

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 and Yield Spreads** are those plotted on page 3. **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 1/15/2017. **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/.

Inflation Disconnect?

Headline inflation is the percentage change in the price index for a basket of goods and services. Core inflation measures the underlying trend in inflation, i.e., the component of inflation most closely linked to monetary policy actions in the longer term. The most common way to measure core inflation is to exclude food and energy from the set of goods and services. The rationale for excluding food and energy prices is that historically they have been highly volatile and high volatility tends to mask the underlying inflation trend. But why always exclude these two classes of goods while including others?

The difference between headline inflation and the most commonly used measure of core inflation (less food and energy, or XFE in short) has been increasing since early 2004, for both consumer price index (CPI) inflation and personal consumption expenditures (PCE) inflation. The gray line in the chart illustrates this by showing a 5-year moving average of the difference between headline CPI inflation and CPI-XFE inflation. The discrepancy between these two indices reflects the sharp and sustained increase in the price of oil between mid-2004 and mid-2006. The inflation rate of the energy component of the CPI (CPI-E) has been growing much faster than the overall CPI. (The green line in the chart shows the difference between the two.)

The academic literature is increasingly focused on *limited-influence estimators* to measure core inflation.¹ In fact, the Federal Reserve Bank of Cleveland calculates two such monthly measures of core inflation: the weighted median² and the trimmed mean CPI inflation rates. These measures exclude the items facing more extreme price movements in each time period, resulting in a different basket of omitted items each period.

Proponents have argued that limited-influence measures of core inflation have superior statistical properties and, in particular, are better at forecasting headline inflation. The black line in the chart shows the difference between headline inflation and core inflation, measured by the 16 percent trimmed mean CPI inflation (CPI-TMI). This smaller difference between core and headline inflation suggests that discrepancies between headline and core inflation are partly induced by the way core inflation is defined and measured.

A disconnect between measures of headline and core inflation could be a concern for policy-

makers: It may not be reasonable to conclude that monetary policy has been effective in maintaining price stability by looking solely at a core measure of inflation that excludes sustained oil price increases. However, one must keep in mind that an increase in energy prices could present monetary policymakers with a trade-off between controlling inflation and stabilizing the output gap (i.e., the difference between actual and potential output) if these price increases affect actual output more than potential. The optimal resolution of this trade-off is an active area of research.³

In sum, price indices provide a snapshot of the dynamics of prices of a basket of goods and services. However, because each core index suppresses a different source of information, they each provide a different measure of inflation. Especially in times of substantial relative price movements, all price indices should be considered by policymakers and analysts.

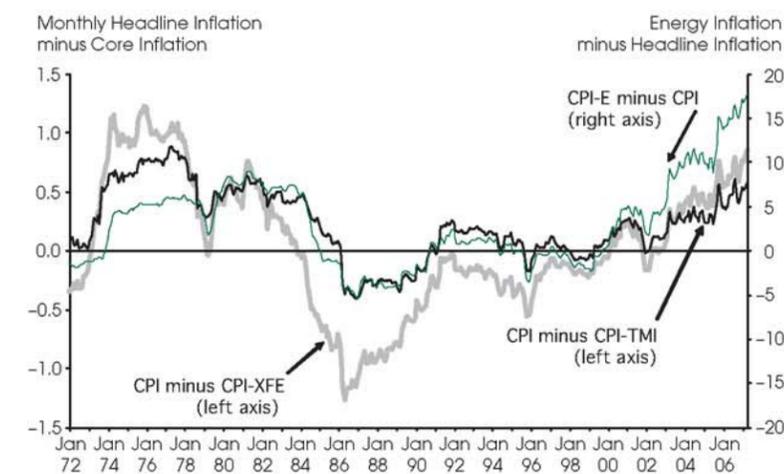
—Riccardo DiCecio

¹ Mick Silver, "Core Inflation Measures and Statistical Issues in Choosing Among Them," Working Paper No. 06/97, International Monetary Fund, April 2006.

² Kristie M. Engemann and Michael T. Owyang, "Hard 'Core' Inflation," Federal Reserve Bank of St. Louis *Monetary Trends*, February 2005.

³ For a comprehensive review of this literature, see Lutz Kilian, "The Economic Effects of Energy Price Shocks," *Journal of Economic Literature*, forthcoming.

CPI Inflation Rates: Headline, Core Measures, and Energy (5-year moving averages of annualized % change)



SOURCE: Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; Haver.

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: $[(x_t/x_{t-12})-1] \times 100$.

We welcome your comments addressed to:

Editor, *Monetary Trends*
 Research Division
 Federal Reserve Bank of St. Louis
 P.O. Box 442
 St. Louis, MO 63166-0442

On March 23, 2006, the Board of Governors of the Federal Reserve System ceased the publication of the M3 monetary aggregate. It also ceased publishing the following components: large-denomination time deposits, RPs, and eurodollars.

or to:

stlsFRED@stls.frb.org

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 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).

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** and **Real Treasury Yield Curve** show constant maturity yields calculated by the U.S. Treasury for securities 5, 7, 10, and 20 years to maturity. **Inflation-Indexed Treasury Yield Spreads** are a

measure of inflation compensation at those horizons, and it is simply the nominal constant maturity yield less the real constant maturity yield. 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 year-over-year 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.

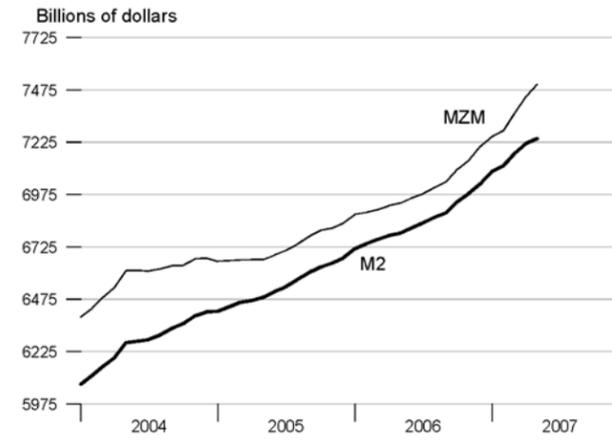
		M1	MZM	M2	M3*
Percent change at an annual rate					
2002		4.91	12.76	7.47	7.98
2003		6.46	7.42	6.94	6.40
2004		5.57	3.97	4.62	5.09
2005		2.03	2.23	4.34	5.97
2006		0.20	4.06	4.73	4.95

2005	1	-0.59	0.04	3.08	5.63
	2	0.05	0.70	3.07	5.98
	3	1.96	4.14	4.98	7.81
	4	-0.25	4.66	4.88	9.29
2006	1	1.36	4.20	5.39	
	2	0.53	2.74	3.34	
	3	-3.49	4.05	4.09	
	4	-0.02	7.90	6.89	
2007	1	-0.63	8.48	8.03	

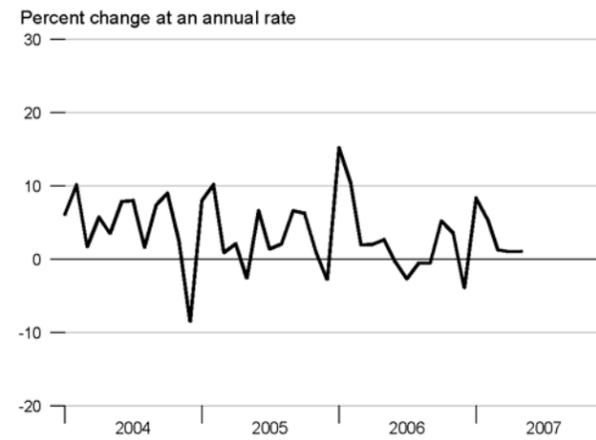
2005	May	8.35	-0.24	2.82	5.50
	Jun	11.75	4.19	5.14	7.48
	Jul	-10.66	3.85	4.28	4.58
	Aug	8.66	5.43	6.31	12.56
	Sep	0.83	6.57	6.08	10.48
2006	Jan	4.95	7.38	7.97	10.49
	Feb	-3.20	1.59	4.26	6.55
	Mar	7.59	2.06	3.44	
	Apr	-3.19	3.48	3.52	
	May	6.27	2.04	1.91	
2007	Jan	4.89	7.95	10.05	
	Feb	-10.36	4.97	4.91	
	Mar	7.48	12.88	9.30	
	Apr	7.45	13.12	8.14	
	May	-0.85	9.62	3.92	

*See table of contents for changes to the series.

