2000 Monetary Policy Objectives

A Summary Report of the Federal Reserve Board

July 20, 2000

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This Executive Summary provides highlights of the Board's Monetary Policy Report to the Congress

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Testimony of Alan Greenspan
Chairman, Federal Reserve Board

Mr. Chairman and other members of the Committee, I appreciate this opportunity to present the Federal Reserve's report on monetary policy.

The Federal Reserve has been confronting a complex set of challenges in judging the stance of policy that will best contribute to sustaining the strong and long-running expansion of our economy. The challenges will be no less in coming months as we judge whether ongoing adjustments in supply and demand will be sufficient to prevent distortions that would undermine the economy's extraordinary performance.

For some time now, the growth of aggregate demand has exceeded the expansion of production potential. Technological innovations have boosted the growth rate of potential, but as I noted in my testimony last February, the effects of this process also have spurred aggregate demand. It has been clear to us that, with labor markets already quite tight, a continuing disparity between the growth of demand and potential supply would produce disruptive imbalances.

A key element in this disparity has been the very rapid growth of consumption resulting from the effects on spending of the remarkable rise in household wealth. However, the growth in household spending has slowed noticeably this spring from the unusually rapid pace observed late in 1999 and early this year. Some argue that this slowing is a pause following the surge in demand through the warmer-than-normal winter months and hence a reacceleration can be expected later this year. Certainly, we have seen slowdowns in spending during this near-decade-long expansion that have proven temporary, with aggregate demand growth subsequently rebounding to an unsustainable pace.

But other analysts point to a number of factors that may be exerting more persistent restraint on spending. One they cite is the flattening in equity prices, on net, this year. They attribute much of the slowing of consumer spending to this diminution of the wealth effect through the spring and early summer. This view looks to equity markets as a key influence on the trend in consumer spending over the rest of this year and next.

Another factor said by some to account for the spending slowdown is the rising debt burden of households. Interest and amortization as a percent of disposable income have risen materially during the past six years, as consumer and especially mortgage debt has climbed and, more recently, as interest rates have moved higher.

In addition, the past year's rise in the price of oil has amounted to an annual $75 billion levy by foreign producers on domestic consumers of imported oil, the equivalent of a tax of roughly 1 percent of disposable income. This

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burden is another likely source of the slowed growth in real consumption outlays in recent months, though one that may prove to be largely transitory.

Mentioned less prominently have been the effects of the faster increase in the stock of consumer durable assets—both household durable goods and houses—in the last several years, a rate of increase that history tells us is usually followed by a pause. Stocks of household durable goods, including motor vehicles, are estimated to have increased at nearly a 6 percent annual rate over the past three years, a marked acceleration from the growth rate of the previous ten years. The number of cars and light trucks owned or leased by households, for example, apparently has continued to rise in recent years despite having reached nearly $1\frac{3}{4}$ vehicles per household by the mid-1990s. Notwithstanding their recent slowing, sales of new homes continue at extraordinarily high levels relative to new household formations. While we will not know for sure until the 2000 census is tabulated, the surge in new home sales is strong evidence that the growth of owner-occupied homes has accelerated during the past five years.

Those who focus on the high and rising stocks of durable assets point out that even without the rise in interest rates, an eventual leveling out or some tapering off of purchases of durable goods and construction of single-family housing would be expected. Reflecting both higher interest rates and higher stocks of housing, starts of new housing units have fallen off of late. If that slowing were to persist, some reduction in the rapid pace of accumulation of household appliances across our more than a hundred million households would not come as a surprise, nor would a slowdown in vehicle demand so often historically associated with declines in housing demand.

Inventories of durable assets in households are just as formidable a factor in new production as inventories at manufacturing and trade establishments. The notion that consumer spending and housing construction may be slowing because the stock of consumer durables and houses may be running into upside resistance is a credible addition to the possible explanations of current consumer trends. This effect on spending would be reinforced by the waning effects of gains in wealth.

Because the softness in outlay growth is so recent, all of the aforementioned hypotheses, of course, must be provisional. It is certainly premature to make a definitive assessment of either the recent trends in household spending or what they mean. But it is clear that, for the time being at least, the increase in spending on consumer goods and houses has come down several notches, albeit from very high levels.

In one sense, the more important question for the longer-term economic outlook is the extent of any productivity slowdown that might accompany a more subdued pace of production and consumer spending, should it persist. The behavior of productivity under such circumstances will be a revealing

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test of just how much of the rapid growth of productivity in recent years has represented structural change as distinct from cyclical aberrations and, hence, how truly different the developments of the past five years have been. At issue is how much of the current downshift in our overall economic growth rate can be accounted for by reduced growth in output per hour and how much by slowed increases in hours.

