The FOMC's Balance-of-Risks Statement and Market Expectations of Policy Actions

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In January 2000 the Federal Open Market Committee (FOMC) instituted the practice of issuing a "balance of risks" statement along with its policy decision at the close of each FOMC meeting. The balance-of-risks statement was intended to indicate the Committee's assessment of the balance of risks for heightened inflation pressures or economic weakness over the foreseeable future. In announcing the procedural change, the FOMC explicitly noted that "this time frame in the new language is intended to cover an interval extending beyond the next FOMC meeting," suggesting that the balance-of-risks statement should not be interpreted as an indicator of the Committee's next policy action.

Previously, the FOMC had included a statement in its policy directive that appeared to pertain to possible future policy actions and came to be known as the "symmetry," "tilt," or "bias." The directive was said to be symmetric, or unbiased, if the directive indicated that a tightening or easing of policy was equally likely during the period between FOMC meetings—the "intermeeting period."

The purpose of this article is to review the FOMC's use of its balance-of-risks statement and the market's interpretation of it. Despite the FOMC's claim that the balance-of-risks statement is not intended to signal any particular action at or before the next FOMC meeting, market participants have used the statement when assessing the likelihood of a policy action at the next meeting.

HISTORICAL DEVELOPMENT OF FOMC STATEMENTS

The practice of adopting a bias in the policy directive began in 1983; however, until 1999, the statement of the bias that the FOMC adopted at one meeting was not made public until after the next meeting. In May 1999, the FOMC changed its practice and began announcing the symmetry of its policy directive at the conclusion of each meeting. This announcement attracted considerable attention. While the FOMC had never offered a formal interpretation of the symmetry clause of its policy directive, the market interpreted the bias in one direction or another as an indication of the likelihood that the FOMC would change the intended funds rate in that direction.[1] This interpretation was reasonable given that the bias was stated in terms of the need to change the degree of pressure in reserve markets, i.e., the intended funds rate, during the intermeeting period. Nevertheless, Thornton and Wheelock (2000) found that the bias had essentially no predictive content for changes in the funds rate target at or before the next meeting. Specifically, they found that, while any action taken was nearly always in the direction of the bias at the previous meeting, they could not reject the hypothesis that policy actions taken were independent of the asymmetric language adopted at the previous meeting. Consequently, the evidence suggests that policymakers were no more likely to change the intended funds rate when the bias at the previous meeting was asymmetric.

Nevertheless, it appears that the FOMC was concerned that immediate release of the bias was giving rise to undue expectations of a policy action at or before the next FOMC meeting. Consequently, in announcing its new procedure on January 19, 2000, the FOMC emphasized that the balance-of-risks statement was not intended to convey information about future policy actions. Specifically, the FOMC noted that, "previously, the Committee's directive and statement referred to the relative likelihood of an increase or a decrease in the intended federal funds rate, which may have intensified the public focus on the chance of a subsequent adjustment to the stance of policy, thereby increasing the possibility of misperceptions about the odds and timing of policy action."[2]

By removing explicit reference to both the intended federal funds rate and the intermeeting period, the Committee hoped that the new language would not be interpreted as indication of the likelihood of a policy action at or before the next scheduled Committee meeting.

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1 For a discussion of three possible interpretations of the "tilt," see Thornton and Wheelock (2000).

2 FOMC (January 19, 2000).

POLICY ACTIONS AND THE FOMC'S BALANCE-OF-RISKS STATEMENT

The FOMC increased its target for the funds rate three times in 2000. All of these changes occurred at regularly scheduled FOMC meetings (February, March, and May), and all were made when the balance-of-risks statement adopted at the preceding meeting indicated heightened inflation pressures.

The Committee's target for the federal funds rate was reduced eleven times during 2001, once at each of the eight regularly scheduled FOMC meetings and three times between scheduled meetings. Again, on each of these occasions the Committee had indicated at the preceding meeting that the risks were toward economic weakness.

Consequently, all 14 of the target changes that occurred in 2000 and 2001 were made after the Committee had indicated that the balance of risks were weighted in the direction consistent with the next target rate change.

The FOMC and the Balance-of-Risks Statement

To assess the market's interpretation of the balance-of-risks statement, we read press analyses of the FOMC's public statement following each meeting and other analyses of monetary policy over the period since the adoption of the new procedure. The relevant sources and quotations are presented in the appendix. It is clear from reading these accounts that the balance-of-risks statement was one of the pieces of information that market participants used to determine the likelihood of an action at the next meeting.[3] For example, on May 17, 2000—the day after the FOMC announced that it was increasing its target for the intended federal funds rate by 50 basis points, the largest change in the funds rate target in over five years—the *Los Angeles Times* reported that the FOMC "hinted that it may do so again next month," noting that the Fed's hint of further rate increases came "in the form of a warning that inflation remains a serious risk."[4] Similar statements appeared in several other major newspapers on that day.

This interpretation is not unexpected since the "foreseeable future" language of the balance-of-risks statement includes the period up to and including the next regularly scheduled FOMC meeting. This interpretation was likely exacerbated by the FOMC's use of the balance-of-risks statement, as well as statements made by some members of the FOMC.

An example of this occurred in late 2000 and early 2001, when the FOMC changed its balance-of-risks statement for the first time and soon after made an intermeeting move: For the first seven FOMC meetings in 2000, the Committee indicated that the balance of risks were "mainly toward conditions that may generate heightened inflation pressures in the foreseeable future." At the eighth meeting, on December 19, 2000, the FOMC reversed the balance-of-risks statement, indicating that "it believes that the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future." Despite this dramatic swing from unbalanced risks in one direction to unbalanced risks in the other, the Committee chose not to change the intended federal funds rate at that meeting, leaving it at 6.5 percent. About two weeks later, on January 3, 2001, the FOMC reduced the funds rate objective by 50 basis points in an intermeeting move.

