



Chicago Fed Insights, September 2024

Inside the Chicago Fed: Preparing the President for FOMC Meetings

By Chicago Fed Staff Writer



Federal Reserve Bank of Chicago Senior Vice President Spencer Krane (r.) and President Austan Goolsbee help to lead one of the large group pre-FOMC meetings at the Chicago Fed in September of 2023. (Chicago Fed photo / Ping Homeric)

Eight times a year, Federal Reserve Bank of Chicago President Austan Goolsbee travels to Washington, DC, for a meeting of the Federal Open Market Committee (FOMC), the arm of the Federal Reserve that sets U.S. monetary policy. Helping Goolsbee prepare—even in years like 2024, when he participates in discussion but does not vote—is, of course, an involved process. But the level of detail that goes into his readiness ahead of each FOMC meeting might surprise people who don't track the economy closely.

Chicago Fed Senior Vice President Spencer Krane shared specifics about the prep process that he's helped guide for 23 years, through the tenures of three Bank presidents. At the Chicago Fed, it might appear that the first step in the process is a meeting attended by dozens of Chicago staff a week ahead of the FOMC meeting. But in truth, Krane says, the analytical

gears never really stop turning.

Q: So let's start with the basics. Can you describe what the Federal Reserve Bank of Chicago goes through in preparing President Austan Goolsbee for FOMC meetings, which take place at Federal Reserve headquarters in DC, home to the Fed's Board of Governors?

A: Actually, the process starts at the end of the previous meeting. Whoever accompanies Austan to the FOMC meeting will talk to him immediately afterward to see what's on his mind that we would want to do some more work on for the next meeting.

This person also will debrief the people in Chicago who have the highest level of FOMC security classification on what happened there. We then gather with the other team leaders in the research department and other people who are especially involved in the policy process. We think about what's on the table and decide on some special topics we want to address for the next round; these might be the anticipated economic impacts of an auto workers strike, for example, or a quirk we've noticed in the housing market. Often these are new, but sometimes these are longer-runway projects that someone has been working on for a while.

We'll iterate back with Austan on these to make sure we are covering what he needs. And then about a week after the meeting, we'll get together with the whole staff, and we'll talk about these special topics that we want to address for the following FOMC meeting. We'll then assign people to write those memos, and they get started on them.

Several weeks before that meeting, some people from our regional group, our financial group, our community development area, and Supervision and Regulation (S&R) will talk to their business and community contacts. We have a lot of contacts, and we talk to them to get their perspective on what is going on in the economy.

Q: So all of this is happening weeks ahead of the pre-FOMC meetings. What happens as crunch time nears?

A: On the Friday 11 days before the FOMC meeting we start an internal forecasting process. We'll put together a forecast for gross domestic product (GDP) and inflation and unemployment, conditioned on some assumptions for monetary policy. And we'll talk about the special factors that may be influencing the forecast.

The next Monday the entire department gets together as a group and discusses the forecast, what we are hearing from our contacts, and the special memos. Then we try to have a robust discussion on where we think monetary policy should be going. We then finish off memos on these things and get them to Austan on Tuesday.

And then on Wednesday we have a big, three-hour-plus meeting with Austan where we present the special memos, what we hear from our contacts, and our forecast. We try also to have a robust discussion on all of these memos. And we try to end the meeting with folks' various views on monetary policy.

Q: This is the Wednesday meeting. That's a lot of preparation. How many people are in that meeting typically?

A: I'm going to have to count. It's pretty much all the economists in research, a lot of the policy analysts elsewhere in Research, Policy, and Public Engagement, and a few people from S&R. Our colleagues from Detroit are in remotely. And our research assistants will be on that, mostly remotely. So, 40-ish, 50-ish.

