Economic Data Illustrations

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The Accord reached in 1951 between the Federal Reserve System and the U.S. Treasury was associated with significant shifts in the behavior of several important economic indicators. The most dramatic were in the indicators most directly controlled by the Federal Reserve System today, such as interest rates and inflation. This section provides a set of graphs showing the behavior of several economic series during the years before and after the Accord.

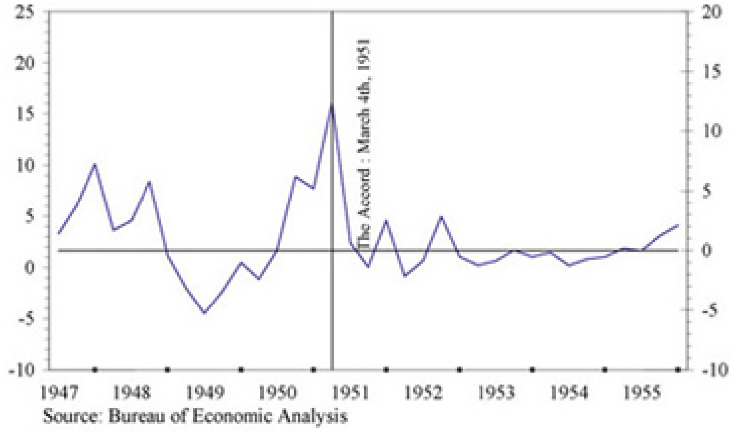
Several features of these illustrations are worth noting. During the year preceding the Accord, real GDP expanded rapidly, unemployment fell sharply, and inflation steadily rose. After the establishment of the Accord, the inflation rate immediately stabilized while the fall in unemployment leveled off. In financial markets, interest rates were significantly affected by the Accord. During World War II and the years immediately following, short-term interest rates were pegged at a constant rate to hold down Treasury borrowing costs. By the middle of 1947, the Federal Reserve had become concerned about rising inflation, and the Treasury agreed to allow the peg to drift slightly higher. These worries eased briefly when there was an unexpected tightening of the money supply and a mild recession in 1949. However, the outset of the Korean War in mid-1950 re-accelerated inflation and GDP growth to a level at which they once again prompted the Fed's concern.

Arrangements made between the Treasury and the Fed both before and after the Accord also affected long-term interest rates. On long-term Treasury securities, the Fed supported an interest rate ceiling of 2.5 percent prior to the Accord. With the advent of the Accord, long-term rates were able to drift upwards prior to the 1953 recession.

With the Accord, the Fed had the latitude to let short-term and long-term interest rates fluctuate. Short-term rates rose until about mid-1953, when there was a sudden drop-off as real growth slowed, leading to a recession. After this recession ended, short-term interest rates quickly recovered.

Additional related data can be found at the websites of the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Federal Reserve Board of Governors, among other agencies.

GDP Implicit Price Deflator Inflation



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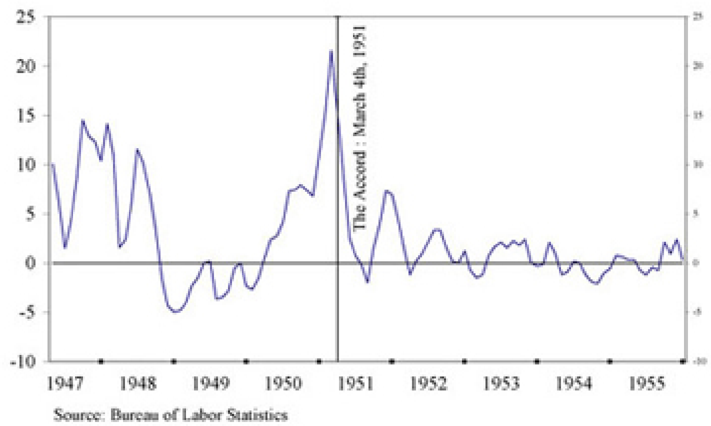
3-Month Annualized CPI Inflation



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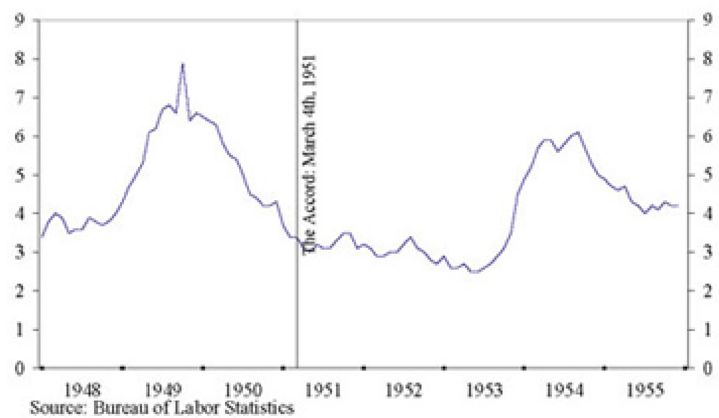
Unemployment Rate