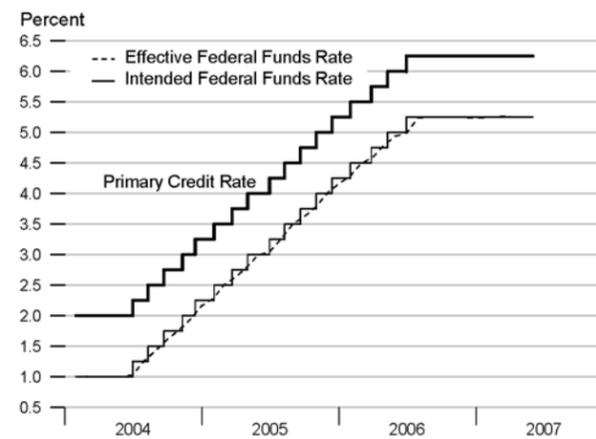
M2 and MZM



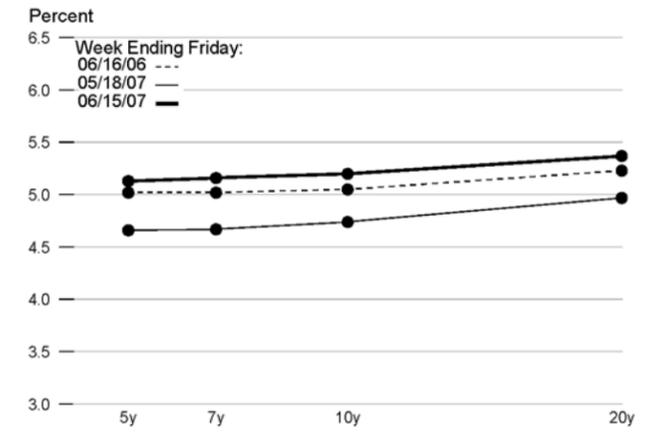
Adjusted Monetary Base



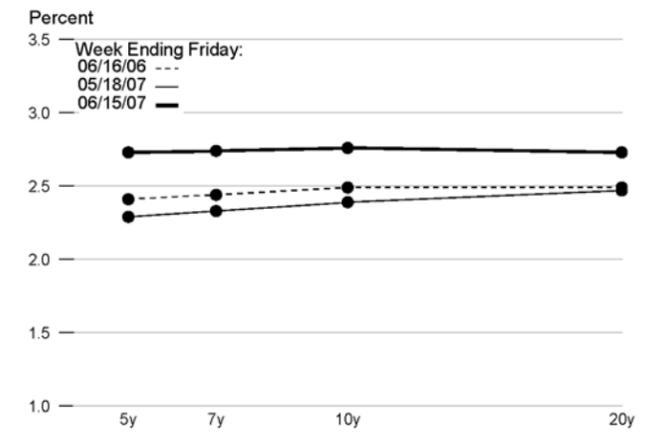
Reserve Market Rates



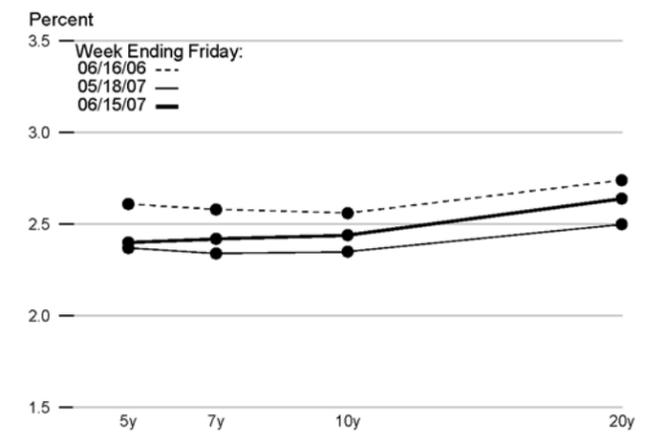
Treasury Yield Curve



Real Treasury Yield Curve

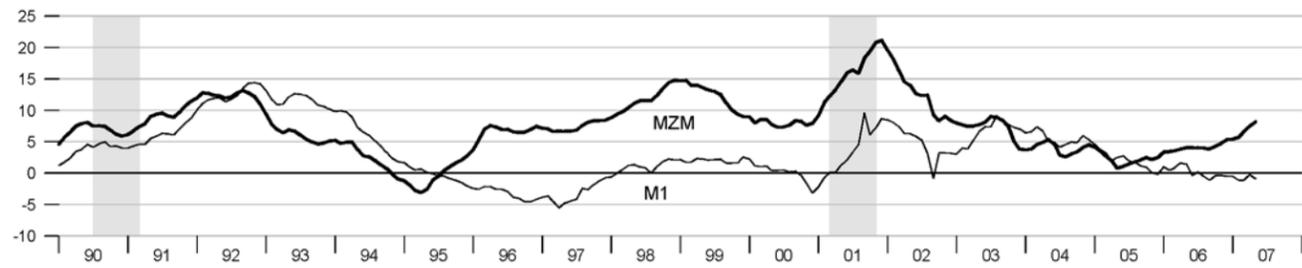


Inflation-Indexed Treasury Yield Spreads



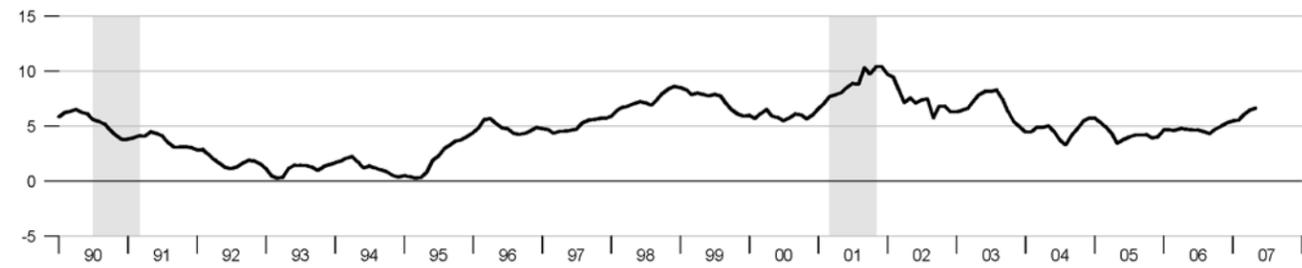
MZM and M1

Percent change from year ago



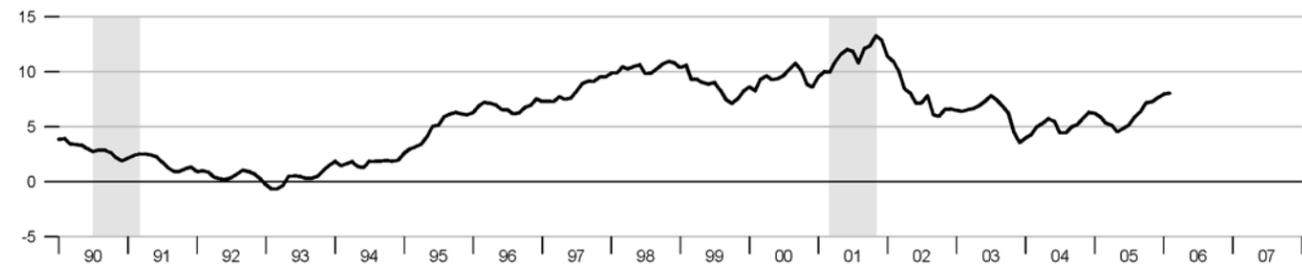
M2

Percent change from year ago



M3*

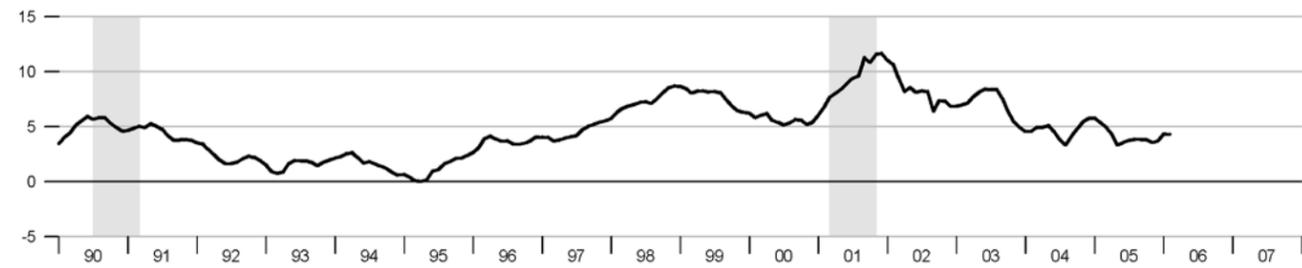
Percent change from year ago



*See table of contents for changes to the series.

Monetary Services Index - M2**

Percent change from year ago



**We will not update the MSI series until we revise the code to accommodate the discontinuation of M3.

		Federal Funds	Primary Credit Rate	Prime Rate	3-mo CDs	Treasury Yields			Corporate Aaa Bonds	Municipal Aaa Bonds	Conventional Mortgage
						3-mo	3-yr	10-yr			
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
2005		3.21	4.19	6.19	3.51	3.21	3.93	4.29	5.23	4.28	5.86
2006		4.96	5.96	7.96	5.15	4.85	4.77	4.79	5.59	4.15	6.41
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
	3	3.46	4.43	6.43	3.74	3.43	3.98	4.21	5.09	4.28	5.76
	4	3.98	4.97	6.97	4.30	3.91	4.37	4.49	5.38	4.45	6.22
2006	1	4.46	5.43	7.43	4.72	4.50	4.58	4.57	5.39	4.29	6.24
	2	4.91	5.90	7.90	5.18	4.83	4.98	5.07	5.89	4.36	6.60
	3	5.25	6.25	8.25	5.39	5.03	4.87	4.90	5.68	4.13	6.56
	4	5.25	6.25	8.25	5.32	5.03	4.65	4.63	5.39	3.82	6.24
2007	1	5.26	6.25	8.25	5.31	5.12	4.68	4.68	5.36	3.91	6.22
2005	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
	Sep	3.62	4.59	6.59	3.87	3.49	3.96	4.20	5.13	4.34	5.77
	Oct	3.78	4.75	6.75	4.13	3.79	4.29	4.46	5.35	4.49	6.07
	Nov	4.00	5.00	7.00	4.31	3.97	4.43	4.54	5.42	4.42	6.33
	Dec	4.16	5.15	7.15	4.45	3.97	4.39	4.47	5.37	4.46	6.27
2006	Jan	4.29	5.26	7.26	4.56	4.34	4.35	4.42	5.29	4.27	6.15
	Feb	4.49	5.50	7.50	4.72	4.54	4.64	4.57	5.35	4.33	6.25
	Mar	4.59	5.53	7.53	4.88	4.63	4.74	4.72	5.53	4.29	6.32
	Apr	4.79	5.75	7.75	5.03	4.72	4.89	4.99	5.84	4.36	6.51
	May	4.94	5.93	7.93	5.15	4.84	4.97	5.11	5.95	4.38	6.60
	Jun	4.99	6.02	8.02	5.35	4.92	5.09	5.11	5.89	4.35	6.68
	Jul	5.24	6.25	8.25	5.46	5.08	5.07	5.09	5.85	4.41	6.76
	Aug	5.25	6.25	8.25	5.38	5.09	4.85	4.88	5.68	4.10	6.52
	Sep	5.25	6.25	8.25	5.34	4.93	4.69	4.72	5.51	3.87	6.40
	Oct	5.25	6.25	8.25	5.33	5.05	4.72	4.73	5.51	3.91	6.36
	Nov	5.25	6.25	8.25	5.32	5.07	4.64	4.60	5.33	3.81	6.24
	Dec	5.24	6.25	8.25	5.32	4.97	4.58	4.56	5.32	3.76	6.14
2007	Jan	5.25	6.25	8.25	5.32	5.11	4.79	4.76	5.40	3.89	6.22
	Feb	5.26	6.25	8.25	5.31	5.16	4.75	4.72	5.39	3.95	6.29
	Mar	5.26	6.25	8.25	5.30	5.08	4.51	4.56	5.30	3.88	6.16
	Apr	5.25	6.25	8.25	5.31	5.01	4.60	4.69	5.47	3.99	6.18
	May	5.25	6.25	8.25	5.31	4.87	4.69	4.75	5.47	4.01	6.26

