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Has Monetary Policy Been More Accommodative Than Previously Believed?

Since their January 30, 2002, meeting, the Federal Open Market Committee (FOMC) has routinely characterized its monetary policy stance as “accommodative.” A commonplace interpretation of such a policy is one in which the FOMC’s intended federal funds rate is kept at a level that, over time, is expected to support faster growth of aggregate demand (estimates of real GDP) relative to aggregate supply (estimates of potential GDP). If sustained for too long, an accommodative policy can become destabilizing, creating inflationary conditions.

One of the challenges of this sort of policy is that the data policymakers base their decisions on are subject to revision. For example, the national income and product accounts (NIPA) data are revised annually. These revisions include both quantity measures (real GDP and components and incomes and profits, etc.) and associated price indexes (including the “core” personal consumption expenditures [PCE] price index, which the FOMC tends to focus on). Typically these “benchmark” revisions cover three years and sometimes incorporate changes in methodology; however, once every five years or so, the Bureau of Economic Analysis (BEA) undertakes a more comprehensive revision, which can alter the economic picture going back much further. The latest benchmark revision was released by the BEA on July 29, 2005.

The most interesting aspect of this year’s revisions was the upward revision to the major price indexes. Growth of the GDP price index over the three-year period was raised from 2 percent to 2.3 percent, while the PCE price inflation rate over the revision period was boosted from 2 percent to 2.2 percent.

Since the July 2004 *Monetary Policy Report to the Congress*, FOMC policymakers have chosen to emphasize the PCE inflation rate that excludes food and energy prices (core PCE). Although the core PCE price index was revised upward by only about 0.25 percentage points to about 1.75 percent over the three-year period, what is perhaps worrisome is that the largest revisions to the core PCE inflation rate have occurred since mid-2003. This is the period

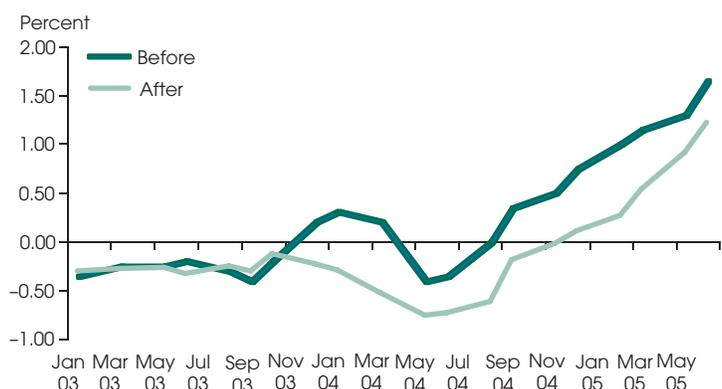
when monetary policy was characterized as accommodative and economic growth was generally robust. From 2003:Q2 to 2005:Q1, the annualized growth rate of the core PCE price index was revised up 0.5 percentage points to 2 percent.

One implication of these data revisions is that monetary policy now appears to have been more accommodative than what the FOMC believed at the time. As seen in the figure, the ex-post inflation-adjusted federal funds target rate (nominal funds rate less the 12-month change in the core PCE) became even more negative in 2004, whereas in real time the target rate was observed to have risen to slightly above zero.¹ In fact, current estimates show that a negative real federal funds rate persisted until the December 2004 meeting, probably a more stimulative stance than the FOMC intended. While the policy implications of this particular data revision may not be large, it nevertheless reinforces the difficulties that FOMC policymakers confront when implementing policy in real-time.

—Kevin L. Kliesen

¹ The real-time estimates of the core PCE inflation rate are reported in the monthly personal income and expenditure reports archived on the BEA’s website (www.bea.gov). The estimates are the 12-month inflation rates that policymakers confronted at that particular meeting.

Real Federal Funds Target Rate: Before and After the July 2005 NIPA Revisions



Views expressed do not necessarily reflect official positions of the Federal Reserve System.

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Conventions used in this publication:

1. Unless otherwise indicated, data are monthly.
2. Shaded areas indicate recessions, as determined by the National Bureau of Economic Research.
3. *Percent change at an annual rate* is the simple, not compounded, monthly percent change multiplied by 12. For example, using consecutive months, the percent change at an annual rate in x between month $t-1$ and the current month t is: $[(x_t/x_{t-1})-1] \times 1200$. Note that this differs from *National Economic Trends*. In that publication, monthly percent changes are compounded and expressed as annual growth rates.
4. The *percent change from year ago* refers to the percent change from the same period in the previous year. For example, the percent change from year ago in x between month $t-12$ and the current month t is: $[(x_t/x_{t-12})-1] \times 100$.

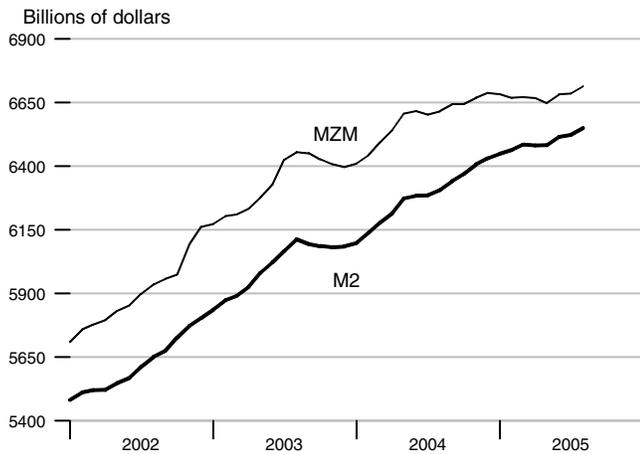
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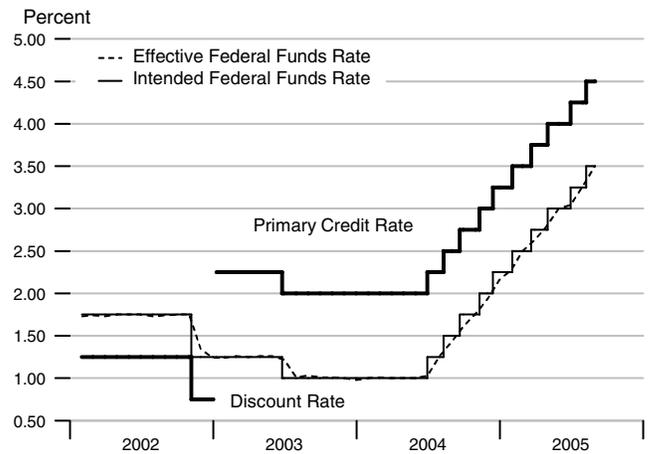
or to:

stlsFRED@stls.frb.org

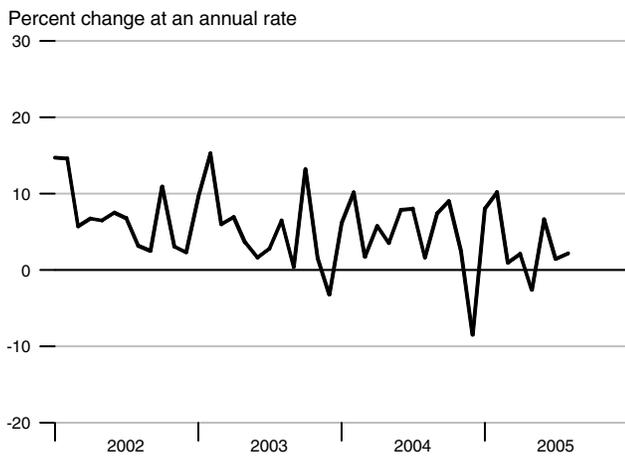
M2 and MZM



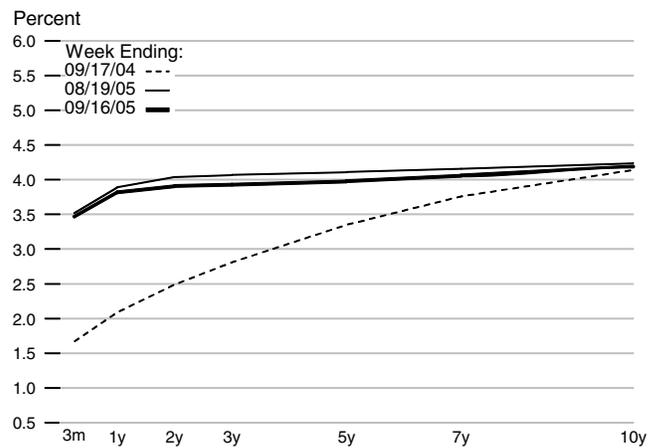
Reserve Market Rates



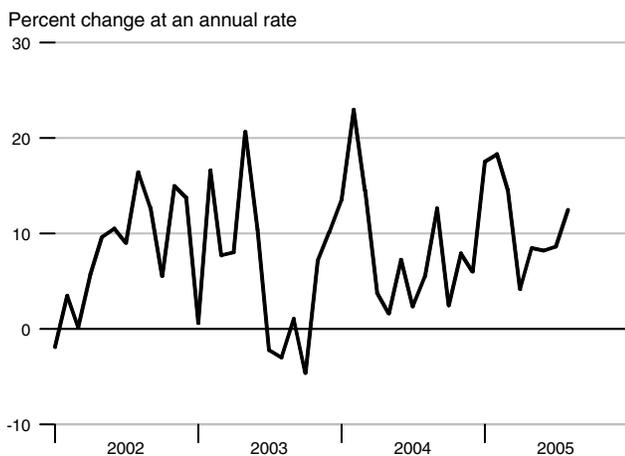
Adjusted Monetary Base



Treasury Yield Curve



Total Bank Credit

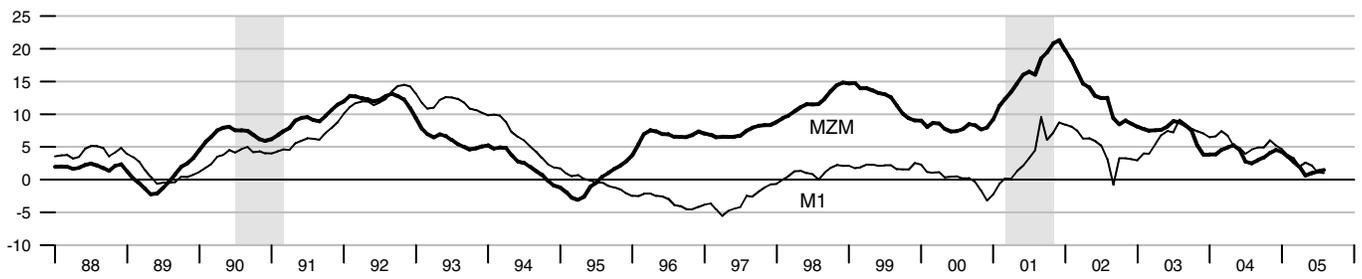


Interest Rates

	Jun 05	Jul 05	Aug 05
Federal Funds Rate	3.04	3.26	3.50
Prime Rate	6.01	6.25	6.44
Primary Credit Rate	4.01	4.25	4.44
Conventional Mortgage Rate	5.58	5.70	5.82
Treasury Yields:			
3-Month Constant Maturity	3.04	3.29	3.52
6-Month Constant Maturity	3.22	3.53	3.78
1-Year Constant Maturity	3.36	3.64	3.87
3-Year Constant Maturity	3.69	3.91	4.08
5-Year Constant Maturity	3.77	3.98	4.12
10-Year Constant Maturity	4.00	4.18	4.26

