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How Do FOMC Projections Affect Policy Uncertainty?

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Measures of uncertainty fell after the FOMC began releasing its interest rate projections; however, uncertainty is significantly correlated with disagreement across participants' projections.

In January 2012, the Federal Open Market Committee (FOMC) began publicly releasing its participants' projections for the future value of the federal funds rate in its quarterly Summary of Economic Projections. One of the goals of releasing these projections was to increase clarity in FOMC communications about the future path of policy. However, the individual—and possibly conflicting—nature of these projections may not necessarily lead to lower uncertainty about future policy. If participants notably disagree with each other about the appropriate path of policy, then the projections may actually lead to an *increase* in uncertainty about future interest rates.

Brent Bundick and Trenton Herriford use options prices from financial markets to examine how uncertainty about future interest rates changed after the FOMC began releasing its participants' projections for the appropriate federal funds rate. They find that overall uncertainty about future interest rates fell after the Committee began releasing its participants' interest rate projections. However, they also find that uncertainty is significantly correlated with disagreement across participants' projections.

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