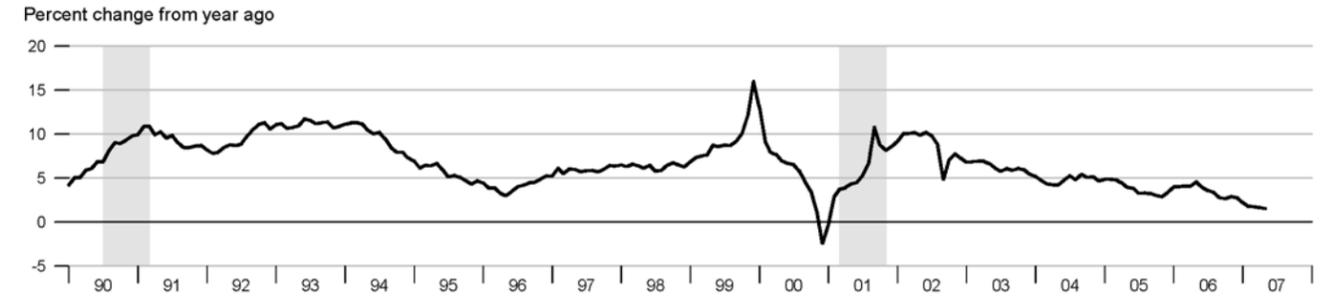
Note: All values are given as a percent at an annual rate.

		Money Stock				Bank Credit	Adjusted		MSI M2**
		M1	MZM	M2	M3*		Monetary Base	Reserves	
2002		1196.222	5888.562	5599.639	8259.055	5594.705	697.092	88.159	294.080
2003		1273.495	6325.506	5988.030	8787.321	6117.865	740.929	93.312	315.192
2004		1344.426	6576.553	6264.922	9234.718	6598.809	776.710	96.069	329.873
2005		1371.729	6723.448	6537.063	9786.477	7242.908	806.315	96.245	343.539
2006		1374.467	6996.536	6846.133	10270.74	7958.568	835.025	94.886	
<hr/>									
2005	1	1368.468	6660.610	6439.542	9528.052	6992.384	798.248	96.657	339.356
	2	1368.622	6672.231	6488.980	9670.405	7159.736	802.653	96.085	341.280
	3	1375.340	6741.248	6569.822	9859.294	7356.820	808.407	96.305	344.766
	4	1374.486	6819.702	6649.906	10088.16	7462.690	815.954	95.931	348.753
2006	1	1379.146	6891.339	6739.564		7643.533	830.498	96.443	
	2	1380.960	6938.626	6795.913		7892.498	836.374	95.057	
	3	1368.909	7008.902	6865.374		8030.573	834.590	94.793	
	4	1368.854	7147.276	6983.683		8267.668	838.639	93.251	
2007	1	1366.710	7298.810	7123.869		8411.927	846.341	94.281	
<hr/>									
2005	May	1367.312	6664.029	6484.782	9665.013	7159.497	800.604	94.597	340.941
	Jun	1380.695	6687.281	6512.575	9725.292	7212.380	805.036	96.232	342.235
	Jul	1368.434	6708.719	6535.816	9762.435	7285.589	805.982	95.547	343.275
	Aug	1378.315	6739.076	6570.185	9864.629	7367.477	807.394	95.652	344.739
	Sep	1379.271	6775.950	6603.466	9950.818	7417.395	811.844	97.715	346.285
	Oct	1374.673	6804.385	6628.575	10031.96	7432.237	816.118	97.365	347.590
	Nov	1375.759	6815.472	6648.219	10078.49	7448.055	816.800	96.884	348.603
	Dec	1373.025	6839.248	6672.925	10154.03	7507.778	814.944	93.545	350.067
<hr/>									
2006	Jan	1378.694	6881.317	6717.223	10242.79	7563.080	825.252	96.865	353.032
	Feb	1375.021	6890.449	6741.058	10298.68	7647.801	832.441	96.893	353.943
	Mar	1383.722	6902.252	6760.410		7719.719	833.801	95.571	
	Apr	1380.041	6922.253	6780.219		7812.035	835.231	95.486	
	May	1387.256	6934.041	6790.998		7928.621	837.093	94.394	
	Jun	1375.582	6959.585	6816.522		7936.839	836.797	95.290	
	Jul	1371.171	6979.730	6840.415		7984.367	834.951	94.852	
	Aug	1371.578	7009.465	6866.757		8044.140	834.581	94.643	
	Sep	1363.977	7037.511	6888.950		8063.212	834.238	94.885	
	Oct	1369.413	7096.212	6941.664		8213.367	837.861	93.919	
	Nov	1370.944	7140.599	6982.095		8264.622	840.381	94.754	
	Dec	1366.205	7205.016	7027.290		8325.016	837.674	91.079	
<hr/>									
2007	Jan	1371.776	7252.743	7086.140		8362.852	843.498	94.247	
	Feb	1359.937	7282.765	7115.152		8442.175	847.315	94.610	
	Mar	1368.417	7360.921	7170.315		8430.754	848.210	93.985	
	Apr	1376.909	7441.426	7218.956		8491.452	848.958	93.800	
	May	1375.930	7501.056	7242.539		8542.445	849.718	92.999	

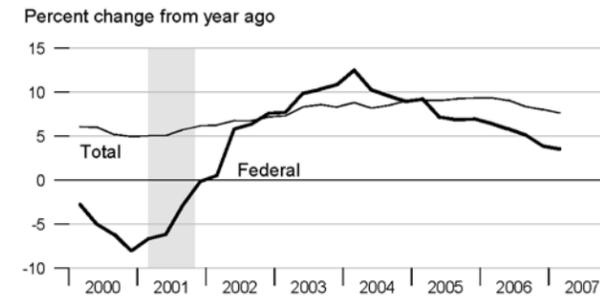
Note: All values are given in billions of dollars. *See table of contents for changes to the series.

**We will not update the MSI series until we revise the code to accommodate the discontinuation of M3.

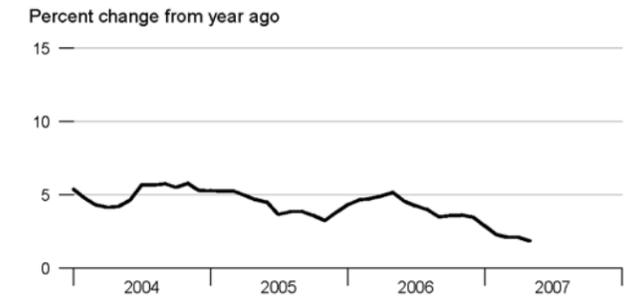
Adjusted Monetary Base



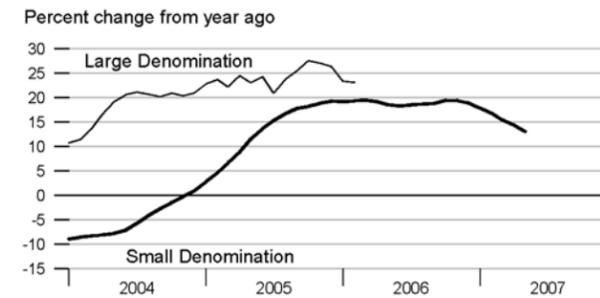
Domestic Nonfinancial Debt



Currency Held by the Nonbank Public

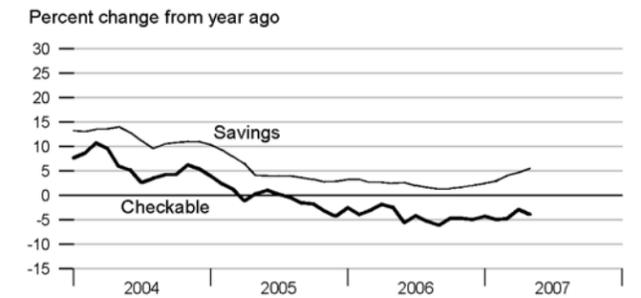


Time Deposits*

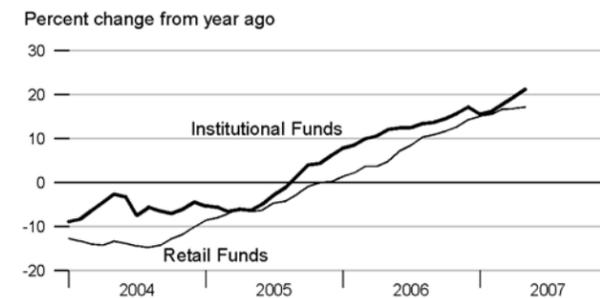


*See table of contents for changes to the series.