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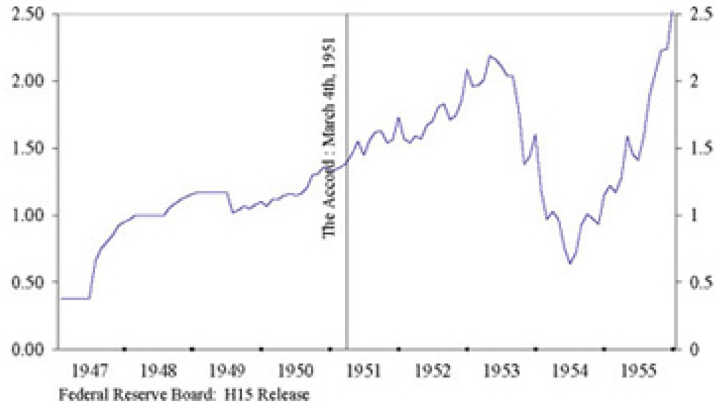
Short Term Interest Rate
(Three Month Treasury Bill Yield)



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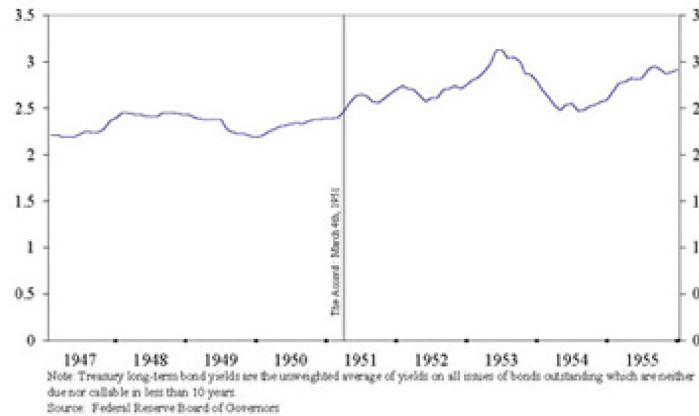
Yield on Long Term U.S. Government Securities



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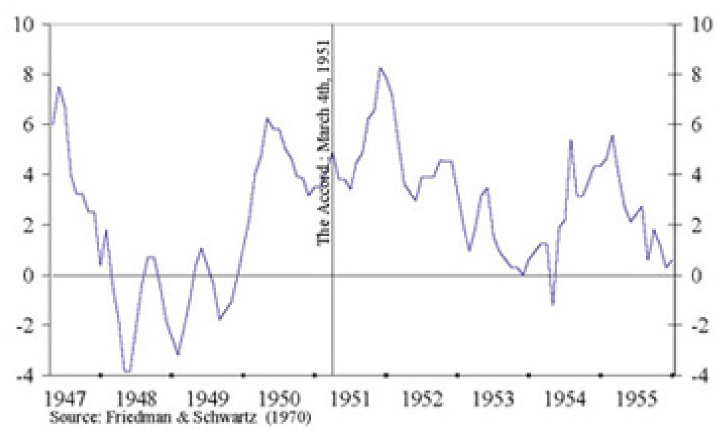
M1 3-Month Annualized Growth Rate



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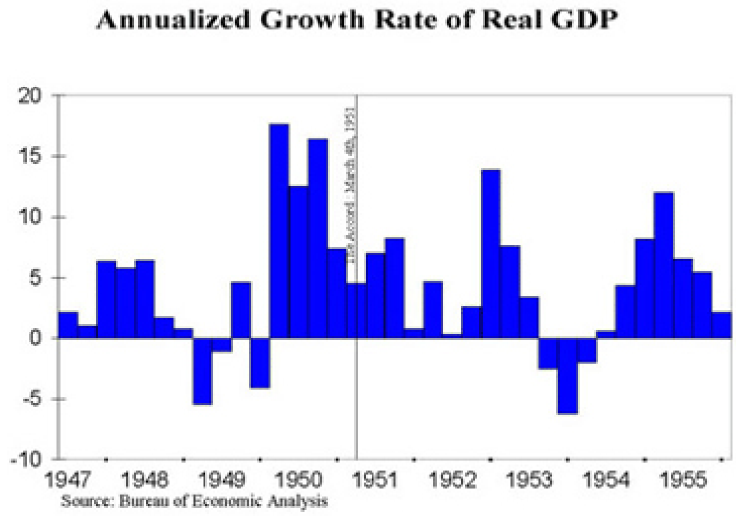
GDP Bar



