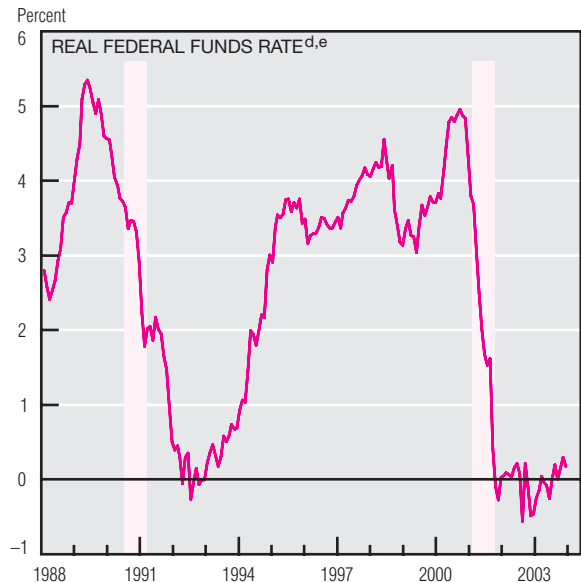
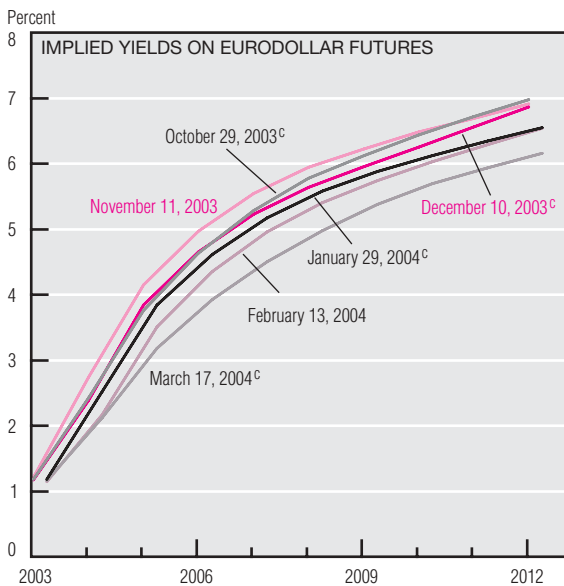
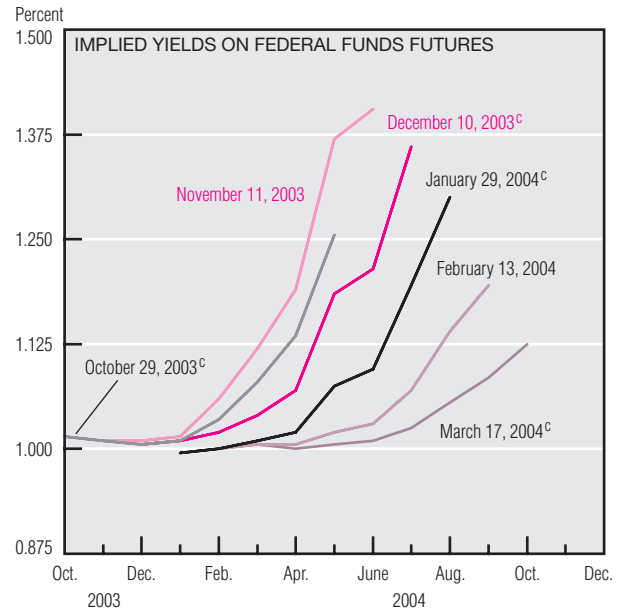
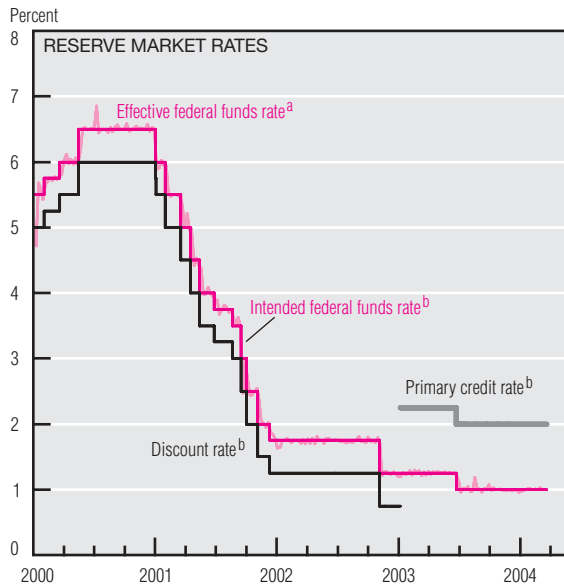


Monetary Policy



- a. Weekly average of daily figures.
 b. Daily observations.
 c. One day after the FOMC meeting.
 d. Effective federal funds rate deflated by core PCE Chain Price Index.
 e. 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.

As market participants had expected, the Federal Open Market Committee left the federal funds rate target unchanged at its March 16 meeting. Despite a robustly growing economy, the target has remained at 1% since mid-2003. The horizon for the next expected change—as implied by fed futures—has been progressively pushed out, and it is now expected to occur no sooner than late summer or early fall.

This pattern reveals that market participants continue to be surprised at how patient the FOMC can be before

beginning to move its target rate upward. The real (inflation-adjusted) fed funds rate has been hovering around zero for more than two years. In a recent speech, Chairman Alan Greenspan said that the FOMC would need to move its target to a more neutral position "at some point."

It seems well understood that such a low funds rate cannot be sustained without ultimately generating an inflationary impulse. Hence, the market concentrates its attention on slight changes in the policy announcement, analyzing its language

for any hint of what might motivate a rate increase.

Market reports interpreted the March 16 observation that "although job losses have slowed, new hiring has lagged" as a gloomier employment picture than the earlier description of "an improvement in the labor market." Market reports also noted that the FOMC used more subdued language to describe the economy's growth rate—changing from January's "output was expanding briskly" to March's "output is continuing to expand at a solid pace."