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Some meaty minutes

I know that some of you are avid consumers of the minutes published following each Federal Open Market Committee (FOMC) meeting. Others not so much, but even if perusing the minutes is a taste you have yet to acquire, you might find the latest edition worth a look as it includes commentary on a number of issues that I believe are on people's minds—at least based on questions I've received following speeches.

A quick summary of what I would pick as highlights:

- The Fed's balance sheet is likely to get bigger before it gets smaller, but it *will* get smaller.
- The planning for managing to a smaller balance sheet is under way.
- Whatever the future brings for the balance sheet, the time has not yet come to remove policy accommodation—either by adjusting the federal funds rate target, by removing the backstop of most liquidity programs, or by making adjustments in the FOMC's asset purchase programs (described here, here, and here).
- With respect to those asset purchase programs, the point is to improve "market functioning," *not* target long-term market interest rates.

Of course, I don't expect you to take my word for it. Here it is, straight from the source:

On where the Fed's balance sheet is headed:

> "Staff projections suggested that the size of the Federal Reserve's balance sheet might peak late this year and decline gradually thereafter."

On confidence in managing the balance sheet:

> "… the staff briefed the Committee on a number of possible tools that the Federal Reserve might employ to foster effective control of the federal funds rate in the context of a much expanded balance sheet. Some of those tools were focused primarily on shaping or strengthening the demand for reserves, while others were designed to provide greater control over the supply of reserves. In discussing the staff presentation, meeting participants generally agreed that the Federal Reserve either already had or could develop tools to remove policy accommodation when appropriate."

On the commitment to keep an "exit strategy" front of mind:

> "Ensuring that policy accommodation can ultimately be withdrawn smoothly and at the appropriate time would remain a top priority of the Federal Reserve."

On the timing of exit strategy implementation:

> "… participants viewed the availability of the liquidity facilities as a factor that had contributed to the reduction in financial strains. If the Federal Reserve's backup liquidity facilities were terminated prematurely, such developments might put renewed pressure on some financial institutions and markets and tighten credit conditions for businesses and households. The period over year-end was seen as posing heightened risks given the usual pressures in financial markets at that time. In these circumstances, participants agreed that most facilities should be extended into early next year. However, participants also judged that improved market conditions and declining use of the facilities warranted scaling back, suspending, or tightening access to several programs…
>
> "In their discussion of monetary policy for the period ahead, Committee members agreed that the stance of monetary policy should not be changed at this meeting. Given the prospects for weak economic activity, substantial resource slack, and subdued inflation, the Committee agreed that it should maintain its target range for the federal funds rate at 0 to ¼ percent. The future path of the federal funds rate would depend on the Committee's evolving expectations for the economy, but for now, members thought it most likely that the federal funds rate would need to be maintained at an exceptionally low level for an extended period, given their forecasts for only a gradual upturn in activity and the lack of inflation pressures. The Committee also agreed that changes to its program of asset purchases were not warranted at this time."

And a clarification of what those asset purchase programs were designed to accomplish:

> "The asset purchase programs were intended to support economic activity by improving market functioning and reducing interest rates on mortgage loans and other long-term credit to households and businesses relative to what they otherwise would have been. But the Committee had not set specific objectives for longer-term interest rates, and participants did not consider it appropriate to allow the Desk discretion to adjust the size and composition of the Federal Reserve's asset purchases in response to short-run fluctuations in market interest rates."

There is a lot of other interesting information in the minutes, including a discussion of how the size and composition of the balance sheet might impact Federal Reserve income streams and the Committee's latest gross domestic product growth and inflation forecasts.

Not bad work for a couple of days.

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