

Unconventional Monetary Policy:
Thoughts on the U.S. and Japanese Experiences
International Conference on Capital Flows and Safe Assets

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The views expressed herein are solely the responsibility of the author and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System or of anyone else associated with the Federal Reserve System.

Trends in FOMC Communication

Pre-1900's: Act predictably, keep mum

- Taylor rule characterized policy reasonably well

Mid-1990s, accelerating in early 2000s: Transparency

- The Statement, balance of risks, direction of future leaning

- **Crisis** -

2008 - 2009:

- Large-scale asset purchases (LSAPs), i.e. Quantitative easing (QE)
- Forward Guidance: maintain for an "extended period"

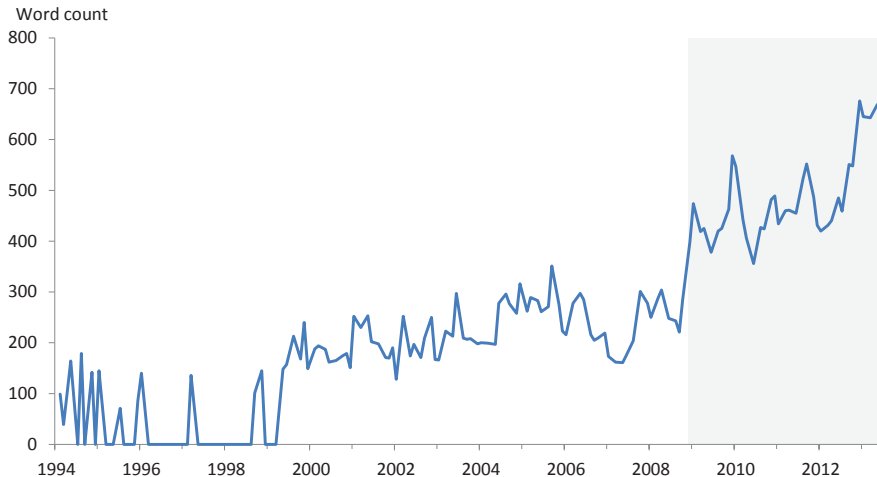
Summer 2011:

- "Calendar Guidance"

December 2012:

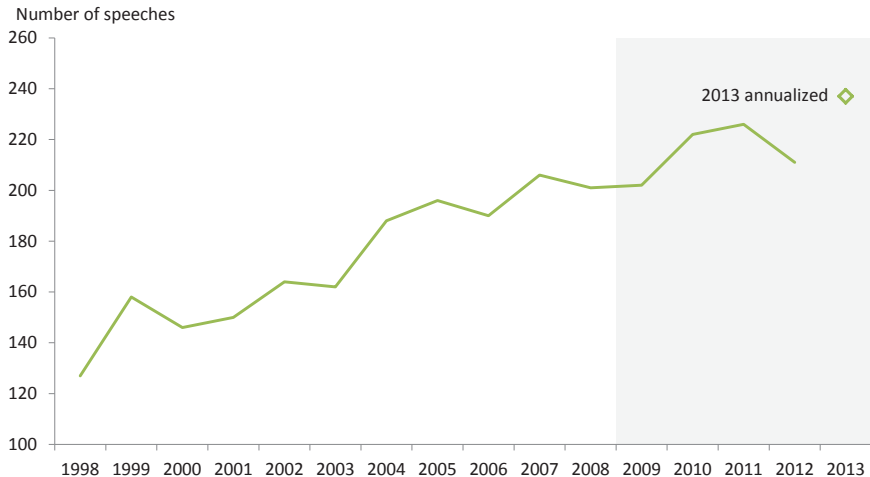
- Committee anticipates that exceptionally low levels for the federal funds rate will be appropriate "at least as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than 0.5% above the Committee's 2% longer-run goal, and longer-term inflation expectations continue to be well-anchored."