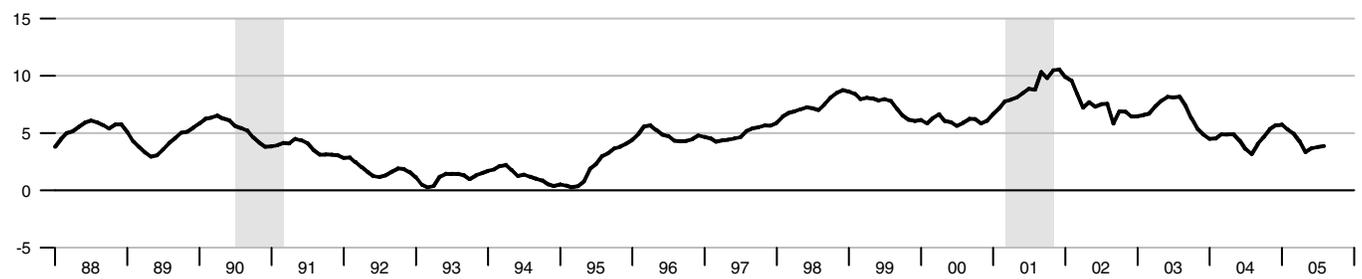
MZM and M1

Percent change from year ago



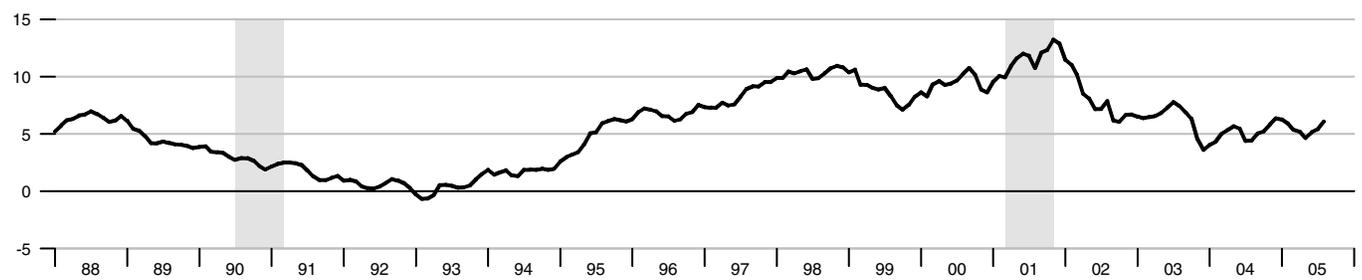
M2

Percent change from year ago



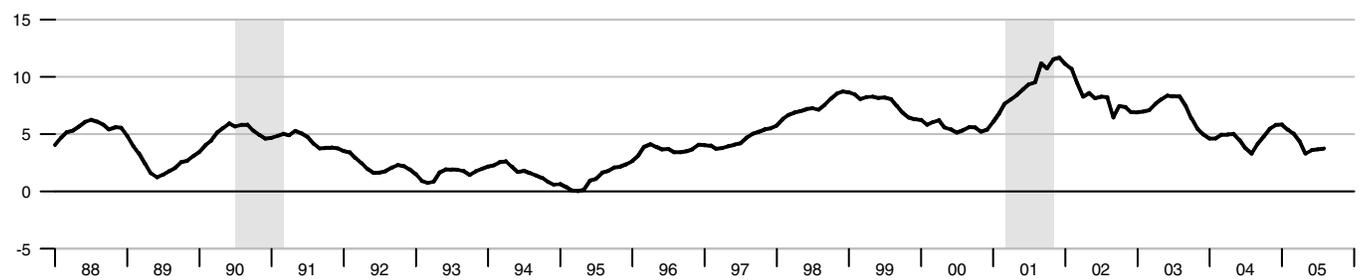
M3

Percent change from year ago



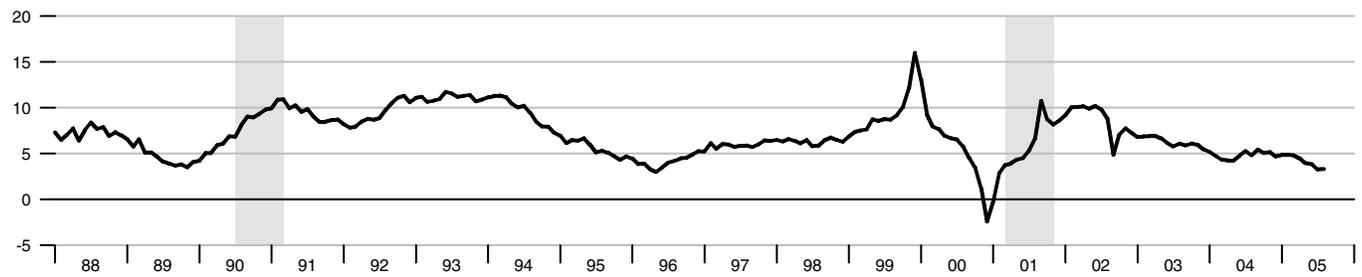
Monetary Services Index - M2

Percent change from year ago



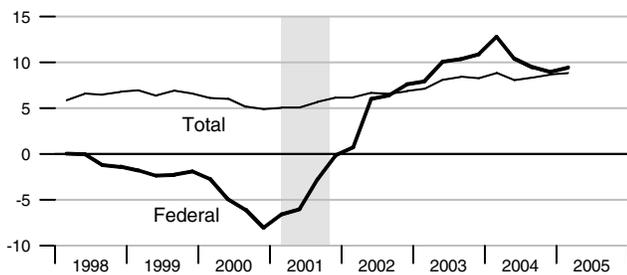
Adjusted Monetary Base

Percent change from year ago



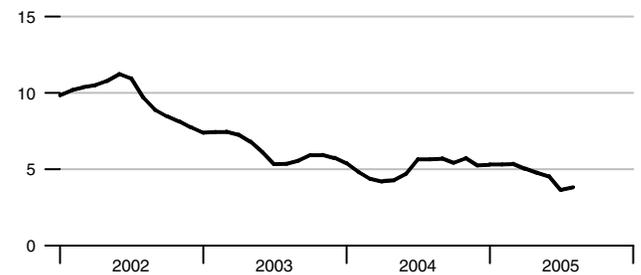
Domestic Nonfinancial Debt

Percent change from year ago



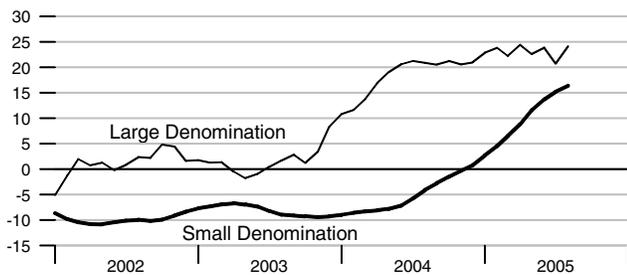
Currency Held by the Nonbank Public

Percent change from year ago



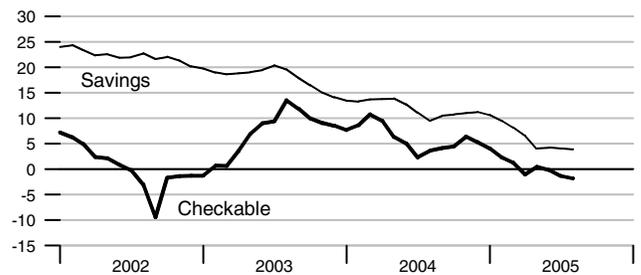
Time Deposits

Percent change from year ago



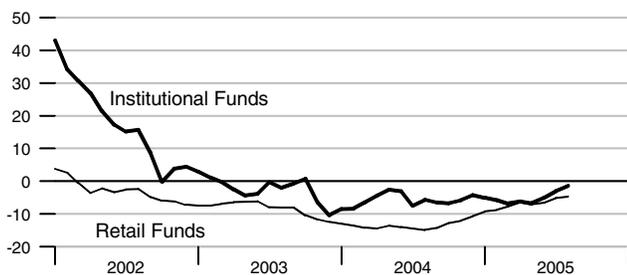
Checkable and Savings Deposits

Percent change from year ago



Money Market Mutual Fund Shares

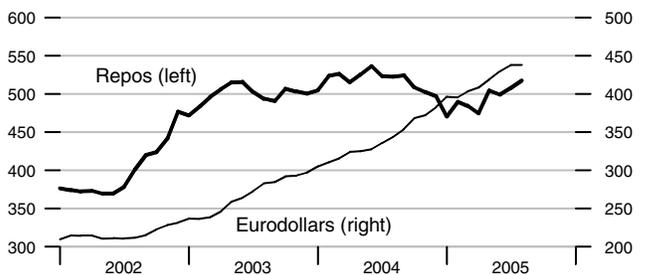
Percent change from year ago



Repurchase Agreements and Eurodollars

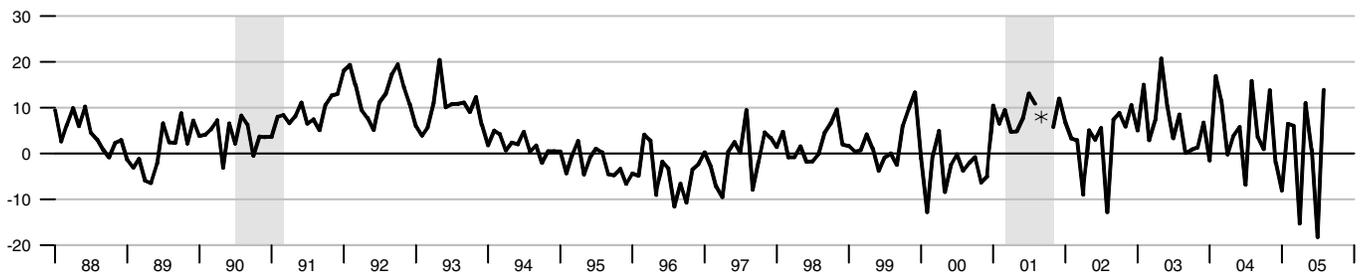
Billions of dollars

Billions of dollars



M1

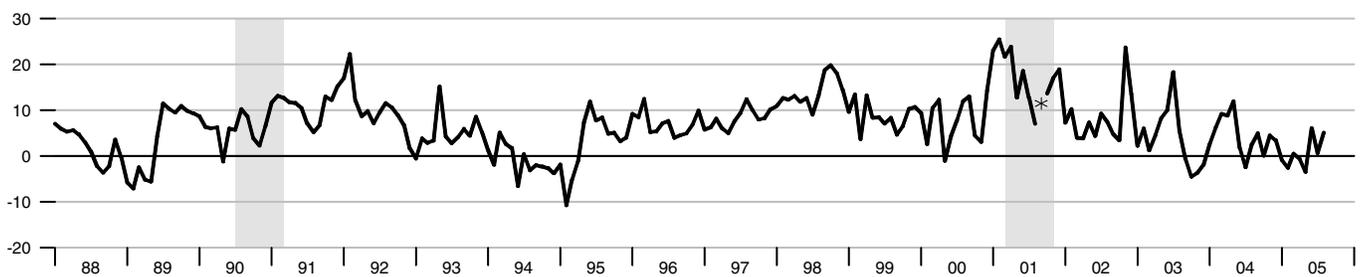
Percent change at an annual rate



*Actual values for September and October 2001 are 55.87 and -38.35 percent rate, respectively.

M2M

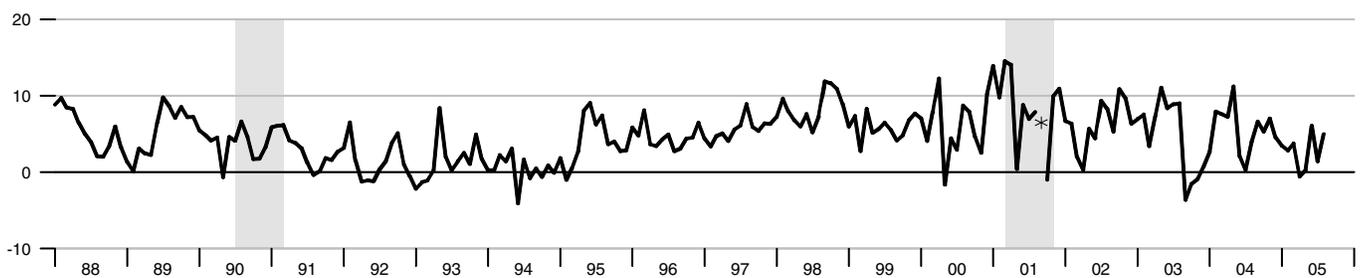
Percent change at an annual rate



*Actual value for September 2001 is 39.41 percent rate.

