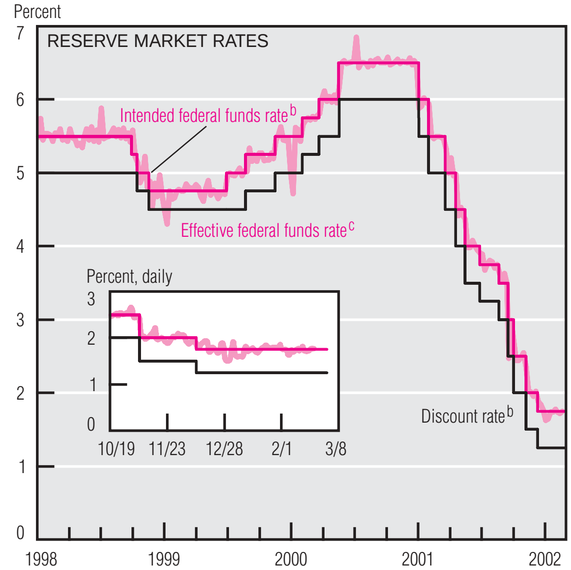
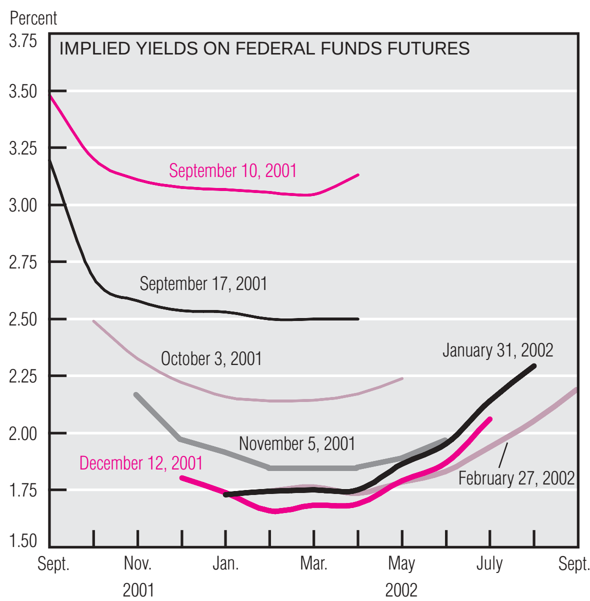
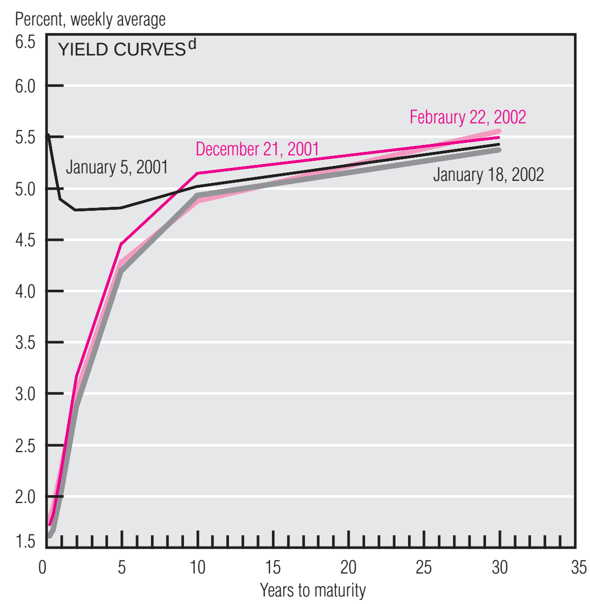
Monetary Policy

Economic Projections for 2002
(percent)

Indicator	Memo 2001 Actual	Federal Reserve Governors and Reserve Bank presidents: Range	Federal Reserve Governors and Reserve Bank presidents: Central tendency
Change, fourth quarter to fourth quarter[a]			
Nominal GDP	1.9	$3\frac{1}{2}$–$5\frac{1}{2}$	4–$4\frac{1}{2}$
Real GDP	0.1	2–$3\frac{1}{2}$	$2\frac{1}{2}$–3
PCE chain-type price index	1.3	1–2	About $1\frac{1}{2}$
Average level, fourth quarter			
Civilian unemployment rate	5.6	$5\frac{3}{4}$–$6\frac{1}{2}$	6–$6\frac{1}{4}$







a. Change from average for fourth quarter of previous year to average for fourth quarter of year indicated.
b. Daily.
c. Weekly average of daily figures.
d. Constant maturity. As of February 18, 2002, the U.S. Treasury stopped publishing the 30-year constant maturity series. Instead, it publishes an extrapolation factor, which, when added to the long-term average rate (the unweighted average yield for securities maturing in 25 or more years), provides an estimate of the 30-year rate.
SOURCES: U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Chicago Board of Trade; and Bloomberg Financial Information Services.

On February 27, the Board of Governors of the Federal Reserve System released its semiannual *Monetary Policy Report to the Congress*. The report indicated that policymakers "are expecting the economy to begin to recover this year from the mild downturn experienced in 2001," but "the pace of expansion is likely to increase only gradually over the course of the year, and the unemployment rate is expected to move higher for a time." Furthermore, diminished resource utilization, indirect effects of previous energy price declines on firms' costs, and continued competitive pressures "all ought to restrain the pace of price increases outside of the energy sector this year." The central tendency of forecasts for 2002 is for real GDP growth of $2\frac{1}{2}$%–3% and a fourth-quarter unemployment rate of 6%–$6\frac{1}{4}$%. The PCE chain-type price index is expected to grow at an annual rate of about $1\frac{1}{2}$% during 2002.

Implied yields on federal funds futures, often used to gauge expectations of monetary policy, suggest that market participants do not foresee a change in the intended funds rate at the next meeting of the Federal Open Market Committee, scheduled for March 19. Market participants are placing a high probability on a rise in the intended funds rate by the FOMC meeting scheduled for June 25–26. Nevertheless, they expect rates to rise very moderately through at least 2002:IIIQ. At the end of the 1989–1992 easing cycle, market expectations were for a larger increase in the intended rate after seven months than is the case today. The yield curve inversion, apparent in early 2001, disappeared during the year. Over the last two months, the yield curve has been stable across the maturities.