Word Count of FOMC Statements 1994-2013



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Total FOMC Member Speeches



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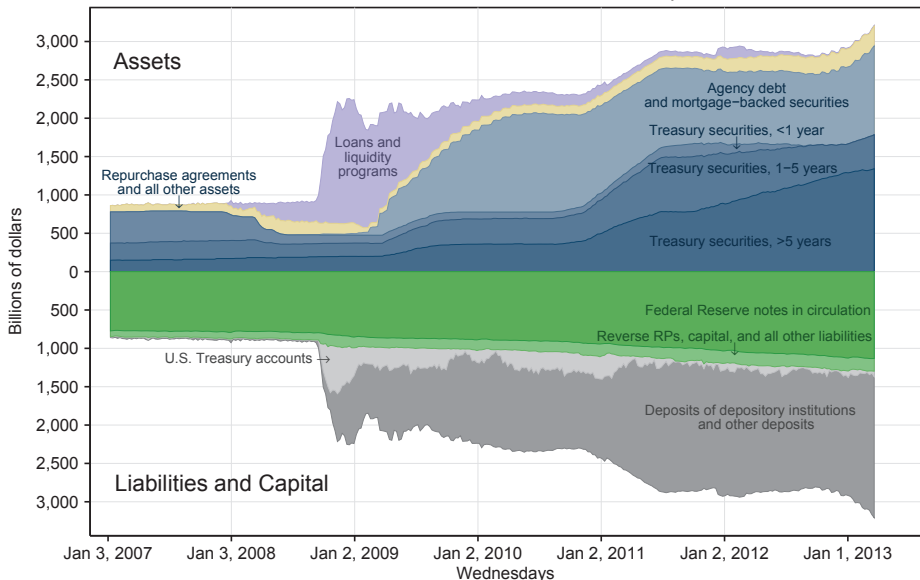
Federal Funds Rate

Percent per annum



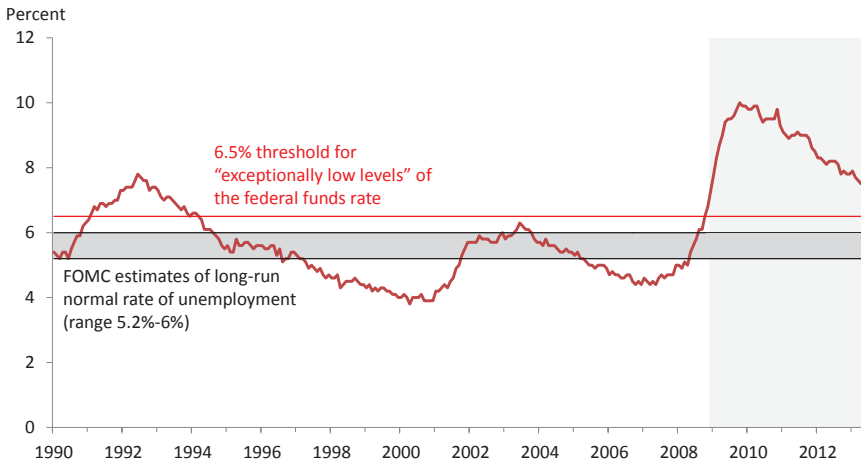
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Federal Reserve Bank Assets and Liabilities and Capital, 2007 – 2013



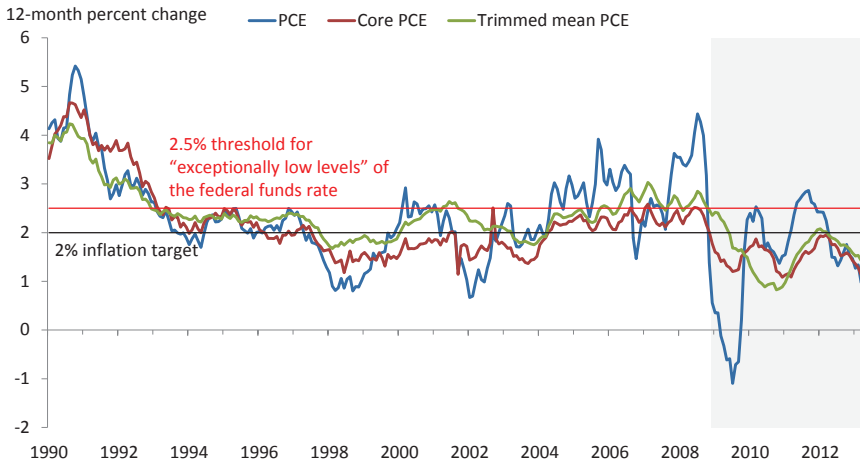
Source: H.4.1 Statistical Release (<http://www.federalreserve.gov/releases/h41/>). Last updated March 25, 2013.