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Contact Us

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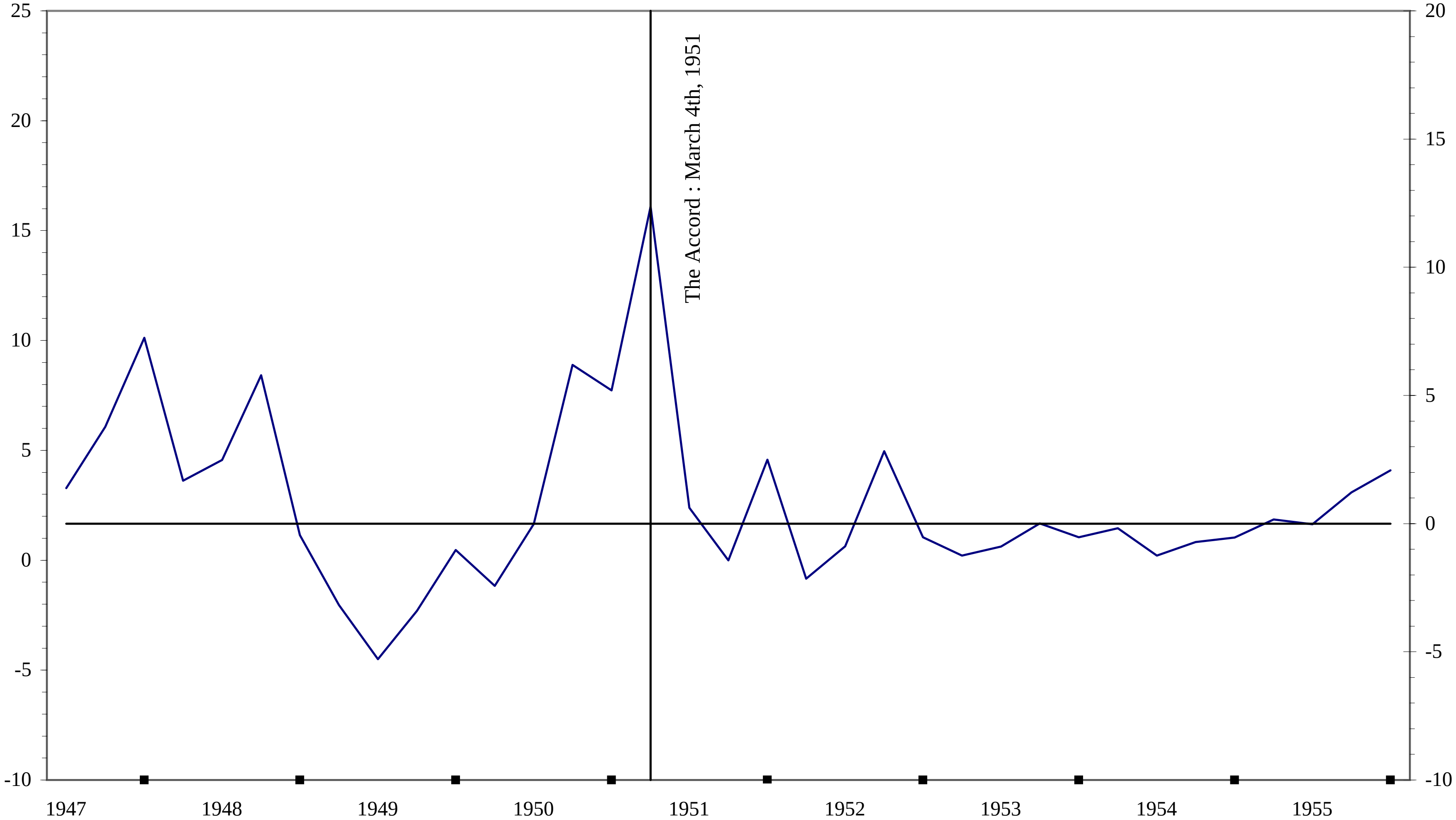
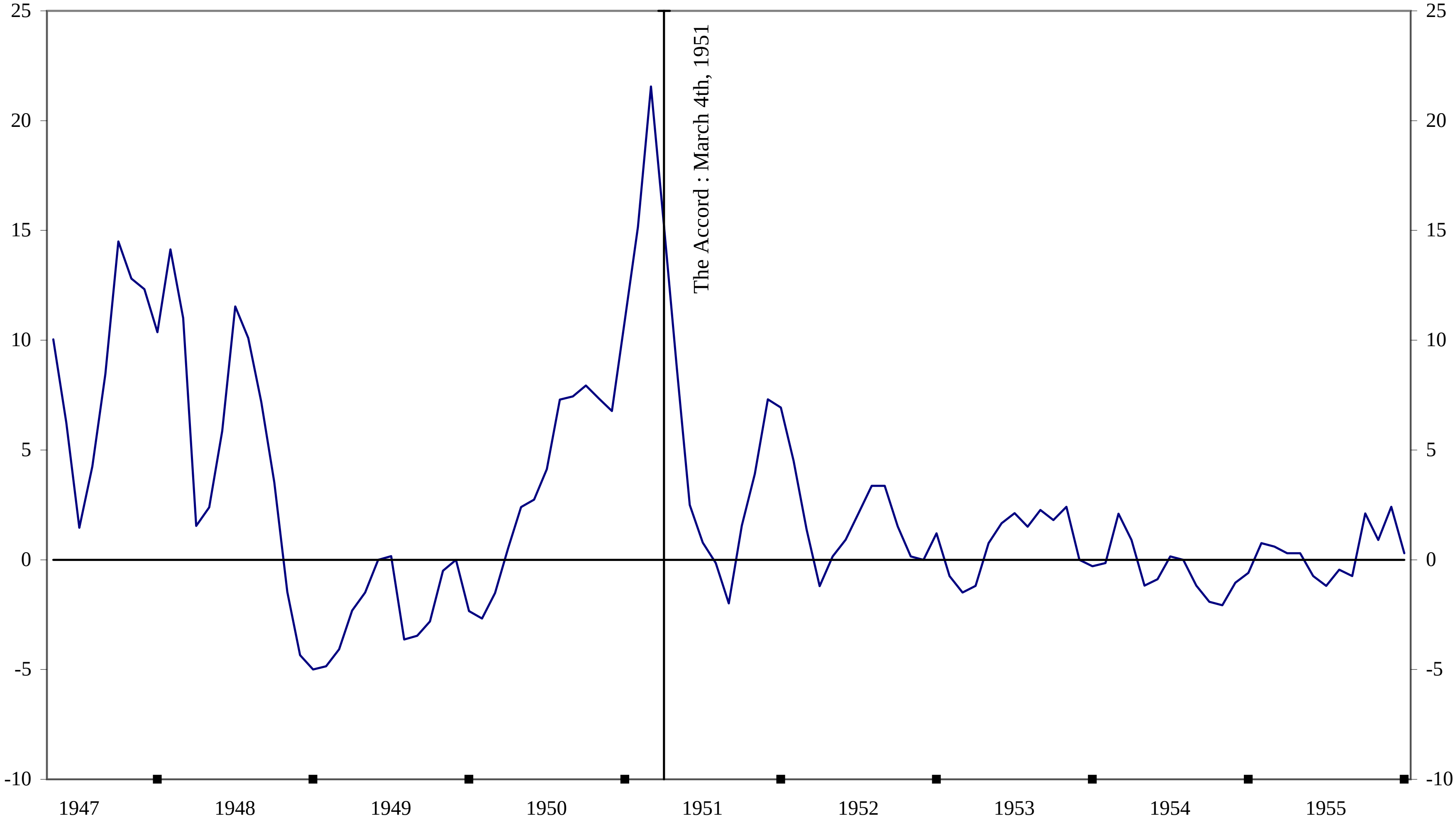
GDP Implicit Price Deflator Inflation



