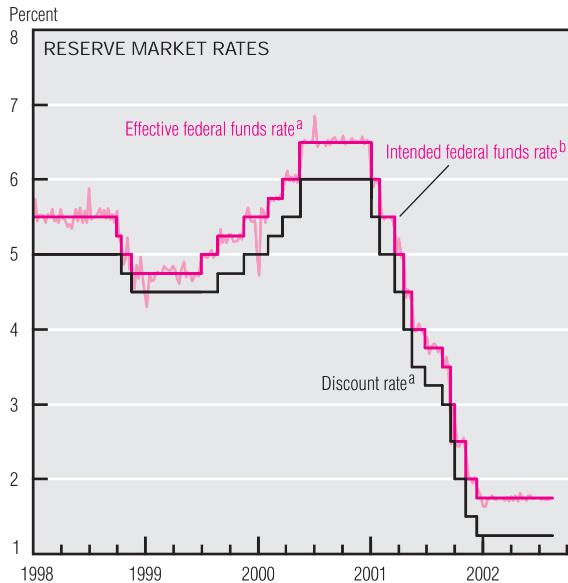
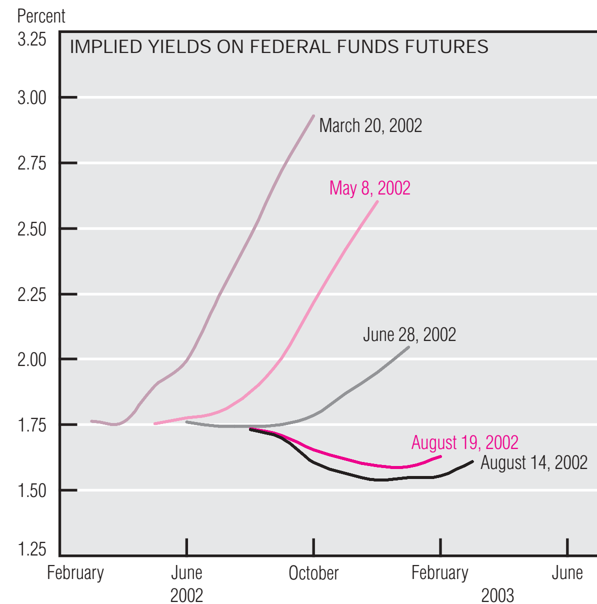
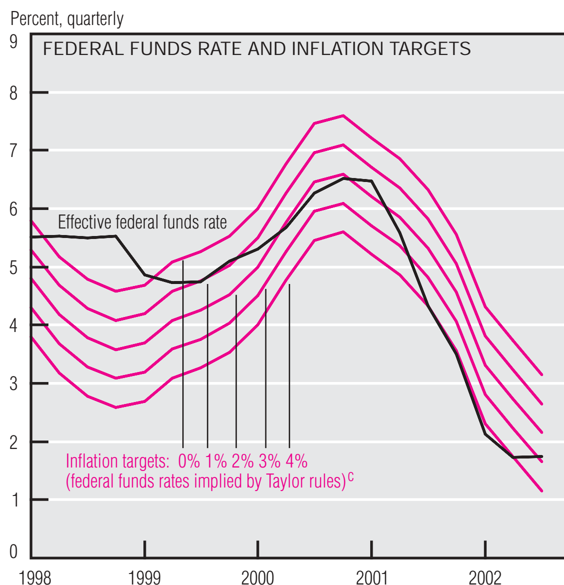
Monetary Policy







Federal Funds Rate Policies, 1982–2002

	Avg.	Max.	Min.
Increase			
Number of months	3.7	12.1	0.7
Percent change	1.09	3.25	.125
Decrease			
Number of months	6.3	39.7	1.4
Percent change	1.61	6.75	.25
Stationary			
Number of months	8.4	18.4	0.9

a. Weekly average of daily figures
b. Daily
c. The formula for the implied funds rate is taken from the Federal Reserve Bank of St. Louis, *Monetary Trends*, January 2002, which is adapted from John B. Taylor, "Discretion versus Policy Rules in Practice," *Carnegie–Rochester Conference Series on Public Policy*, vol. 39 (1993), pp. 195–214.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Congressional Budget Office; Board of Governors of the Federal Reserve System; Federal Reserve Bank of New York; Haver Analytics; and Bloomberg Financial Information Services.

At its August 13 meeting, the Federal Open Market Committee left the target federal funds rate unchanged, although it altered the balance-of-risk statement "towards conditions that may generate economic weakness." The federal funds futures market now has built in a strong possibility of lower rates. With implied yields reaching a minimum of 1.59% in February 2003, the market seems quite confident of a 25 basis point cut by early next year.

The Taylor rule, one gauge of monetary policy, posits that the FOMC chooses the target rate as a balanced response to weakness and inflation. The form of the Taylor rule depends on the weights given to inflation and output, and to the assumed inflation target. Recently, the rule has correctly predicted the direction of changes in the federal funds rate.

Waiting can be the hardest part, but the eight and a half months since the target federal funds rate last moved is about the average period of no action over the past 20 years. The most recent rate reduction far exceeded the average, both in duration (11 months) and in the size of the decline (4.75%), although it set no records in either. Cumulative rate reductions have been larger and have taken longer to implement than cumulative rate increases. On average, however, periods when the FOMC has held rates steady have been the longest.