U.S. Unemployment Rate



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PCE Inflation Rate

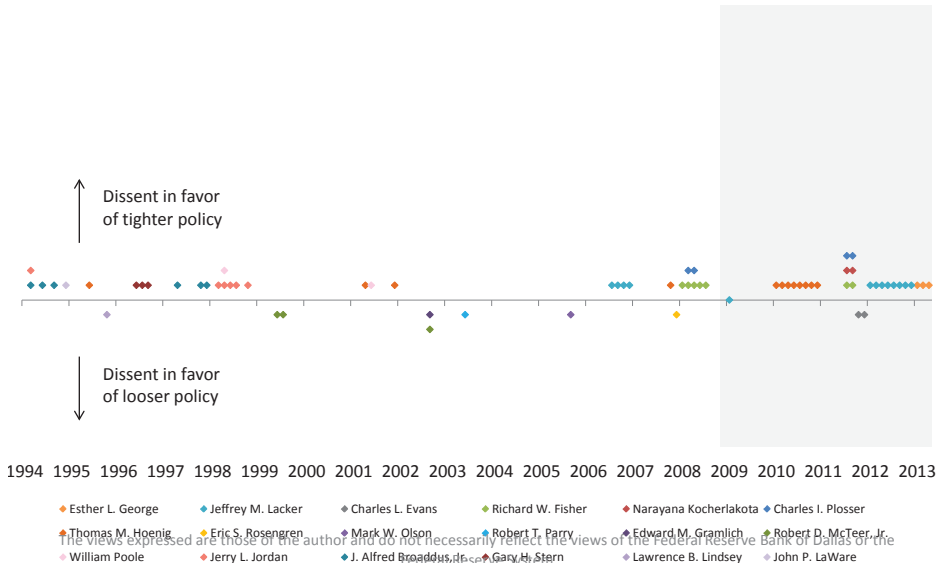


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US Monetary Policy Challenges Ahead

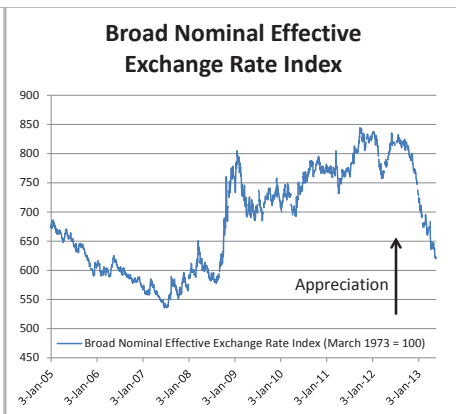
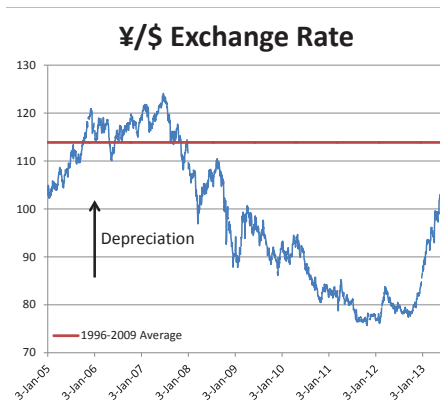
- Unwinding Quantitative Easing
- Liftoff of Federal Funds Rate

Direction of FOMC Dissents



The Japanese Experience

Despite recent depreciation, the yen is not weak on a historical or real exchange rate basis



The end of yen depreciation?