M2

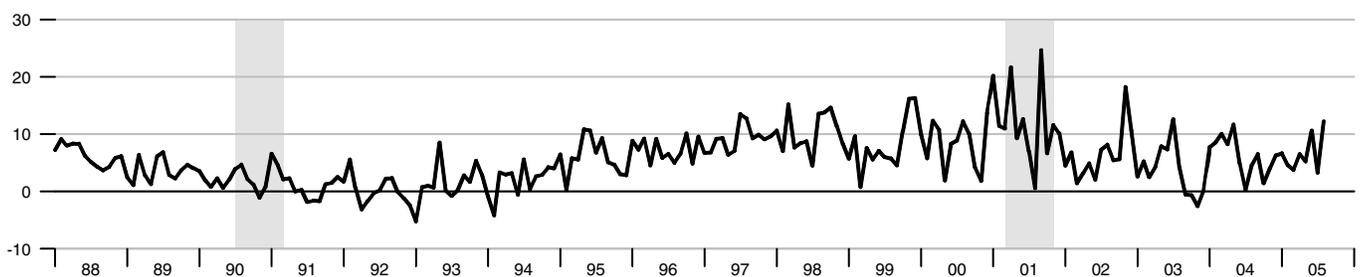
Percent change at an annual rate



*Actual value for September 2001 is 24.90 percent rate.

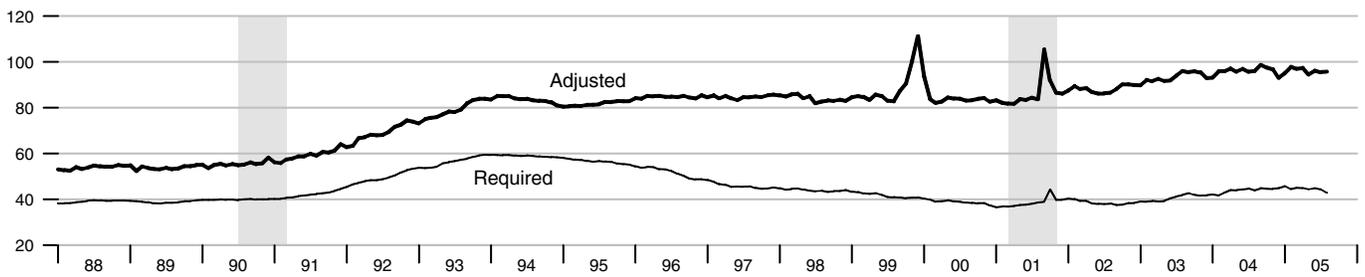
M3

Percent change at an annual rate



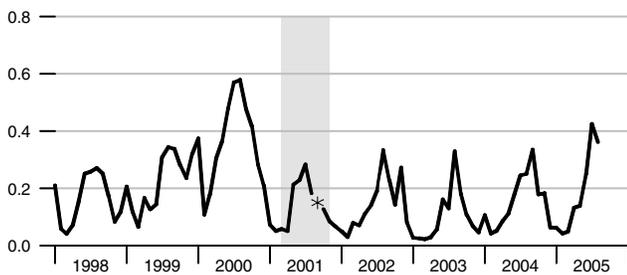
Adjusted and Required Reserves

Billions of dollars



Total Borrowings, nsa

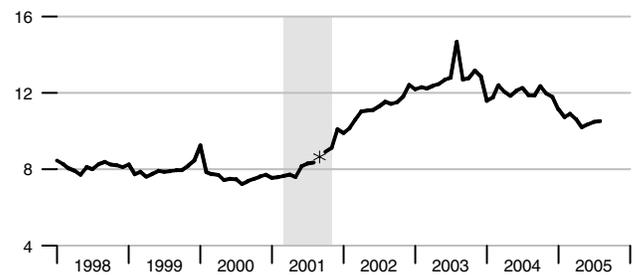
Billions of dollars



*Actual value for September 2001 is \$3.4 billion.

Excess Reserves plus RCB Contracts

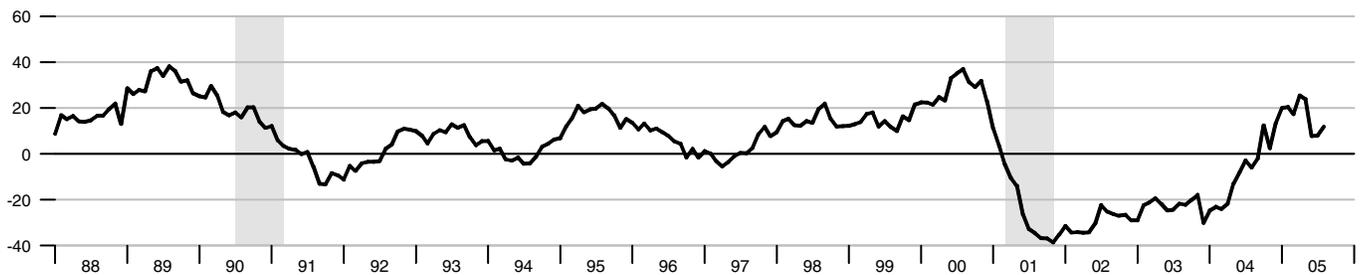
Billions of dollars



*Actual value for September 2001 is \$26.43 billion.

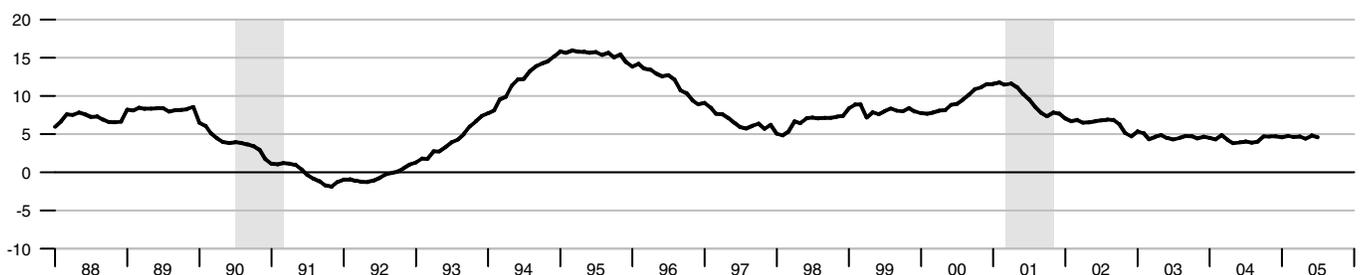
Nonfinancial Commercial Paper

Percent change from year ago

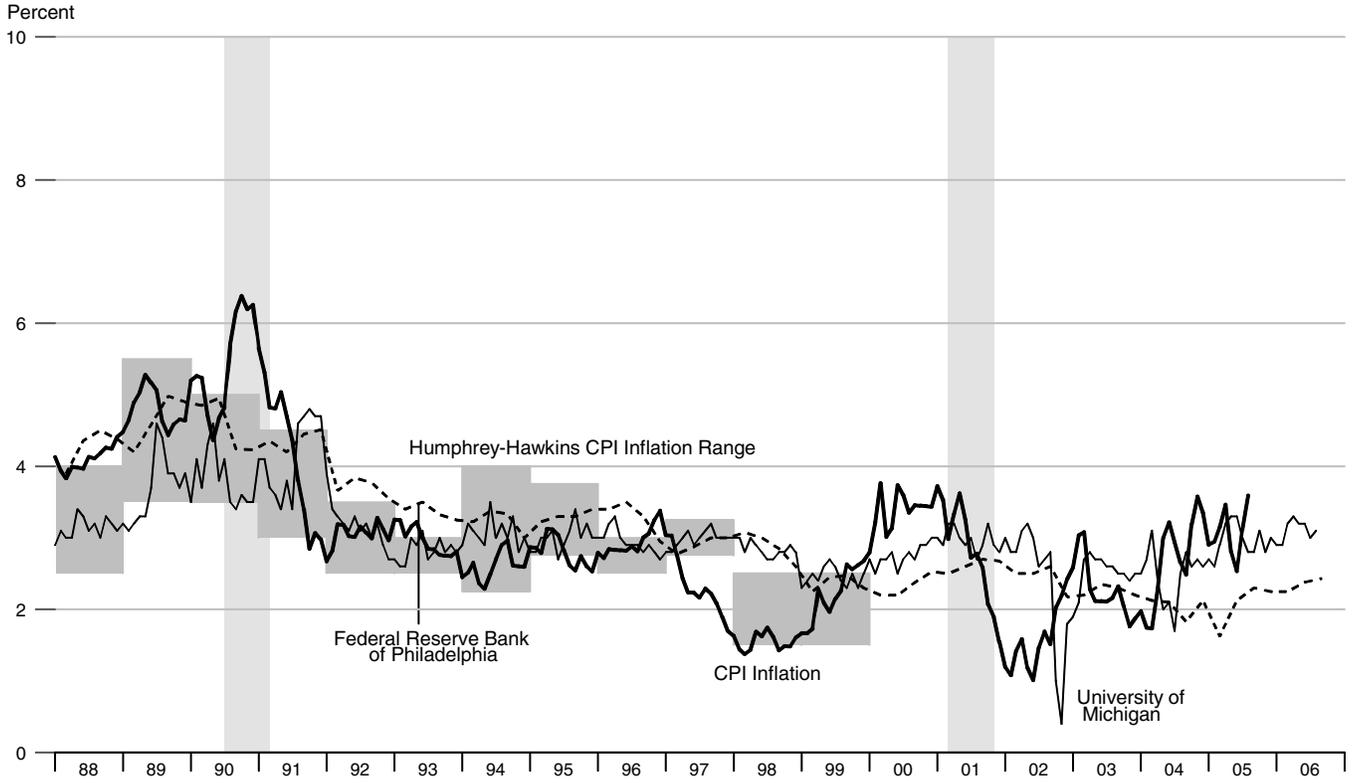


Consumer Credit

Percent change from year ago

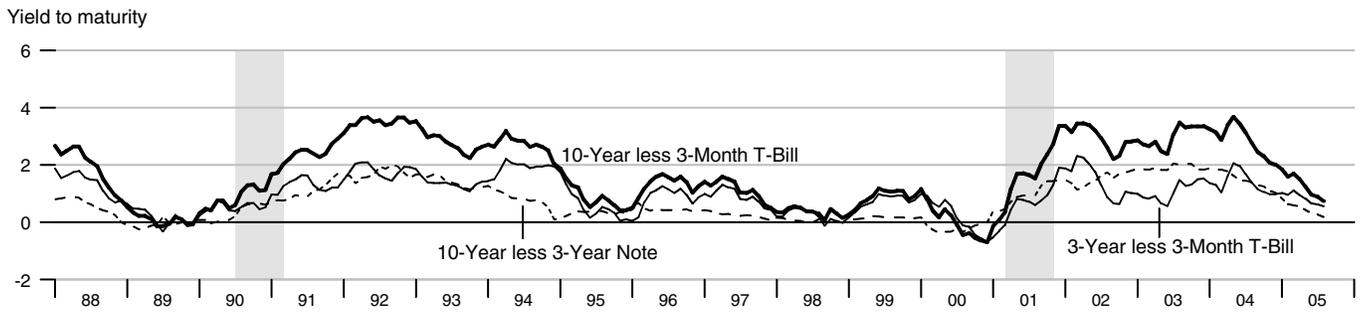


Inflation and Inflation Expectations

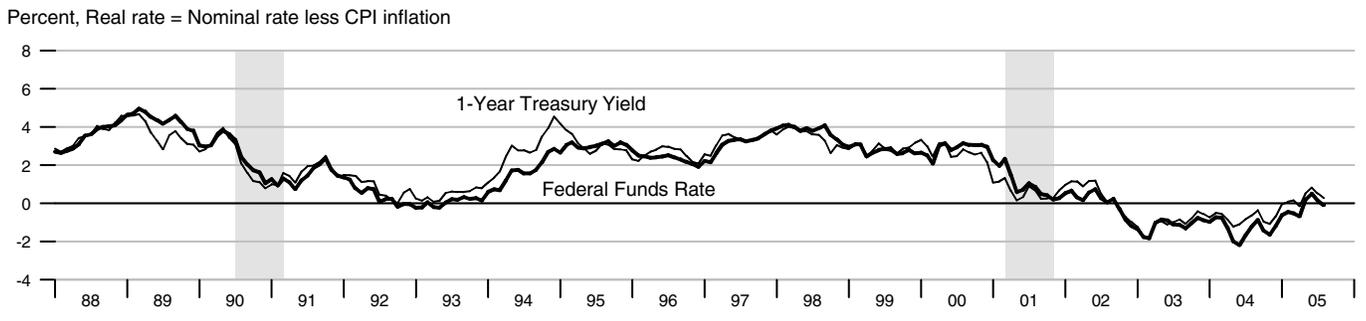


The shaded region shows the Humphrey-Hawkins CPI inflation range. Beginning in January 2000, the Humphrey-Hawkins inflation range was reported using the PCE price index and therefore is not shown on this graph. See notes on page 19.