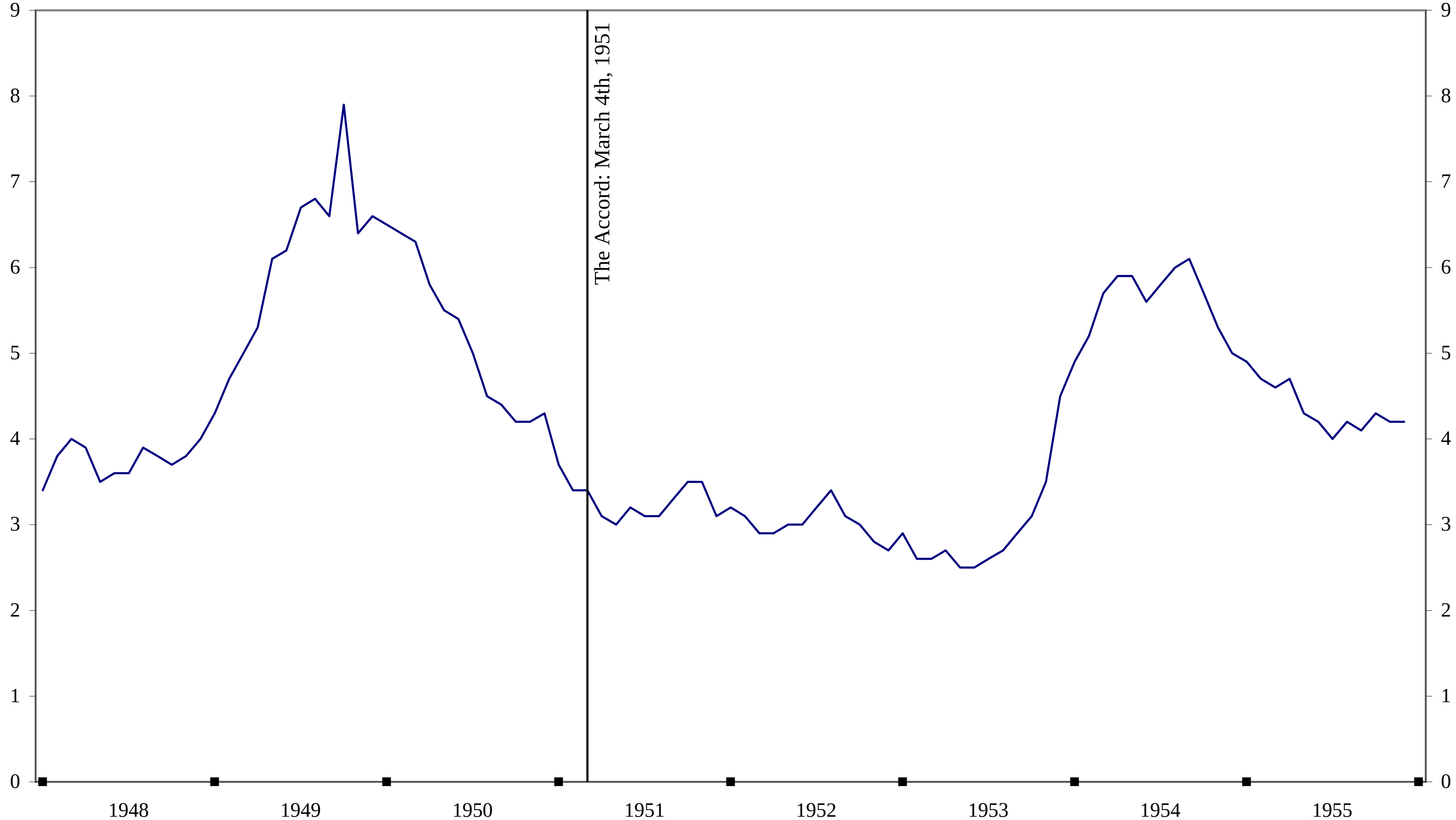
Source: Bureau of Economic Analysis

3-Month Annualized CPI Inflation

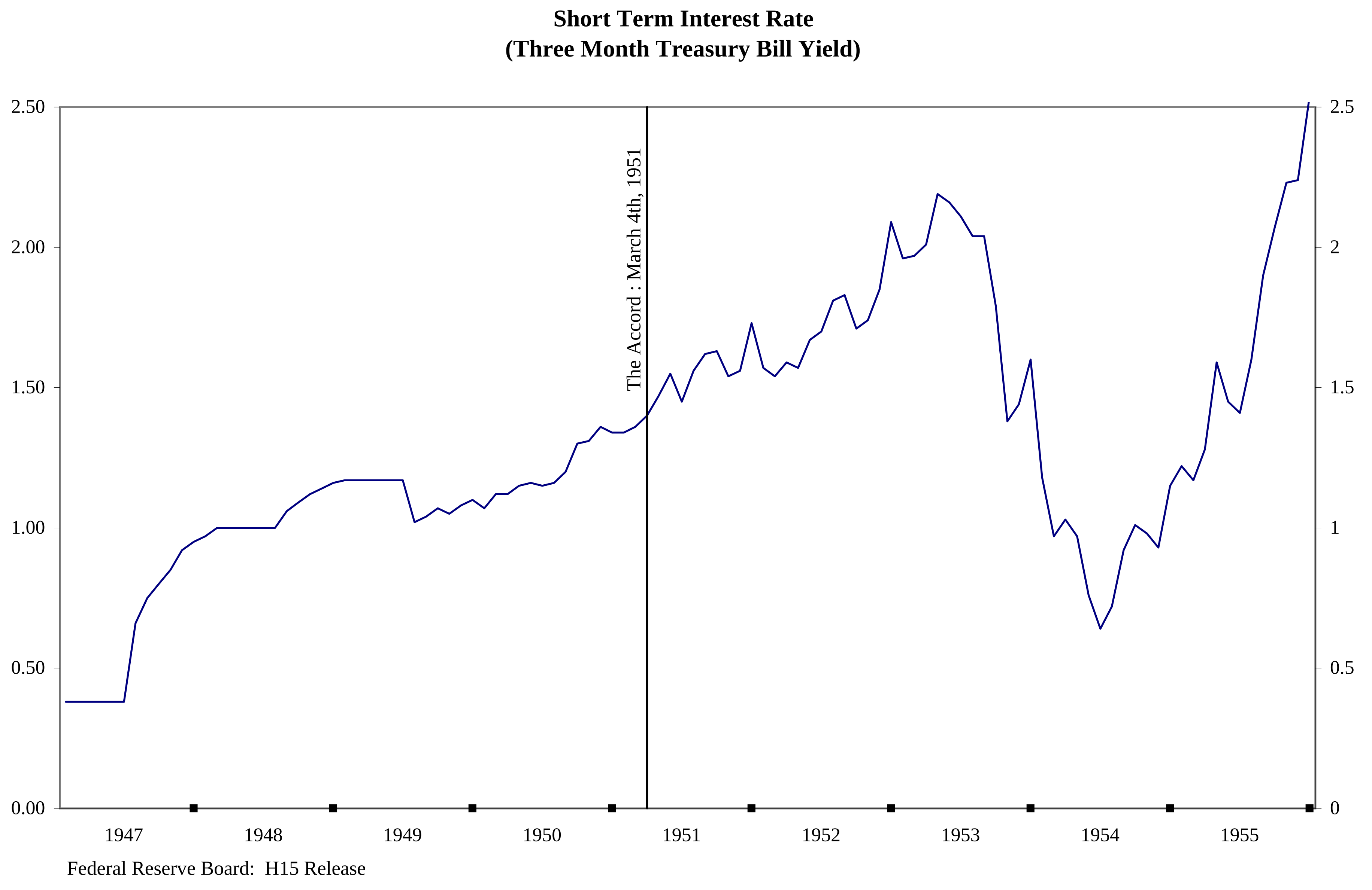


Source: Bureau of Labor Statistics