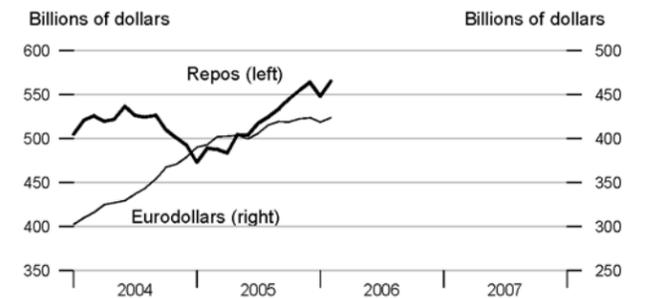
Checkable and Savings Deposits



Money Market Mutual Fund Shares



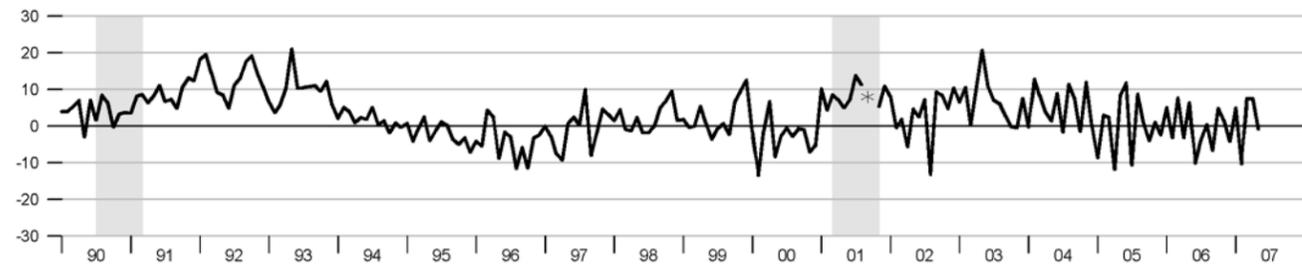
Repurchase Agreements and Eurodollars*



*See table of contents for changes to these series.

M1

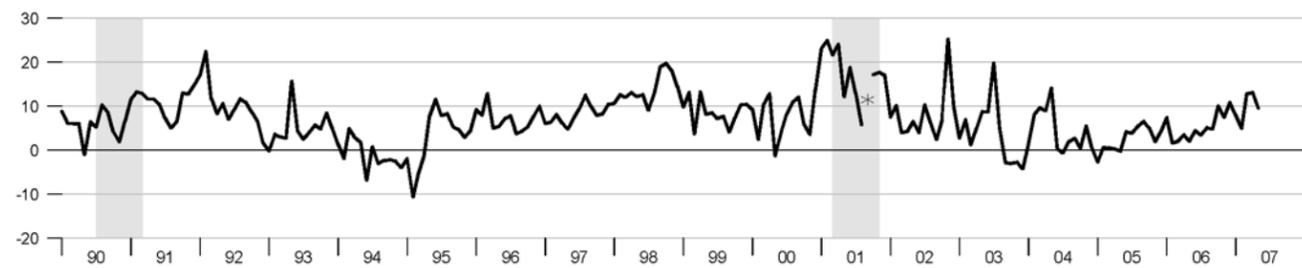
Percent change at an annual rate



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

MZM

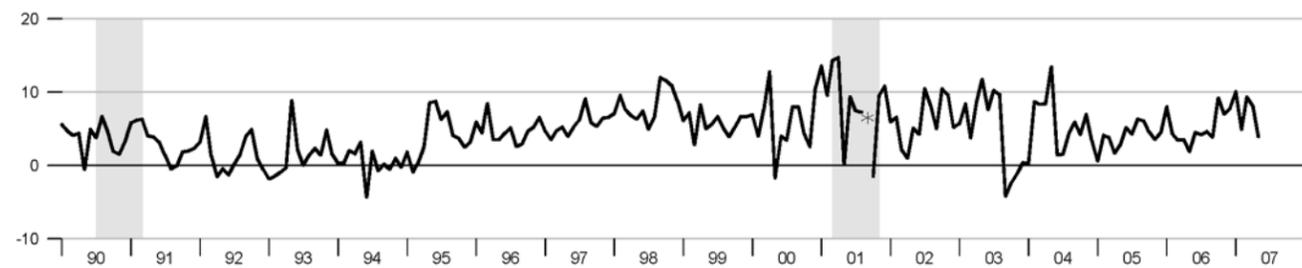
Percent change at an annual rate



*Actual value for September 2001 is 39.41 percent rate.

M2

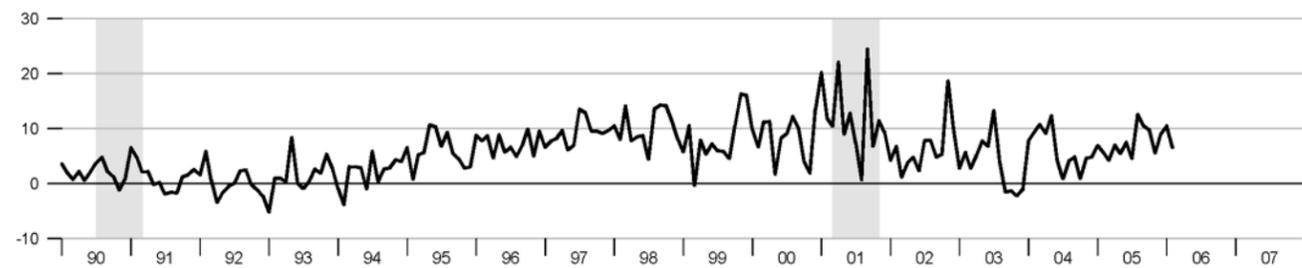
Percent change at an annual rate



*Actual value for September 2001 is 24.90 percent rate.

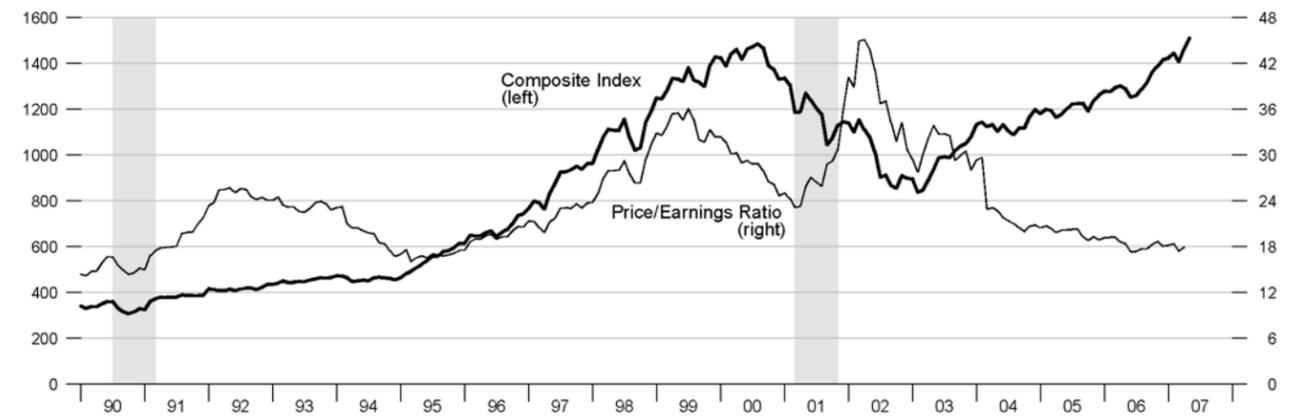
M3*

Percent change at an annual rate



*See table of contents for changes to the series.

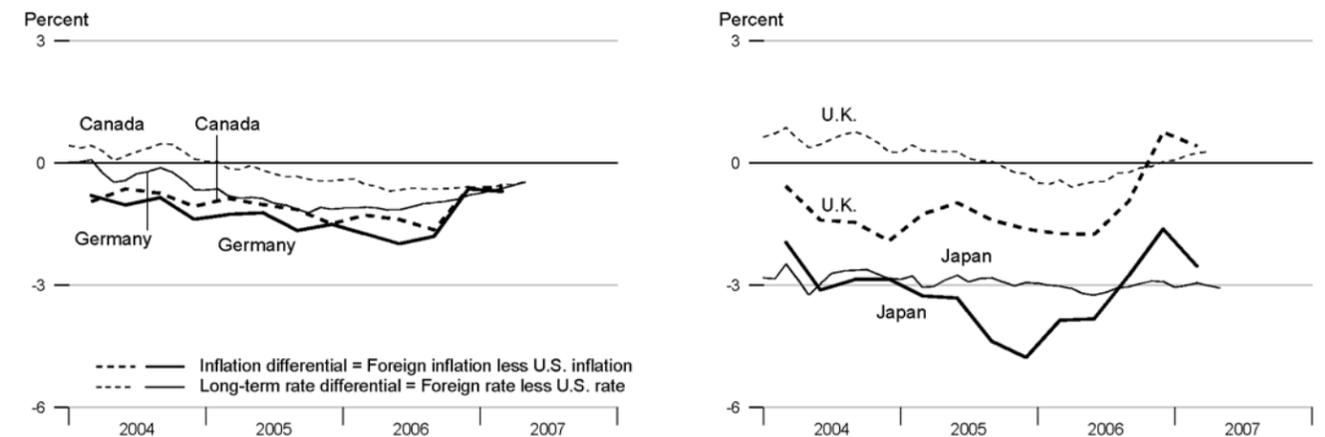
Standard & Poor's 500



Recent Inflation and Long-Term Interest Rates

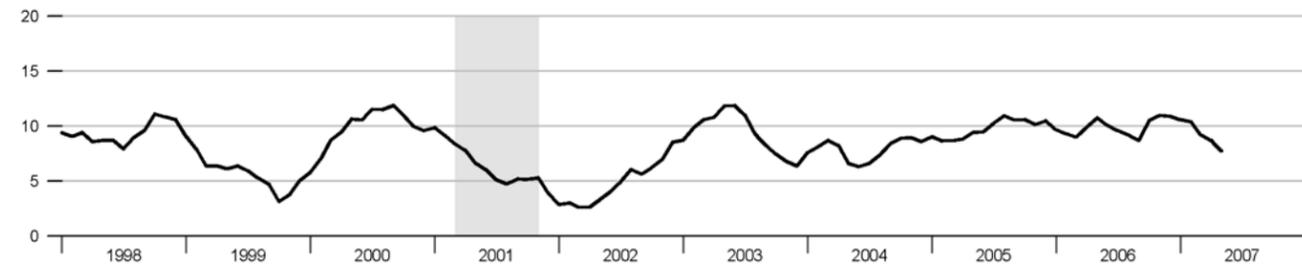
	Consumer Price Inflation Rates				Long-Term Government Bond Rates			
	Percent change from year ago				Percent			
	2006Q2	2006Q3	2006Q4	2007Q1	Feb07	Mar07	Apr07	May07
United States	3.99	3.36	1.95	2.43	4.72	4.56	4.69	4.75
Canada	2.60	1.72	1.32	1.83	4.09	4.04	4.16	4.29
France	1.92	1.68	1.34	1.16	4.10	4.00	4.21	.
Germany	2.01	1.56	1.31	1.74	4.05	3.94	4.15	4.28
Italy	2.23	2.17	1.82	1.73	4.28	4.18	4.37	4.49
Japan	0.17	0.60	0.33	-0.10	1.72	1.62	1.68	1.68
United Kingdom	2.24	2.43	2.71	2.84	4.90	4.81	4.97	.