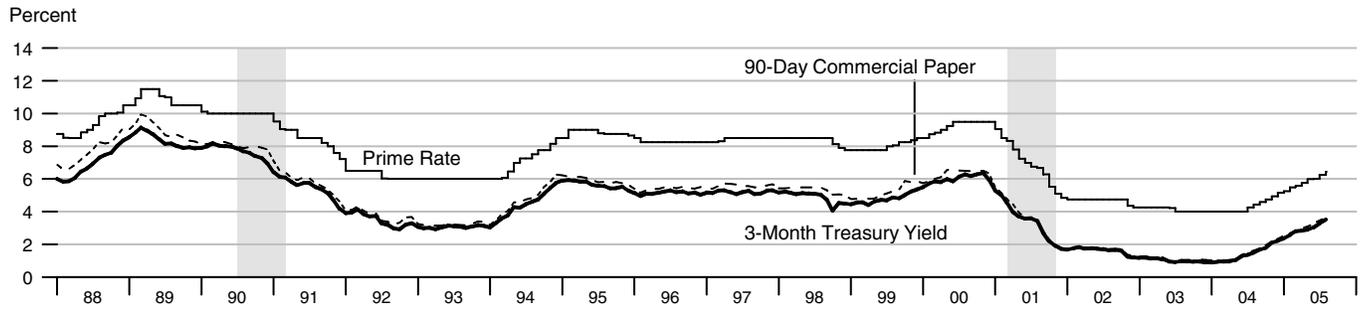
Treasury Security Yield Spreads



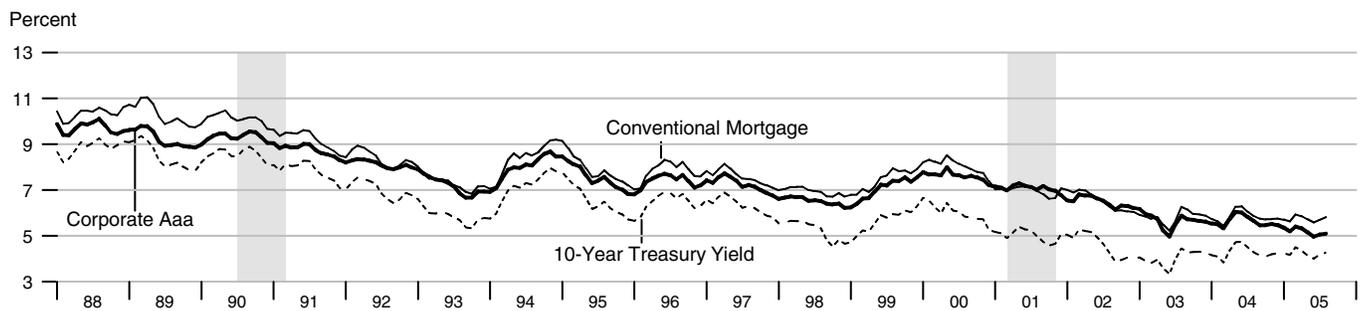
Real Interest Rates



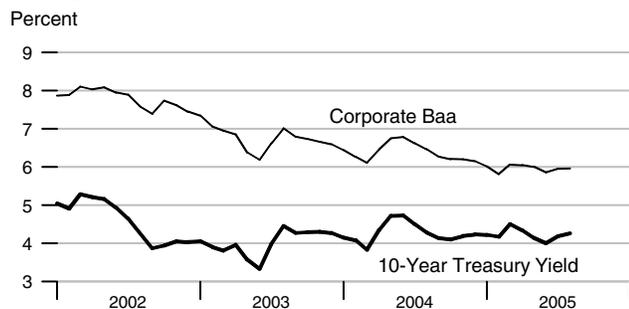
Short-Term Interest Rates



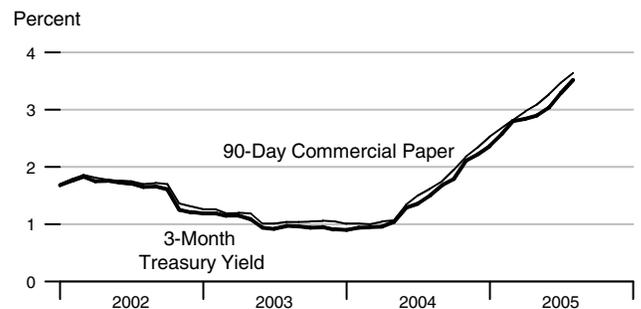
Long-Term Interest Rates



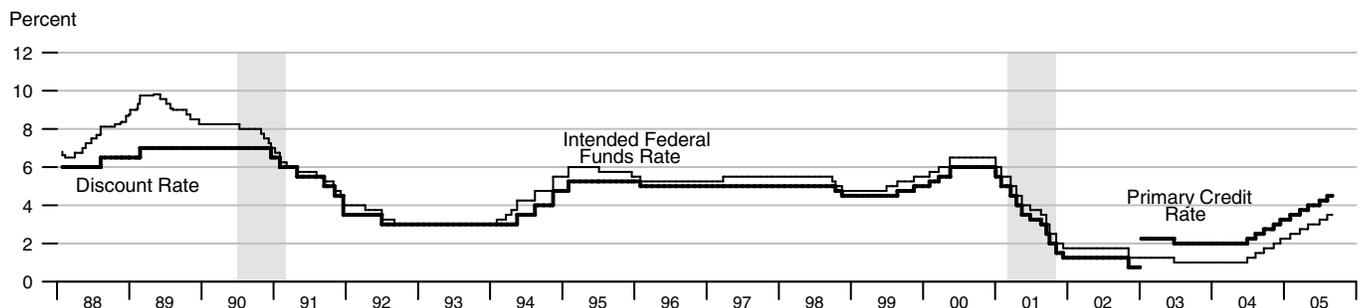
Long-Term Interest Rates



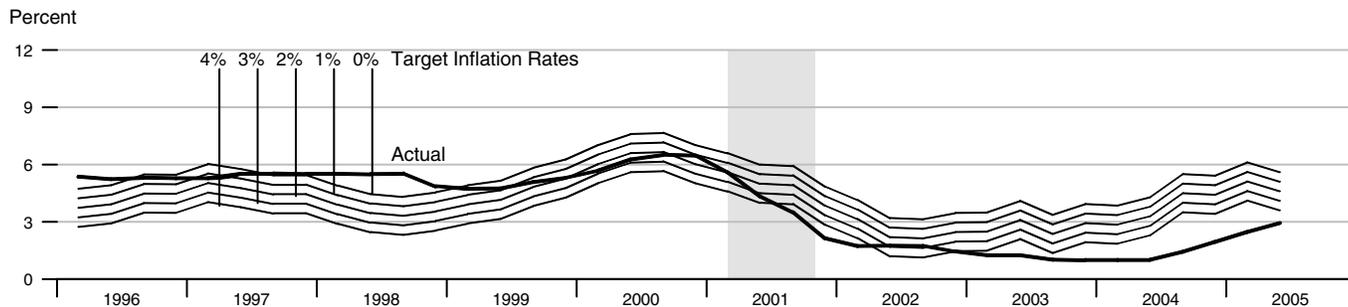
Short-Term Interest Rates



FOMC Intended Federal Funds Rate, Discount Rate, and Primary Credit Rate



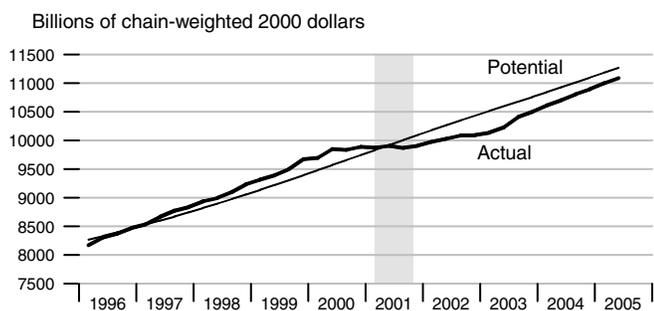
Federal Funds Rate and Inflation Targets



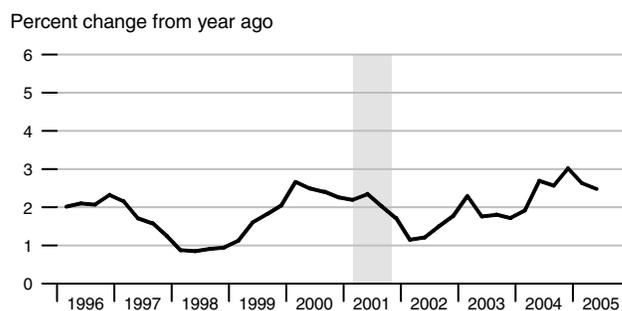
Calculated federal funds rate is based on Taylor's rule. See notes on page 19.

Components of Taylor's Rule

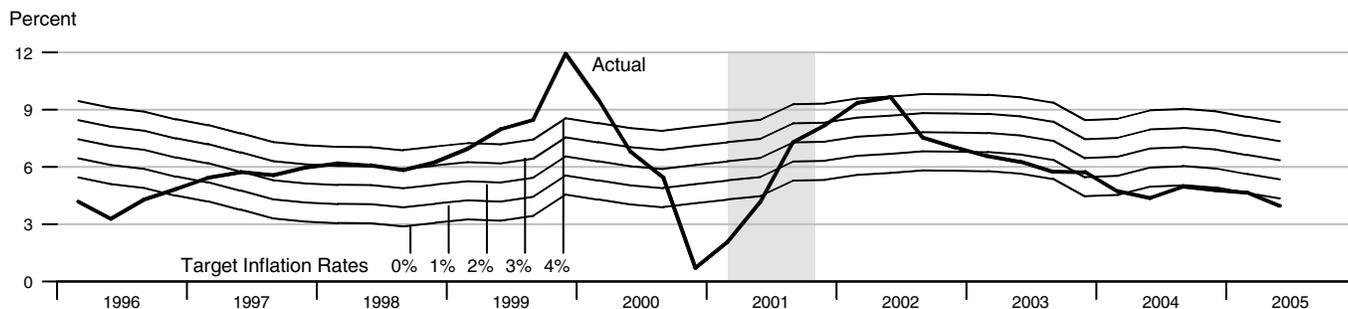
Actual and Potential Real GDP



PCE Inflation



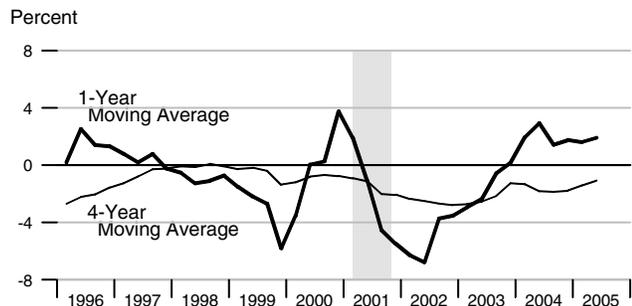
Monetary Base Growth* and Inflation Targets



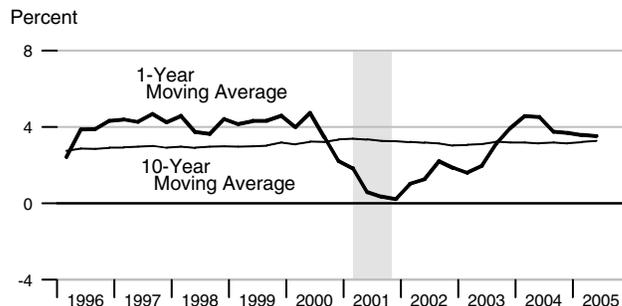
*Modified for the effects of sweeps programs on reserve demand. Calculated base growth is based on McCallum's rule. Actual base growth is percent change from year ago. See notes on page 19.