Whether intended or not, these actions may have conditioned market participants to believe that the balance-of-risks statement was a good indicator of the FOMC's next policy action. Indeed, the minutes of the December 19, 2000, FOMC meeting indicate that some Committee members thought that the shift in the balance-of-risks statement would have this effect. The minutes note that "the revised statement of risks, even though it would not be associated with an easing move, could strengthen expectations regarding future monetary policy easing to an extent that was difficult to predict and could generate sizable reactions in financial markets."[5]

In any event, press reports show that the 180-degree swing in the balance-of-risks statement was widely interpreted as a signal that the Fed would reduce rates at the next FOMC meeting in late January. More than a year later, in reporting on the events surrounding the December 19, 2000, FOMC meeting, the *Financial Times* noted that at least one member was thinking of the action as a signaling device for policy actions, noting that, "as one FOMC member says, policy has become as much about

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3 In 1994 the FOMC began the practice of adjusting its funds rate target primarily at regularly scheduled FOMC meetings. Consequently, most expectations were for changes at a regularly scheduled meeting and not during the intermeeting period. Indeed, the evidence here and in Poole, Rasche, and Thornton (2002) shows that the markets were surprised by intermeeting moves.

4 Mulligan (2000).

5 FOMC (2001, p. 229).

signaling future rate changes as about actual immediate rate changes." The article goes on to say that "Mr. Moskow, of the Chicago Fed, a keen bridge player, describes the change in tilt as a 'jump shift,' a signal of a powerful hand."[6]

The idea that the Committee viewed the shift in the balance-of-risks statement as a signal of likely future policy actions is borne out in other ways. For example, there was a little-noticed sentence in the December 19, 2000, press release, stating that "the Committee will continue to monitor closely the evolving economic situation." The *Financial Times* later noted that this "was a piece of classic Fedspeak—an apparently anodyne and rather obvious observation that the Fed was on heightened alert, and would not necessarily wait six weeks until the next scheduled meeting to cut interest rates." The article goes on to quote President Santomero of the Federal Reserve Bank of Philadelphia: "We indicated that the situation was sufficiently fluid that we were paying special attention to new information that was coming up on a week to week basis."

That the FOMC was poised to move ahead of the January 30/31, 2001, meeting is also reflected in the minutes of the December 19, 2000, meeting which stated that, "on balance, the information already in hand indicated that the expansion clearly was weakening and by more than had been anticipated. In the circumstances, prompt and forceful policy action sooner and larger than expected by financial markets seemed called for."

The view that the Fed would eventually have to reduce the funds rate target was widely held. Indeed, by mid-December 2000, the federal funds futures market was already pricing-in a significant probability of a 50-basis-point decline in the funds rate in late January 2001; within a few days of the December 2000 meeting, the February 2001 federal funds rate futures contract was essentially fully pricing-in a 50-basis-point reduction in the funds rate at the January 30/31, 2001, meeting. The FOMC surprised the market by reducing the funds rate by 50 basis points on January 3, 2001. Moreover, it again adopted a balance-of-risks statement indicating the prospects for economic weakness. The futures market almost immediately priced in another 50-basis-point cut at the Fed's regularly scheduled January 30/31 meeting, dropping 29 basis points on January 3 and another 19 basis points on January 4.[7]

Further evidence that some Committee members interpreted the balance-of-risks statement as a signal of future policy actions came with the release of the minutes of the May 15, 2001, FOMC meeting. The minutes of that meeting report that "the members anticipated that a neutral balance of risks statement could be appropriate before long, probably well before substantial evidence had emerged that economic growth had strengthened appreciably, once the Committee could see that policy had eased enough to promote a future return to maximum sustainable economic growth." In reporting on these minutes, John Berry of the *Washington Post* noted that the end of the easing process "would be marked by a statement from the committee that it had decided that a 'neutral balance of risks' had been achieved."[8]

It is clear from press reports that during 2001 the balance-of-risks statement was an important indicator of a likely Fed action. It is equally clear that this interpretation was intensified by statements of some members of the FOMC and by the FOMC's use of the balance-of-risks statement. A recent example can be seen by contrasting the remarks Chairman Greenspan made in a speech in San Francisco on January 11, 2002, with his testimony on the state of the economy given to the Senate Budget Committee on January 24, 2002. In the San Francisco speech, using phraseology similar to the balance-of-risks statement, the Chairman said, "I would emphasize that we continue to face significant risks in the near term. Profits and investment remain weak and, as I noted, household spending is subject to restraint from the backup in interest rates, possible increases in unemployment, and from the effects of widespread equity asset price deflation over the past two years."[9] His testimony before the Senate Budget Committee was more upbeat. On January 25, 2002, the *Wall Street Journal* reported the following: "In a rare admission of miscalculation for a man considered the master market manipulator, the Fed chairman told Congress that…by making a statement in mid-January like 'we continue to face significant risks in the near term,' Mr. Greenspan later realized that he had unintentionally 'implied that I didn't think the economy was in the process of turning.'"[10] The *Wall Street Journal* noted further: "Just as Mr.

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[6] Baker (2001).

[7] See Poole, Rasche, and Thornton (2002, appendix) for details.

[8] Berry (2001).

[9] Greenspan (2002).

[10] Schlesinger (2002).