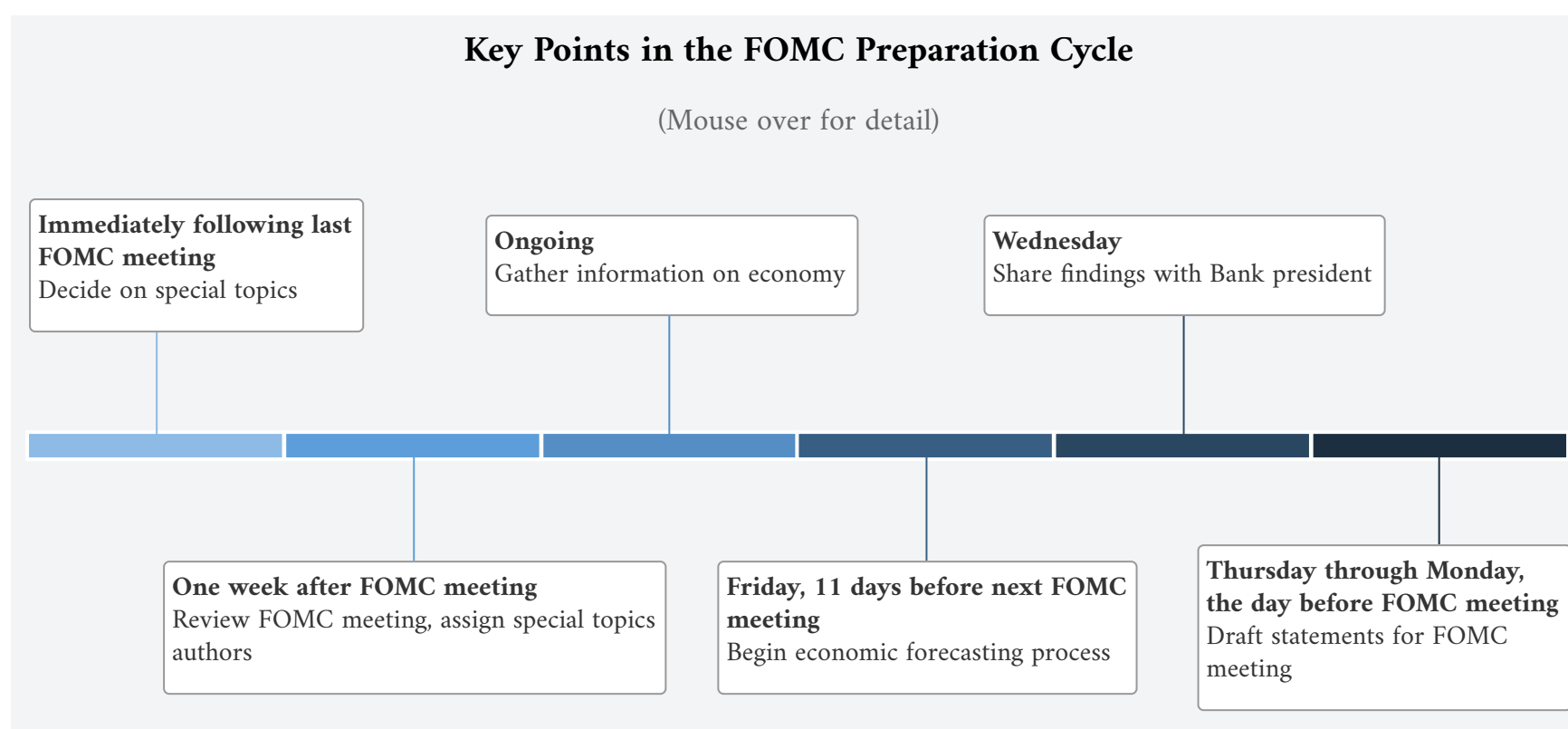
Q: And what is the goal of that meeting?

A: There are a number of goals.

One is to give us an independent take on the economy. We see analyses of various topics and economic forecasts from a lot of sources. In particular, we're going to get forecasts and analyses from the Board of Governors that go to all the FOMC participants and are used as the baseline for discussions at the FOMC meeting. Now clearly, our work isn't completely independent. Everyone sees much of the same data, and we are influenced by the work of other forecasters and analysts. But we try to come up with a good independent take on the economy to talk about with Austan.

Another goal is to keep our entire staff informed on what's going on in the economy and with relevant policy questions. Our briefing process is a two-way street, as keeping the staff well informed helps them be better analysts on the wide range of topics we need to inform Austan about. Also, only a small group of Chicago Fed staff are allowed to see the detailed information that we get from the Board on a more confidential basis. So while some of our briefings may seem redundant to that small group who see the Board analysis, they are not to the broader department.

I mentioned we talk to a lot of people about what's going on in the economy. So this meeting also is an opportunity to relay that information to Austan and the department. A lot of the time we are looking for commentary that either corroborates the data or conflicts with them. Sometimes the contacts' information will lead the hard data. I should note that the members of our board of directors are a great source for this kind of information, too.



Q: OK. So it's simple then? That meeting ends and everything is decided, and President Goolsbee goes to Washington?

A: Ha, no. Then we break up into a small group of people who have the access to the materials that the FOMC is getting from the Board. We get from them the Tealbook, a very detailed forecast of the economy and discussion of recent economic developments. There also can be certain special topics that are going to be discussed at the FOMC meeting; sometimes they are decisional and sometimes for background. And four times a year there is a report on financial stability issues in the economy. We have 11 people who have so-called Class II licenses, which are necessary to be in this smaller group. This includes, of course, Austan and First Vice President Ellen Bromagen. So the small group will go over what the Board folks are saying.

We will then work on what Austan will say at the FOMC meeting. At each FOMC meeting at least two so-called go-arounds occur. One is the economic go-around, in which each FOMC participant says what they're hearing from their contacts, and, for the District Bank presidents, what's going on in their region. And they all give their views of what's going on with the U.S. economy as a whole. We prepare a set of talking points for Austan for this go-around. And sometimes there is a go-around on the special topics, and we'll prepare talking points for him for that as well.

Production of these is an iterative process. The small group will talk with Austan about the points he wants to make. A couple of folks will then go off and do a preliminary outline. Austan will then rewrite a more detailed outline. Then we'll get together as a group and work through that and converge on where we want to go. And then we start writing sentences and iterating with Austan to an almost-final product.