Components of McCallum's Rule

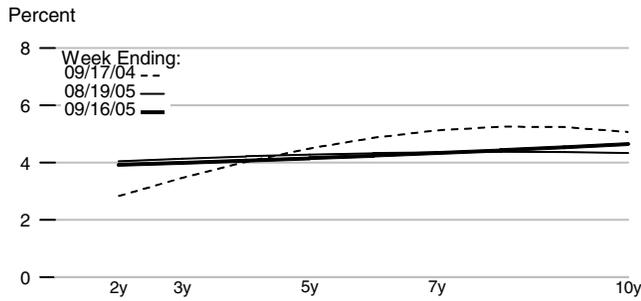
Monetary Base Velocity Growth



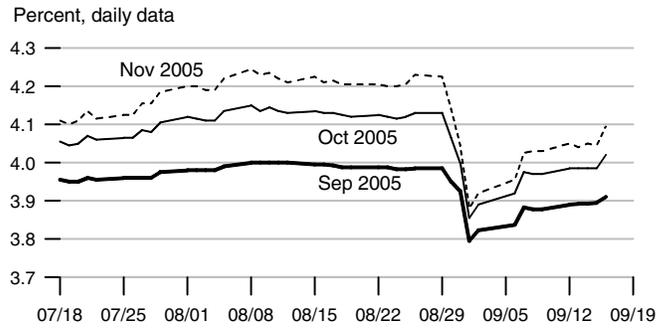
Real Output Growth



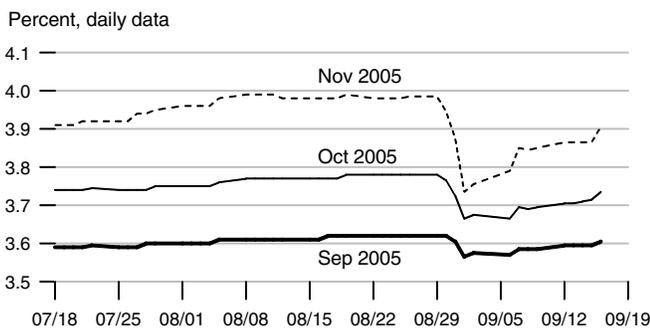
Implied One-Year Forward Rates



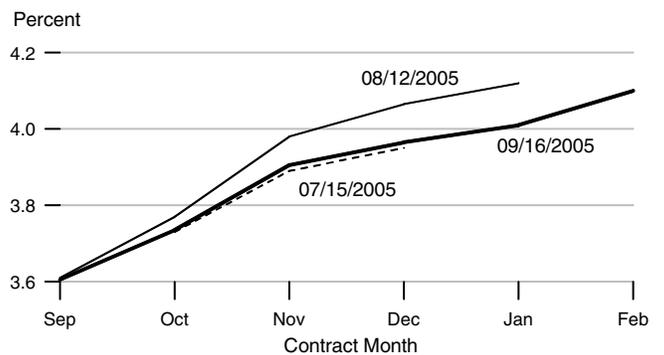
Rates on 3-Month Eurodollar Futures



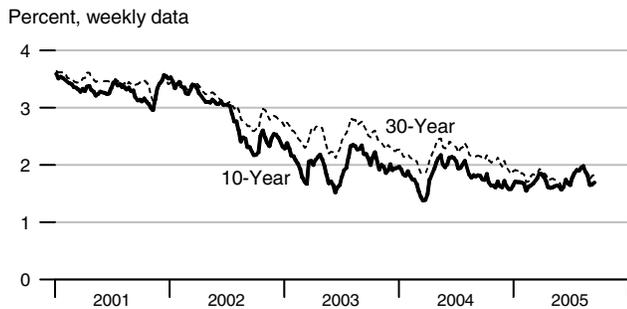
Rates on Selected Federal Funds Futures Contracts



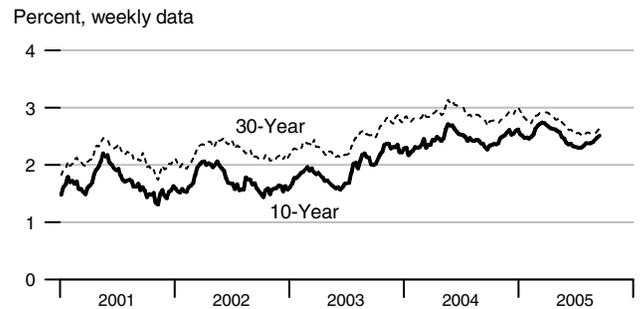
Rates on Federal Funds Futures on Selected Dates



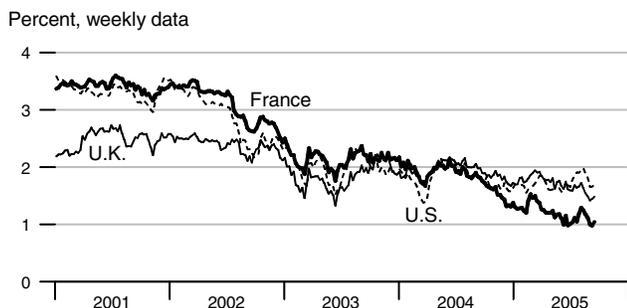
Inflation-Indexed Treasury Securities



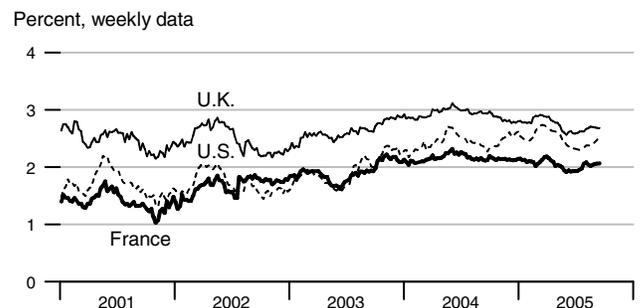
Inflation-Indexed Treasury Yield Spreads



Inflation-Indexed 10-Year Government Notes

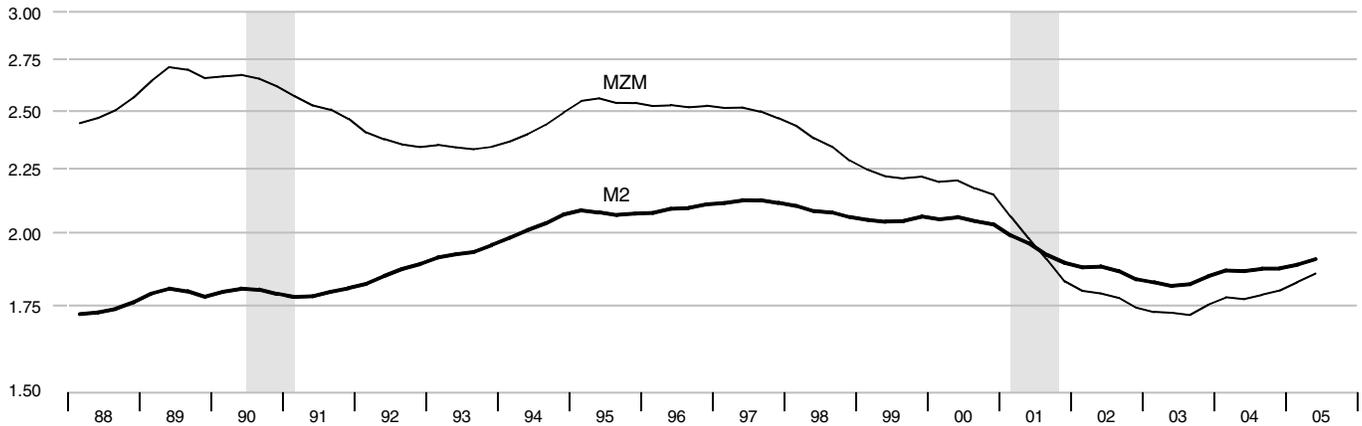


Inflation-Indexed 10-Year Government Yield Spreads



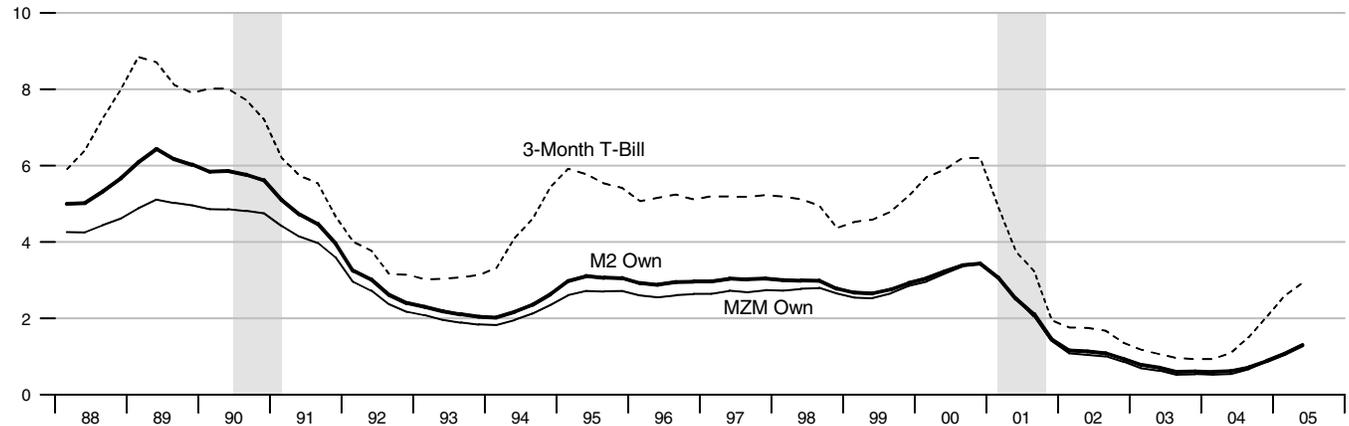
Velocity

Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)



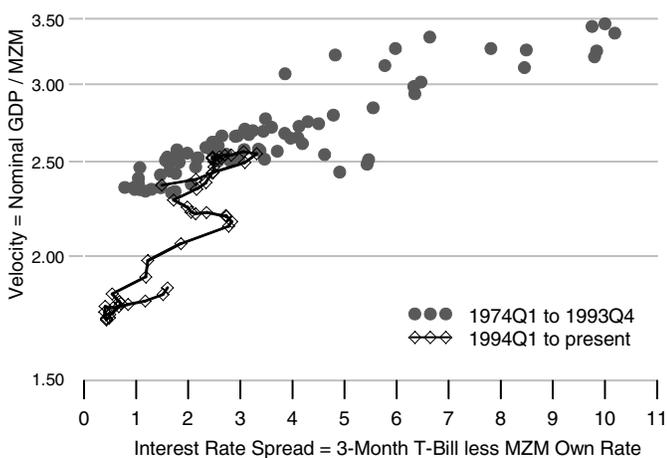
Interest Rates

Percent



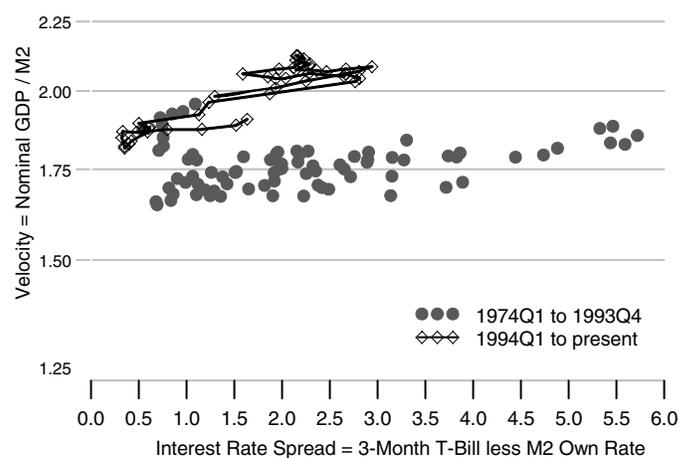
MZM Velocity and Interest Rate Spread

Ratio Scale



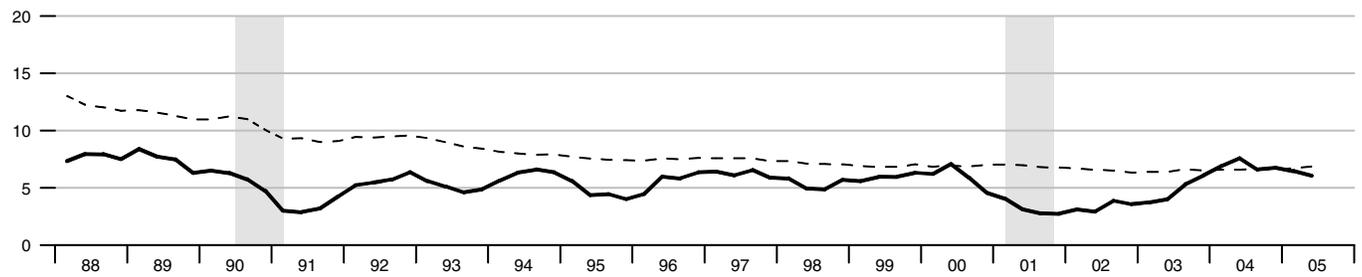
M2 Velocity and Interest Rate Spread

Ratio Scale



Gross Domestic Product

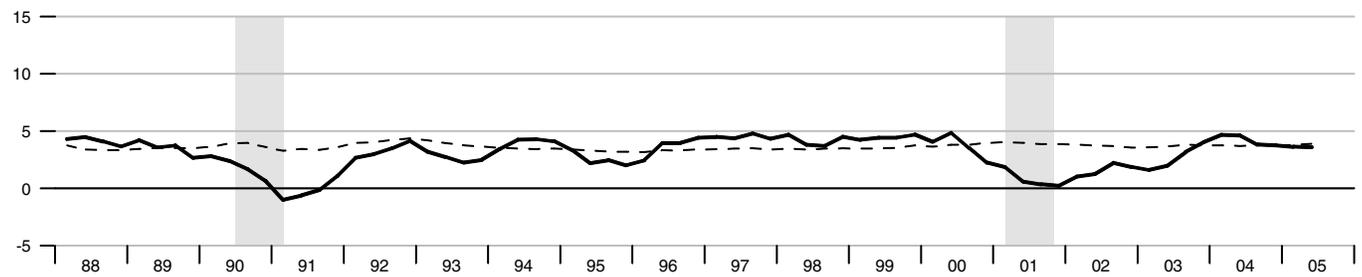
Percent change from year ago



Dashed lines indicate 10-year moving averages.