Table 1

FOMC Events and a Measure of Unexpected Policy Action

Date	Poole/Rasche Measure
2/02/00	–0.04
3/21/00	–0.01
5/16/00	0.04
6/28/00*	–0.02
8/22/00*	0.00
10/03/00*	0.00
11/15/00*	0.00
12/19/00*	0.05
1/03/01†	–0.29
1/31/01	0.00
3/20/01	0.03
4/18/01†	–0.42
5/15/01	–0.07
6/28/01	0.02
8/21/01	0.02
9/17/01†	–0.20
10/02/1	–0.08
11/6/01	–0.11
12/11/01	0.01
1/30/02*	0.02

NOTE: *Meeting, no change in the intended funds rate. †Indicates an intermeeting target change.

Greenspan's mid-January speech led many analysts to expect one more Fed interest rate cut later this month," based on a more balanced assessment of the economic outlook, "yesterday's remarks persuaded many Fed watchers to revise their forecast for the Jan. 29-30 monetary policy meeting."[11] Hence, despite the fact that the risks were weighted toward economic weakness, Greenspan's comments appeared to persuade market participants that no additional easing was likely in late January.

THE IMPORTANCE OF THE BALANCE-OF-RISKS STATEMENT FOR MARKET EXPECTATIONS

While there is little doubt that the market considers the balance-of-risk statement in determining the likelihood of the next policy action, the important question is how important is this information for determining market expectations of a policy move. One way is to see whether the balance-of-risks statement helps the market to correctly anticipate the FOMC's actions. To do this, we use the measure from Poole and Rasche (2000) of unexpected changes in the intended federal funds rate. The Poole/Rasche measure uses the change in the 1-month-ahead federal funds futures rate on the day the target was changed as their measure of the unexpected change in the intended funds rate. For the first day of the month, they use the difference between the rate on the 1-month futures rate on the first day of the month and the rate on the 2-month futures contract on the last day of the previous month. (See Poole and Rasche, 2000, and Poole, Rasche, and Thornton, 2002, for details.)

The Poole/Rasche measure of the unexpected change is reported in Table 1 for each meeting and for the three intermeeting changes during our sample period. Because of ambient variation in the federal funds futures rate, changes of 5 basis points or less are considered insignificant. The Poole/Rasche measure suggests that there were no instances during 2000 when there was an unexpected action by the FOMC. During the first three meetings, the intended funds rate was raised when the balance of risks were weighted toward heightened inflation pressures. In each of these cases, the market appears to have anticipated the FOMC's action.

The results for 2001 prior to September 11 were very similar. Market participants were only surprised when the FOMC made intermeeting changes in the intended funds rate. On all of these occasions, however, market participants anticipated that the FOMC would reduce the intended funds rate; they were surprised only by the timing of the action. It appears to be difficult to determine the precise day when the FOMC will take an intermeeting action, even if the market believes that such an action is likely.

There was a 7-basis-point change in the federal funds futures rate on May 15, when the FOMC reduced the intended funds rate by 50 basis points. Poole, Rasche, and Thornton (2002) note, however, that a more detailed analysis of news reports and the futures rate shows that this change was in fact anticipated. The other large change in the futures rate occurred in the two months following the terrorist attacks on September 11. Figures 1 and 2 present the daily rates on the November and December

[11] Schlesinger (2002).

Figure 1

November 2001 Federal Funds Futures Rate

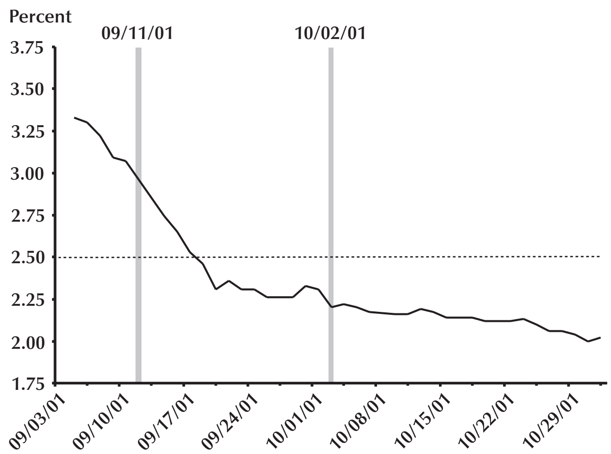
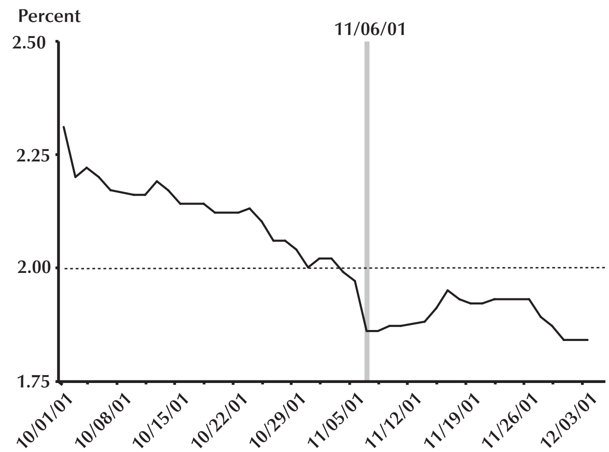


Figure 2

December 2001 Federal Funds Futures Rate



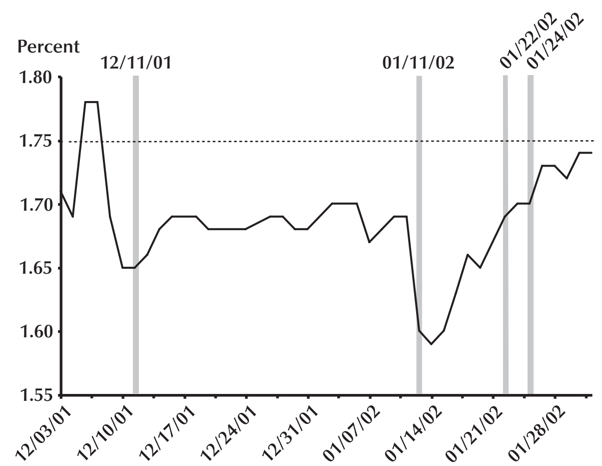
federal funds futures contracts around the dates of the October and November FOMC meetings, respectively. Vertical lines indicate the dates of these meetings and the terrorist attack. Consistent with news reports, these figures suggest that the cuts in the intended federal funds rate were effectively anticipated by the time of the meeting. The unusually large changes in the futures rates associated with these meetings may be due in part to the greater uncertainty in the wake of the terrorist attacks. This uncertainty is particularly evident in the December contract.

