



*Portland State University*      *Reed College*

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# **Introduction to the FOMC**

**Yelena Takhtamanova, Economist**

**Renee Courtois, Research Analyst**

**Federal Reserve Bank of San Francisco**

# Outreach Economists

- **Represent two departments of FRBSF**
- **Contribute to economic research activities:**
  - **Briefings**
  - **Publications**
  - **Diverse areas of expertise:**
    - **Gary – financial and regional**
    - **Yelena – international and macroeconomics**
- **Speak to various groups about:**
  - **Economy: present situation and outlook (national and regional)**
  - **Monetary policy**

# Overview of this Session

- 1. Describe Goals of U.S. Monetary Policy**
- 2. Introduce the Federal Open Market Committee (FOMC)**
- 3. Describe FOMC Meetings**
- 4. Discuss the Role of Economists**
- 5. Introduce the FOMC Simulation**

# Use the FOMC Simulation to Answer Questions about the FOMC Process

- **What happens at the FOMC meetings?**
- **How does Fed staff view the economy?**
  - What do they know? When?
  - Who decides on the forecast?
  - What does the FOMC discuss and debate?
  - Who votes on policy?
  - Clues from the statement for future policy?



**Federal Reserve Board  
Washington, D.C.**

# 1. U.S. Monetary Policy Goals

- **Monetary Policy Goals**
  - “to promote ‘**maximum**’ **sustainable output** and **employment** and to promote ‘**stable**’ **prices.**”



*U.S. Monetary Policy: An Introduction.* (2004) Federal Reserve Bank of San Francisco, page 5.

# Monetary Policy Decisions

- **Central bank focus (national policy decision):**
  - Data and developments since last meeting
  - Forward looking
  - Dynamic environment
- **Trade-offs:**
  - Short term vs. long term
  - Single vs. multiple goals
  - Shocks: temporary vs. permanent
    - Examples: hurricanes and oil





**FRBSF President &  
CEO, Janet Yellen**



## *2. Monetary Policy Makers:* **The FOMC**

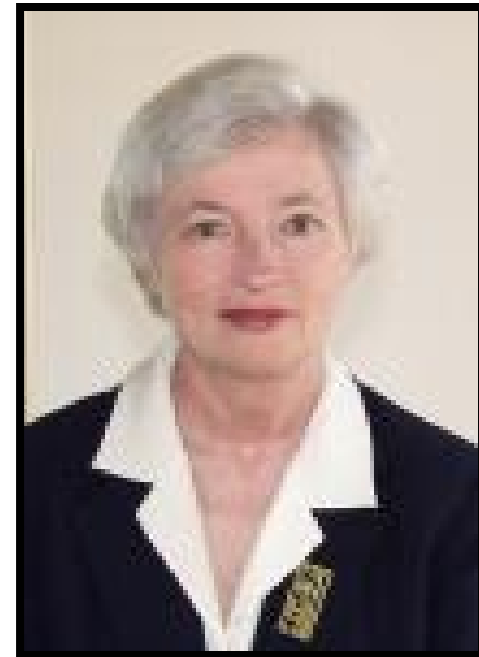
- **FOMC Meeting Participants**
  - **Seven Fed Governors**
    - All are voting members
  - **Twelve Fed Bank Presidents**
    - FRBNY president always votes
    - Four other presidents vote on a rotating basis
    - *All participate in discussions*

# Around the FOMC Table

- **Backgrounds:**
  - Many economists and former Fed officials
  - Many with academic experience
  - Senior government officials, bankers, regulators
- **They arrive well prepared!**
  - Board provides briefing materials to all FOMC participants
  - Each Reserve Bank prepares its own briefing
  - Views may differ

# Monetary Policy Meetings

- **Meetings:**
  - Eight times per year  
(Next: December 12, 2006)
  - Federal Reserve Board in  
Washington, DC



**Janet L. Yellen**  
**President**  
**Federal Reserve Bank**  
**of San Francisco**

**Around the Table!**



### **3. Behind the Scenes at an FOMC Meeting**

- **Chairman sets the agenda**
- **Formal setting**
- **Collegial atmosphere**
- **Binders and briefing books**
- **Comments: Notes... Wing it...**



# Meeting Agenda

## *Progression of the meeting:*

### **I. Staff reports**

- Open market operations
- The economy and policy
  - Economic conditions
  - Economic forecast
  - Potential risks to the forecast
  - Policy alternatives

### **II. FOMC member deliberations, “go arounds”, and vote on monetary policy**

# *Staff Reports:* **Open Market Account**

- **Staff Report by the Manager of the System Open Market Account**
  - Foreign exchange market developments
  - Domestic financial market conditions
  - System open market transactions