Real Gross Domestic Product

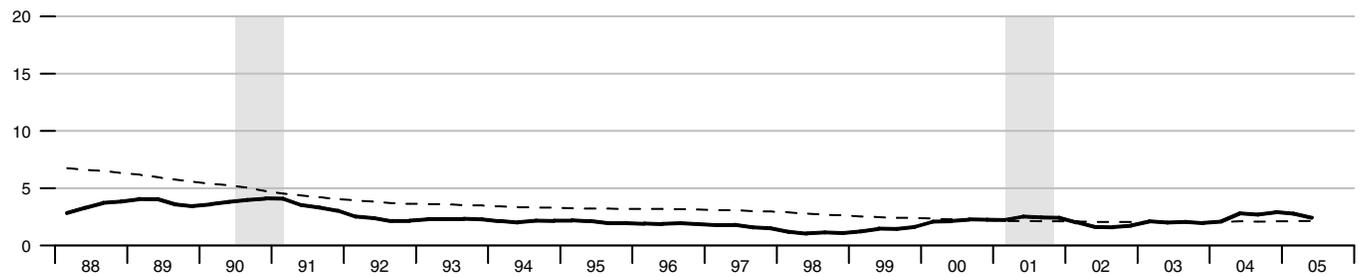
Percent change from year ago



Dashed lines indicate 10-year moving averages.

Gross Domestic Product Price Index

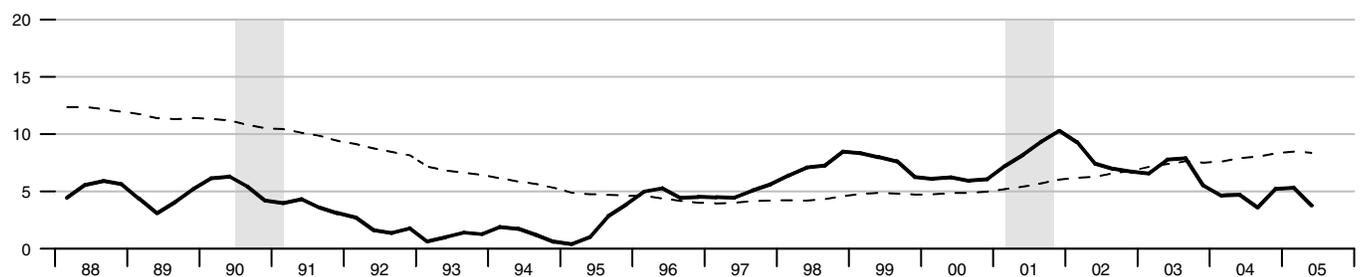
Percent change from year ago



Dashed lines indicate 10-year moving averages.

M2

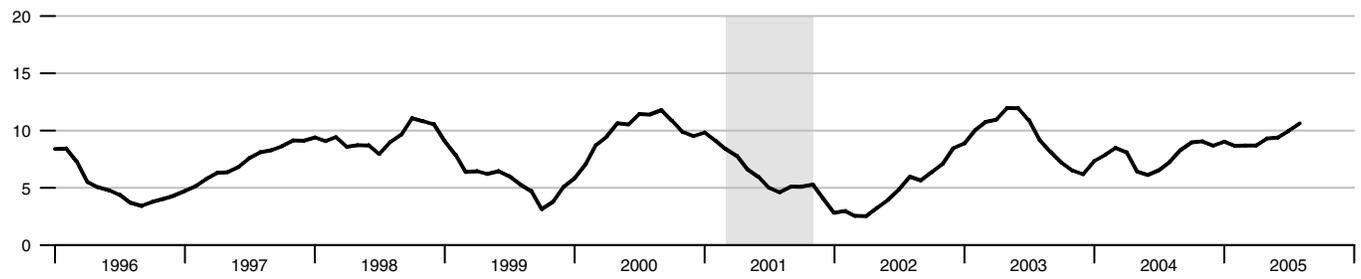
Percent change from year ago



Dashed lines indicate 10-year moving averages.

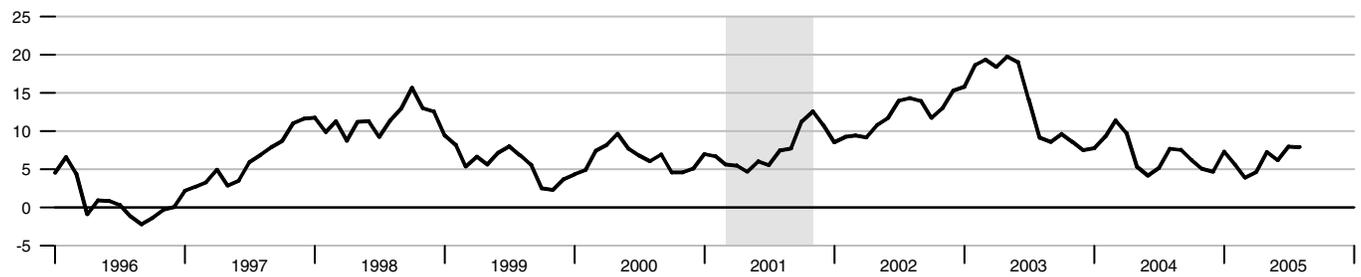
Bank Credit

Percent change from year ago



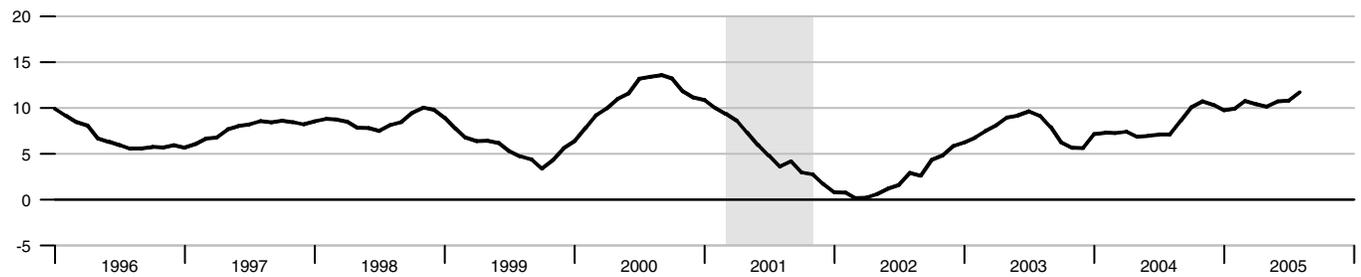
Investment Securities in Bank Credit at Commercial Banks

Percent change from year ago



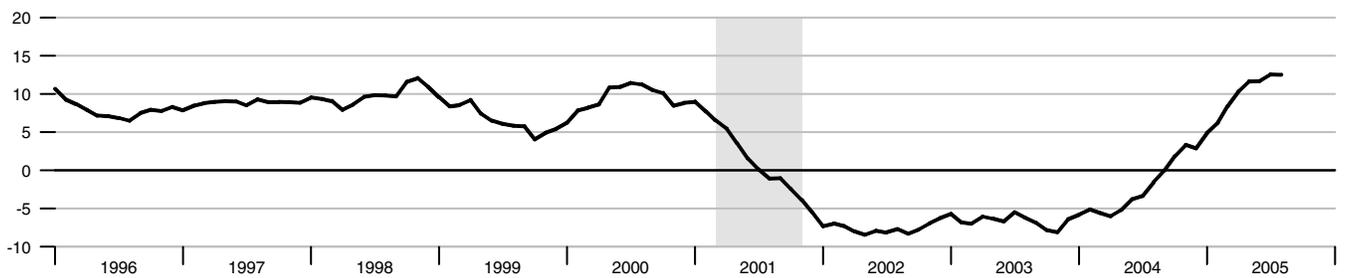
Total Loans and Leases in Bank Credit at Commercial Banks

Percent change from year ago

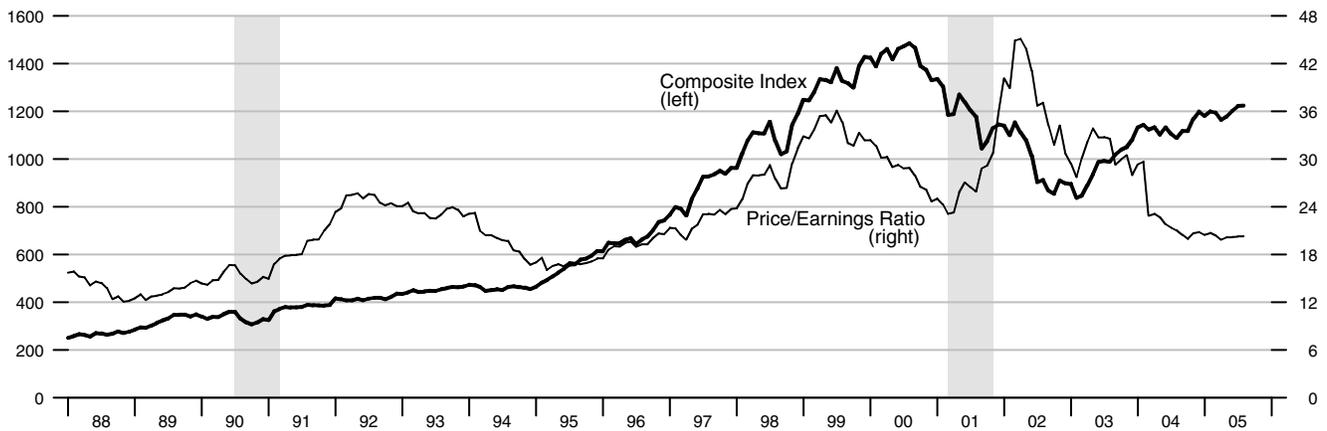


Commercial and Industrial Loans at Commercial Banks

Percent change from year ago



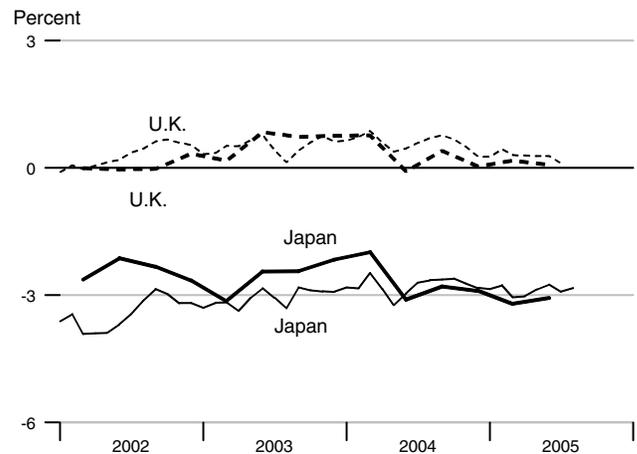
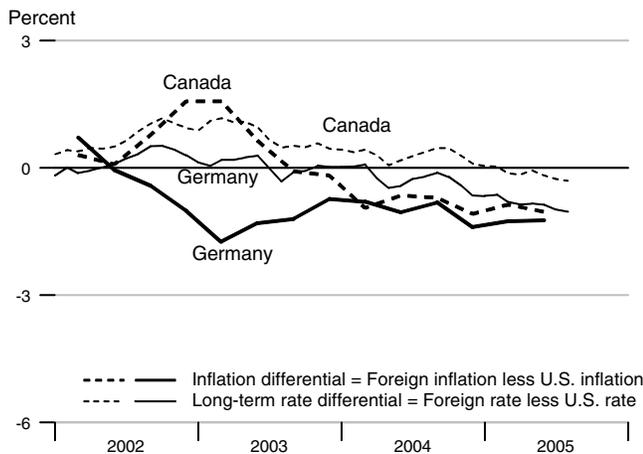
Standard & Poor's 500