So far there is little evidence to undermine the notion that most of the productivity increase of recent years has been structural and that structural productivity may still be accelerating. New orders for capital equipment continue quite strong—so strong that the rise in unfilled orders has actually steepened in recent months. Capital-deepening investment in a broad range of equipment embodying the newer productivity-enhancing technologies remains brisk.

To be sure, if current personal consumption outlays slow significantly further than the pattern now in train suggests, profit and sales expectations might be scaled back, possibly inducing some hesitancy in moving forward even with capital projects that appear quite profitable over the longer run. In addition, the direct negative effects of the sharp recent run-up in energy prices on profits as well as on sales expectations may temporarily damp capital spending. Despite the marked decline over the past decades in the energy requirements per dollar of GDP, energy inputs are still a significant element in the cost structure of many American businesses.

For the moment, the drop-off in overall economic growth to date appears about matched by reduced growth in hours, suggesting continued strength in growth in output per hour. The increase of production worker hours from March through June, for example, was at an annual rate of ½ percent compared with 3¼ percent the previous three months. Of course, we do not have comprehensive measures of output on a monthly basis, but available data suggest a roughly comparable deceleration.

A lower overall rate of economic growth that did not carry with it a significant deterioration in productivity growth obviously would be a desirable outcome. It could conceivably slow or even bring to a halt the deterioration in the balance of overall demand and potential supply in our economy.

As I testified before this committee in February, domestic demand growth, influenced importantly by the wealth effect on consumer spending, has been running 1½ to 2 percentage points at an annual rate in excess of even the higher, productivity-driven, growth in potential supply since late 1997. That gap has been filled both by a marked rise in imports as a percent of GDP and by a marked increase in domestic production resulting both from significant immigration and from the employment of previously unutilized labor resources.

I also pointed out in February that there are limits to how far net

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imports—or the broader measure, our current account deficit—can rise, or our pool of unemployed labor resources can fall. As a consequence, the excess of the growth of domestic demand over potential supply must be closed before the resulting strains and imbalances undermine the economic expansion that now has reached 112 months, a record for peace or war.

The current account deficit is a proxy for the increase in net claims against U.S. residents held by foreigners, mainly as debt, but increasingly as equities. So long as foreigners continue to seek to hold ever-increasing quantities of dollar investments in their portfolios, as they obviously have been, the exchange rate for the dollar will remain firm. Indeed, the same sharp rise in potential rates of return on new American investments that has been driving capital accumulation and accelerating productivity in the United States has also been inducing foreigners to expand their portfolios of American securities and direct investment. The latest data published by the Department of Commerce indicate that the annual pace of direct plus portfolio investment by foreigners in the U.S. economy during the first quarter was more than two and one-half times its rate in 1995.

There has to be a limit as to how much of the world's savings our residents can borrow at close to prevailing interest and exchange rates. And a narrowing of disparities among global growth rates could induce a narrowing of rates of return here relative to those abroad that could adversely affect the propensity of foreigners to invest in the United States. But obviously, so long as our rates of return appear to be unusually high, if not rising, balance of payments trends are less likely to pose a threat to our prosperity. In addition, our burgeoning budget surpluses have clearly contributed to a fending off, if only temporarily, of some of the pressures on our balance of payments. The stresses on the global savings pool resulting from the excess of domestic private investment demands over domestic private saving have been mitigated by the large federal budget surpluses that have developed of late.

In addition, by substantially augmenting national saving, these budget surpluses have kept real interest rates at levels lower than they would have been otherwise. This development has helped foster the investment boom that in recent years has contributed greatly to the strengthening of U.S. productivity and economic growth. The Congress and the Administration have wisely avoided steps that would materially reduce these budget surpluses. Continued fiscal discipline will contribute to maintaining robust expansion of the American economy in the future.

Just as there is a limit to our reliance on foreign saving, so is there a limit to the continuing drain on our unused labor resources. Despite the ever-tightening labor market, as yet, gains in compensation per hour are not significantly outstripping gains in productivity. But as I have argued previously,

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should labor markets continue to tighten, short of a repeal of the law of supply and demand, labor costs eventually would have to accelerate to levels threatening price stability and our continuing economic expansion.