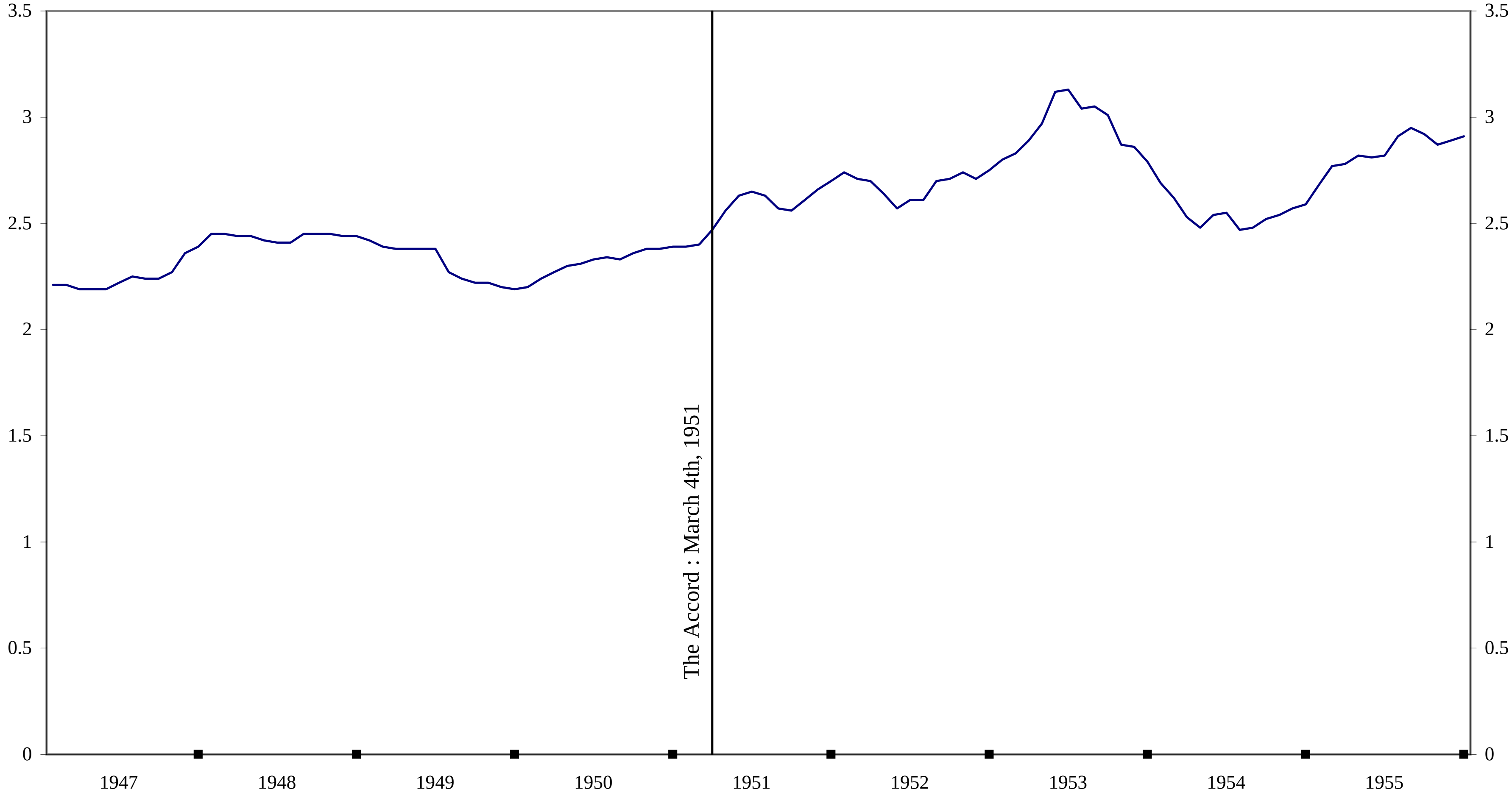
Unemployment Rate



Source: Bureau of Labor Statistics

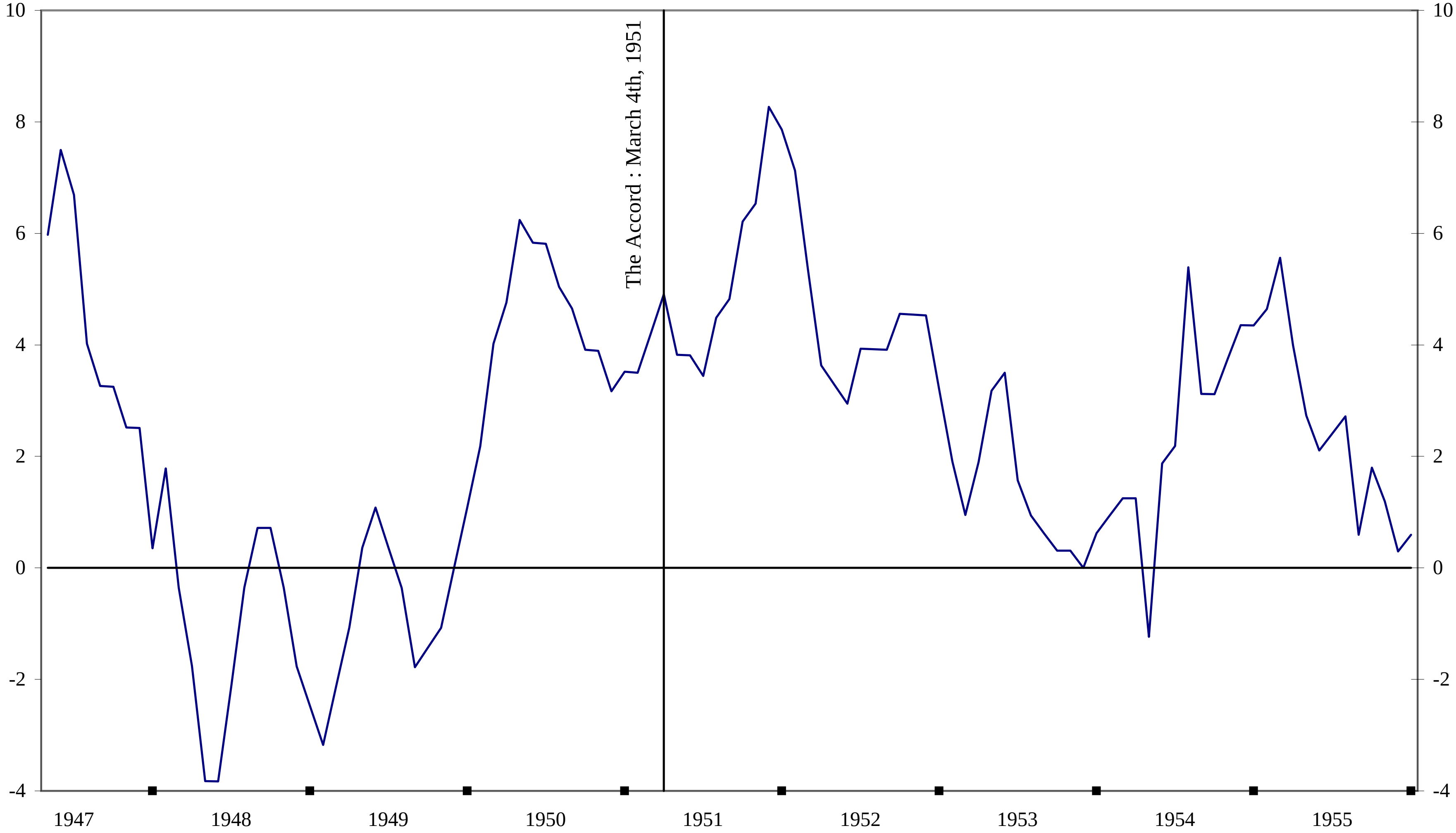

Short Term Interest Rate
(Three Month Treasury Bill Yield)
The Accord : March 4th, 1951
2.50
2.00
1.50
1.00
0.50
0.00
2.5
2
1.5
1
0.5
0
1947
1948
1949
1950
1951
1952
1953
1954
1955
Federal Reserve Board: H15 Release