Was the balance-of-risks statement definitive for correctly forecasting policy actions? The answer is, apparently not. Table 1 shows that the market correctly anticipated that the FOMC would not change the intended funds rate at each of the last five FOMC meetings during 2000 despite the fact that, on each of these occasions, the balance-of-risks statements were also weighted toward heightened inflation pressures. Hence, while the press analyses suggest that market participants look to the balance-of-risk statement as one source of information, it is not the only source. Indeed, it appears that it may not be a critical source of information.

Market participants apparently also rely on their understanding of how the FOMC will respond to the latest economic reports and on statements of the Chairman and other Fed officials. Perhaps the clearest example of the latter is shown by the behavior of the rate on the February 2002 federal funds futures contract. This contract is used because the January

Figure 3

February 2002 Federal Funds Futures Rate



2002 meeting was scheduled for January 29-30, so the market's expectations of FOMC actions at this meeting are best reflected in the February contract.

The daily rate on this contract is plotted in Figure 3. The four vertical lines denote the dates of the December 2001 FOMC meeting, Chairman Greenspan's San Francisco speech, the Tuesday following two press reports of a statement by a senior Federal Reserve official clarifying the Chairman's San Francisco remarks, and the Chairman's Senate testimony. The behavior of the federal funds futures rate suggests that there was considerable uncertainty about the February 2002 federal funds rate before the December 11, 2001, FOMC meeting. After that meeting, when the FOMC indicated that the risks remained balanced toward economic weakness, expectations for the funds rate settled down and the market priced-in a significant probability of a 25-basis-point reduction in the intended funds rate at the January 2002 meeting.

Market expectations were significantly affected by Chairman Greenspan's remarks in San Francisco on January 11, 2002, when the February federal funds futures rate fell below 1.6 percent. Market expectations were quickly revised, reducing the probability of an additional cut in the intended funds rate, and were revised further on Tuesday, January 22, 2002, in the wake of two reports—one in the *Washington Post* on Saturday, January 19, and the other in the *Wall Street Journal* on Monday, January 21—quoting an "unidentified Fed official" as saying that the Chairman's downbeat remarks in San Francisco were overplayed and that a rate cut was not all that likely. The probability of a cut in the intended funds rate was all but eliminated following the Chairman's testimony before the Senate Budget Committee on January 24, 2002.

Interpreting the Balance-of-Risks Statement

While market participants appear to rely on a wide range of information to determine the likelihood of a policy action, it is interesting to note that, on all 14 occasions when the funds rate was adjusted, the balance-of-risks statement was unbalanced in the direction of the rate change. Moreover, in all but one of the cases where the balance-of-risks statement was unbalanced toward economic weakness, the FOMC decreased the policy rate. The exception occurred in January 2002, when the FOMC said that the balance of risks was unbalanced toward weakness, but took no action. In its public statement, however, the FOMC noted that "signs that weakness in demand is abating and economic activity is beginning to firm have become more prevalent. With the forces restraining the economy starting to diminish, and with the long-term prospects for productivity growth remaining favorable and monetary policy accommodative, the outlook for economic recovery has become more promising." Hence, despite the fact that risks were slanted toward economic weakness, the FOMC made it clear that indications were that the economy was strengthening.

We speculate that the fact that the FOMC has nearly always reduced the funds rate objective when the balance-of-risk statement was unbalanced toward economic weakness is a natural consequence of the statement itself. It is difficult to see why the Committee would not act promptly in an attempt to offset these risks to whatever extent possible when policymakers believe that the risks are tilted toward economic weakness. Indeed, in reacting to the January 3, 2001, funds rate cut, former Governor Wayne Angell echoed this sentiment, saying "I've never seen the Fed get themselves into such a dilemma as they were in Dec. 19, saying how bad the economy was but also saying they weren't acting [then]. After that, they needed to cut rates, probably within the first two weeks [of the year]."[12] In retrospect, we now know that, properly interpreted, the remainder of the statement made it clear that the FOMC had no intention of waiting very long to reduce the funds rate target.

One could argue that the same argument applies to situations where the balance of risks is weighted toward heightened inflation pressures. We believe there are differences, however. For one thing, signs of slowing in economic growth are typically readily apparent—a rising unemployment rate, reductions in production and/or sales, weakening consumer and investor confidence, etc. Indicating that these signs of a weakening economy are emerging and threaten to worsen will naturally lead the public to expect that policymakers will take actions to prevent a downturn.

In contrast, signs that inflation may be worsening are more amorphous. Forward-looking inflation indicators—the spread between inflation adjusted and non-inflation adjusted Treasury rates, money growth measures, inflation surveys, and commodities futures prices—have not proven reliable predictors of near-term inflation. Policymakers would be more likely to act if the underlying trend in inflation were rising; however, month-to-month inflation numbers are quite volatile. It generally takes several months to obtain conclusive evidence of a significant shift in the underlying inflation rate. Consequently, market participants might be less inclined to believe that the FOMC will react quickly to a "bad" inflation report.