May 19, 2013:

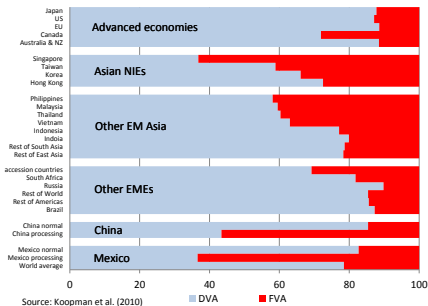
“The yen rebounded from a 4-1/2-year low against the dollar after Japan’s Economy Minister Akira Amari said the yen’s excessive strength had largely corrected and that further weakness could damage Japan’s economy.” - Reuters

Abenomics and Asian EM growth

Impact of yen depreciation on Asian EMs' growth is likely to be limited

- Constitutes less than 6% of gross global imports
- Major exporter of intermediate and capital goods to emerging asian economies; weaker yen decreases production costs
- Asian EM exports have particularly high ratios of foreign-to-domestic value added; much of this foreign value added is attributed to Japan

Decomposition of Gross Exports, 2004
Share of gross exports



Sources of Value-Added for Asian Countries' Gross exports, 2004
Shares of domestic value-added (DVA) and foreign value-added (FVA)

Country	Electronic equipment			Motor vehicles and parts		
	DVA	FVA		DVA	FVA	
			o/w JPN			o/w JPN
China	60.5	39.5	10.1	63.4	36.6	8.8
Hong Kong	38.6	61.4	16.9	79.7	20.3	4.2
Indonesia	44.1	55.9	12.3	74.6	25.4	6.4
India	63.7	36.3	3.1	77.8	22.2	2.8
Korea	58.2	41.8	11.5	74.6	25.4	5.6
Malaysia	50.2	49.8	9.4	59.0	41.0	17.7
Philippines	52.9	47.1	14.5	52.6	47.4	17.0
Singapore	18.9	81.1	14.5	45.4	54.6	8.7
Thailand	42.1	57.9	15.0	56.0	44.0	18.3
Taiwan	53.8	46.2	12.2	59.3	40.7	18.6

Source: Koopman et al. (2010) and IMF 2011 Japan Spillover Report

Impact of yen depreciation on Japanese capital flows to Asian EMs is likely to be limited

- Japanese FDI and external lending have historically been insensitive to short-run changes in the level of the exchange rate
- Previous rounds of QE by the BOJ have not resulted in significant changes in private Japanese purchases of foreign assets

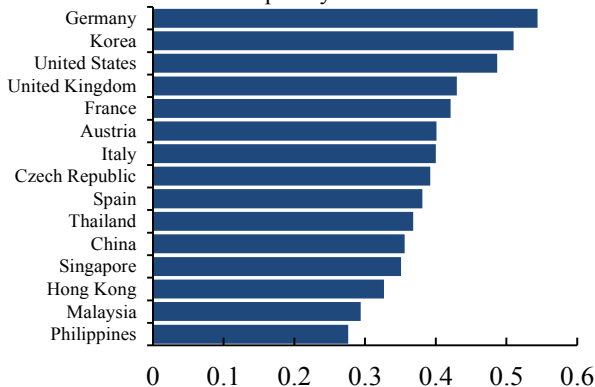
Asian EM competitiveness

Little direct competition in final goods markets with EM Asian economies

- China shares < 1/4 of its top export categories to the US with Japan
- This area of overlap accounts for < 6% of Chinese total exports to US

Overall Export Similarity Index vis-a-vis Japan

Index between 0 and 1; 1 = identical export structures,
0 = completely dissimilar



Source: From "Changing Patterns of Global Trade," IMF 2011

Evidence from structural models

In a recent report, Iacoviello and Lindé document simulations of expansionary monetary policy shocks among AFEs.

