



Fed Officials Debate Impact of Planned-Interest Rate Forecasts

Jan. 14 (Bloomberg) -- Federal Reserve Bank of St. Louis President James Bullard pointed out pitfalls in a Fed plan to forecast interest rates, highlighting a debate among officials on whether the move will provide clarity about policy.

Bullard told reporters on a conference call yesterday that “there is some risk” the projections for the benchmark interest rate will be mistaken as a commitment to certain rate levels in the future. He later said that while the move should “be a little bit helpful,” it’s “no panacea.”

Fed officials are preparing the forecasts while voicing disagreement over whether they should provide more easing for an economy that shows signs of strengthening. The Fed’s 12 regional bank presidents and five members of the Washington-based Board of Governors plan to discuss their projections, which will be released after policy makers meet on Jan. 24-25.

“For the Fed to get into the forecasting game in a big way, I’m not sure it’s going to make anyone more certain,” said Mark MacQueen, co-founder of Sage Advisory Services Ltd. in Austin, Texas. “I don’t think it’s going to create greater clarity because all forecasts are subject to change,” said MacQueen, whose firm manages about \$10 billion in fixed-income investments.

Chairman Ben S. Bernanke has pushed the Fed toward greater openness at a faster pace than any of his predecessors, holding regular press conferences and providing forecasts on economic growth, unemployment and price increases. By providing interest- rate projections, Bernanke intends to promote understanding of the Fed’s aims and make policy more effective.

Not ‘Perfect’

“It’s not going to be perfect” because “you still have 17 possible paths” laid out by Fed officials, Bullard, 50, said in response to audience questions after a speech in St. Louis.

Bullard, who doesn't vote on monetary policy this year, pointed to Sweden's Riksbank as an example of a central bank that has deviated from its published projections.

"The notion that this tells you a whole lot about what's going to happen is not right," Bullard said. He said he would consider other ways to provide the public with the same information, citing the quarterly inflation report released by the Bank of England.

"It's been done by the U.K. pretty effectively" and "we can do something similar in the U.S.," he said.

San Francisco Fed President John C. Williams said in November that the release of interest-rate projections would be "useful," having worked well in other countries. He was the first Fed official to signal the possibility the central bank would provide the public with the forecasts.

'Fully' Supports

Philadelphia Fed President Charles Plosser, speaking on Jan. 11 in Rochester, New York, said he "fully" supports the release of rate forecasts as a way toward "greater clarity."

At the same time, the projections shouldn't be seen as an easing measure or a "commitment," and they won't reduce the Fed's flexibility on setting interest rates, he said.

Richmond Fed president Jeffrey Lacker said yesterday the Fed's rate forecasts shouldn't be seen as "a separate tool" for influencing borrowing costs. Rather, they are meant to provide the public more information on how the central bank will react to changes in unemployment and inflation, he said.

Policy makers have held the fed funds rate near zero since December 2008 and have pledged to keep it there through at least mid-2013.

Economic data released since the Fed's last meeting in December show unemployment fell to 8.5 percent last month from 8.7 percent in November. The economy grew less than previously estimated in the third quarter, with gross domestic product climbing at a 1.8 percent annual pace. That's down from the 2 percent initially estimated, Commerce Department figures showed on Dec. 22.

Stocks Fall

The Standard & Poor's 500 Index declined 0.5 percent yesterday to 1,289.09 in New York, snapping a four-day rally as euro-region governments braced for credit downgrades by S&P and after JPMorgan Chase & Co.'s profit slumped 23 percent. Since the start of the year, the index is up 2.5 percent on signs the economy is strengthening.

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Lacker, in a speech yesterday to the Risk Management Association in Richmond, Virginia, said he still doesn't see the need for additional monetary stimulus. Also, the central bank should avoid targeting specific markets such as mortgage debt with its policies, he said.

Bullard told reporters the central bank should "stand pat" on its current level of accommodation, given that economic "data has been strong in the last two month."

By contrast, Chicago Fed President Charles Evans said yesterday to reporters in Carmel, Indiana, that aggressive easing by the Fed could improve economic performance "one or two years faster than if we didn't take those actions."

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