Moreover, former Vice Chairman Blinder (1998, pp. 19-20) has suggested that a central bank "will take far more political heat when it tightens preemptively to avoid higher inflation than when it eases preemp-

[12] Schlesinger, Ip, and Kulish (2001); see appendix.

tively to avoid higher unemployment." If true, then the "political" costs of adjustment are higher for raising the funds rate target than for lowering it. Such asymmetric adjustment costs may generate more inertia in "tightening" than in "easing" policy.

For these reasons, we believe that market participants are less likely to interpret a statement that the risks are weighted toward heightened inflation pressures as an indicator of an impending FOMC tightening than to interpret a statement that the risks are weighted toward economic weakness as an indicator of an impending FOMC easing.

CONCLUSION

The balance-of-risks statement is only one of the factors that market participants consider in forming their expectations of FOMC actions, and it appears that this statement alone is not a critical factor. An important source of information is the "clarifying statement" that sometimes accompanies the announcements made at the conclusion of FOMC meetings, as well as general statements made by the Chairman and other FOMC members. The importance of the accompanying statement was apparently not appreciated initially. It appears that the FOMC's attempt to signal that it would likely take action before its regularly scheduled FOMC meeting on January 31, 2001, was too cryptic. Later, the importance of the statement was recognized. A similar message sent in the statement following the January 2002 meeting was not misinterpreted. In spite of the statement that the risks remained unbalanced toward economic weakness, this FOMC statement was widely interpreted to mean that no additional easing actions were likely to occur in the absence of significant new evidence.

We believe that at each meeting the FOMC policymakers set the policy instrument at the level that they believe to be consistent with their policy objectives given what they then know about the state of the economy. Policymakers should be prepared to act when new information suggests that their economic objectives cannot be obtained without adjusting the policy instrument. Policymakers might do well to indicate the kinds of information they believe to be important in making these decisions. Over time, the combination of (i) information about what policymakers believe to be important and (ii) their reaction to economic reports will provide market participants a better framework for anticipating policy actions—an activity that is certain to continue regardless of the FOMC's disclosure policy.

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Appendix

PRESS ANALYSES OF THE FOMC'S PUBLIC STATEMENTS FOLLOWING EACH FOMC MEETING: JANUARY 2000 THROUGH JANUARY 2002

02/03/2000
Stocks Mixed on Rate News; Treasury's Plan Rallies Bonds; Wall St.: Dow off 37, Nasdaq up 22. Fed increase is less than some investors expected, but markets face uncertainty over potential for more hikes.
by Thomas S. Mulligan, *Los Angeles Times*, Home Edition, p. C1

The Fed's official statement Wednesday said the central bank believes the risks are "weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future." Many Wall Streeters believe that will mean at least two more quarter-point rate increases this year. Others, however, say rates may well be peaking now, assuming the economy slows and inflation remains subdued.

02/03/2000
WEDNESDAY'S MARKETS
Fed Decision Gets Mixed Reaction from Stocks—Treasury Move Stirs Bond Rally
by E.S. Browning, *Wall Street Journal*, p. C1

And while the Fed didn't explicitly say that it will raise rates again, that is what investors concluded from its comment that inflation remains the main threat to the economy.

02/03/2000
Fed Hikes Rates 0.25% Amid Concerns About Surging U.S. Economy
by Gerard Baker in Washington and Ed Crooks in London, *Financial Times*, USA Edition, p. 1

Amid concerns the robust U.S. economy could ignite inflation, the Federal Reserve on Wednesday raised two short-term interest rates to their highest level in more than four years and indicated that further tightening may be needed in the near future.

03/22/2000
TUESDAY'S MARKETS
Stocks and Bonds Shoot Higher Despite Rate Increase by the Fed
by Gregory Zuckerman, *Wall Street Journal*, p. C1

And despite investors' satisfaction that interest-rate increases must surely be winding down, the Fed hinted that more rate increases are likely this year.

03/22/2000
Fed Makes Expected Increase on Rates—Main Target Rises to 6%, More Action Promised; Markets Seem Unfazed
by Jacob M. Schlesinger, *Wall Street Journal*, p. A3

The Federal Reserve continued its slow but steady campaign to damp the economy with another small increase in interest rates and declared more action was likely this spring.

03/22/2000
Fed Raises Rates as Inflation Hedge; Markets Anticipated Quarter-Point Rise
by John M. Berry, *Washington Post*, Final Edition, p. E2

Federal Reserve officials, concerned that the nation's extraordinarily strong economic growth will eventually lead to higher inflation, raised short-term interest rates by a quarter-percentage point yesterday and indicated that more such moves are probable if growth doesn't slow to a more sustainable pace.

05/17/2000
Fed Raises Key Interest Rates; Policymakers Hint More Increases Will Follow Half-Point Boost
by John M. Berry, *Washington Post* , p. A1

The Federal Reserve raised its target for overnight interest rates by half a percentage point yesterday to slow headlong U.S. economic growth and keep inflation from rising. A statement explaining the action indicated that additional rate increases are likely in coming months.

05/17/2000

Fed Targets Inflation, Hikes Rate Half-Point; ECONOMY: Central bank hints at still more tightening. Banks quickly raise their prime rates, meaning consumers will soon feel the pinch.

by Thomas S. Mulligan, *Los Angeles Times*, Home Edition, p. A1

Escalating its campaign to preempt inflation, the Federal Reserve on Tuesday raised a benchmark interest rate by one-half of a percentage point and hinted that there may be more credit tightening ahead.

05/17/2000

Investors Shrug Off Fed Rate Rise, Push Blue Chips Up 126.79 Points

by E.S. Browning, *Wall Street Journal*, p. C1

The Fed hint of further rate increases, in the form of a warning that inflation remains a serious risk, came on top of its widely expected decision to raise its guideline short-term interest rates by half a percentage point.

