Modifications to the FOMC's Disclosure Procedures
January 19, 2000

The FOMC began in 1994 releasing an immediate public statement when it raised or lowered the target for the federal funds rate. At its December 1998 meeting, the FOMC decided also to announce immediately major shifts in its view about prospective developments. The shifts in view would be reflected in a statement regarding the likelihood of a future increase or decrease in the targeted federal funds rate. The FOMC wanted to communicate to the public more quickly its assessment of the balance of risks and its policy leanings.

In practice, however, the new procedures, which were first implemented in May 1999, caused some unanticipated confusion. It became apparent that the public was uncertain about the interpretation of the language used to characterize possible future developments, about the time period to which it applied, and about the extent to which the announced changes in that language represented major shifts in the Committee's assessment. Perhaps partly as a result, the announcement of a directive biased toward tightening seemed to exaggerate the responses of financial markets to subsequent information bearing on the likely course of interest rates and monetary policy.

In August, the FOMC established the Working Group on the Directive and Disclosure Policy to assess the FOMC's approach to disclosing its view about prospective policy adjustments and to propose procedural modifications. The FOMC had a preliminary discussion of these issues at its November meeting, based on an interim report and tentative recommendations of the Working Group. The FOMC then decided on the following modifications to its disclosure procedures at its December meeting, when the Working Group transmitted its final report and proposals.

First, the FOMC will issue a statement to the public immediately after every meeting. Under the new procedures, a statement thus will accompany every change in the Committee's view of prospective developments, whether or not the change is major, and a statement also will be issued even when the Committee does not change its policy stance or its view about the future.

Second, the FOMC has adopted new language to describe its judgment about the outlook. The new language will provide the FOMC's assessment of the risks to satisfactory economic performance (one set of bracketed words will be chosen at each meeting to reflect the

Committee's view about prospective developments):

> "Against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the Committee believes that the risks are [balanced with respect to prospects for both goals] [weighted mainly toward conditions that may generate heightened inflation pressures] [weighted mainly toward conditions that may generate economic weakness] in the foreseeable future."

Previously, the Committee's directive and statement referred to the relative likelihood of an increase or a decrease in the intended federal funds rate, which may have intensified the public focus on the chance of a subsequent adjustment to the stance of policy, thereby increasing the possibility of misperceptions about the odds and timing of policy action. Also, the sentence in the directive cited a possible adjustment to the intended federal funds rate "during the intermeeting period," but Committee members often intended the time frame to encompass a longer period--another potential source of confusion.

Under the new procedures, the statement issued after every meeting will indicate the Committee's sense of the balance of risks. The balance-of-risks sentence will be drawn from the language above. Otherwise, the statements will be patterned on those that have been made after FOMC meetings in recent years, which typically have contained a few explanatory sentences. If the Committee has taken no policy action and its views have remained essentially unchanged, then the announcement may be perfunctory.

The new language is designed to express the Committee's sense of the risks to the attainment of its long-run goals of stable prices and sustainable economic growth. Price stability means inflation so low and stable over time that it is ignored by households and businesses, and therefore one risk is phrased in terms of "heightened inflation pressures." Sustainable economic growth means output growth along the economy's potential path over time, and therefore the other risk is phrased in terms of "economic weakness" in which economic expansion falls short by that criterion.

An assessment of the balance of these risks historically has been an integral part of the Committee's evaluation of future developments. The phrase "weighted mainly toward" is included in the wording to underscore that in balancing the two separate types of risks, the Committee in some cases may view both risks as being present but one type of risk as outweighing the other. A Committee view that the risks are unbalanced would not necessarily trigger either a current or a subsequent policy move; given the inherent uncertainty about future developments, policy actions often importantly depend on the flow of new information and the FOMC's judgment about its implications.

Although "the foreseeable future" is intended to convey a length of time extending beyond the next FOMC meeting, this concept is necessarily elastic, given that the relevant horizon may depend on economic conditions. Because the sentence about the future no longer explicitly refers to either the federal funds rate or the intermeeting period, it will be removed from the directive to the Federal Reserve Bank of New York and will henceforth appear only in the announcement and the minutes. The Committee is not altering its practices regarding changes in the stance of policy between FOMC meetings; such changes remain possible but, as in recent years, would occur only in exceptional circumstances.