The more modest pace of increase in domestic final spending in recent months suggests that aggregate demand may be moving closer into line with the rate of advance in the economy's potential, given our continued impressive productivity growth. Should these trends toward supply and demand balance persist, the ongoing need for ever-rising imports and for a further draining of our limited labor resources should ease or perhaps even end. Should this favorable outcome prevail, the immediate threat to our prosperity from growing imbalances in our economy would abate.

But as I indicated earlier, it is much too soon to conclude that these concerns are behind us. We cannot yet be sure that the slower expansion of domestic final demand, at a pace more in line with potential supply, will persist. Even if the growth rates of demand and potential supply move into better balance, there is still uncertainty about whether the current level of labor resource utilization can be maintained without generating increased cost and price pressures.

As I have already noted, to date costs have been held in check by productivity gains. But at the same time, inflation has picked up—even the core measures that do not include energy prices directly. Higher rates of core inflation may mostly reflect the indirect effects of energy prices, but the Federal Reserve will need to be alert to the risks that high levels of resource utilization may put upward pressure on inflation.

Moreover, energy prices may pose a challenge to containing inflation. Energy price changes represent a one-time shift in a set of important prices, but by themselves generally cannot drive an ongoing inflation process. The key to whether such a process could get under way is inflation expectations. To date, survey evidence, as well as readings from the Treasury's inflation-indexed securities, suggests that households and investors do *not* view the current energy price surge as affecting longer-term inflation. But any deterioration in such expectations would pose a risk to the economic outlook.

As the financing requirements for our ever-rising capital investment needs mounted in recent years—beyond forthcoming domestic saving—real long-term interest rates rose to address this gap. We at the Federal Reserve, responding to the same economic forces, have moved the overnight federal funds rate up 1¾ percentage points over the past year. To have held to the federal funds rate of June 1999 would have required a massive increase in liquidity that would presumably have underwritten an acceleration of prices and, hence, an eventual curbing of economic growth.

By our meeting this June, the appraisal of all the foregoing issues led the Federal Open Market Commit-

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tee to conclude that, while some signs of slower growth were evident and justified standing pat at least for the time being, they were not sufficiently compelling to alter our view that the risks remained more on the side of higher inflation.

As indicated in their forecasts, FOMC members and nonvoting presidents expect that the long period of continuous economic expansion will be extended over the next year and one-half, but with growth at a somewhat slower pace than over the past several years. For the current year, the central tendency of Board members' and Reserve Bank presidents' forecasts is for real GDP to increase 4 percent to 4½ percent, suggesting a noticeable deceleration over the second half of 2000 from its likely pace over the first half. The unemployment rate is projected to remain close to 4 percent. This outlook is a little stronger than anticipated last February, no doubt owing primarily to the unexpectedly strong jump in output in the first quarter. Mainly reflecting higher prices of energy products than had been foreseen, the central tendency for inflation this year in prices for personal consumption expenditures also has been revised up somewhat, to the vicinity of 2½ percent to 2¾ percent.

Given the firmer financial conditions that have developed over the past eighteen months, the Committee expects economic growth to moderate somewhat next year. Real output is anticipated to expand 3¼ percent to 3¾ percent, somewhat less rapidly than in recent years. The unemployment rate is likely to remain close to its recent very low levels. Energy prices could ease somewhat, helping to trim PCE inflation next year to around 2 percent to 2½ percent, somewhat above the average of recent years.

Conclusion

The last decade has been a remarkable period of expansion for our economy. Federal Reserve policy through this period has been required to react to a constantly evolving set of economic forces, often at variance with historical relationships, changing federal funds rates when events appeared to threaten our prosperity, and refraining from action when that appeared warranted. Early in the expansion, for example, we kept rates unusually low for an extended period, when financial sector fragility held back the economy. Most recently we have needed to raise rates to relatively high levels in real terms in response to the side effects of accelerating growth and related demand–supply imbalances. Variations in the stance of policy—or keeping it the same—in response to evolving forces are made in the framework of an unchanging objective—to foster as best we can those financial conditions most likely to promote sustained economic expansion at the highest rate possible. Maximum sustainable growth, as history so amply demonstrates, requires price stability. Irrespective of the complexities of economic change, our primary goal is to find those policies that

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best contribute to a non-inflationary environment and hence to growth. The Federal Reserve, I trust, will always remain vigilant in pursuit of that goal.

