

Monetary Trends



The Importance of an Asymmetric Directive

At each meeting, the Federal Open Market Committee (FOMC) issues a policy directive, the language of which determines whether the directive is symmetric or asymmetric. While the FOMC has never formally stated the purpose of an asymmetric policy directive, it is often interpreted as indicating the likely direction of the FOMC's next policy action. Since 1994, when the FOMC publicly began announcing its decisions to change policy immediately upon making them, the funds rate target has been changed only at regularly scheduled meetings.¹ Hence, the symmetry of the directive at one meeting is thought to give some indication of the direction of any action to be taken at the next. Previously, asymmetry was thought to signal what the Fed might do during the intermeeting period. Before 1994, most changes in the funds rate target occurred during intermeeting periods.

Is the FOMC more likely to take an action when its policy directive is asymmetric? This question is investigated for the period beginning October 1989 because the FOMC has followed the practice of changing its federal funds rate target less frequently and by larger amounts since then. Since October 1989, the Fed has made 32 adjustments to its funds rate target, each 25 basis points or larger. Previously, target changes of an eighth or a sixteenth of a percentage point were common.

A directive is voted on at one meeting and stays in effect until it is changed at another meeting. Between October 1989 and May 1998, 70 directives were issued, of which 37 were asymmetric. During periods when the directive was asymmetric, the funds rate target was changed 22 times (59 percent). This percentage is somewhat larger than the percent of total target changes to directives, 46 percent (32/70). Moreover, in each instance the change in the funds

rate target was in the direction of the asymmetric directive. Hence, the direction of any asymmetry appears to be a useful guide to the direction of subsequent changes.

Because the FOMC now appears to change its funds rate only at regularly scheduled meetings, it is natural to ask whether the symmetry of the directive issued at one meeting affects the probability that the FOMC will change its funds rate target at the next meeting. Since February 1994, the FOMC has changed its target at just four of 17 meetings (24 percent) when the directive of the previous meeting was asymmetric (see table). By contrast, six target changes occurred among the 18 meetings when the directive of the previous meeting was symmetric (33 percent). Clearly, knowledge of the symmetry of the directive at one meeting would not have improved one's ability to forecast a target change at the next. However, knowledge of the direction of asymmetry would have been a reliable guide of the direction of any change that took place.

—Daniel L. Thornton

¹ The symmetry of the directive for the current meeting is that established at the previous meeting. There was one exception, a 25-basis point increase in the funds rate target on April 18, 1994. See *Monetary Trends* (July 1997) for a discussion of the FOMC's practice of changing the funds rate target only at regularly scheduled meetings.

FOMC Meeting Target Changes			
(symmetry of directive for current meeting established at previous meeting)			
February 1994 – May 1998			
	Target Change	No Target Change	Total
Symmetric Directive	6	12	18
Asymmetric Directive	4	13	17
Total	10	25	35