Inflation and Long-Term Interest Rate Differentials



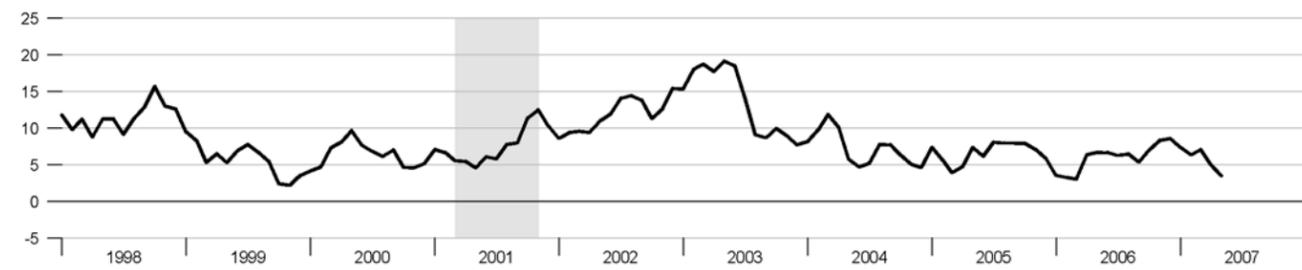
Bank Credit

Percent change from year ago



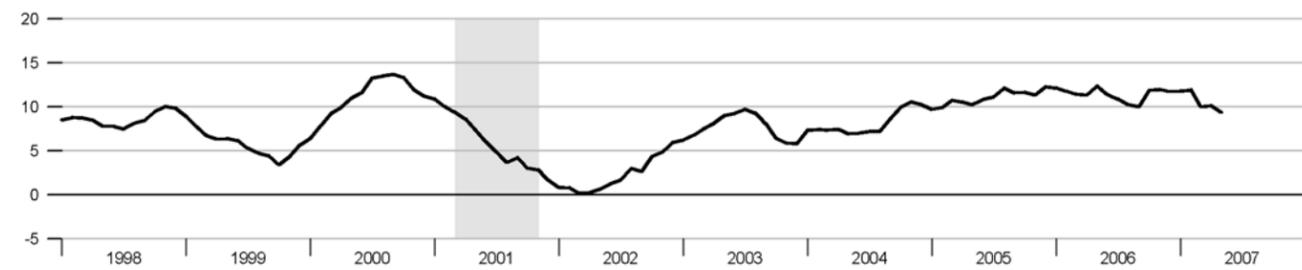
Investment Securities in Bank Credit at Commercial Banks

Percent change from year ago



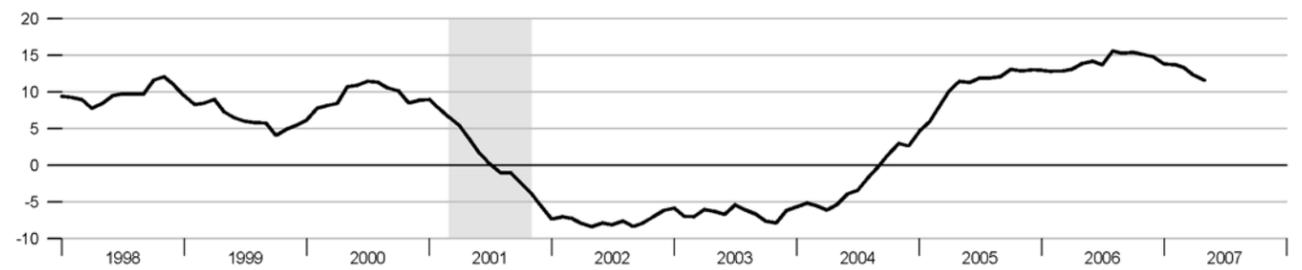
Total Loans and Leases in Bank Credit at Commercial Banks

Percent change from year ago



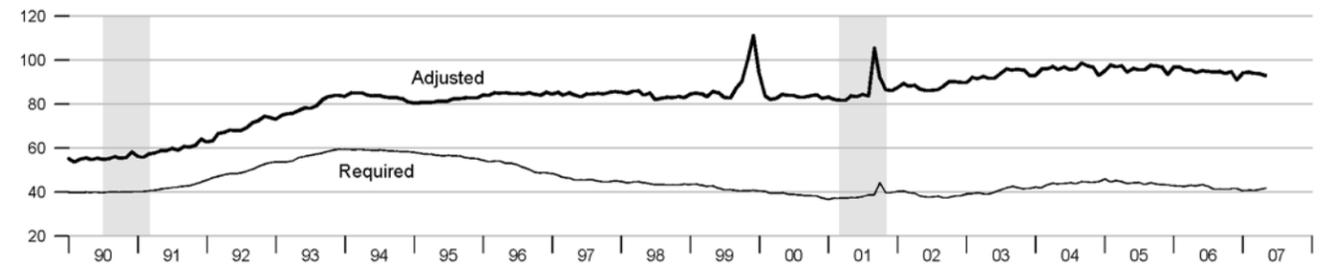
Commercial and Industrial Loans at Commercial Banks