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Monetary Policy and the Economic Outlook

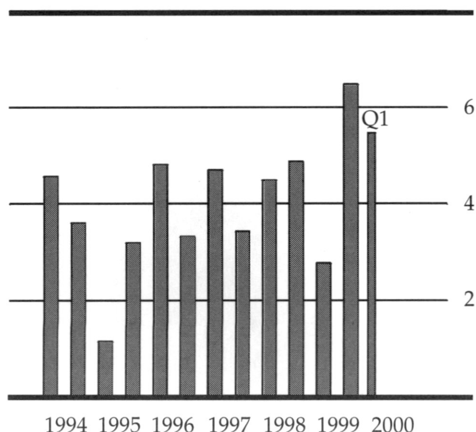
The impressive performance of the U.S. economy persisted in the first half of 2000 with economic activity expanding at a rapid pace. Overall rates of inflation were noticeably higher, largely as a result of steep increases in energy prices. The remarkable wave of new technologies and the associated surge in capital investment have continued to boost potential supply and to help contain price pressures at high levels of labor resource use. At the same time, rising productivity growth—working through its effects on wealth and consumption, as well as on investment spending—has been one of the important factors contributing to rapid increases in aggregate demand that have exceeded even the stepped-up increases in potential supply. Under such circumstances, and with the pool of available labor already at an unusually low level, the continued expansion of aggregate demand in excess of the growth in potential supply increasingly threatened to set off greater price pressures. Because price stability is essential to achieving maximum sustainable economic growth, heading off these pressures has been critical to extending the extraordinary performance of the U.S. economy.

To promote balance between aggregate demand and potential supply and to contain inflation pressures, the Federal Open Market Committee (FOMC) took additional firming actions this year, raising the benchmark federal funds rate 1 percentage point between February and May. The tighter stance of monetary policy, along with the ongoing strength of credit demands, has led to less accommodative financial conditions: On balance, since the beginning of the year, real interest rates have increased, equity prices have changed little after a sizable run-up in 1999, and lenders have become more cautious about extending credit, especially to marginal borrowers. Still, households and businesses have continued to borrow at a rapid pace, and the growth of M2 remained relatively robust, despite the rise in market interest rates. The favorable outlook for the U.S. economy has contributed to a further strengthening of the dollar, despite tighter monetary policy and rising interest rates in most other industrial countries.

Perhaps partly reflecting firmer financial conditions, the incoming eco-

Change in Real GDP

Percent, annual rate



Note. Changes are measured to the final quarter of the period indicated, from the final quarter of the previous period.

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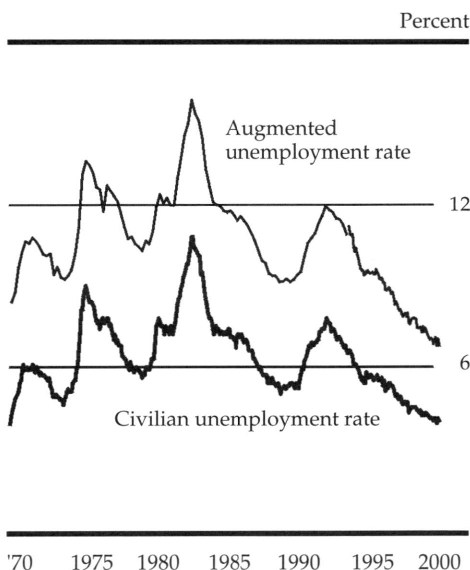
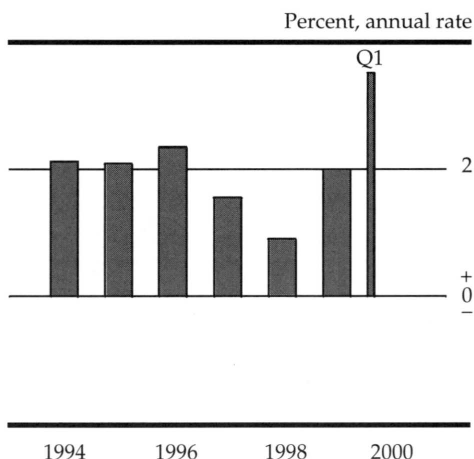
nomic data since May have suggested some moderation in the growth of aggregate demand. Nonetheless, labor markets remained tight at the time of the FOMC meeting in June, and it was unclear whether the slowdown represented a decisive shift to more sustainable growth or just a pause. The Committee left the stance of policy unchanged but saw the balance of risks to the economic outlook as still weighted toward rising inflation.