EMEs' responses are robust across several specifications of these simulations:

- Initial decrease in inflation, followed by steady increase over the baseline for several years following the AFEs' policy intervention
- Increases in GDP, coupled with a rising real exchange rate
- Real imports grow above the baseline throughout the period considered in the simulations

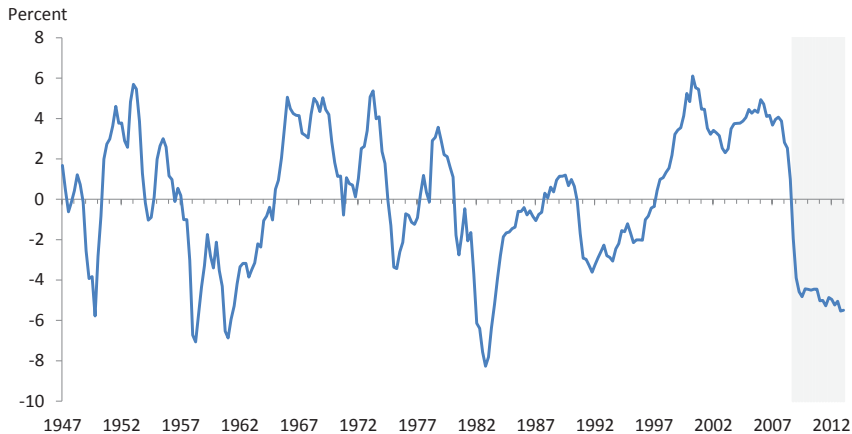
De Michelis and Iacoviello build on this model to analyze the effects of the BOJ's Quantitative and Qualitative Easing (QQE):

- only temporary increase in Japanese inflation
- significant increase in output, nearly half of which is due to the net exports account

Thank you!

謝謝！

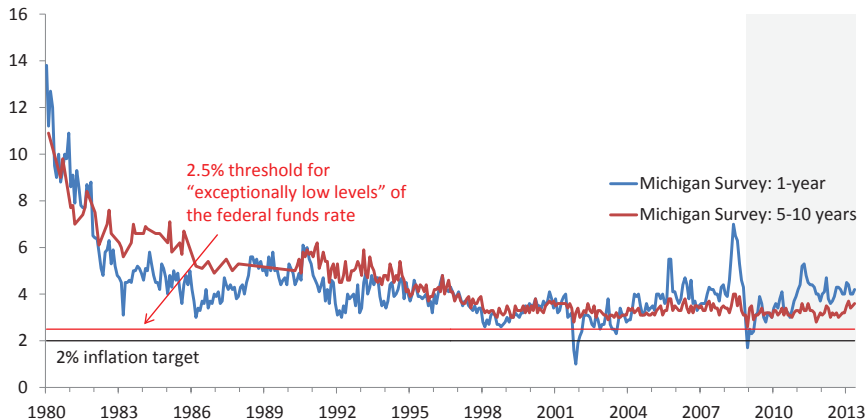
Deviation of GDP from Long-run Trend



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Consumer Expectations of CPI Inflation

Mean expected percent price change



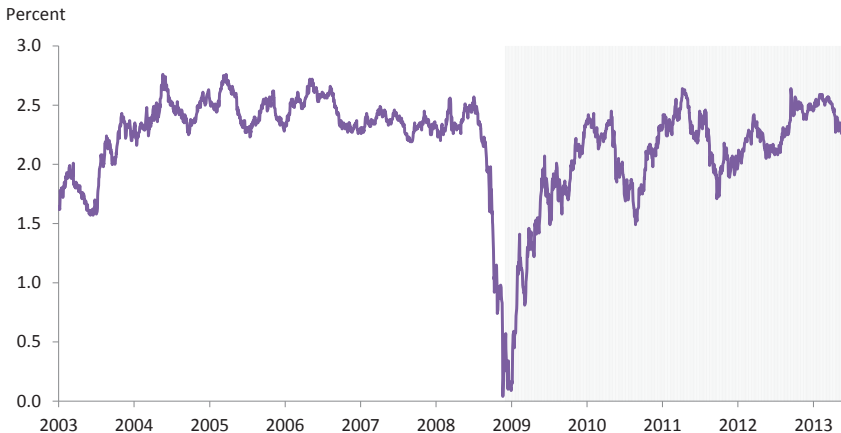
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5-year, 5-year Forward CPI Inflation Expectations



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10-year Breakeven Inflation Rate



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