Percent change from year ago



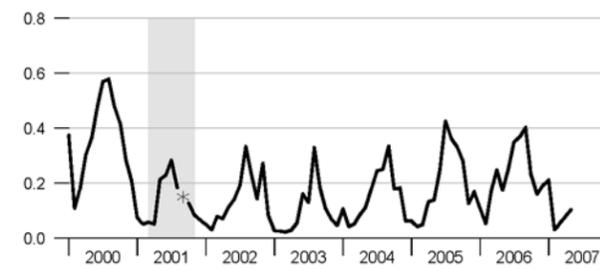
Adjusted and Required Reserves

Billions of dollars



Total Borrowings, nsa

Billions of dollars



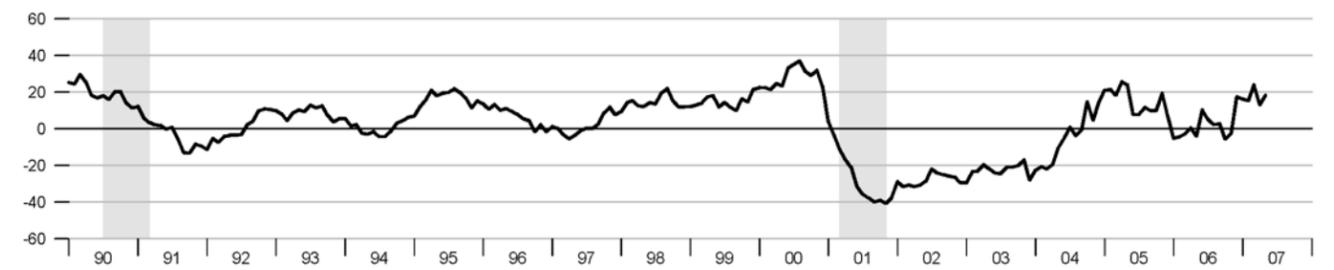
Excess Reserves plus RCB Contracts

Billions of dollars



Nonfinancial Commercial Paper

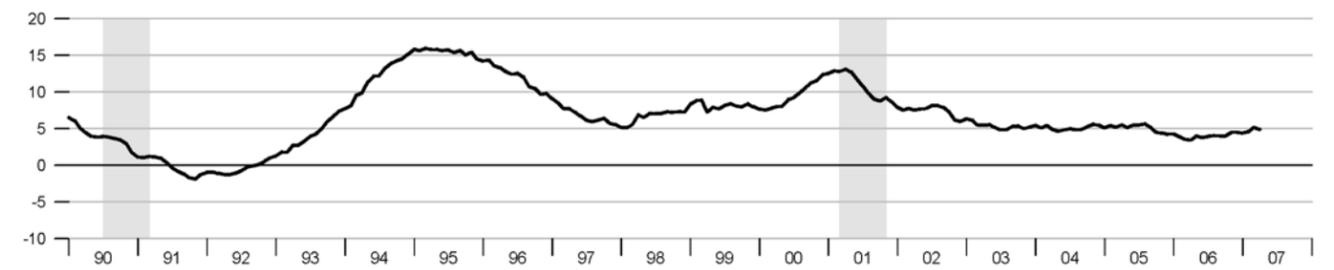
Percent change from year ago



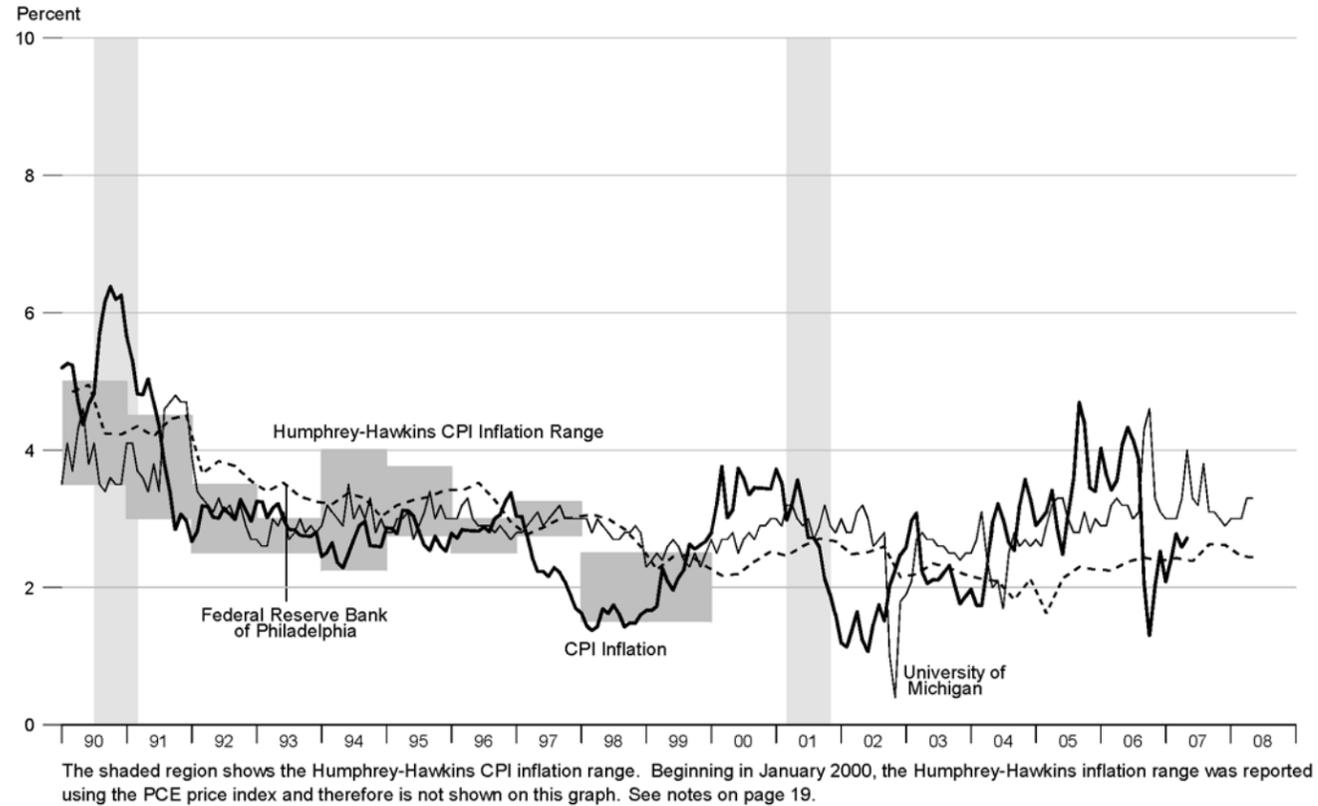
As of April 10, 2006, the Federal Reserve Board made major changes to its commercial paper calculations. For more information, please refer to <http://www.federalreserve.gov/releases/cp/about.htm>.