Measures of Labor Utilization



Note. The augmented unemployment rate is the number of unemployed plus those who are not in the labor force and want a job, divided by the civilian labor force plus those who are not in the labor force and want a job. The break in data at January 1994 marks the introduction of a redesigned survey; data from that point on are not directly comparable with those of earlier periods. The data extend through June 2000.

Change in PCE Chain–Type Price Index



Note. Changes are measured to the final quarter of the period indicated, from the final quarter of the previous period.

Monetary Policy, Financial Markets, and the Economy over the First Half of 2000

When the FOMC convened for its first two meetings of the year, in February and March, economic conditions in the United States were pointing toward an increasingly taut labor market as a consequence of a persistent imbalance between the growth rates of aggregate demand and potential aggregate supply. Reflecting the underlying strength in spending and expectations of tighter monetary policy, market interest rates were rising, especially after the century date change passed without incident. But, at the same time, equity prices were still posting appreciable gains on net. Knowing that the two safety

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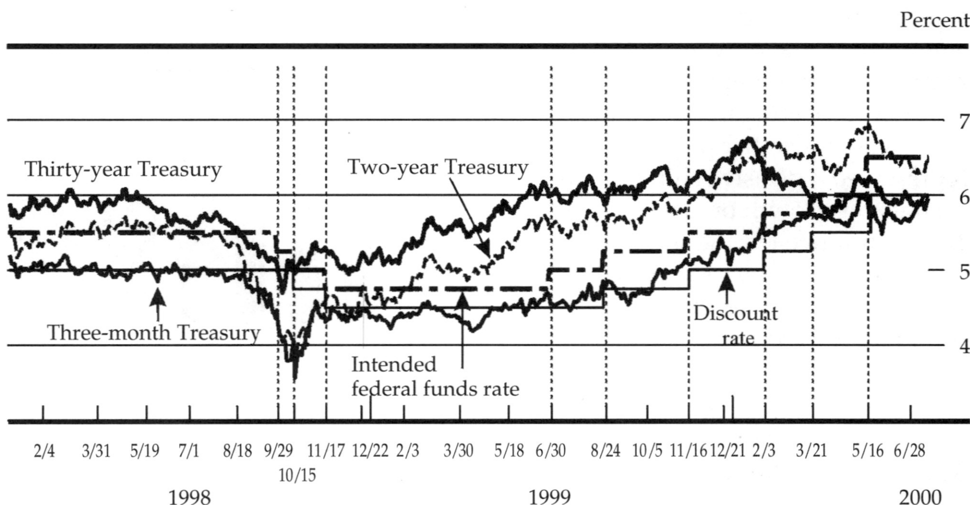
Selected Interest Rates



Note. The data are daily. Vertical lines indicate the days on which the Federal Reserve announced a change in the intended funds rate. The dates on the horizontal axis are those on which either the FOMC held a scheduled meeting or a policy action was announced. Last observations are for July 17, 2000.

valves that had been keeping underlying inflation from picking up until then—the economy's ability to draw on the pool of available workers and to expand its trade deficit on reasonable terms—could not be counted on indefinitely, the FOMC voted for a further tightening in monetary policy at both its February and its March meetings, raising the target for the overnight federal funds rate 25 basis points on each occasion. In related actions, the Board of Governors also approved quarter-point increases in the discount rate in both February and March.

The FOMC considered larger policy moves at its first two meetings of 2000 but concluded that significant uncertainty about the outlook for the expansion of aggregate demand in relation to that of aggregate supply, including the timing and strength of the economy's response to earlier monetary policy tightenings, warranted a more limited policy action. Still, noting that there had been few signs that the rise in interest rates over recent quarters had begun to bring demand in line with potential supply, the Committee decided in both instances that the balance of risks going forward was weighted mainly in the direction of rising inflation pressures. In particular, it was becoming increasingly clear that the Committee would need to move more aggressively at a later meeting if imbalances continued to build and inflation and inflation expectations,

