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Fed Watch

US

22 November 2011
Economic Analysis

US

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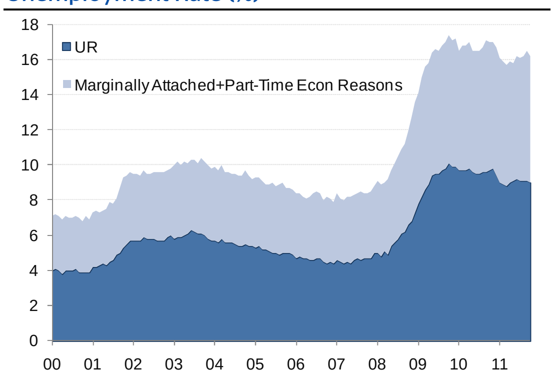
FOMC Minutes: November 22
Communication, forecast uncertainty, and risks

- **FOMC mulls options for relaying views of policy stance to the public**
- **Minutes now providing more measures of uncertainty, risk evaluation**
- **Today's release does not add much to the statement or press conference**

Staff provides analysis of nominal GDP and price-level targeting

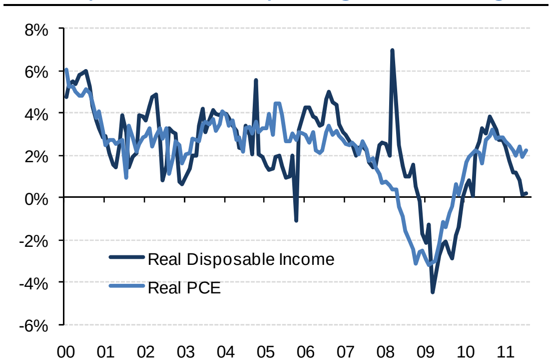
The text of today's FOMC minutes suggest the Fed is considering new communications tools, but this process of consideration will likely continue into the next year. While there is a possibility of a new mild form of communication occurring in December, we believe most likely January will witness something new. However, we do not expect anything more elaborate than a time frame adjustment or a forecast to go alongside the policy rate. One idea under consideration is a long-term inflation goal, but some FOMC members are concerned about a misperception arising that the Fed is more focused on inflation than unemployment. New to the minutes today are estimates of FOMC participants' uncertainty and risks in economic projections. The data provided allows us a slightly better picture into the risk scenarios of the FOMC. It is likely that new communication will be something like these new graphics: they will involve some extra communication of participants' assessments of appropriate monetary policy. The staff gave a presentation on the effectiveness of nominal GDP targeting and price-level targeting. The staff argued that nominal GDP targets would be helpful in promoting a more robust economic recovery, but a central bank following solely a price-level target would not be effective in creating more jobs. However, a price-level targeting regime with flexibility to respond to business cycle shocks (a rule with "escape clauses") could generate economic outcomes consistent with the Fed's dual mandate. One interesting current issue is the recent uptick in consumer spending despite slow income growth. This may be the result of less deleveraging and therefore stronger future growth, but it may also be the result of a temporary drop in the savings rate. If income does not grow, this heightened consumption will slow down. Overall, the outlook is the same as we relayed in the previous FOMC announcement and press conference: risks are tilted to the downside, with some members mulling additional stimulus that may come in the form of additional MBS purchases in 2012Q1.

Chart 1
Unemployment Rate (%)



Source: BBVA Research and Haver

Chart 2
Real Disposal Income & Spending (YoY % change)



Source: BBVA Research and Haver