Recent Inflation and Long-Term Interest Rates

	Consumer Price Inflation Rates				Long-Term Government Bond Rates			
	Percent change from year ago				Percent			
	2004Q3	2004Q4	2005Q1	2005Q2	May05	Jun05	Jul05	Aug05
United States	2.69	3.37	3.00	2.93	4.14	4.00	4.18	4.26
Canada	1.99	2.29	2.13	1.90	4.08	3.82	3.92	3.95
France	2.28	2.08	1.70	1.69	3.38	3.20	3.27	.
Germany	1.88	1.98	1.74	1.70	3.30	3.13	3.20	3.23
Italy	2.23	1.98	1.92	1.84	3.55	3.41	3.44	3.45
Japan	-0.10	0.48	-0.20	-0.14	1.27	1.24	1.26	1.43
United Kingdom	3.09	3.41	3.17	3.01	4.42	4.28	4.29	.

Inflation and Long-Term Interest Rate Differentials



		Money Stock				Bank Credit	Adjusted		MSI M2
		M1	MZM	M2	M3		Monetary Base	Reserves	
2000		1103.484	4507.601	4798.883	6860.005	5025.435	607.106	84.308	248.591
2001		1140.215	5223.438	5219.902	7646.741	5344.296	641.167	86.172	271.439
2002		1196.344	5895.446	5615.409	8261.403	5597.665	697.092	88.158	294.191
2003		1273.946	6332.382	6004.606	8788.514	6120.759	740.926	93.308	315.219
2004		1344.897	6581.408	6277.338	9236.793	6596.994	776.704	96.061	329.910
2003	1	1235.469	6195.709	5866.596	8624.845	5956.368	726.940	91.196	307.910
	2	1268.185	6279.599	5976.326	8735.938	6136.556	738.451	92.117	313.666
	3	1292.370	6443.859	6091.199	8901.791	6186.801	744.331	95.163	319.766
	4	1299.762	6410.361	6084.306	8891.481	6203.310	753.981	94.758	319.534
2004	1	1319.929	6449.505	6138.564	9010.315	6427.468	761.427	95.031	322.486
	2	1339.324	6587.990	6257.514	9216.103	6559.303	771.146	96.600	328.774
	3	1350.520	6621.038	6311.119	9313.488	6644.992	782.780	96.796	331.731
	4	1369.814	6667.100	6402.157	9407.268	6756.213	791.464	95.817	336.649
2005	1	1371.475	6674.391	6466.010	9536.924	6991.128	798.241	96.641	339.991
	2	1369.607	6666.228	6493.256	9677.118	7157.140	802.630	96.014	341.135
2003	Aug	1295.355	6454.986	6112.528	8913.523	6179.871	745.581	95.966	320.853
	Sep	1295.502	6451.229	6094.087	8909.200	6185.275	745.834	95.523	319.960
	Oct	1296.390	6426.878	6086.156	8904.143	6161.503	754.020	95.892	319.572
	Nov	1297.815	6407.337	6081.566	8884.999	6198.014	754.971	95.410	319.395
	Dec	1305.081	6396.868	6085.195	8885.301	6250.414	752.952	92.971	319.634
2004	Jan	1303.448	6410.822	6098.708	8942.455	6320.842	756.790	93.206	320.482
	Feb	1321.799	6444.242	6139.032	9006.604	6441.776	763.195	95.937	322.499
	Mar	1334.540	6493.452	6177.951	9081.885	6519.785	764.295	95.950	324.478
	Apr	1334.317	6541.332	6215.194	9144.307	6540.189	767.951	97.095	326.515
	May	1338.617	6606.287	6273.248	9233.171	6549.091	770.211	95.779	329.610
	Jun	1345.039	6616.350	6284.101	9270.830	6588.630	775.275	96.927	330.197
	Jul	1337.428	6602.798	6285.668	9273.163	6601.578	780.464	95.691	330.486
	Aug	1355.047	6616.533	6306.493	9308.479	6631.806	781.527	96.023	331.433
	Sep	1359.084	6643.783	6341.195	9358.822	6701.592	786.349	98.674	333.274
	Oct	1360.163	6644.202	6369.273	9369.946	6715.401	792.248	97.558	334.886
	Nov	1375.791	6669.000	6406.537	9401.368	6759.672	793.878	96.828	336.880
	Dec	1373.489	6688.099	6430.660	9450.489	6793.566	788.267	93.065	338.181
2005	Jan	1364.253	6683.107	6449.147	9502.892	6892.738	793.540	95.087	339.216
	Feb	1371.620	6668.726	6464.360	9539.011	6997.883	800.277	97.805	339.883
	Mar	1378.551	6671.341	6484.524	9568.869	7082.764	800.906	97.030	340.874
	Apr	1361.008	6667.868	6481.467	9620.652	7107.419	802.312	97.379	340.792
	May	1373.462	6648.596	6482.762	9662.688	7157.501	800.580	94.522	340.505
	Jun	1374.351	6682.219	6515.539	9748.013	7206.499	804.998	96.142	342.108
	Jul	1353.454	6685.785	6523.282	9774.691	7258.364	805.964	95.555	342.628
	Aug	1369.114	6714.059	6550.319	9874.295	7333.838	807.421	95.742	343.859

*All values are given in billions of dollars.

		Federal Funds	Primary Credit Rate	Prime Rate	3-mo CDs	Treasury Yields			Corporate Aaa Bonds	S & L Aaa Bonds	Conventional Mortgage
						3-mo	3-yr	10-yr			
2000		6.24		9.23	6.46	6.00	6.22	6.03	7.62	5.58	8.06
2001		3.89		6.92	3.69	3.47	4.08	5.02	7.08	5.01	6.97
2002		1.67		4.68	1.73	1.63	3.10	4.61	6.49	4.87	6.54
2003		1.13	2.11	4.12	1.15	1.03	2.11	4.02	5.67	4.52	5.82
2004		1.35	2.34	4.34	1.56	1.40	2.78	4.27	5.63	4.50	5.84
2003	1	1.25	2.25	4.25	1.26	1.18	2.07	3.92	6.00	4.60	5.83
	2	1.25	2.23	4.24	1.17	1.06	1.77	3.62	5.31	4.28	5.51
	3	1.02	2.00	4.00	1.07	0.95	2.20	4.23	5.70	4.68	6.01
	4	1.00	2.00	4.00	1.10	0.93	2.38	4.29	5.66	4.52	5.92
2004	1	1.00	2.00	4.00	1.05	0.93	2.17	4.02	5.45	4.26	5.61
	2	1.01	2.00	4.00	1.25	1.10	2.98	4.60	5.93	4.82	6.13
	3	1.43	2.42	4.42	1.70	1.51	2.92	4.30	5.64	4.54	5.89
	4	1.95	2.94	4.94	2.25	2.04	3.05	4.17	5.48	4.39	5.73
2005	1	2.47	3.44	5.44	2.78	2.58	3.61	4.30	5.32	4.23	5.76
	2	2.94	3.91	5.91	3.23	2.93	3.73	4.16	5.15	4.15	5.72
2003	Aug	1.03	2.00	4.00	1.08	0.97	2.44	4.45	5.88	4.82	6.26
	Sep	1.01	2.00	4.00	1.08	0.96	2.23	4.27	5.72	4.63	6.15
	Oct	1.01	2.00	4.00	1.10	0.94	2.26	4.29	5.70	4.64	5.95
	Nov	1.00	2.00	4.00	1.11	0.95	2.45	4.30	5.65	4.50	5.93
	Dec	0.98	2.00	4.00	1.10	0.91	2.44	4.27	5.62	4.41	5.88
2004	Jan	1.00	2.00	4.00	1.06	0.90	2.27	4.15	5.54	4.42	5.74
	Feb	1.01	2.00	4.00	1.05	0.94	2.25	4.08	5.50	4.26	5.64
	Mar	1.00	2.00	4.00	1.05	0.95	2.00	3.83	5.33	4.11	5.45
	Apr	1.00	2.00	4.00	1.08	0.96	2.57	4.35	5.73	4.69	5.83
	May	1.00	2.00	4.00	1.20	1.04	3.10	4.72	6.04	4.93	6.27
	Jun	1.03	2.01	4.01	1.46	1.29	3.26	4.73	6.01	4.85	6.29
	Jul	1.26	2.25	4.25	1.57	1.36	3.05	4.50	5.82	4.71	6.06
	Aug	1.43	2.43	4.43	1.68	1.50	2.88	4.28	5.65	4.52	5.87
	Sep	1.61	2.58	4.58	1.86	1.68	2.83	4.13	5.46	4.40	5.75
	Oct	1.76	2.75	4.75	2.04	1.79	2.85	4.10	5.47	4.38	5.72
	Nov	1.93	2.93	4.93	2.26	2.11	3.09	4.19	5.52	4.45	5.73
	Dec	2.16	3.15	5.15	2.45	2.22	3.21	4.23	5.47	4.35	5.75
2005	Jan	2.28	3.25	5.25	2.61	2.37	3.39	4.22	5.36	4.24	5.71
	Feb	2.50	3.49	5.49	2.77	2.58	3.54	4.17	5.20	4.16	5.63
	Mar	2.63	3.58	5.58	2.97	2.80	3.91	4.50	5.40	4.29	5.93
	Apr	2.79	3.75	5.75	3.09	2.84	3.79	4.34	5.33	4.18	5.86
	May	3.00	3.98	5.98	3.22	2.90	3.72	4.14	5.15	4.20	5.72
	Jun	3.04	4.01	6.01	3.38	3.04	3.69	4.00	4.96	4.08	5.58
	Jul	3.26	4.25	6.25	3.57	3.29	3.91	4.18	5.06	4.18	5.70
	Aug	3.50	4.44	6.44	3.77	3.52	4.08	4.26	5.09	4.33	5.82

*All values are given as a percent at an annual rate.

		M1	MZM	M2	M3
Percent change at an annual rate					
2000		0.18	8.09	6.07	9.41
2001		3.33	15.88	8.77	11.47
2002		4.92	12.87	7.58	8.04
2003		6.49	7.41	6.93	6.38
2004		5.57	3.93	4.54	5.10
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2003	1	8.38	7.85	6.90	6.69
	2	10.59	5.42	7.48	5.15
	3	7.63	10.46	7.69	7.59
	4	2.29	-2.08	-0.45	-0.46
2004	1	6.21	2.44	3.57	5.35
	2	5.88	8.59	7.75	9.14
	3	3.34	2.01	3.43	4.23
	4	5.71	2.78	5.77	4.03
2005	1	0.48	0.44	3.99	5.51
	2	-0.54	-0.49	1.69	5.88
<hr/>					
2003	Aug	8.49	5.53	9.01	4.17
	Sep	0.14	-0.70	-3.62	-0.58
	Oct	0.82	-4.53	-1.56	-0.68
	Nov	1.32	-3.65	-0.91	-2.58
	Dec	6.72	-1.96	0.72	0.04
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2004	Jan	-1.50	2.62	2.66	7.72
	Feb	16.89	6.26	7.93	8.61
	Mar	11.57	9.16	7.61	10.03
	Apr	-0.20	8.85	7.23	8.25
	May	3.87	11.92	11.21	11.66
	Jun	5.76	1.83	2.08	4.89
	Jul	-6.79	-2.46	0.30	0.30
	Aug	15.81	2.50	3.98	4.57
	Sep	3.58	4.94	6.60	6.49
	Oct	0.95	0.08	5.31	1.43
	Nov	13.79	4.48	7.02	4.02
	Dec	-2.01	3.44	4.52	6.27
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2005	Jan	-8.07	-0.90	3.45	6.65
	Feb	6.48	-2.58	2.83	4.56
	Mar	6.06	0.47	3.74	3.76
	Apr	-15.27	-0.62	-0.57	6.49
	May	10.98	-3.47	0.24	5.24
	Jun	0.78	6.07	6.07	10.60
	Jul	-18.25	0.64	1.43	3.28
	Aug	13.88	5.07	4.97	12.23

Definitions

M1: The sum of currency held outside the vaults of depository institutions, Federal Reserve Banks, and the U.S. Treasury; travelers checks; and demand and other checkable deposits issued by financial institutions (except demand deposits due to the Treasury and depository institutions), minus cash items in process of collection and Federal Reserve float.