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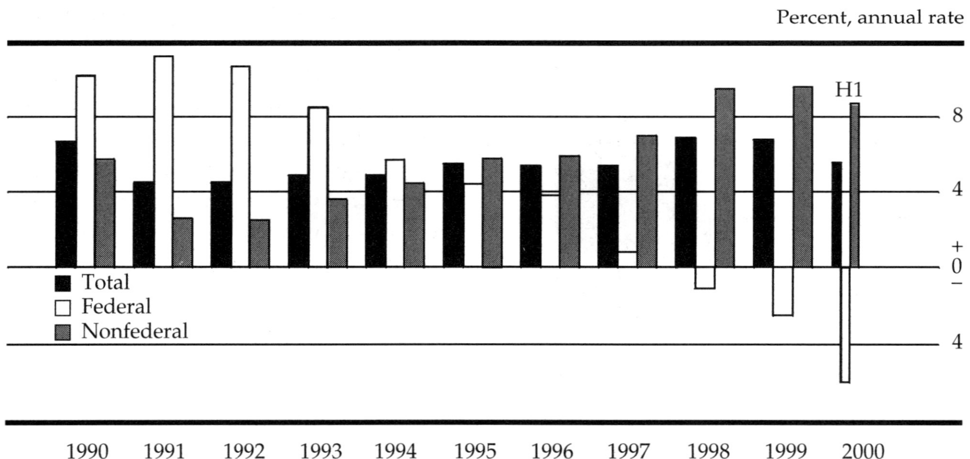
which had remained relatively subdued until then, began to pick up.[1]

Some readings between the March and May meetings of the FOMC on labor costs and prices suggested a possible increase of inflation pressures. Moreover, aggregate demand had continued to grow at a fast clip, and markets for labor and other resources were showing signs of further tightening. Financial market conditions had firmed in response to these developments; the substantial rise in private borrowing rates between March and May had been influenced by the buildup in expectations of more policy tightening as market participants recognized the need for higher short-term interest rates. Given all these circumstances, the FOMC decided in May to raise the target for the overnight federal funds rate 50 basis points, to 6½ percent. The Committee saw little risk in the more forceful action given the strong momentum of the economic expansion and widespread market expectations of such an action. Even after taking into account its latest action, however, the FOMC saw the strength in spending and pressures in labor markets as indicating that the balance of risks remained tilted toward rising inflation.

1. At its March and May meetings, the FOMC took a number of actions that were aimed at adjusting the implementation of monetary policy to actual and prospective reductions in the stock of Treasury debt securities.

Growth of Domestic Nonfinancial Debt



Note. Total debt consists of the outstanding credit market debt of the U.S. government, state and local governments, households and nonprofit organizations, nonfinancial businesses, and farms. Annual growth rates are computed from average for fourth quarter of preceding year to average for fourth quarter of year indicated. Growth in the first half of 2000 is computed from average for fourth quarter of 1999 to average for the second quarter of 2000 and expressed at an annual rate. The growth rate for 2000:H1 is currently based on partially estimated data.

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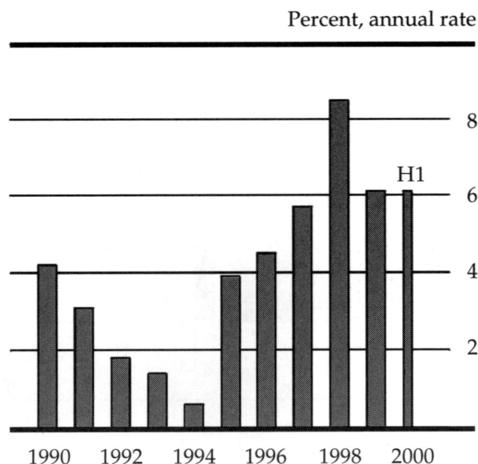
By the June FOMC meeting, the incoming data were suggesting that the expansion of aggregate demand might be moderating toward a more sustainable pace: Consumers had increased their outlays for goods modestly during the spring; home purchases and starts appeared to have softened; and readings on the labor market suggested that the pace of hiring might be cooling off. Moreover, much of the effects on demand of previous policy firmings, including the 50 basis point tightening in May, had not yet been fully realized. Financial market participants interpreted signs of economic slowing as suggesting that the Federal Reserve probably would be able to hold inflation in check without much additional policy firming. However, whether aggregate demand had moved decisively onto a more moderate expansion track was not yet clear, and labor resource utilization remained unusually elevated. Thus, although the FOMC decided to defer any policy action in June, it indicated that the balance of risks was still on the side of rising inflation in the foreseeable future.[2]

M2 Growth Rate



Note. M2 consists of currency, travelers checks, demand deposits, other checkable deposits, savings deposits (including money market deposit accounts), small-denomination time deposits, and balances in retail money market funds. See footnote under the domestic nonfinancial debt chart for details on the computation of growth rates.

