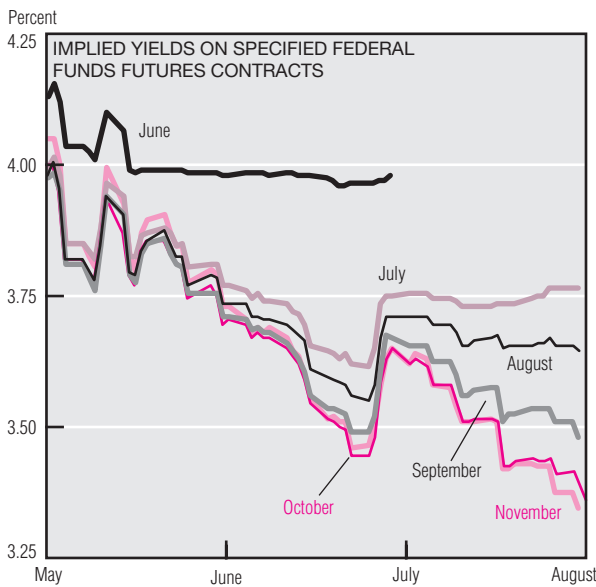
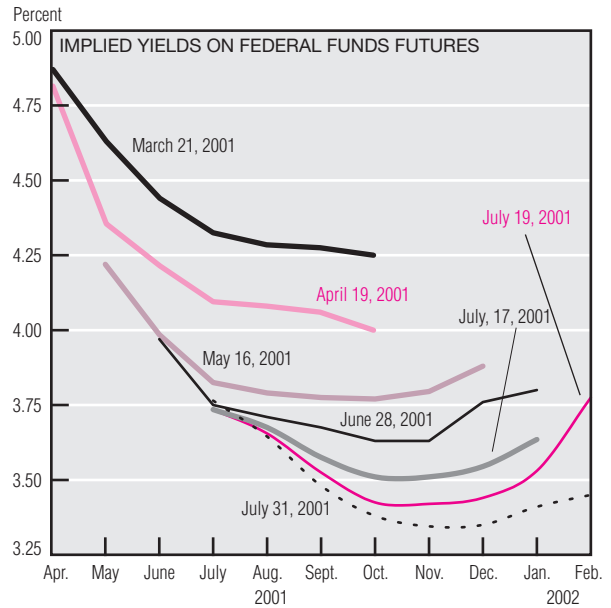
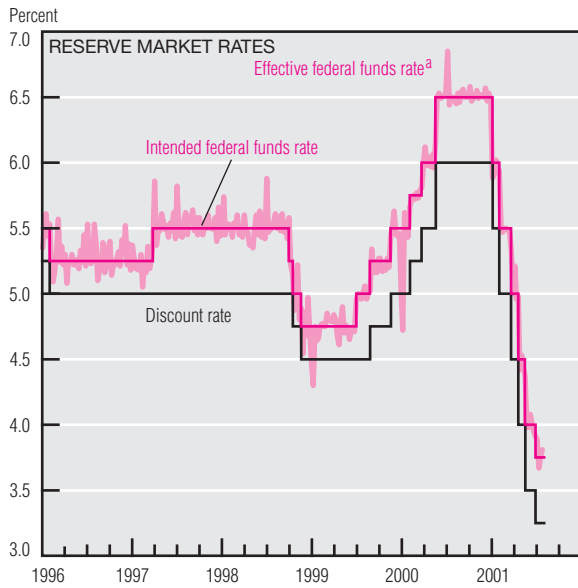


Monetary Policy



Economic Projections, 2001 and 2002, percent
Federal Reserve Governors and Reserve Bank presidents

Indicator	July 18, 2001		Feb. 13, 2001
	Range	Central tendency	Central tendency
Forecast for 2001			
Nominal GDP ^b	3¼–5	3½–4¼	4–5
Real GDP ^c	1–2	1¼–2	2–2½
PCE Price Index ^c	2–2¾	2–2½	1¾–2¼
Civilian unemployment rate ^d	4¾–5	4¾–5	About 4½
Forecast for 2002			
Nominal GDP ^b	4¾–6	5–5½	
Real GDP ^c	3–3½	3–3¼	
PCE Price Index ^c	1½–3	1¾–2½	
Civilian unemployment rate ^d	4¾–5½	4¾–5¼	

a. Weekly average.
 b. Change, fourth quarter over fourth quarter.
 c. Change, fourth quarter over fourth quarter. Chain weighted.
 d. Average level, fourth quarter.

SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15, and *Monetary Policy Report to the Congress*; Federal Reserve Bank of New York; Chicago Board of Trade; and Bloomberg Financial Information Services.

The Board of Governors of the Federal Reserve System submitted its semiannual *Monetary Policy Report to the Congress* on July 18. In his testimony on the *Report* before both houses of Congress, Federal Reserve Chairman Alan Greenspan stated that monetary policy in 2001 "has confronted an economy that slowed sharply last year and has remained weak this year, following an extraordinary period of buoyant expansion," but also noted projections of "a slight strengthening of real activity later this year."

Implied yields on federal funds futures, often used to gauge expected

monetary policy, fell only slightly after the Chairman's testimony to the House. Although a sharp increase in implied yields occurred after the June 27 meeting of the Federal Open Market Committee, yields drifted downward throughout July. Since the June meeting, implied yields have fallen between 6 and 41 basis points (bp) across the various maturities beyond July. Although market participants continue to place a significant probability on a further 25 bp cut before year's end, implied yields reflect expectations that the Fed is near the end of an easing cycle.

The *Report* also contains economic projections of the Board and Federal Reserve Bank presidents. The central tendency of the forecasts of real GDP growth for 2001 was revised downward from 2%–2½% in February to 1¼%–2% in July. Inflation projections according to the Personal Consumption Expenditures Price Index were adjusted upward from 1¾%–2¼% to 2%–2½%. The projections for the fourth-quarter civilian unemployment rate rose from about 4½% to 4¾–5%. The central tendency for 2002 real GDP growth is 3%–3¼%.