61	8.08	8.68	8.36
2012:Q3	8.69	7.87	8.65	8.30
2012:Q4	8.72	7.63	8.59	8.21
2013:Q1	8.74	7.40	8.51	8.11
2013:Q2	8.77	7.20	8.42	8.03
2013:Q3	8.79	7.01	8.32	7.93
2013:Q4	8.79	6.84	8.23	7.83

PCE prices

	70% CI, upper bound	70% CI, lower bound	January TB	March TB
2011:Q1	ND	ND	ND	3.90
2011:Q2	ND	ND	ND	3.30
2011:Q3	ND	ND	2.34	2.34
2011:Q4	ND	ND	0.53	1.17
2012:Q1	2.09	2.09	1.41	2.09
2012:Q2	2.69	1.69	1.66	2.16
2012:Q3	2.33	0.85	1.39	1.54
2012:Q4	2.45	0.54	1.31	1.43
2013:Q1	2.54	0.39	1.30	1.39
2013:Q2	2.51	0.32	1.27	1.36
2013:Q3	2.56	0.24	1.27	1.36
2013:Q4	2.55	0.21	1.28	1.36

PCE Prices Excluding Food and Energy

	70% CI, upper bound	70% CI, lower bound	January TB	March TB
2011:Q1	ND	ND	ND	1.56
2011:Q2	ND	ND	ND	2.26
2011:Q3	ND	ND	2.06	2.06
2011:Q4	ND	ND	0.89	1.30
2012:Q1	1.85	1.85	1.49	1.85
2012:Q2	2.00	1.45	1.48	1.72

2012:Q3	2.03	1.19	1.46	1.60
2012:Q4	2.18	1.06	1.44	1.60
2013:Q1	2.23	0.91	1.43	1.56
2013:Q2	2.30	0.84	1.41	1.57
2013:Q3	2.38	0.82	1.42	1.60
2013:Q4	2.40	0.78	1.43	1.61

Real GDP Forecasts from the Factor Model

	Mean	Min	Max	Mean: January TB
2011:Q1	0.36	ND	ND	0.36
2011:Q2	1.34	ND	ND	1.34
2011:Q3	1.81	ND	ND	1.81
2011:Q4	2.98	2.98	2.98	2.35
2012:Q1	1.83	0.40	3.38	2.04
2012:Q2	4.13	0.58	6.89	2.38

Note: The blue shaded area encompasses the 68% confidence interval.

Q4/Q4 Changes in Real GDP and Unemployment since 1990

	Unemployment	GDP
1990	0.75	0.56
1991	0.98	1.00
1992	0.31	4.31
1993	-0.79	2.69
1994	-1.00	4.16
1995	-0.05	2.01
1996	-0.26	4.44
1997	-0.63	4.34
1998	-0.25	4.98
1999	-0.35	4.82
2000	-0.16	2.91
2001	1.62	0.40
2002	0.31	1.94
2003	-0.03	3.87
2004	-0.43	2.90
2005	-0.44	2.81
2006	-0.50	2.38
2007	0.35	2.21
2008	2.08	-3.32
2009	3.06	-0.54
2010	-0.37	3.14
2011	-0.87	1.64

Appendix 3: Materials used by Mr. English

Material for:
FOMC Briefing on Monetary Policy Alternatives

Bill English
March 13, 2012

Class II FOMC - Restricted (FR)

January FOMC Statement

1. Information received since the Federal Open Market Committee met in December suggests that the economy has been expanding moderately, notwithstanding some slowing in global growth. While indicators point to some further improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment has slowed, and the housing sector remains depressed. Inflation has been subdued in recent months, and longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects economic growth over coming quarters to be modest and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that over coming quarters, inflation will run at levels at or below those consistent with the Committee's dual mandate.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the

federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

4. The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability.

[Note: In the March FOMC Statement Alternatives, emphasis (strike-through) indicates strike-through text in the original document, and strong emphasis (bold) indicates bold red underlined text in the original document.]