Economic Projections for 2000 and 2001

The members of the Board of Governors and the Federal Reserve Bank presidents expect the current economic expansion to continue through next year, but at a more moderate pace than the average over recent quarters. For 2000 as a whole, the central tendency of their forecasts for the rate of increase in real gross domestic product (GDP) is 4 percent to 4½ percent, measured as the change between the fourth quarter of 1999 and the fourth quarter of 2000. Over the four quarters of 2001, the central tendency forecasts of real GDP are

2. At its June meeting, the FOMC did not establish ranges for growth of money and debt in 2000 and 2001. The legal requirement to establish and to announce such ranges had expired, and owing to uncertainties about the behavior of the velocities of debt and money, these ranges for many years have not provided useful benchmarks for the conduct of monetary policy. Nevertheless, the FOMC believes that the behavior of money and credit will continue to have value for gauging economic and financial conditions.

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in the 3¼ percent to 3¾ percent range. With this pace of expansion, the civilian unemployment rate should remain near its recent level of 4 percent. Even with the moderation in the pace of economic activity, the Committee members and nonvoting Bank presidents expect that inflation may be higher in 2001 than in 1999, and the Committee will need to be alert to the possibility that financial conditions may need to be adjusted further to balance aggregate demand and potential supply and to keep inflation low.

Considerable uncertainties attend estimates of potential supply—both

Economic Projections for 2000 and 2001
Percent

		Federal Reserve governors and Reserve Bank presidents		Administration
2000		Range	Central tendency	
Change, fourth quarter to fourth quarter:[1]	Nominal GDP	6–7¼	6¼–6¾	6.0
	Real GDP[2]	3¾–5	4–4½	3.9
	PCE prices	2–2¾	2½–2¾	3.2[3]
Average level, fourth quarter:	Civilian unemployment rate	4–4¼	About 4	4.1
2001		Range	Central Tendency	
Change, fourth quarter to fourth quarter:[1]	Nominal GDP	5–6¼	5½–6	5.3
	Real GDP[2]	2½–4	3¼–3¾	3.2
	PCE prices	1¾–3	2–2½	2.5[3]
Average level, fourth quarter:	Civilian unemployment rate	4–4½	4–4¼	4.2

1. Change from average for fourth quarter of previous year to average for fourth quarter of year indicated.
2. Chain-weighted.
3. Projection for the consumer price index.

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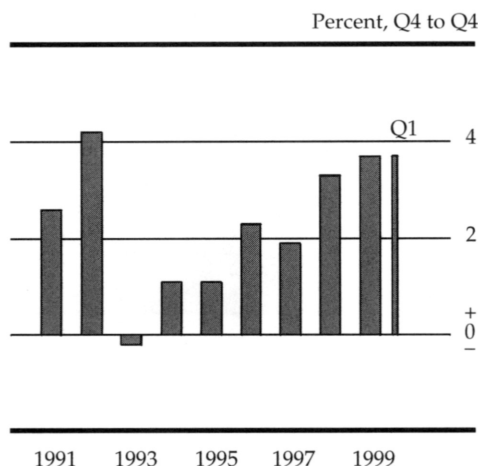
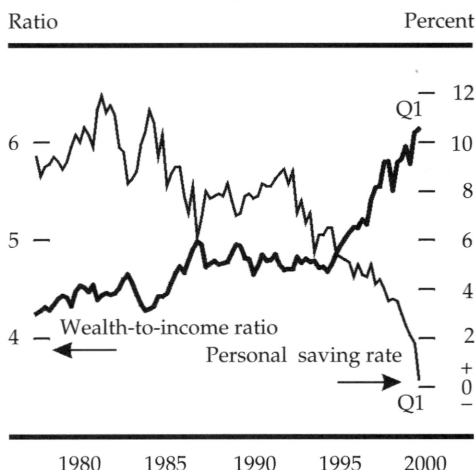
the rate of growth and the level of the economy's ability to produce on a sustained non-inflationary basis. Business investment in new equipment and software has been exceptionally high, and given the rapid pace of technological change, firms will continue to exploit opportunities to implement more-efficient processes and to speed the flow of information across markets. In such an environment, a further pickup in productivity growth is a distinct possibility. However, a portion of the very rapid rise in measured productivity in recent quarters may be a result of the cyclical characteristics of this expansion rather than an indication of structural rates of increase consistent with holding the level of resource utilization unchanged. Current levels of labor resource utilization

Change in Output per Hour for the Nonfarm Business Sector



Note. The value for 2000:Q1 is the percent change from a year earlier.

Wealth and Saving



Note. The wealth-to-income ratio is the ratio of net worth of households to disposable personal income.

are already unusually high. To date, this has not led to escalating unit labor costs, but whether such a favorable performance in the labor market can be sustained is one of the important uncertainties in the outlook.