Consumer Credit

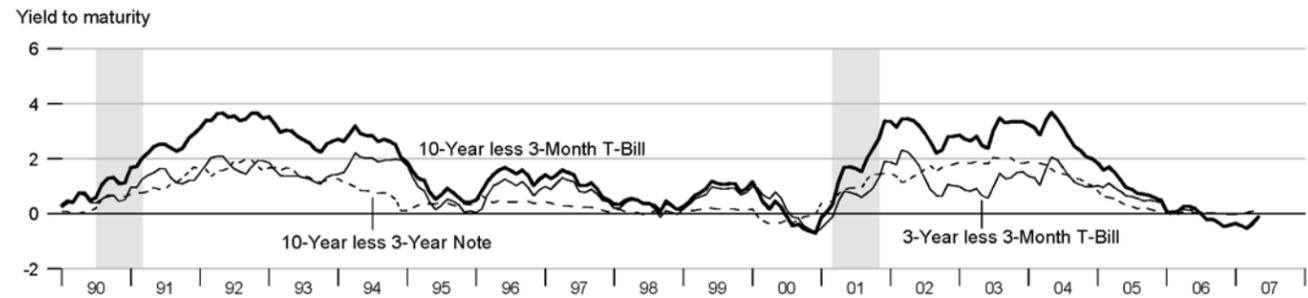
Percent change from year ago



Inflation and 1-Year-Ahead Inflation Expectations



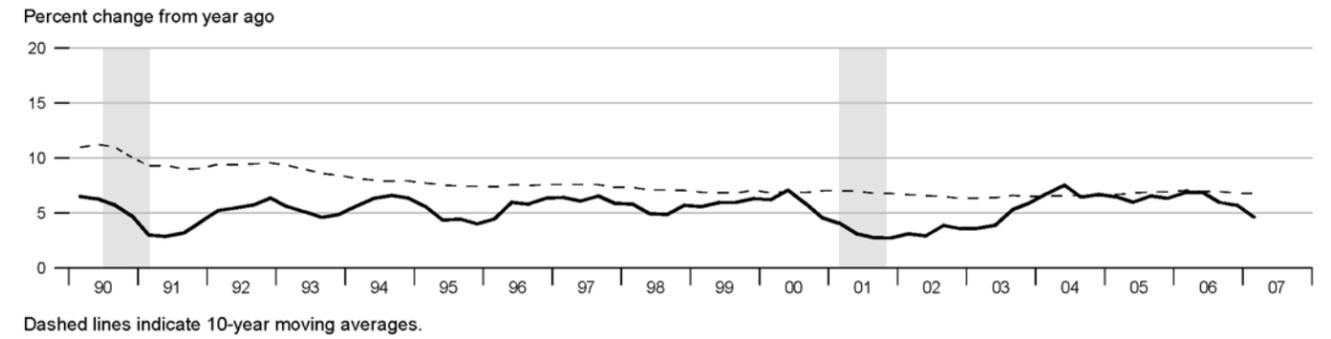
Treasury Security Yield Spreads



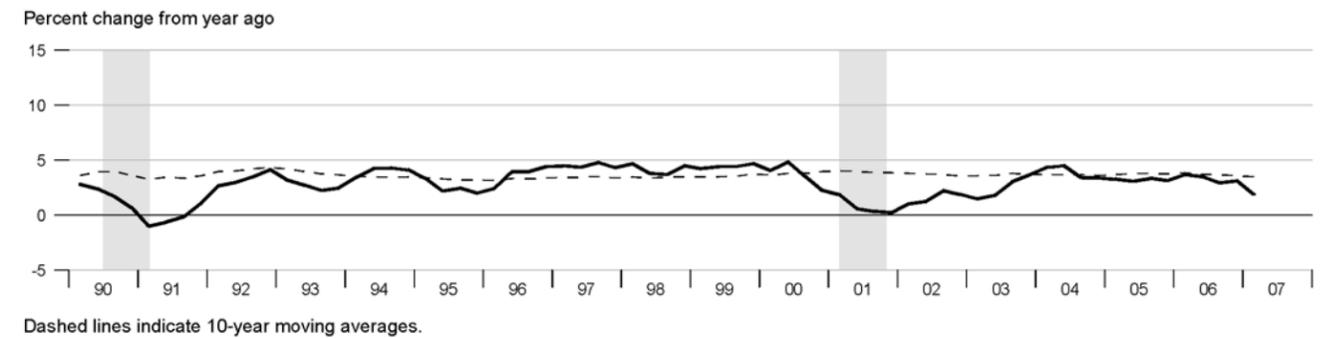
Real Interest Rates



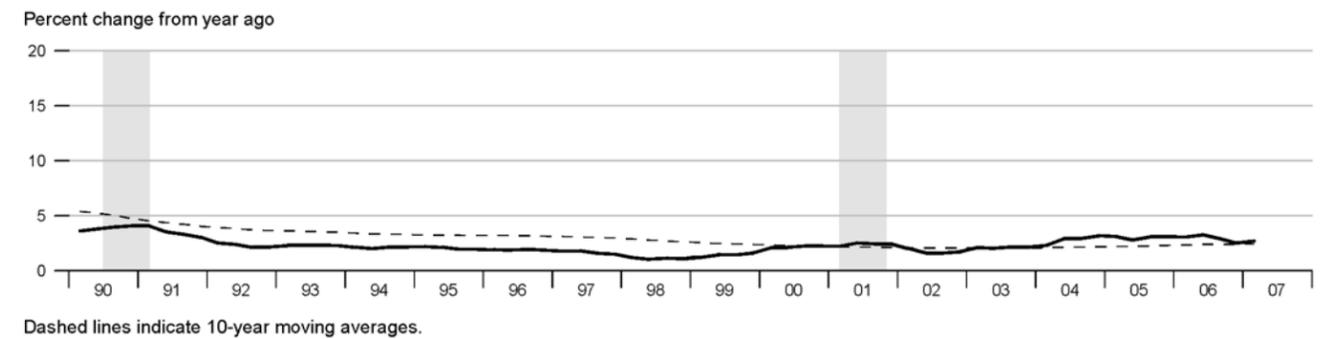
Gross Domestic Product



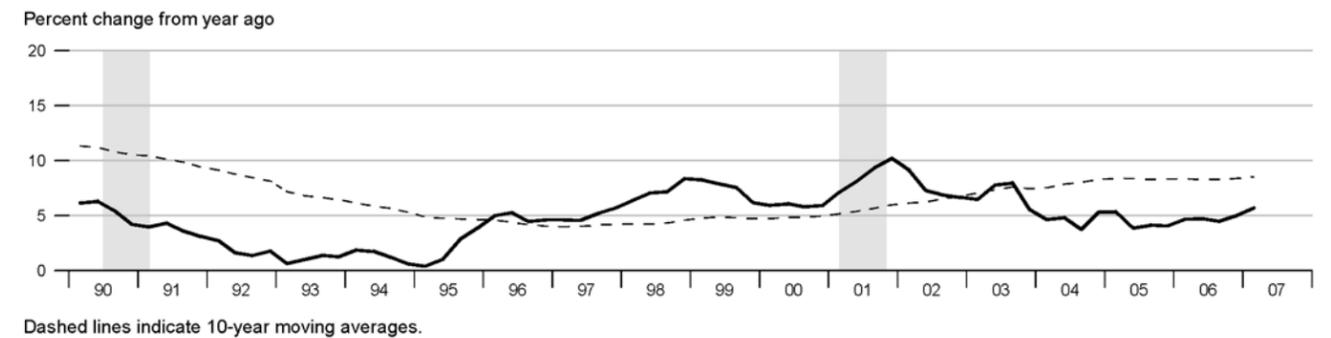
Real Gross Domestic Product



Gross Domestic Product Price Index

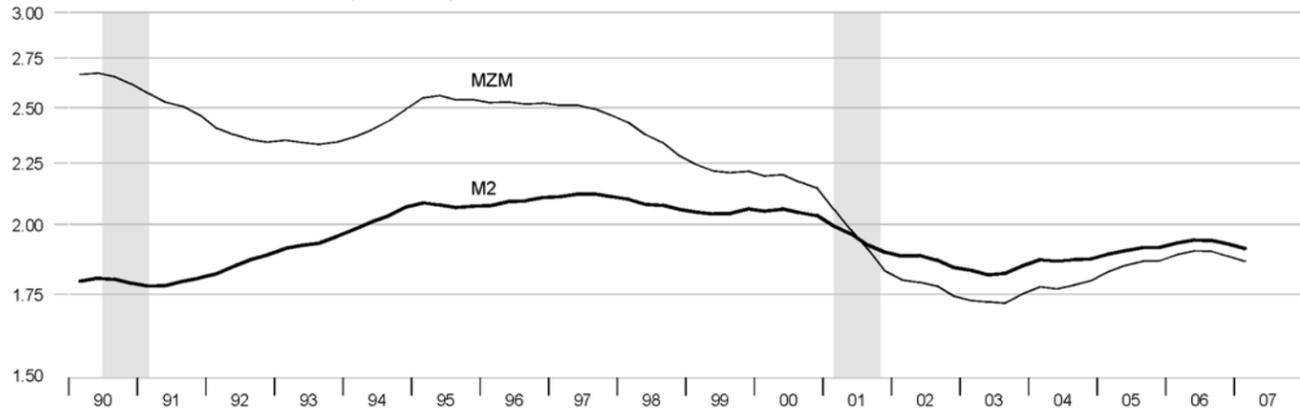


M2



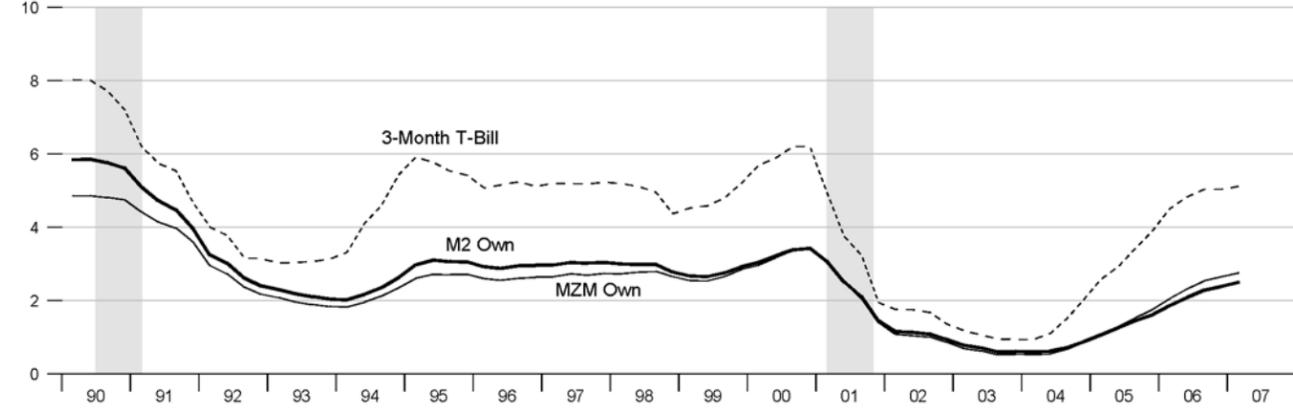
Velocity

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



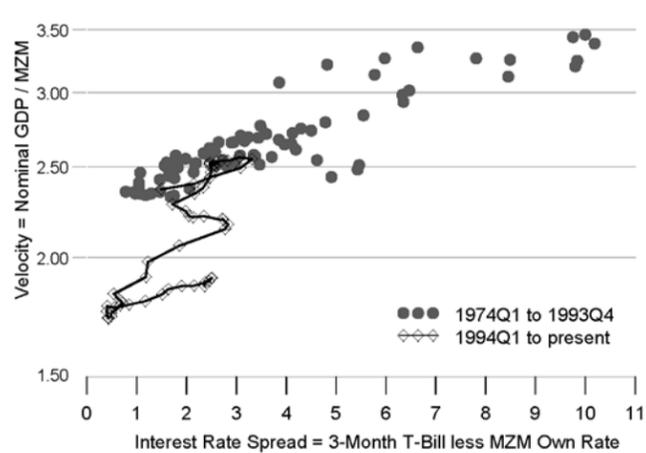
Interest Rates

Percent



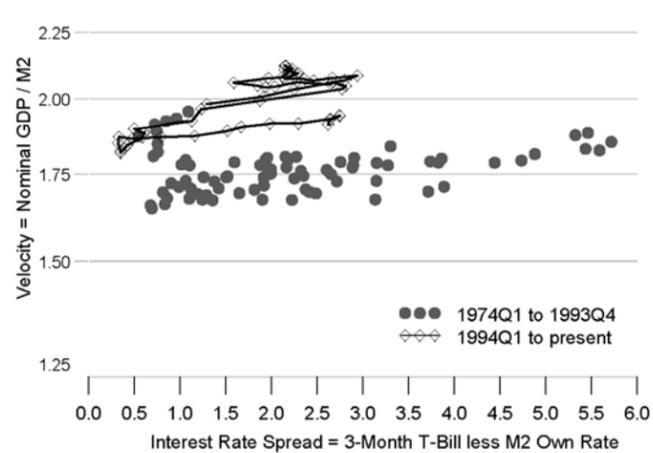
MZM Velocity and Interest Rate Spread

Ratio Scale



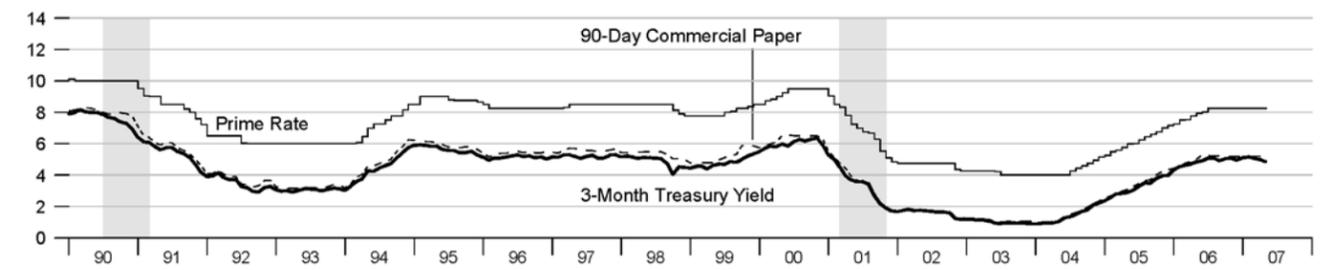
M2 Velocity and Interest Rate Spread

Ratio Scale



Short-Term Interest Rates

Percent



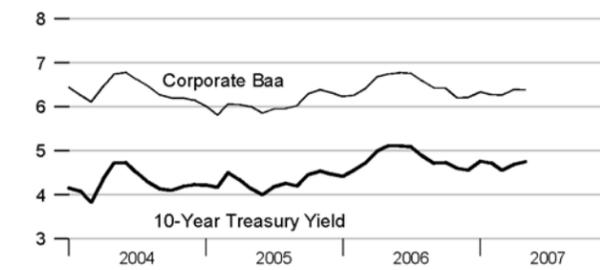
Long-Term Interest Rates

Percent



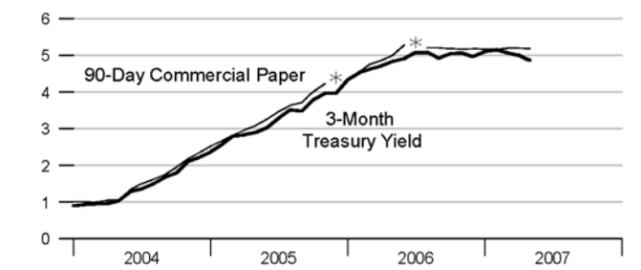
Long-Term Interest Rates

Percent



Short-Term Interest Rates

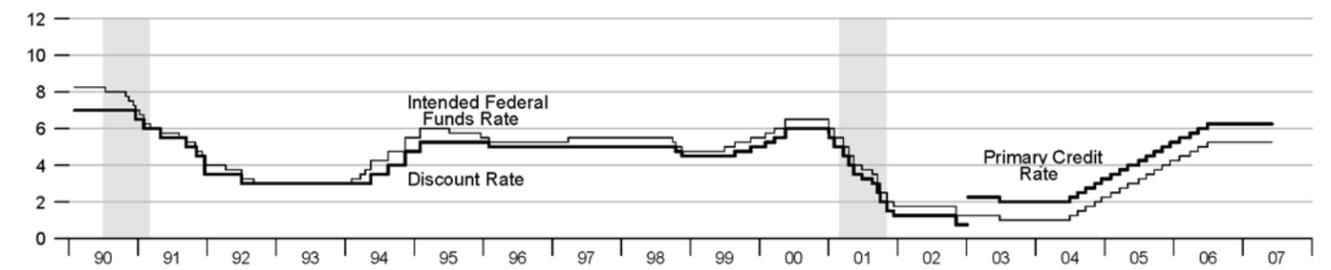
Percent



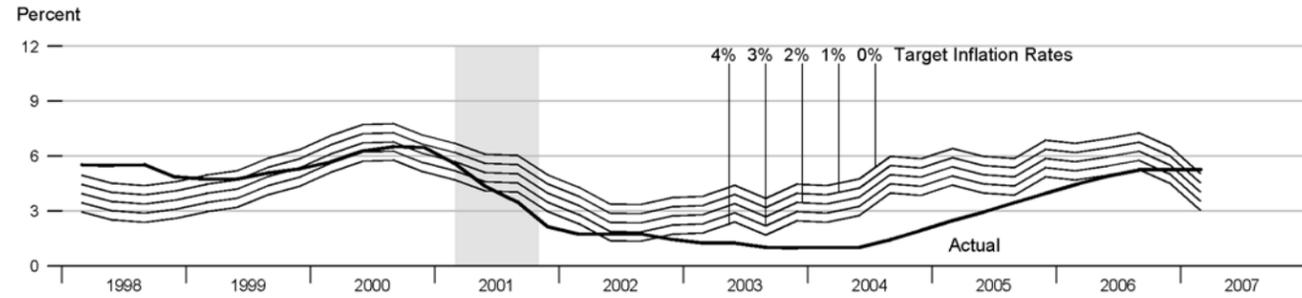
*90-Day Commercial Paper data are not available for December 2005, January 2006, and July 2006.