March FOMC Statement--Alternative A

1. Information received since the Federal Open Market Committee met in ~~December~~ **January** suggests that the economy has been expanding moderately~~, notwithstanding some slowing in global growth~~. While ~~indicators point to some further improvement in overall~~ labor market conditions **have improved somewhat further**, the unemployment rate remains elevated. Household spending **and business fixed investment** ha**ve** continued to advance. ~~but growth in business fixed investment has slowed, and~~ The housing sector remains depressed. Inflation has been subdued in recent months, ~~and~~ **although prices of crude oil and gasoline have increased lately**. Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects **that, absent further policy action,** economic growth **would slow** over coming quarters ~~to be modest~~ and ~~consequently anticipates that~~ the unemployment rate ~~will~~ **would** decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. **The recent increase in oil and gasoline prices is likely to reduce consumers' purchasing power while pushing up inflation temporarily. Nonetheless,** the Committee ~~also~~ anticipates that ~~over coming quarters,~~ **subsequently** inflation will run ~~at levels~~ at or below ~~those~~ **the rate that it judges most** consistent with ~~the Committee's~~ **its** dual mandate.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at ~~levels~~ **the rate most** consistent with ~~the~~ **its** dual mandate, the Committee ~~expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee~~ decided today to **purchase an additional $500 billion of agency mortgage-backed securities by the end of March 2013. In addition, the Committee decided to** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee **also** is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

OR

3'. To support a stronger economic recovery and to help ensure that inflation, over time, is at ~~levels~~ **the rate most** consistent with ~~the~~ **its** dual mandate, the Committee ~~expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee~~ decided today to **purchase additional agency mortgage-backed securities, initially at a rate of $40 billion per month. The Committee will adjust the pace of purchases and determine the ultimate size of the program as needed to foster its objectives. In addition, the Committee decided to** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee **also** is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** ~~The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.~~

4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

5. **The Committee will employ its tools as needed** to promote a stronger economic recovery in a context of price stability.

March FOMC Statement--Alternative B

1. Information received since the Federal Open Market Committee met in ~~December~~ **January** suggests that the economy has been expanding moderately, ~~notwithstanding some slowing in global growth. While indicators point to some further improvement in overall~~ Labor market conditions **have improved further;** the unemployment rate **has declined notably in recent months but** remains elevated. Household spending **and business fixed investment** ha**ve** continued to advance. ~~but growth in business fixed investment has slowed, and~~ The housing sector remains depressed. Inflation has been subdued in recent months, ~~and~~ **although prices of crude oil and gasoline have increased lately.** Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects **moderate** economic growth over coming quarters ~~to be modest~~ and consequently anticipates that the unemployment rate will decline ~~only~~ gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets**, while having eased somewhat,** continue to pose significant downside risks to the economic outlook. **The recent increase in oil and gasoline prices will push up inflation temporarily, but** the Committee ~~also~~ anticipates that ~~over coming quarters~~ **subsequently** inflation will run ~~at levels~~ at or below ~~those~~ **the rate that it judges most** consistent with the ~~Committee's~~ **its** dual mandate.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at ~~levels~~ **the rate most** consistent with ~~the~~ its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

4. The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability.

March FOMC Statement--Alternative C

1. Information received since the Federal Open Market Committee met in ~~December~~ **January** suggests that the economy has been expanding moderately~~, notwithstanding some slowing in global growth. While indicators point to some further improvement in overall labor market conditions,~~ **Although** the unemployment rate remains elevated**, it has declined notably and the pace of employment growth has picked up**. Household spending **and business fixed investment** hav**e** continued to advance, ~~but growth in business fixed investment has slowed,~~ and **indicators of conditions in** the housing sector ~~remains depressed~~ **have improved somewhat**. Inflation has been subdued in recent months, and longer-term inflation expectations have remained stable. **However, prices of crude oil and gasoline have increased significantly of late.**
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects **a gradual increase in the pace of** economic growth over coming quarters ~~to be modest~~ and consequently anticipates that the unemployment rate will **continue to** decline ~~only gradually~~ toward levels that the Committee judges to be consistent with its dual mandate. ~~Strains in global financial markets continue to pose significant downside risks to the economic outlook.~~ The Committee also anticipates that ~~over coming quarters,~~ **the recent increase in oil and gasoline prices is likely to push** inflation ~~will run at levels at or below those~~ **above the rate that the Committee judges most** consistent with ~~the Committee's~~ **its** dual mandate. **Moreover, the Committee sees some risk that inflation could remain elevated going forward given the current degree of policy accommodation.**
3. To support ~~a stronger~~ **the** economic recovery and to help ensure that inflation, over time, is at ~~levels~~ **the rate most** consistent with ~~the~~ **its** dual mandate, the Committee ~~expects to maintain a highly accommodative stance for monetary policy. The Committee also~~ decided **today** to ~~continue its~~ **reduce from $400 billion to $250 billion the** program to extend the average maturity of its holdings of securities ~~as~~ **that was** announced in September **and to complete this program by the end of March**. ~~In particular,~~ The Committee **also** decided ~~today~~ to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~economic conditions including low rates of resource utilization and a subdued outlook for inflation over the medium run are likely to warrant~~ **this** exceptionally low ~~levels~~ **range** for the federal funds rate ~~at least through late 2014~~ **will be appropriate only as long as inflation is projected to remain subdued over the medium term, longer-term inflation expectations continue to be well anchored, and progress toward maximum employment remains insufficient**.
4. The Committee is **also** maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote ~~a stronger economic recovery in a context of~~ **its objectives of maximum employment and** price stability.

