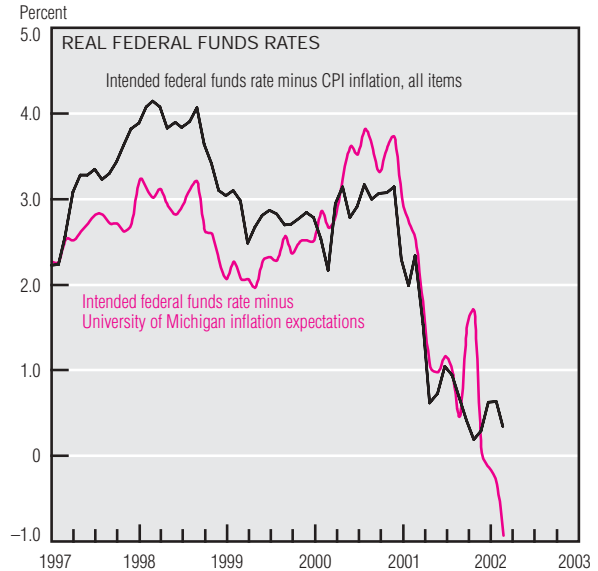
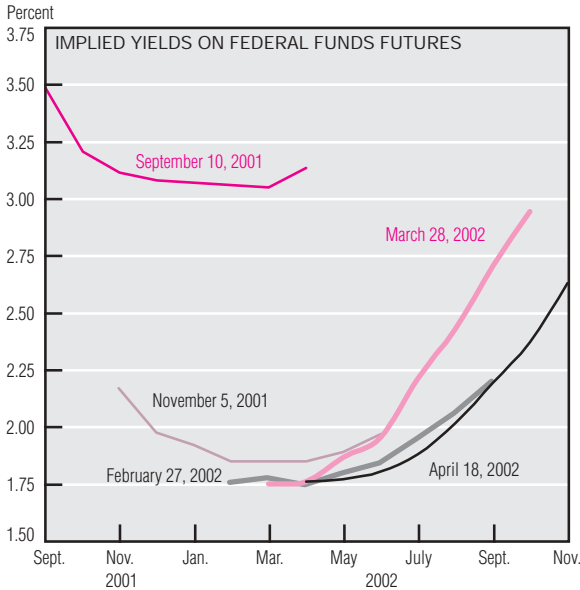
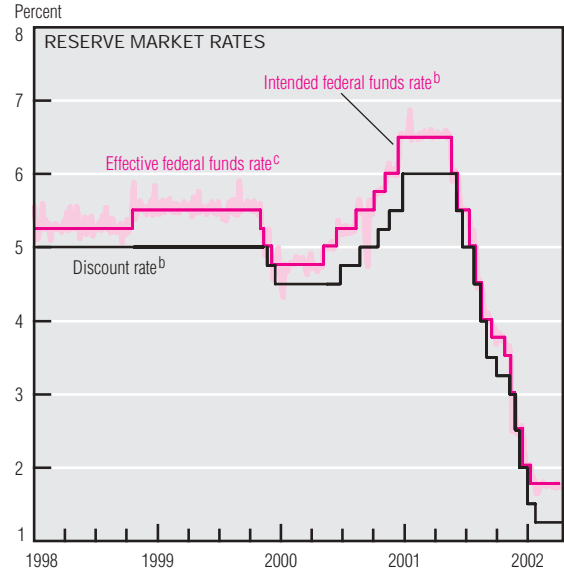
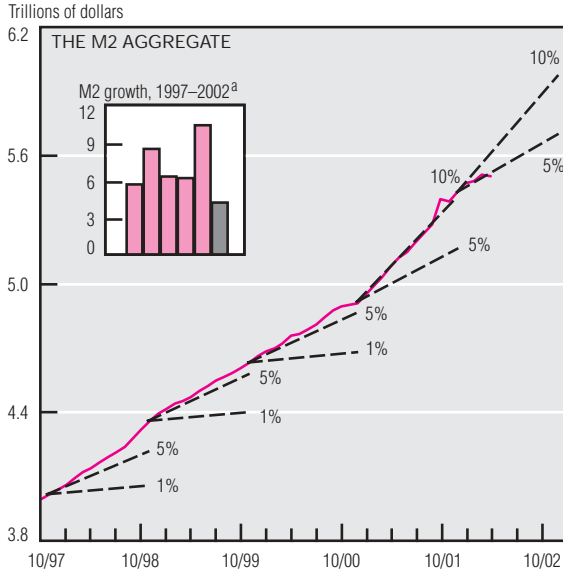


# Monetary Policy



a. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. Data are seasonally adjusted.

b. Daily.

c. Weekly average of daily figures.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, "Money Stock and Debt Measures," H.6, and "Selected Interest Rates," H.15; and University of Michigan, *Survey of Consumers*.

With no FOMC meeting in April and no intermeeting move, the target federal funds rate and the discount rate have remained unchanged since March. The rates have now held steady for more than four months, the longest since the seven-and-a-half months between May 2000 and January 2001, when rates stayed constant at 6.5%, before the 11 moves and 475 basis point (bp) decline of 2001.

Many market watchers anticipate that the FOMC will increase rates in the near future, reflecting the upward

slope in the implied yields for federal funds futures. Since March, however, expectations have lowered, suggesting that market participants see a reduced probability of higher rates late in the year.

One increasingly popular gauge of policy is the real federal funds rate, that is, the nominal rate less inflation expectations. Different measures of expected inflation give somewhat different results. Subtracting the most recent CPI yields a real rate that has decreased about 300 bp since the

beginning of 2001 and still remains positive. Using expectations from the Michigan survey shows a figure much closer to the 475 bp drop in the nominal rate, moving it all the way to -1%.

Finally, although most discussions of monetary policy are conducted in the language of interest rates, it pays to remember that target interest rates ultimately work by way of the money market. Growth in the broad monetary aggregate, M2, has been modest by recent experience, falling below 5%.