05/17/2000

Fed Boosts Rates by One-Half Point, Warns That the Economy Isn't Slowing—Central Bank's Statement Indicates More Increases as Elections Approach

by Jacob M. Schlesinger, *Wall Street Journal*, p. A2

Looking ahead to their next meeting scheduled for June 27 and 28, the Fed's monetary policy committee said in a statement that it still believes the economy's "risks are weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future." That means more rate increases, possibly another half-point rise, are on the table, which could put Fed Chairman Alan Greenspan in the politically awkward position of continuing to raise borrowing costs as the November elections approach. Futures markets designed to predict upcoming Fed moves were betting late yesterday on a quarter-point move in June and then a half-point move by the November vote.

05/17/2000

Fed Tries To Rein in US Economy with Half Point Interest Rate Rise

by Gerard Baker, *Financial Times*, p. P1

In a statement, the FOMC attributed its decision to familiar concerns over growth in demand surpassing the growth in supply and implied further increases may be necessary in the near future.

06/29/2000

Market Savvy Fed Votes To Put Off 7th Straight Rate Hike; ECONOMY: The central bank implied it would raise interest rates in August unless it sees more signs of economic weakness.

by Thomas S. Mulligan, *Los Angeles Times*, Home Edition, p. C1

Thus the central bank implied it would resume raising borrowing costs at its Aug. 22 meeting unless it sees more definitive signs of economic weakness over the next two months.

06/29/2000

Fed Votes Not To Raise Interest Rates, for Now

by John M. Berry, *Washington Post*, Final Edition, p. E1

"Nonetheless, signs that growth in demand is moving to a sustainable pace are still tentative and preliminary" and the nation's labor markets remain very tight, the committee said, adding that "the risks continue to be weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future." That was the Fed's way of warning that inflation concerns could cause policymakers to move rates higher in coming months.

08/23/2000

Fed Holds Rates Steady, Issues Inflation Warning; ECONOMY: Many economists expect no further increases by the Federal Open Market Committee, which cited slowing growth in demand and improved productivity in its decision.

by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. C1

That murkiness was behind the Fed's warning Tuesday that the economic "risks continue to be weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future."

The warning signaled that the central bank is maintaining its “tightening bias,” or tilting toward raising, rather than lowering, rates if it takes any further action at all.

08/23/2000
Market Skips Party on Fed News, Settles for Slim Gains
by E.S. Browning, *Wall Street Journal,* p. C1

Not everyone was so hopeful. The Fed indicated in a statement after its policy meeting that it might have to raise rates later to stave off inflation. “The risks,” it said, “continue to be weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future.”

11/10/2000
Analysts Predict Fed Will Leave Rates Alone
by John M. Berry, *Washington Post*, Final Edition, p. E1

Many analysts predict that the FOMC, the central bank’s top policymaking group, will keep that “bias” in the statement it issues after its deliberations, and which many investors take as a hint at the Fed’s possible future action. But some others believe economic growth has slowed enough that the FOMC may be ready to drop that bias in favor of a “neutral” statement saying the risks are now balanced. The issue is important because a shift to neutral probably would be taken by financial markets as a signal that rate cuts could be in offing, perhaps as soon as early next year.

11/16/2000
Fed Puts Rates On Hold Again; But Inflation Is Still Viewed as a Risk
by John M. Berry, *Washington Post*, Final Edition, p. E1

Some investors had been hoping the Fed officials would decide that those risks are balanced, which could be a first step toward reducing rates in coming months.

11/16/2000
Bond Prices Rally as Investors, Who See Chance of Future Cut, React to Fed’s Decision on Rates
by Gregory Zuckerman and Steven Vames, *Wall Street Journal*, p. C20

The Fed left the fed-funds rate, or its target Fed funds overnight interbank rate, at 6.5%, and also kept in place its bias toward a “risk of heightened inflation pressures” and the higher interest rates that would be needed to fight such pressures. The Fed’s decision was widely anticipated, but while some investors were disappointed the Fed kept its so-called bias tilted in favor of further rate increases others took heart by the wording in the Fed’s statement accompanying its announcements, figuring the chances for a rate cut down the line had been raised.

12/20/2000
Fed Shifts to Worry Over Risk of Slump but Keeps Short-Term Rates Unchanged—Markets Now Expect Cuts at the End of January as Inflation Fear Fades
by David Wessel and Gregory Zuckerman, *Wall Street Journal*, p. A2

The Federal Reserve promised to throw a life preserver to the U.S., declaring that the risks of “economic weakness in the foreseeable future” exceed the risks of inflation. But it left short-term interest rates unchanged. Financial markets now expect the Fed to begin cutting rates at the end of January, and to reduce them at least one-half percentage point by spring.

12/20/2000
Fed Leans Toward a Future Rate Cut; Agency Says Economic Slowdown Poses Greater Threat Than Inflation
by John M. Berry, *Washington Post*, Final Edition, p. E1

The officials left interest rates unchanged for now but said the risk that economic growth will slow sharply is now greater than the risk that inflation will get worse. At their previous meeting, last month, they noted that growth had slowed but said inflation still posed the greater risk. That 180-degree swing in concern underscored the rapidity with which economists and Fed officials alike have been marking down their expectations about the immediate course of the economy. And to some analysts it suggested that the Fed officials could begin to cut rates as early as their next meeting, on Jan. 30-31.