January 2012 Directive

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. 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 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. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

March 2012 Directive--Alternative A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. 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 Committee also directs the Desk to execute purchases of agency mortgage-backed securities by the end of March 2013 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately $3.1 trillion. | The Committee also directs the Desk to execute purchases of agency mortgage-backed securities in order to increase the total face value of domestic securities held in the System Open Market Account by approximately $40 billion per month.]** 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~~. The Committee directs the Desk to engage in dollar roll **and coupon swap** transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

March 2012 Directive--Alternative B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. 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 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. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

March 2012 Directive--Alternative C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **modify** the maturity extension program it began in September **so as** to purchase, by the end of ~~June~~ **March** 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of ~~$400~~ **$250** billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of ~~$400~~ **$250** billion. 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. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 4: Materials for "Discussion of Issues Related to Policy Communications"

Material for:
Discussion of Issues Related to Policy Communications

March 13, 2012

Class II FOMC - Restricted (FR)

Questions for FOMC Discussion of Policy Communications Issues

1. Should the Committee’s post-meeting statements be used to provide information about the links between the Committee’s economic outlook and its policy decisions?
    a. Should the post-meeting statement incorporate qualitative or quantitative information about the economic conditions that the Committee judges would lead to a shift in the stance of monetary policy, that is, either to the start of policy firming or to the provision of additional monetary accommodation (perhaps along the lines of the attached sample language in section B of the appendix)?
    b. Should the post-meeting statement incorporate additional information about the Committee’s economic outlook over the medium run rather than just over coming quarters (as in the attached sample language in section C of the appendix)?
    c. If you support adding quantitative information to the statement along the lines of (a) or (b) above, what process would you envision using to settle on the specific information to be added?
    d. If the post-meeting statement provides further information about the conditionality of the forward guidance, should the Committee continue to refer to a calendar date in describing the likely timing of policy liftoff?
2. Would further adjustments to the SEP be helpful in clarifying the linkages between the Committee’s economic outlook and its policy decisions?
    a. Should the SEP provide summary information about the views of Committee members separately from the views of all FOMC participants?
    b. Should the SEP use scatter plots or other visual representations to provide information about the connections between participants’ economic projections and their policy projections?
    c. Should the full “matrix” of projections be released to the public, thereby linking each participant’s economic forecasts with his or her policy judgments? If so, should the Committee identify the individual making each set of projections or seek to preserve participants’ anonymity to the extent possible?
    d. Are there other enhancements to the SEP that you view as potentially helpful in increasing the public’s understanding of the links between the economic outlook and the Committee’s decisions?
3. Are there other potential approaches for clarifying the conditionality of the Committee’s policy decisions that you see as potentially promising? For example, should the Committee start producing consensus forecasts for publication in the SEP? Or perhaps the SEP could provide information about the Committee's likely response to alternative economic scenarios? If you think these are promising ideas, how would you envision the process of producing the consensus forecasts or alternative economic scenarios?