Yield on Long Term U.S. Government Securities



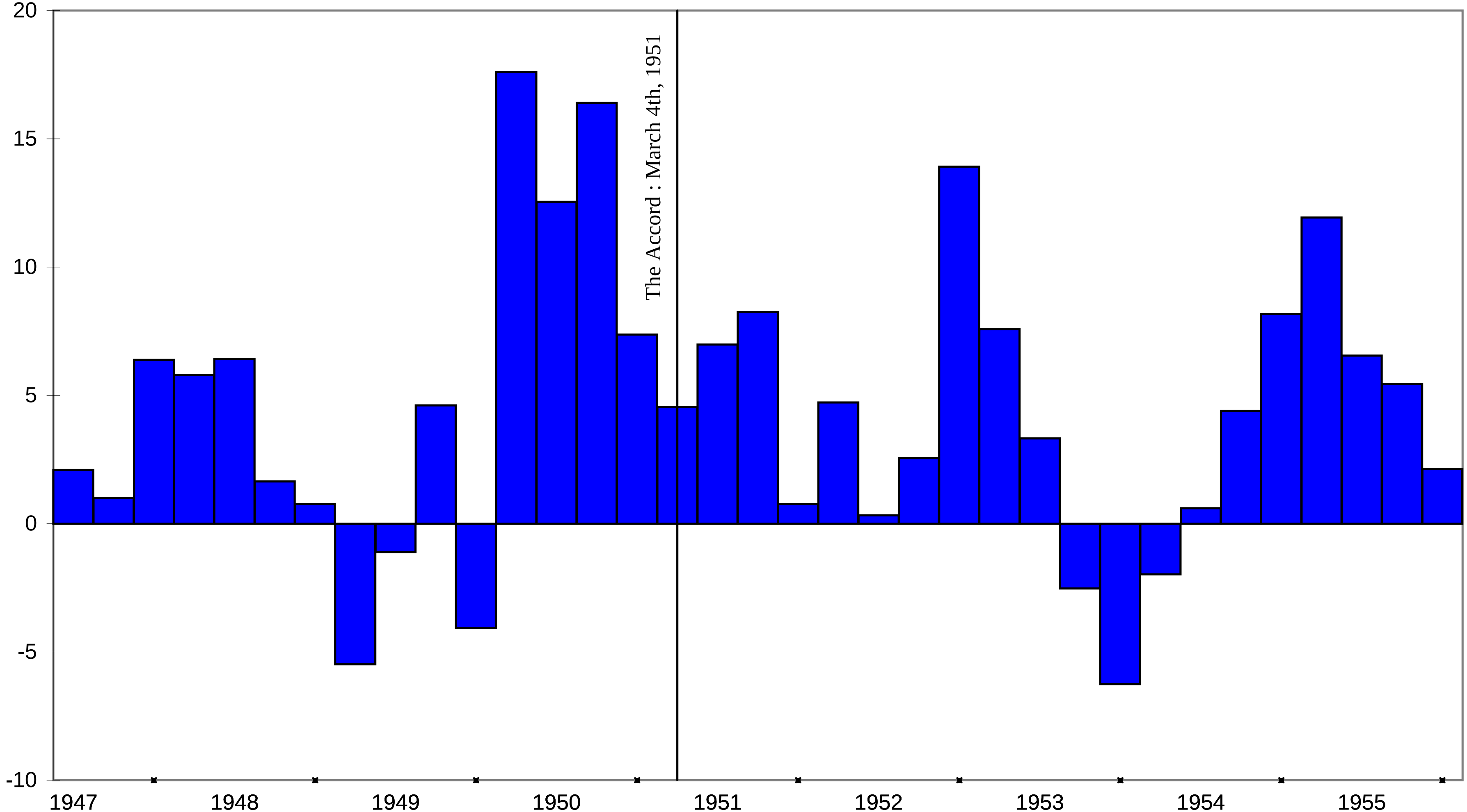
Note: Treasury long-term bond yields are the unweighted average of yields on all issues of bonds outstanding which are neither due nor callable in less than 10 years.
Source: Federal Reserve Board of Governors

M1 3-Month Annualized Growth Rate



Source: Friedman & Schwartz (1970)

Annualized Growth Rate of Real GDP



Source: Bureau of Economic Analysis