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

Percent



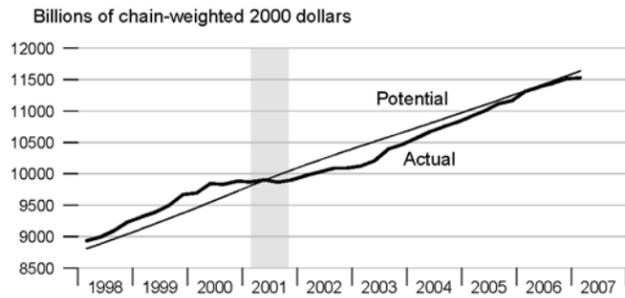
Federal Funds Rate and Inflation Targets



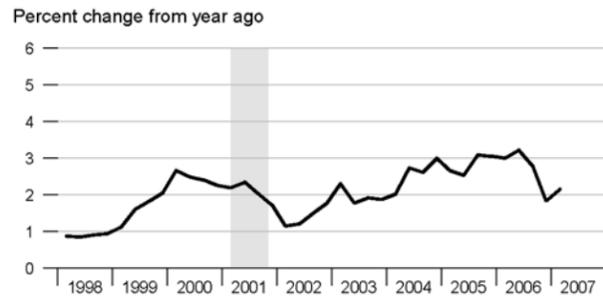
Calculated federal funds rate is based on Taylor's rule. See notes on page 19.

Components of Taylor's Rule

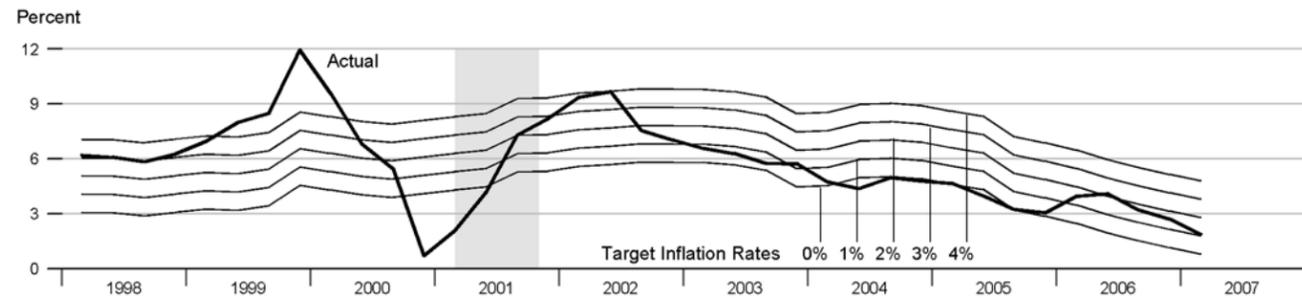
Actual and Potential Real GDP



PCE Inflation



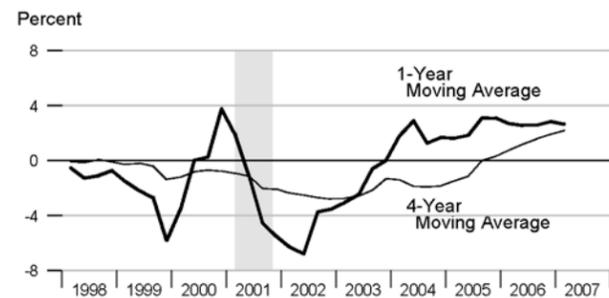
Monetary Base Growth* and Inflation Targets



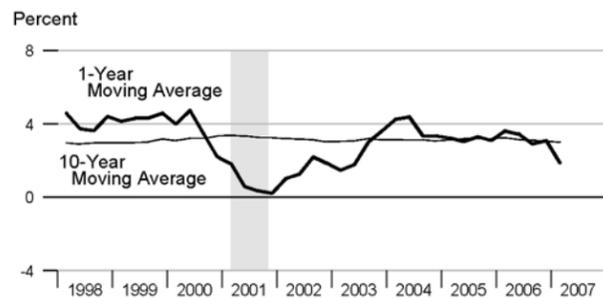
*Modified for the effects of sweeps programs on reserve demand. Calculated base growth is based on McCallum's rule. Actual base growth is percent change from year ago. See notes on page 19.

Components of McCallum's Rule

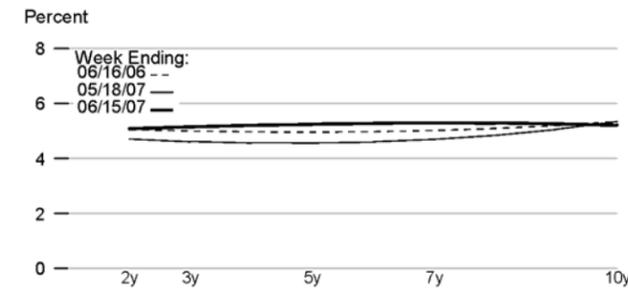
Monetary Base Velocity Growth



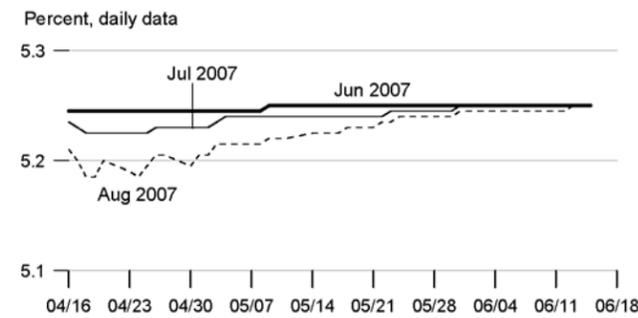
Real Output Growth



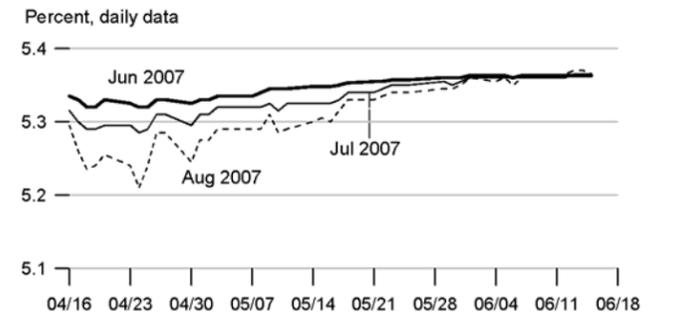
Implied One-Year Forward Rates



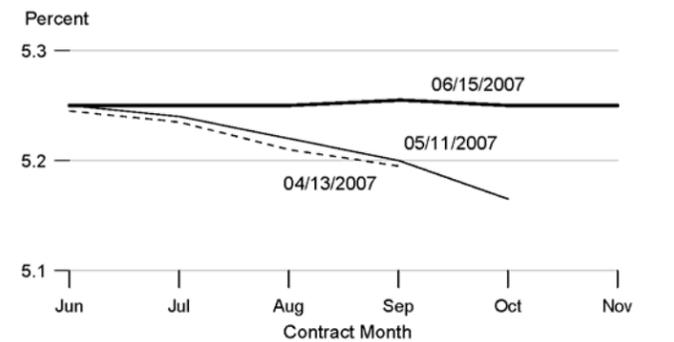
Rates on Selected Federal Funds Futures Contracts



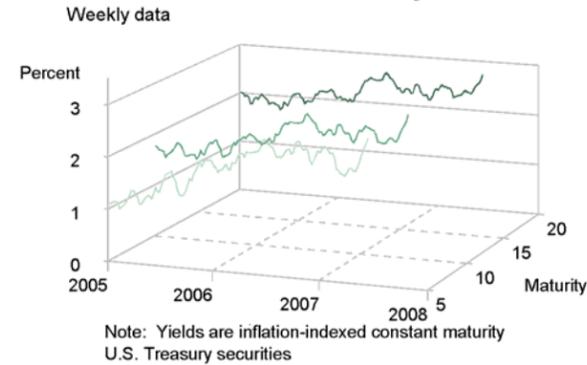
Rates on 3-Month Eurodollar Futures



Rates on Federal Funds Futures on Selected Dates

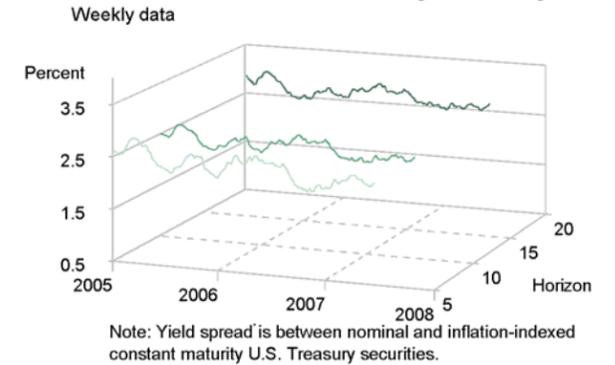


Inflation-Indexed Treasury Securities



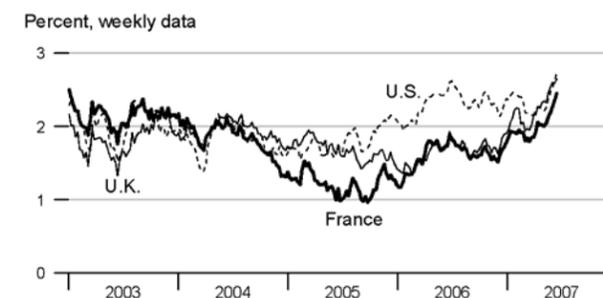
Note: Yields are inflation-indexed constant maturity U.S. Treasury securities

Inflation-Indexed Treasury Yield Spreads



Note: Yield spread is between nominal and inflation-indexed constant maturity U.S. Treasury securities.

Inflation-Indexed 10-Year Government Notes



Inflation-Indexed 10-Year Government Yield Spreads

