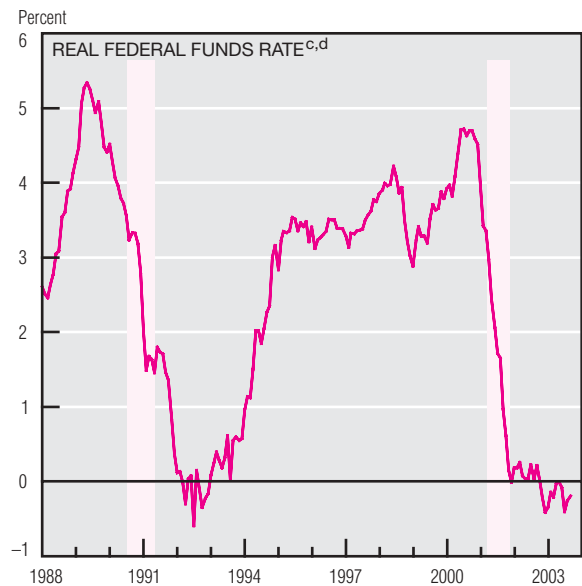
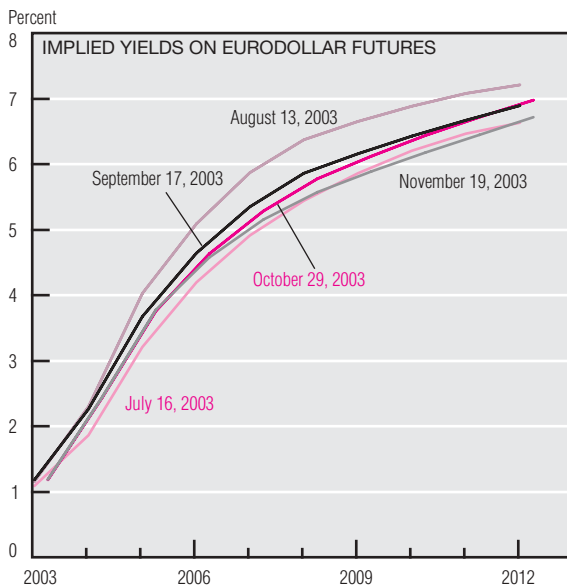
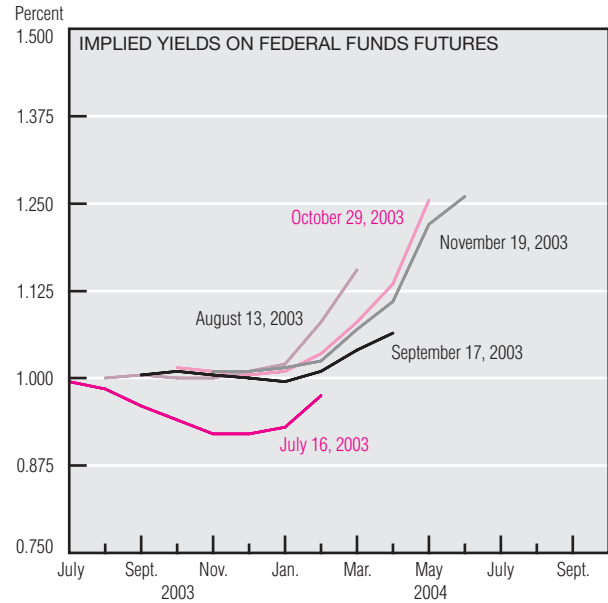
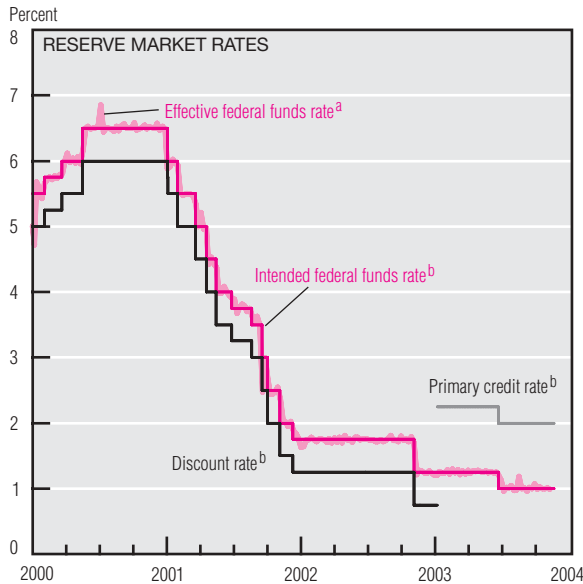


# Monetary Policy



a. Weekly average of daily figures.

b. Daily observations.

c. Effective federal funds rate deflated by PCE chain price index (less food and energy and excluding insurance adjustments).

d. Shaded bars indicate periods of recession.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15; and Bloomberg Financial Information Services.

It came as no surprise when the Federal Open Market Committee announced after its October meeting that it had voted to leave the federal funds objective unchanged. Nevertheless, financial market analysts read the language of the policy statement carefully, searching for any information that might help them project changes in the future path of interest rates.

The statement was nearly identical to the one released after the previous meeting, differing only in its assessment of the labor market, which now appears to be stabilizing. The

Committee noted that it continues to view the risks to the attainment of growth to be roughly equal and that "the probability, though minor, of an unwelcome fall in inflation exceeds the risk of a rise in inflation from its already low level." The Committee's predominant concern for the foreseeable future is still the risk of inflation becoming undesirably low, and it noted its belief that the policy accommodation can be maintained for a considerable period of time.

Financial markets had no basis for changing their outlook. Implied yields

on fed funds futures did not budge for contracts through the beginning of 2004. The implied outlook is that there will be no change in policy until spring. Implied yields on eurodollar futures suggest that the rise in rates thereafter will be steady though not dramatic. The real (inflation-adjusted) fed funds rate, which has hovered near zero for about two years, is projected to stay there at least through next spring. This is a substantially longer period than in 1992–93, the last time real rates visited the zero level.