*Dino Kos, Manager System Open Market Account  
(soon to retire)*

# *Staff Reports:* **The Economy and Policy**

- **“Greenbook” Forecasts**
  - **Economic Conditions and Forecast**  
*David Stockton, Director, Division of Research and Statistics*
  - **International Conditions and Forecast**  
*Karen Johnson, Director, Division of International Finance*
- **“Bluebook” Policy Alternatives**  
*Vincent Reinhart, Director, Division of Monetary Affairs*

# FOMC “Go-Arounds”

- **Governors and Bank Presidents**
  - **Discuss the economic situation**
    - National
    - Financial
    - International
    - Regional (*Presidents*)
  - **Chairman’s comments & directive**
  - **Discuss monetary policy issues**
  - **Make a *national* monetary policy decision**

# *The Policy Directive and Statement:* **Defines Policy**

- **The Chairman introduces a Policy Directive and Statement**
  - FOMC members discuss the directive and wording of the statement
  - **Voting** members decide on the directive and statement
    - *‘No’ votes happen—last three meetings!*
  - The Open Market Desk (FRB NY) implements the Directive through the federal funds market
    - *Maintain the federal funds target rate (presently @ 5.25%)*



# *The FOMC Statement:* **A Second Policy Instrument**

- **Policy tool: Federal funds rate**
- **The FOMC Statement has become a second policy instrument**—wording of the statement:
  - Affects expectations about future fed funds rates
  - Influences long-term interest rates
  - Articulates balance of risks

# *Most Recent FOMC Statement:* **October 25, 2006**

The Federal Open Market Committee decided today to **keep**  
**Action:** its target for the federal funds rate at 5-1/4 percent.

**Rationale:** Economic **growth** has **slowed** over the course of the year, partly reflecting a **cooling of the housing market**. Going forward, the economy seems likely to expand at a moderate pace.

Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, **inflation pressures seem likely to moderate over time**, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.

<http://www.federalreserve.gov/fomc/>

# *Most Recent FOMC Statement:* **October 25, 2006**

**Risks:** Nonetheless, the Committee judges that **some inflation risks remain**. The extent and timing of any additional firming that may be needed to address these risks **will depend on the evolution of the outlook** for both inflation and economic growth, as implied by incoming information.

**Vote:** Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Susan S. Bies; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; William Poole; Kevin M. Warsh; and Janet L. Yellen. **Voting against was Jeffrey M. Lacker, who preferred an increase of 25 basis points in the federal funds rate target at this meeting.**



## 4. *The Role of Economists: Extensive!*

- ***Fed: Largest single employer of economists***
  - Board has over 200 economists
  - 12 Reserve Banks have about 275 economists
  - BA level Research Associates
- Analysis provides the basis for staff reports for the FOMC Members
- Very intense process... Independent too!
- Analysis by these experts feeds into FOMC deliberations (*they may not always agree...*)



# *Before the Meeting: The Role of District Economists in the FOMC Process*

- **FOMC preparations at the FRBSF**
  - Conduct Beige Book survey (anecdotal)
  - Analyze national economic performance
  - Forecast future economic trends
  - Review international situation
  - Evaluate financial and regional conditions

# *FRBSF FOMC Analysis:* **Much of It Is Published!**

**Contributions of economic research  
to FOMC often become:**

- **Publications and web products**
  - *FedViews Forecast*
  - *Economic Letters*
  - *Beige Book Summary*
  - *12L Economic Trends*
- **Academic journal articles**

## 5. Introducing the FOMC Simulation

- **Forecast by FRBSF Economist**
- **Student FOMC simulation**
  - Limited time (*very realistic*)
  - Expect repetition: highlights key issues
- **Audience questions and answers**
  - Please hold them for the end of the FOMC Simulation
  - *Interesting!*
- **Evaluations**

# Interested in a Career with the Federal Reserve Bank of San Francisco?

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[www.frbsf.org](http://www.frbsf.org)



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***Joseph.Lorono@sf.frb.org***



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# Federal Reserve Bank of San Francisco

***FRBSF Web Site*** → <http://www.frbsf.org/>



The Federal Reserve Board



October 12, 2006

**Summary**

Welcome to CSIP



CSIP's goal is to promote understanding of the roles of innovation, technological progress, and productivity in the global, national, and regional economies.

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## FRBSF ECONOMIC LETTER

Number 2006-29, October 27, 2006

**What Are the Risks to the United States  
of a Current Account Reversal?**

**ECONOMIC RESEARCH AND DATA**  
ECONOMIC RESEARCH AND DATA

**FedViews**

**October 13, 2006**

**FED in PRINT: Locate FED Research and Publications**



# QUESTIONS before the simulation?

PORTLAND STATE  
UNIVERSITY

REED COLLEGE



*FRBSF website:*

<http://www.frbsf.org>

***Resources: Econ Ed at the SF Fed***  
**<http://www.frbsf.org/education/index.html>**



**Ask Dr. Econ**



**Open and  
Operating**

**University  
FOMC  
Simulation**