MZM (money, zero maturity): M2 minus small-denomination time deposits, plus institutional money market mutual funds (that is, those included in M3 but excluded from M2). The label MZM was coined by William Poole (1991); the aggregate itself was proposed earlier by Motley (1988).

M2: M1 plus savings deposits (including money market deposit accounts) and small-denomination (under \$100,000) time deposits issued by financial institutions; and shares in retail money market mutual funds (funds with initial investments under \$50,000), net of retirement accounts.

M3: M2 plus large-denomination (\$100,000 or more) time deposits; repurchase agreements issued by depository institutions; Eurodollar deposits, specifically, dollar-denominated deposits due to nonbank U.S. addresses held at foreign offices of U.S. banks worldwide and all banking offices in Canada and the United Kingdom; and institutional money market mutual funds (funds with initial investments of \$50,000 or more).

Bank Credit: All loans, leases, and securities held by commercial banks.

Domestic Nonfinancial Debt: Total credit market liabilities of the U.S. Treasury, federally sponsored agencies, state and local governments, households, and nonfinancial firms. End-of-period basis.

Adjusted Monetary Base: The sum of currency in circulation outside Federal Reserve Banks and the U.S. Treasury, deposits of depository financial institutions at Federal Reserve Banks, and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This series is a spliced chain index; see Anderson and Rasche (1996a,b, 2001, 2003).

Adjusted Reserves: The sum of vault cash and Federal Reserve Bank deposits held by depository institutions and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This spliced chain index is numerically larger than the Board of Governors' measure, which excludes vault cash not used to satisfy statutory reserve requirements and Federal Reserve Bank deposits used to satisfy required clearing balance contracts; see Anderson and Rasche (1996a, 2001, 2003).

Monetary Services Index: An index that measures the flow of monetary services received by households and firms from their holdings of liquid assets; see Anderson, Jones, and Nesmith (1997). Indexes are shown for the assets included in M2, with additional data at research.stlouisfed.org/msi/index.html.

Note: M1, M2, M3, Bank Credit, and Domestic Nonfinancial Debt are constructed and published by the Board of Governors of the Federal Reserve System. For details, see *Statistical Supplement to the Federal Reserve Bulletin*, tables 1.21 and 1.26. MZM, Adjusted Monetary Base, Adjusted Reserves, and Monetary Services Index are constructed and published by the Research Division of the Federal Reserve Bank of St. Louis.

Notes

Page 3: Readers are cautioned that, since early 1994, the level and growth of M1 have been depressed by retail sweep programs that reclassify transactions deposits (demand deposits and other checkable deposits) as savings deposits overnight, thereby reducing banks' required reserves; see Anderson and Rasche (2001) and research.stlouisfed.org/aggreg/swdata.html. **Primary Credit Rate**, **Discount Rate**, and **Intended Federal Funds Rate** shown in the chart **Reserve Market Rates** are plotted as of the date of the change, while the **Effective Federal Funds Rate** is plotted as of the end of the month. Interest rates in the table are monthly averages from the Board of Governors H.15 Statistical Release. The **Treasury Yield Curve** shows constant maturity yields calculated by the U.S. Treasury for securities with 3 months and 1, 2, 3, 5, 7, and 10 years to maturity. Daily data and descriptions are available at research.stlouisfed.org/fred2/. See

also *Statistical Supplement to the Federal Reserve Bulletin*, table 1.35. The 30-year constant maturity series was discontinued by the Treasury as of February 18, 2002.

Page 5: **Checkable Deposits** is the sum of demand and other checkable deposits. **Savings Deposits** is the sum of money market deposit accounts and passbook and statement savings. **Time Deposits** have a minimum initial maturity of 7 days. **Large Time Deposits** are deposits of \$100,000 or more. **Retail and Institutional Money Market Mutual Funds** are as included in M2 and the non-M2 component of M3, respectively.

Page 7: **Excess Reserves plus RCB (Required Clearing Balance) Contracts** equals the amount of deposits at Federal Reserve Banks held by depository institutions but not applied to satisfy statutory reserve requirements. (This measure excludes the vault cash held by depository institutions that is not applied to satisfy statutory reserve requirements.) **Consumer Credit** includes most short- and intermediate-term credit extended to individuals. See *Statistical Supplement to the Federal Reserve Bulletin*, table 1.55.

Page 8: **Inflation Expectations** measures include the quarterly Federal Reserve Bank of Philadelphia *Survey of Professional Forecasters*, the monthly University of Michigan Survey Research Center's *Surveys of Consumers*, and the annual Federal Open Market Committee (FOMC) range as reported to the Congress in the February testimony that accompanies the Monetary Policy Report to the Congress. Beginning February 2000, the FOMC began using the personal consumption expenditures (PCE) price index to report its inflation range; the FOMC then switched to the PCE chain-type price index excluding food and energy prices ("core") beginning July 2004. Accordingly, neither are shown on this graph. **CPI Inflation** is the percentage change from a year ago in the consumer price index for all urban consumers. **Real Interest Rates** are ex post measures, equal to nominal rates minus CPI inflation.

Page 9: **FOMC Intended Federal Funds Rate** is the level (or midpoint of the range, if applicable) of the federal funds rate that the staff of the FOMC expected to be consistent with the desired degree of pressure on bank reserve positions. In recent years, the FOMC has set an explicit target for the federal funds rate.

Page 10: **Federal Funds Rate and Inflation Targets** shows the observed federal funds rate, quarterly, and the level of the funds rate implied by applying Taylor's (1993) equation

$$f_t^* = 2.5 + \pi_{t-1} + (\pi_{t-1} - \pi^*)/2 + 100 \times (y_{t-1} - y_{t-1}^P)/2$$

to five alternative target inflation rates, $\pi^* = 0, 1, 2, 3, 4$ percent, where f_t^* is the implied federal funds rate, π_{t-1} is the previous period's inflation rate (PCE) measured on a year-over-year basis, y_{t-1} is the log of the previous period's level of real gross domestic product (GDP), and y_{t-1}^P is the log of an estimate of the previous period's level of potential output. **Potential Real GDP** is as estimated by the Congressional Budget Office.

Monetary Base Growth and Inflation Targets shows the quarterly growth of the adjusted monetary base (modified to include an estimate of the effect of sweep programs) implied by applying McCallum's (1988, 1993) equation

$$\Delta MB_t^* = \pi^* + (10\text{-year moving average growth of real GDP}) - (4\text{-year moving average of base velocity growth})$$

to five alternative target inflation rates, $\pi^* = 0, 1, 2, 3, 4$ percent, where ΔMB_t^* is the implied growth rate of the adjusted monetary base. The 10-year moving average growth of real GDP for a quarter t is calculated as the average quarterly growth during the previous 40 quarters, at an annual rate, by the formula $((y_t - y_{t-40})/40) \times 400$, where y_t is the log of real GDP. The 4-year moving average of base velocity growth is calculated similarly. To adjust the monetary base for the effect of retail-deposit sweep programs, we add to the monetary base an amount equal to 10 percent of the total amount swept, as estimated by the Federal Reserve Board staff. These estimates are imprecise, at best. Sweep program data are found at research.stlouisfed.org/aggreg/swdata.html.

Page 11: **Implied One-Year Forward Rates** are calculated by this Bank from Treasury constant maturity yields. Yields to maturity, $R(m)$, for securities with $m = 1, \dots, 10$ years to maturity are obtained by linear interpolation between

reported yields. These yields are smoothed by fitting the regression suggested by Nelson and Siegel (1987),

$$R(m) = a_0 + (a_1 + a_2)(1 - e^{-m/50})/(m/50) - a_2 \times e^{-m/50},$$

and forward rates are calculated from these smoothed yields using equation (a) in table 13.1 of Shiller (1990),

$$f(m) = [D(m)R(m) - D(m-1)] / [D(m) - D(m-1)],$$

where duration is approximated as $D(m) = (1 - e^{-R(m) \times m})/R(m)$. These rates are linear approximations to the true instantaneous forward rates; see Shiller (1990). For a discussion of the use of forward rates as indicators of inflation expectations, see Sharpe (1997). **Rates on 3-Month Eurodollar Futures** and **Rates on Selected Federal Funds Futures Contracts** trace through time the yield on three specific contracts. **Rates on Federal Funds Futures on Selected Dates** displays a single day's snapshot of yields for contracts expiring in the months shown on the horizontal axis. **Inflation-Indexed Treasury Securities** are yields on the most recently issued inflation-indexed securities of 10- and 30-year original maturities. **Inflation-Indexed 10-Year Government Notes** shows the yield of an inflation-indexed note that is scheduled to mature in approximately (but not greater than) 10 years. The current French note has a maturity date of 7/25/2015, the current U.K. note has a maturity date of 8/16/2013, and the current U.S. note has a maturity date of 7/15/2015. **Inflation-Indexed Treasury Yield Spreads** and **Inflation-Indexed 10-Year Government Yield Spreads** equal the difference between the yields on the most recently issued inflation-indexed securities and the unadjusted security yields of similar maturity.

Page 12: Velocity (for MZM and M2) equals the ratio of GDP, measured in current dollars, to the level of the monetary aggregate. **MZM and M2 Own Rates** are weighted averages of the rates received by households and firms on the assets included in the aggregates. Prior to 1982, the 3-month T-bill rates are secondary market yields. From 1982 forward, rates are 3-month constant maturity yields.

Page 13: Real Gross Domestic Product is GDP as measured in chained 2000 dollars. The **Gross Domestic Product Price Index** is the implicit price deflator for GDP, which is defined by the Bureau of Economic Analysis, U.S. Department of Commerce, as the ratio of GDP measured in current dollars to GDP measured in chained 2000 dollars.

Page 14: Investment Securities are all securities held by commercial banks in both investment and trading accounts.

Page 15: Inflation Rate Differentials are the differences between the foreign consumer price inflation rates and year-over-year changes in the U.S. all-items Consumer Price Index.

Page 17: Treasury Yields are Treasury constant maturities as reported in the Board of Governors of the Federal Reserve System's H.15 release.

Sources

Agence France Trésor: French note yields.

Bank of Canada: Canadian note yields.

Bank of England: U.K. note yields.

Board of Governors of the Federal Reserve System:

Monetary aggregates and components: H.6 release. Bank credit and components: H.8 release. Consumer credit: G.19 release. Required reserves, excess reserves, clearing balance contracts, and discount window borrowing: H.4.1 and H.3 releases. Interest rates: H.15 release. Nonfinancial commercial paper: Board of Governors website. Nonfinancial debt: Z.1 release. M2 own rate.

Bureau of Economic Analysis: GDP.

Bureau of Labor Statistics: CPI.

Chicago Board of Trade: Federal funds futures contract.

Chicago Mercantile Exchange: Eurodollar futures.

Congressional Budget Office: Potential real GDP.

Federal Reserve Bank of Philadelphia: Survey of Professional Forecasters inflation expectations.

Federal Reserve Bank of St. Louis: Adjusted monetary base and adjusted reserves, monetary services index, MZM own rate, one-year forward rates.

Organization for Economic Cooperation and Development: International interest and inflation rates.

Standard & Poor's: Stock price-earnings ratio, stock price composite index.

University of Michigan Survey Research Center: Median expected price change.

U.S. Department of the Treasury: U.S. security yields.

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Note: *Available on the Internet at research.stlouisfed.org/publications/review/.