12/20/2000

Treasury Prices Drop as Investors Absorb News of the Federal Reserve's New Stance on Rates

by Michael S. Derby, *Wall Street Journal*, p. C21

The Fed left its target for the federal-funds, or overnight bank, lending rate, unchanged at 6.50%. But its announcement of the decision suggested that the Fed is leaning toward lowering interest rates in the near future. It said that although there remains some potential for inflation, the risks to the economy now "are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

01/04/2001

Fed Unexpectedly Cuts Key Rate by Half-Point; ECONOMY: The central bank's aggressive action underscores concerns over a slowdown. Stock markets soar, with Nasdaq index posting a record gain.

by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. A1

As it customarily does, the Fed accompanied its rate reductions with an explanation. It said in a statement that it had acted "in light of further weakening of sales and production, and in the context of lower consumer confidence, tight conditions in some segments of financial markets and high energy prices sapping household and business purchasing power." And it left the door open for further cuts, saying that the risks "are weighted mainly toward conditions that may generate economic weakness."

01/04/2001

Fed Acts To Bolster Economy with an Unexpected Rate Cut; Wall Street Cheers Half-Point Move; Nasdaq Index Gains a Record 14.2%

by Steven Pearlstein, *Washington Post*, Final Edition, p. A1

The Federal Reserve yesterday cut short-term interest rates by half a percentage point—a dramatic move designed to bolster investor and consumer confidence and prevent the economy from slipping into recession. The Fed also hinted that further cuts may be in the offing.

01/04/2001

Two-Edged Sword: Fed's Surprise Move Sparks Market Rally, Sets Off New Jitters—Action Reflects Rising Fear of Recession, Pressure On Central-Bank Policy—Boost for Bush's Tax Cut?

by Jacob M. Schlesinger, Greg Ip, and Nicholas Kulish, *Wall Street Journal*, p. A1

By declaring that the "risks" in the economy remain "weighted mainly toward...economic weakness," the Fed also made clear it's ready to do still more. Financial markets that bet on future Fed moves were trading yesterday afternoon on the assumption of a quarter-point rate reduction at the central bank's two-day meeting on Jan. 30 and 31, and one more of the same size at the Fed's March meeting.

03/21/2001

Fed Delivers Rate Cut with a Hint of More to Come; ECONOMY: The half-point trim is intended to help revive growth, which has slowed to nearly zero. Analysts see the move as a refusal to accommodate Wall Street.

by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. A1

Among other things, officials promised to "monitor developments closely"—a code phrase that analysts said meant the central bank could cut rates again before the next meeting of its policymaking Federal Open Market Committee in mid-May.

03/21/2001

Economic Fix: As Fed Trims Rates, Other Forces Work To Dilute the Benefits—Consumer Debt, Slow Exports and Corporate Jitters Damp Jump-Start Bid—Markets Lose More Ground

by Greg Ip and Jacob M. Schlesinger, *Wall Street Journal*, p. A1

The Federal Reserve's move to lower short-term interest rates by half a percentage point brings rates down a total of 1.5 percentage points this year. And officials made clear yesterday they are prepared to do much more—possibly even before their next official rate-setting session May 15.

03/21/2001
Fed Rate Cut Leaves Wall St. Unsatisfied
by John M. Berry, *Washington Post*, Final Edition, p. A1

The FOMC cautioned in a statement that weak conditions in the manufacturing sector, where production has fallen and thousands of workers have been laid off, "could continue for some time." Increasing economic problems abroad, particularly in Japan, also pose "substantial risks" that could keep the U.S. economy soft for some time to come, the committee said. Because of these developments, the committee said, the risks the economy faces continue to be "weighted mainly toward conditions that may generate economic weakness in the foreseeable future." In other words, a solid recovery is not yet assured and more rate cuts may be needed.

04/19/2001
Bonds Rise on Fed's Surprise Interest-Rate Cut; Belief in More Trims Aids Short-Term Securities
by Gregory Zuckerman, *Wall Street Journal*, p. C16

Some bond traders seized on the wording of the Fed's rate announcement, which focused on the weakness of the U.S. economy and made it plain that the Fed is ready to keep cutting rates.

04/19/2001
Behind the Surprise: Half-Point Rate Cut Shows Balancing Act by Federal Reserve—Greenspan Pegs His Moves to the Economy but Keeps Close Eye on the Markets—Nasdaq Bounds 8.1% Higher
by Greg Ip and Jacob M. Schlesinger, *Wall Street Journal*, p. A1

Many economists think the Fed still has more work to do, which the central bank doesn't seem inclined to dispute. Its statement expressed concerns of continued "risks" of "economic weakness." The futures market that bets on Fed action is pricing in a Fed funds rate as low as 4% by July.

05/16/2001
THE NATION: Fed Cuts Key Rate Half a Point to 4%
by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. A1

The Federal Reserve cut its key interest rate another half percentage point to 4% on Tuesday and, contrary to what had been expected, left the door open for still more cuts aimed at getting the stumbling U.S. economy moving again.

05/16/2001
Fed Delivers Expected Rate Cut, but Investors' Reaction Is Muted
by E.S. Browning, *Wall Street Journal*, p. C1

The Fed did give investors just about all they could have hoped for: another half-percentage-point cut in its target for short-term interest rates and a hint that it will continue to reduce rates if the economy remains weak.

05/16/2001
Fed Makes 5th Cut in Rates This Year; Action to Date Is Most Aggressive Since '82
by John M. Berry, *Washington Post*, Final Edition, p. A1

The wording of the Fed's announcement gave no hint that the officials believe that economic growth is picking up. To the contrary, it signaled that the Fed is likely to cut rates again, though probably not before the next policymaking session in late June…The FOMC signaled in its statement that it will consider additional rate cuts, concluding that the risks facing the economy "are weighted mainly toward conditions that may generate economic weakness in the foreseeable future." But the statement omitted other language that has been used in recent months to prepare financial markets for a rate cut during the period between policymaking sessions.