There's one other piece of the process. There is a smaller number of people who can work on things that are very specifically related to the monetary policy decisions at that meeting or upcoming meetings. This group also helps write yet another go-around for the FOMC meeting in which Austan conveys his monetary policy views. These are people in the so-called Class I FOMC group. We have nine licenses there, including those for Austan and Ellen.

Q: Is that a fixed group?

A: Director of Research Anna Paulson and I are always in the Class I and Class II groups. We rotate the other licenses through different people in the department. There are some senior people who are on the list a lot more than others, but we try to rotate all the economists through at one time or another so that many people can have the experience.

Q: So is that Class I group coming up with a specific monetary policy recommendation?

A: Yes. These are the folks working on the monetary policy go-around. That's usually the last thing that happens at each of the FOMC meetings. And so that Class I meeting in Chicago is for preparing what Austan will say there.

It's kind of funny. In the very old days, the [former Fed Chair] Alan Greenspan years, sometimes those go-arounds were just, "I agree. We're done." [LAUGHS] They've certainly changed over time.

Q: Interesting. And I presume that, ultimately, President Goolsbee is free to accept or reject or modify or—

A: Oh, yeah. [LAUGHS] Usually by the close of day Friday we have detailed outlines for the go-around statements that have been worked over by the group a couple of times. Then there'll be more iteration over the actual words between Austan, Anna, myself, and a couple of other economists over the weekend. And on Monday morning we get together with all of the

people in the small group, talk about the statements, do another editing round, and send that to Austan. And then in the end, he will edit on top of that in Washington, sometimes even at the meeting itself if he wants to comment on something he has heard there.

One key job of the person who goes to the meeting with Austan is to grab his hand-edited copies so we can see exactly what changed.



A view of the "big, three-hour-plus" pre-FOMC meeting of September 2023 with (l. to r.) Krane, President Goolsbee, and Director of Research Anna Paulson in the foreground. (Chicago Fed photo / Ping Homeric)

Q: And this is all going on for one Fed official with one vote—or in some years not even one vote. It sounds very meticulous. That's kind of the point, right?

A: In some ways, it's meticulous. In some ways, it's kind of free-flowing. We have a menu. We have a plan for how we want to do things. But the discussions can be very free-flowing.

People will have written, let's say, a memo on some special topic that we're interested in. And then as the authors are presenting it, there can be a lot of questions and a lot of discussion. Similarly, the documents we get from the Board are very meticulous, but our discussions of them can be pretty free-flowing.

When you're in the FOMC meeting itself, a lot of it's scripted. People have written down what they want to say ahead of time. Still, there can be Q&As that are less scripted. And there are totally unscripted sidebar discussions at the coffee breaks and lunch.

Q: You enjoy the process.

A: Yes, eight times a year, you're going to be sitting down and really thinking hard about the economy and what's going on in the policy process. You don't get lost or get behind. And you have a chance to sit and talk about monetary policy with our policymakers. If you're interested in this stuff, if you're interested in monetary policy, it's a great way of being exposed to it.

Now that said, it can be very tiring. It's a lot of work. And there are times when, at the end, you're just kind of beat. But it's the nature of the game.

Q: But it sounds like it has that feeling, a kind of “in the room where it happens” feeling? Like, this is the stuff.

A: At the FOMC meeting, yeah. Each regional Bank president gets to take one person for the FOMC meeting. And so when you're the person that gets to go, yeah, there's very much a feeling of, it's in the room.

Q: So you're pointing a lot of very smart people at the economy. You're leaving no stone unturned. Is the idea that there's a degree of humility about this process that you want to—

A: Yeah, I don't know if we leave no stone unturned. There are too many stones out there. And quite often we have some qualitative ideas of how things are going, but quantifying them is extremely difficult and sometimes impossible.

And you know you're never going to get it completely right; something is going to happen and make a forecast go wrong. But a lot of the idea is, you want to get a story, a baseline of how we think the economy is evolving. When things come out differently, you have to evaluate what happened. And you have to have a baseline to do that against.

All forecasts are going to be wrong—and sometimes by a lot. But the idea is, what can you learn from the error? That lets you then adjust what you need to be doing going forward.

Q: I want to end this with just a bottom-line question: Why is it important that this very careful process takes place?

A: Well, you want to get policy right. And there's a lot of due diligence. There's no kind of automatic rule that you can write down that's going to give you the appropriate monetary policy. It's not mechanical.

And you've just got to get policy right. We have a very important mandate to try to achieve maximum employment and price stability. And you want to make sure there's due diligence in getting it right. There have certainly been times we've seen where—both from the Great Financial Crisis and the pandemic and coming out of it—there were very tough decisions, and policy was very far from where it traditionally would be because of the shocks that hit the economy. And so you really have to bring all your best thinking when you're trying to make policy decisions, particularly in that kind of a situation.

So part of it is having the intellectual infrastructure. When times are easy, you might be able to get by without as much work. But keeping the intellectual infrastructure—keeping yourself sharp—is very important for the times when it's more difficult.

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