On the demand side, the adjustments in financial markets that have accompanied expected and actual tighter monetary conditions may be beginning to moderate the rise in domestic demand. As that process evolves, the substantial impetus that household spending has received in recent years from rapid gains in equity wealth should subside. The higher cost of business borrowing and more-restrictive credit supply conditions probably will not exert substantial restraint on investment decisions, particularly as long as the costs and poten-

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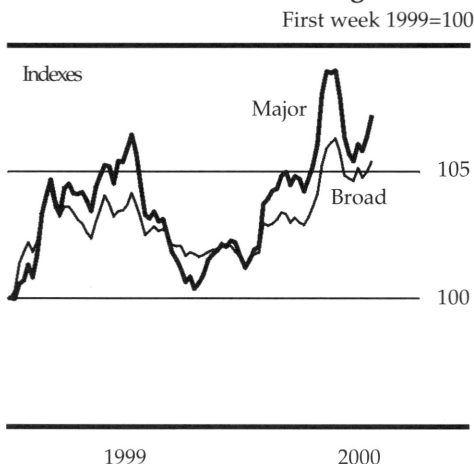
Major Stock Price Indexes

Index, June 30, 1999=100

Note. The data are daily. Last observations are for July 17, 2000.

Nominal U.S. Dollar Exchange Rate

First week 1999=100



Note. The data are weekly. Indexes are trade-weighted averages of the exchange value of the dollar against major currencies and against the currencies of a broad group of important U.S. trading partners. Last observations are for the week ending July 12, 2000.

tial productivity payoffs of new equipment and software remain attractive. The slowing in domestic spending will not be fully reflected in a more moderate expansion of domestic production. Some of the slowing will be absorbed in smaller increases in imports of goods and services, and given continued recovery in economic activity abroad, domestic firms are expected to continue seeing a boost to demand and to production from rising exports.

Regarding inflation, FOMC participants believe that the rise in consumer prices will be noticeably larger this year than in 1999 and that inflation will then drop back somewhat in 2001. The central tendency of their forecasts for the increase in the chain-type index for personal consumption expenditures is 2½ percent to 2¾ percent over the four quarters of 2000 and 2 percent to 2½ percent during 2001. Shaping the contour of this inflation forecast is the expectation that the direct and indirect effects of the boost to domestic inflation this year from the rise in the price of world crude oil will be partly reversed next year if, as futures markets suggest, crude oil prices retrace this year's run-up by next year. Nonetheless, these forecasts show consumer price inflation in 2001 to have moved above the rates that prevailed over the 1997–98 period. Such a trend, were it not to show signs of quickly stabilizing or reversing, would pose a considerable risk to the continuation of the extraordinary economic performance of recent years.

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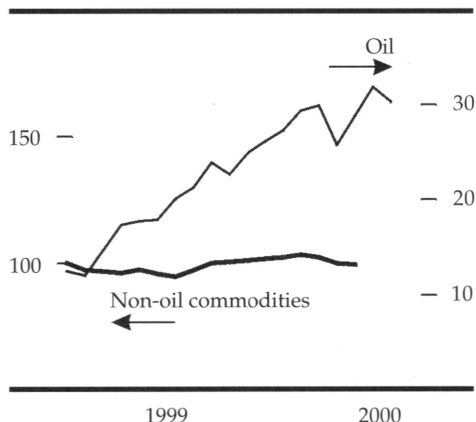
Prices for Oil and Other Commodities



Note. The oil price is the spot price of West Texas intermediate crude oil. The price for non-oil commodities is a weighted average of thirty-nine non-fuel primary-commodity prices from the International Monetary Fund. The data are monthly. The last observation for non-oil commodities is May; for oil, July average through July 12, 2000.

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The economic forecasts of the FOMC are similar to those recently released by the Administration in its Mid-Session Review of the Budget. Compared with the forecasts available in February, the Administration raised its projections for the increase in real GDP in 2000 and 2001 to rates that lie at the low end of the current range of central tendencies of Federal Reserve policymakers. The Administration also expects that the unemployment rate will remain close to 4 percent. Like the FOMC, the Administration sees consumer price inflation rising this year and falling back in 2001. After accounting for the differences in the construction of the alternative measures of consumer prices, the Administration's projections of increases in the consumer price index of 3.2 percent in 2000 and 2.5 percent in 2001 are broadly consistent with the Committee's expectations for the chain-type price index for personal consumption expenditures.

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