06/28/2001
THE NATION: Fed Trims Key Rate a Quarter Point
by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. A1

The central bank's Federal Open Market Committee coupled the cut with a statement signaling it is ready to reduce rates further if economic troubles worsen. But both the action and the words seemed considerably less emphatic than in past months, suggesting uncertainty about how much more is needed to spark a recovery.

06/28/2001
Fed Trims Interest Rates Again; Quarter-Point Reduction Disappoints Some Analysts
by John M. Berry, *Washington Post*, Final Edition, p. A1

Federal Reserve officials reduced their target for short-term interest rates by a quarter of a percentage point yesterday, the sixth rate cut of the year, as part of the central bank's effort to boost the country's anemic economic growth. They also left the door open to additional rate cuts by indicating in a statement that they still believe the risks to the economy "are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

06/28/2001
Financial Times

After five half-point interest rate cuts in five months, Wednesday's quarter-point move might disappoint some investors. But shifting to a quarter does not mean that the Fed's work is done: the statement maintains the bias towards cutting rates further.

06/29/2001
Fed Minutes Hint Cuts Are Nearly Over
by John M. Berry, *Washington Post*, Final Edition, p. E1

Wednesday's statement said the FOMC still found that the risk of further economic weakness outweighed the risk of inflation. In other words, as of this week the committee believes further rate cuts may be needed to stimulate the sluggish U.S. economy. But that does not necessarily mean there will be additional cuts. That will depend on the policymakers' assessment of the course of the economy when they meet next, on Aug. 21.

08/22/2001
Financial Times

The latest quarter point cut was justified by the continued weakness of the economy. Recent glimmers notwithstanding, the risks remain on the downside and the Fed maintains its policy bias to ease further.

08/22/2001
Recession Fears Prompt Fed To Cut Rates Again; ECONOMY: Panel trims benchmark a quarter point and leaves door open for another reduction to counter continuing weakness.
by Warren Vieth, *Los Angeles Times*, Home Edition, p. A1

The Federal Reserve cut interest rates Tuesday for the seventh time this year, warning that the economy may continue to weaken and signaling its willingness to ease rates even more to ward off a recession.

08/22/2001
Fed Again Reduces Key Rate; Quarter-Point Cut May Not Be Last
by John M. Berry, *Washington Post*, Final Edition, p. A1

Federal Reserve officials, concerned about the uncertain outlook for the U.S. economy amid a global slowdown in growth, lowered their target for short-term interest rates yesterday for a seventh time this year and left the door open for more cuts if needed...The Fed policymakers made it clear they are open to more cuts by saying that while "long-term prospects for productivity growth and the economy remain favorable," the committee believes "the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

08/22/2001
Fed Cuts Rates to Lowest Level Since '94—Quarter-Point Reduction Tied to Slump Overseas, Weak Business Climate
by Greg Ip, *Wall Street Journal*, p. A2

The Fed also indicated it was more likely to lower than raise rates in the future, saying risks were "weighted mainly toward...economic weakness" rather than inflation.

09/18/2001
ASSAULT ON AMERICA; ECONOMY: Fed's pre-emptive strike to shore up confidence
by Gerard Baker, *Financial Times*

> But the central bank also went out of its way to ensure there was no doubt that it was prepared to do much more to help out. Not only did it retain its policy "tilt"—the pro-forma statement that said the Fed sees the risks weighted more towards economic weakness than towards inflationary pressures…The maintenance of the "tilt" towards further easing was also strongly suggestive that interest rates are set to go lower still at the next scheduled meeting of the open market committee on October 2.

10/03/2001
Fed Trims Rates Again, Hints at Further Cuts
by John M. Berry, *Washington Post*, Final Edition, p. A1

> Federal Reserve policymakers, citing the damage caused by the recent terrorist attacks to the stalled U.S. economy, yesterday cut short-term interest rates for the ninth time this year and signaled that they may well reduce them again to help ease the coming financial pain…Fed officials also indicated yesterday that they are likely to further trim the federal funds rate, the interest rates financial institutions charge one another on overnight loans, perhaps as soon as their next meeting on Nov. 6. Even though that rate is already a full 4 percentage points lower than it was at the beginning of the year, the committee said "the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

11/07/2001
Key Fed Rate Cut to 40-Year Low; ECONOMY: In real terms, the half-point trim to 2% pushes the benchmark into negative territory.
by Peter G. Gosselin, *Los Angeles Times*, Home Edition, p. A1

> In what has become a familiar refrain, the central bank signaled it was ready to cut rates still further. "The risks are [still] weighted mainly toward conditions that may generate economic weakness," they said.

11/07/2001
Fed Lowers Rates for 10th Time This Year
by John M. Berry, *Washington Post*, Final Edition, p. A1

> Federal Reserve officials, clearly worried that the U.S. economy may be spiraling downward into recession in the wake of the Sept. 11 terrorist attacks, yesterday cut short-term interest rates for the 10th time this year and indicated they may trim them again if necessary…The FOMC also said that the risks facing the economy "are weighted mainly toward conditions that may generate economic weakness," the members' signal that they may cut rates again unless they see signs that the economy's downward momentum is slowing. Some analysts said such action is likely at the next FOMC meeting Dec. 11.

12/12/2001
With the Economy Still Fragile, the Fed Again Cuts Rates
by Richard W. Stevenson, *New York Times*, p. 1, col. 2

> The statement went on to use the Fed's code for a willingness to cut rates again, saying "the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

12/12/2001
Fed Slices Interest Rates to 1.75%, Leaves Door Open for More Cuts
by Greg Ip, *Wall Street Journal*, p. A2

> In a brief statement accompanying the move, policy makers said that "weakness in demand shows signs of abating, but those signs are preliminary and tentative." They said risks were still skewed to more economic weakness, suggesting an inclination to lower rates rather than raise them or leave them alone.