

Monetary Policy Alternatives

This Tealbook presents three policy alternatives—labeled A, B, and C—for the Committee’s consideration. Alternative B reduces monthly purchases of both MBS and Treasury securities by modest amounts, signals that further reductions are likely, and enhances the forward guidance for the federal funds rate by incorporating a qualitative description of the Committee’s likely policy approach after the 6½ percent unemployment threshold is reached. Alternative C announces larger reductions in monthly purchases, also signals that further reductions are likely, and maintains October’s forward guidance. This alternative includes an option to convert the current “flow-based” asset purchase program to a “fixed-size” program that would end in June. Alternative A makes the stance of policy more accommodative than the other alternatives by augmenting the forward guidance along several dimensions while maintaining the pace of asset purchases and indicating that the Committee is not likely to reduce the pace of its purchases in the near term.

In summarizing recent economic developments, Alternatives B and C state that economic activity is expanding at a “moderate” pace and that labor market conditions have shown “further improvement,” while Alternative A characterizes the expansion as “modest” and cites “some” further improvement in labor market conditions. All of the alternatives say that fiscal policy is restraining economic growth, but Alternatives B and C add that the extent of restraint “may be” and “appears to be” diminishing, respectively. Alternative B says that inflation has been running “below” the Committee’s longer-run objective; Alternative C uses “somewhat below” and Alternative A says “well below.” All three alternatives note that longer-term inflation expectations have remained stable.

In characterizing the economic outlook, Alternatives A and B say the Committee expects that economic growth will pick up from its recent pace and the unemployment rate “will gradually decline” toward its mandate-consistent level; Alternative C uses “will continue to decline” and cites growing underlying strength in the broader economy. With respect to risks to the outlook, Alternative A says the Committee continues to see “modest downside risks,” Alternative B offers a choice of describing the risks as “having diminished” or as “roughly balanced,” and Alternative C uses “roughly balanced.” All of the alternatives state that the Committee recognizes the risks associated with inflation running persistently below 2 percent. Alternatives B and C indicate that the Committee