Grading the Federal Open Market Committee's Communications

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Comments by
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Five primary findings

1. The largest financial market effects were associated with FOMC statements and monetary policy testimonies. By contrast, speeches by individual FOMC members have had a relatively small effect, on average.
2. The market effect of FOMC minutes increased considerably after the release was expedited.
3. Testimonies have been the most accurate form of communication, outperforming FOMC statements.

Five primary findings, cont.

4. Speeches do not have a very good track record in terms of accuracy. On average, the initial market reaction to speeches reversed over subsequent weeks.
5. All forms of FOMC communications are comparable in terms of the relative movements across asset classes that they generate.

Three conclusions

1. There are important advantages to Committee-wide communications rather than individual communications.
2. Timeliness is a critical aspect of central bank communication.
3. More detailed communications may be more accurate.

Comments

- The primary findings and the conclusions are sensible and convincing.
- There is a general trend among central banks towards more detailed communication.
- This trend finds empirical support in this paper.

Comments, cont.

- Why no comparison with other central banks and other countries?
- Other central banks have more elaborate and detailed communications than the Fed: Inflation reports, more extensive minutes, press conferences.
- Norges Bank, RBNZ, Bank of England, Sveriges Riksbank
- From a research point of view: More data.
- From a policy point of view: Use experience.

Comments, cont.

- This paper only looks at impact on interest rates and a few other asset prices.
- Why not also look at impact on inflation expectations?

Comments, cont.

- More generally, *three* kinds of forecasts are crucial in monetary policy: Interest rates, inflation, and output gap.
- Good monetary policy consists of selecting an interest-rate path/plan such that the CB's inflation and output-gap forecasts "look good."

Comments, cont.

- Monetary policy is the management of expectations.
- Effective monetary policy manages private-sector interest-rate, inflation, and output-gap forecasts/expectations
- Hence, examine the impact of communications on all three kinds of forecasts/expectations