



TD Economics

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Data Release: Federal Reserve will release fed funds rate projections starting January

- FOMC members continued to anticipate moderate economic growth and a slow decline in the unemployment rate over the coming quarters.
- This, in turn, will lead inflation to settle at levels at or below those consistent with the Fed's dual mandate of maximum employment under price stability.
- They considered volatility in financial markets stemming from the European sovereign debt crisis as the main factor restraining the pace of U.S. economic activity at the moment.
- On the domestic front, they mentioned fiscal tightening, high levels of uncertainty among households and businesses, the weak housing market, and households' deleveraging as the main headwinds to the U.S. economy.
- A number of members noted their dissatisfaction with the Committee's current approach for communicating its views regarding the appropriate path for monetary policy, and looked forward to considering possible enhancements to the Committee's communications.
- Moreover, a number of members indicated that, although current and prospective economic conditions could call for additional policy accommodation, they believed any additional actions would be more effective if accompanied by enhanced communication about the Committee's longer run economic goals and policy framework.
- In line with this, FOMC members agreed to release participants' projections of the appropriate level of the target fed funds rate over the next few calendar years, and over the longer run. They will also report participants' current projections of the likely timing of the first increase in the target rate given their projections of future economic conditions. We will get the first release following January's 25th meeting.

Key Implications

- December's FOMC minutes continue to show a Committee that is far from sharing a common view on the appropriate monetary policy action. While Charles Evans dissented because he continues to believe more monetary accommodation – including further quantitative easing – is warranted, others are increasingly worried of maintaining the current lax stance into the medium term.
- In this regard, the improvements to the Fed's communication strategies are not only a testament of Chairman Bernanke's constant drive for more transparency, but also an attempt to improve the transmission of lax monetary policy into stronger real economic activity in every possible way.
- The release of participants' expectations for the future path of the fed funds rate will provide valuable insight into the degree of divergence of FOMC members' views, as well as a better sense of what "exceptionally low levels for the federal funds rate at least through mid-2013" actually means.
- Moreover, participants' profiles for the target interest rate should also shed some light on when they expect the Fed to start normalizing the size of its balance sheet.

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