Appendix: Sample Language for the Post-Meeting Statement

A. For reference, the January statement language was:

1. Information received since the Federal Open Market Committee met in December suggests that the economy has been expanding moderately, notwithstanding some slowing in global growth. While indicators point to some further improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment has slowed, and the housing sector remains depressed. Inflation has been subdued in recent months, and longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects economic growth over coming quarters to be modest and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that over coming quarters, inflation will run at levels at or below those consistent with the Committee's dual mandate.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

4. The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability.

B. In your remarks you may wish to note whether you find any of the following four alternatives to the end of paragraph 3 in the post-meeting statement to be helpful in providing greater clarity about the linkages between the economic outlook and the Committee's monetary policy decision.

3.1 …In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions~~ – including low rates of resource utilization and a subdued outlook for inflation over the medium run –~~ are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. **The Committee expects that at the time of the first increase in the target federal funds rate, the unemployment rate will be nearing or will have moved somewhat below [7] percent and inflation will be close to or somewhat below [2] percent. In judging when to first increase the target federal funds rate, the Committee will consider a range of factors, including the pace of improvement in labor market conditions and the contours of the medium-term inflation outlook.**

3.2 …In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions ~~– including low rates of resource utilization and a subdued outlook for inflation over the medium run –~~ are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. **The Committee currently projects that, with the target federal funds rate maintained at exceptionally low levels, inflation will remain close to or somewhat below [2] percent in the medium term and the unemployment rate will decline gradually. Based on that projection, and given the lags with which monetary policy affects the economy, the Committee currently estimates that it will become appropriate to raise the target federal funds rate when the unemployment rate has moved near or somewhat below [7] percent. In deciding when to change policy, the Committee will take into account a range of factors, including the outlook for inflation, longer-term inflation expectations, and the pace of improvement in labor market conditions.**

3.3 …In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions ~~– including low rates of resource utilization and a subdued outlook for inflation over the medium run –~~ are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. **Among the factors that the Committee will take into account in determining how long to maintain the current stance of policy are the outlook for inflation, the level of longer-term inflation expectations, the extent of resource slack, and the pace of improvement in labor market conditions. [In particular, if inflation appeared likely to be persistently above target, then, all else equal, the Committee would move to reduce policy accommodation earlier; conversely, if unemployment were not making sufficient progress toward levels consistent with the dual mandate, then, all else equal, the Committee would maintain an exceptionally accommodative policy stance for a longer time.]**

3.4 …In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions ~~– including low rates of resource utilization and a subdued outlook for inflation over the medium run –~~ are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. The Committee also decided to continue its program to extend the average maturity of its holdings of securities, as announced in September, and is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **The Committee will monitor incoming economic and financial information and will make adjustments to the stance of monetary policy as appropriate to foster its statutory objectives of maximum employment and price stability. The Committee currently anticipates that at the time of the first increase in the target federal funds rate, the unemployment rate will be nearing or will have moved somewhat below [7] percent and inflation will be close to or somewhat below [2] percent. The timing of that decision will reflect a range of factors, including the Committee's inflation outlook and its assessments of the pace of improvement in labor market conditions and the longer-run normal rate of unemployment. The Committee is prepared to provide further monetary accommodation if employment is not making sufficient progress toward the Committee's assessments of its maximum level or if inflation appears likely to be persistently below its mandate-consistent rate.**

C. In your remarks you may wish to note whether you find the following alternative language for paragraph 2 in the post-meeting statement to be helpful in providing information about the Committee's economic outlook over the medium run rather than just over coming quarters.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects **that** economic growth over coming quarters ~~to be modest and~~ **will remain moderate, reflecting ongoing drags from the housing sector and still-tight credit conditions for many households and smaller businesses. Looking further ahead, the pace of economic activity is expected to pick up somewhat, supported by the continuation of a highly accommodative stance for monetary policy.** Consequently, **the Committee** anticipates that the unemployment rate will decline ~~only~~ gradually towards levels that ~~the Committee~~ **it** judges ~~to be~~ consistent with its dual mandate. Strains in global financial markets**, while having eased somewhat,** continue to pose significant downside risks to the economic outlook. **The recent increase in oil and gasoline prices is likely to boost inflation temporarily, but** the Committee ~~also~~ anticipates that ~~over coming quarters,~~ **subsequently** inflation will run at ~~levels at~~ or **somewhat** below ~~those~~ **the rate that it judges most** consistent with ~~the Committee's~~ its dual mandate.