The Future of Odyssean and Delphic Guidance

Leveraging communication for policy effectiveness and reputation
European Central Bank

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The views I express here are my own and do not necessarily reflect the views of the Federal Open Market Committee (FOMC) or within the Federal Reserve System.
Delphic & Odyssean Communications

- Delphic $\Leftrightarrow$ Well-understood, well-functioning monetary policy framework

- Odyssean $\Leftrightarrow$ Weaknesses in framework are exposed, requires commitment to outcome-based policies

- Better strategy: Convert Odyssean to Delphic by strengthening the monetary policy framework
Two Examples of Delphic Communications

- Taylor Rule (1993)

- Optimal control against loss function

\[ L = (\pi - \pi^*)^2 + \lambda (u - u^*)^2 \]

\[ R_t = f(\text{state of the economy}) \]
Inflation and Fed Policies

Core PCE Inflation
(year-over-year percentage change)

FG – forward guidance.
Source: Bureau of Economic Analysis from Haver Analytics
Dual Mandate and Fed Policies

Loss Function: $L = (\pi - \pi^*)^2 + (u-u^n)^2$

(percentage deviation from target)

$\pi^*$ - forward guidance. Natural rate of unemployment taken from the median of the long-run Projections in the FOMC Summary of Economic Projections, currently equal to 4.6%. Inflation target of 2% was first announced in January 2012. Source: Federal Open Market Committee, Bureau of Economic Analysis and Bureau of Labor Statistics from Haver Analytics.
State-contingent Price Level Targeting as of August 2010

Core PCE Price Index
(2009 = 100)

June 2010 FOMC Price Level Forecasts

2% Price Level Target

FOMC Inflation Forecasts

Example Inflation Path Consistent with Price Level Target

FOMC projections are the median of the FOMC participants’ forecasts as reported in the June 2010 Summary of Economic Projections. Source: Federal Open Market Committee and Bureau of Economic Analysis from Haver Analytics.