Consult ALFRED ${ }^{\text {TM }}$, our new source of vintage economic data, at research.stlouisfed.org/tips/alifred/.

## 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

[^0]Real Federal Funds Target Rate: Before and After the July 2005 NIPA Revisions


## Contents

## Page

3 Monetary and Financial Indicators at a Glance
4 Monetary Aggregates and Their Components
6 Monetary Aggregates: Monthly Growth
7 Reserves Markets and Short-Term Credit Flows
8 Measures of Expected Inflation
9 Interest Rates
10 Policy-Based Inflation Indicators
11 Implied Forward Rates, Futures Contracts, and Inflation-Indexed Securities
12
Velocity, Gross Domestic Product, and M2
14 Bank Credit
15
16
Stock Market Index and Foreign Inflation and Interest Rates
18
Reference Tables
Definitions, Notes, and Sources

## 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: $\left[\left(x_{t} / x_{t-1}\right)-1\right] \times 1200$. 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: $\left[\left(x_{t} / x_{t-12}\right)-1\right] \times 100$.

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M2 and MZM


Adjusted Monetary Base


Total Bank Credit
Percent change at an annual rate


Reserve Market Rates


## Treasury Yield Curve

Percent


## Interest Rates

Federal Funds Rate
Prime Rate
Primary Credit Rate
Conventional Mortgage Rate
Treasury Yields:
3-Month Constant Maturity
6-Month Constant Maturity
1-Year Constant Maturity
3-Year Constant Maturity
5-Year Constant Maturity
10-Year Constant Maturity

| Jun 05 | Jul 05 | Aug 05 |
| :---: | :---: | :---: |
| 3.04 | 3.26 | 3.50 |
| 6.01 | 6.25 | 6.44 |
| 4.01 | 4.25 | 4.44 |
| 5.58 | 5.70 | 5.82 |
|  |  |  |
|  |  |  |
| 3.04 | 3.29 | 3.52 |
| 3.22 | 3.53 | 3.78 |
| 3.36 | 3.64 | 3.87 |
| 3.69 | 3.91 | 4.08 |
| 3.77 | 3.98 | 4.12 |
| 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


## Time Deposits

Percent change from year ago


## Money Market Mutual Fund Shares

Percent change from year ago


Currency Held by the Nonbank Public
Percent change from year ago


## Checkable and Savings Deposits

Percent change from year ago


## Repurchase Agreements and Eurodollars

Billions of dollars
Billions of dollars


## M1

Percent change at an annual rate


## MZM

Percent change at an annual rate


## M2

Percent change at an annual rate


M3
Percent change at an annual rate


## Adjusted and Required Reserves

Billions of dollars


Total Borrowings, nsa


## Excess Reserves plus RCB Contracts

Billions of dollars


## Nonfinancial Commercial Paper

Percent change from year ago


## Consumer Credit

Percent change from year ago


## Inflation and Inflation Expectations

Percent



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

Yield to maturity


## Real Interest Rates

Percent, Real rate $=$ Nominal rate less CPI inflation


## Short-Term Interest Rates

Percent


## Long-Term Interest Rates



## Long-Term Interest Rates



Short-Term Interest Rates
Percent


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


## Federal Funds Rate and Inflation Targets

Percent


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

Billions of chain-weighted 2000 dollars


PCE Inflation
Percent change from year ago


## Monetary Base Growth* and Inflation Targets

Percent

*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
Percent


## Real Output Growth

Percent


## Implied One-Year Forward Rates

Percent


Rates on Selected
Federal Funds Futures Contracts


## Inflation-Indexed Treasury Securities

Percent, weekly data


## Inflation-Indexed <br> 10-Year Government Notes

Percent, weekly data


Rates on 3-Month Eurodollar Futures
Percent, daily data


## Rates on Federal Funds Futures on Selected Dates



Inflation-Indexed Treasury Yield Spreads
Percent, weekly data


## Inflation-Indexed <br> 10-Year Government Yield Spreads

Percent, weekly data



## Interest Rates



## MZM Velocity and Interest Rate Spread

Ratio Scale


## M2 Velocity and Interest Rate Spread



## 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


[^1]
## 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 <br> Percent |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Percent change from year ago |  |  |  |  |  |  |  |
|  | 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 |  |  |  |  | Adjusted <br> Monetary Base | Reserves | MSI M2 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | M1 | MZM | M2 | M3 | Credit |  |  |  |
|  | 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 |

[^2]|  | Federa <br> Funds | Primary Credit Rate | Prime <br> Rate | 3-mo CDs | Treasury Yields |  |  | Corporate Aaa Bonds | S \& L <br> 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 | 1.25 | 2.25 | 4.25 | 1.26 | 1.18 | 2.07 | 3.92 | 6.00 | 4.60 | 5.83 |
|  | 1.25 | 2.23 | 4.24 | 1.17 | 1.06 | 1.77 | 3.62 | 5.31 | 4.28 | 5.51 |
|  | 1.02 | 2.00 | 4.00 | 1.07 | 0.95 | 2.20 | 4.23 | 5.70 | 4.68 | 6.01 |
|  | 1.00 | 2.00 | 4.00 | 1.10 | 0.93 | 2.38 | 4.29 | 5.66 | 4.52 | 5.92 |
| 2004 | 1.00 | 2.00 | 4.00 | 1.05 | 0.93 | 2.17 | 4.02 | 5.45 | 4.26 | 5.61 |
|  | 1.01 | 2.00 | 4.00 | 1.25 | 1.10 | 2.98 | 4.60 | 5.93 | 4.82 | 6.13 |
|  | 1.43 | 2.42 | 4.42 | 1.70 | 1.51 | 2.92 | 4.30 | 5.64 | 4.54 | 5.89 |
|  | 1.95 | 2.94 | 4.94 | 2.25 | 2.04 | 3.05 | 4.17 | 5.48 | 4.39 | 5.73 |
| 2005 | 2.47 | 3.44 | 5.44 | 2.78 | 2.58 | 3.61 | 4.30 | 5.32 | 4.23 | 5.76 |
|  | 2.94 | 3.91 | 5.91 | 3.23 | 2.93 | 3.73 | 4.16 | 5.15 | 4.15 | 5.72 |
| 2003 | 1.03 | 2.00 | 4.00 | 1.08 | 0.97 | 2.44 | 4.45 | 5.88 | 4.82 | 6.26 |
|  | 1.01 | 2.00 | 4.00 | 1.08 | 0.96 | 2.23 | 4.27 | 5.72 | 4.63 | 6.15 |
|  | 1.01 | 2.00 | 4.00 | 1.10 | 0.94 | 2.26 | 4.29 | 5.70 | 4.64 | 5.95 |
|  | 1.00 | 2.00 | 4.00 | 1.11 | 0.95 | 2.45 | 4.30 | 5.65 | 4.50 | 5.93 |
|  | 0.98 | 2.00 | 4.00 | 1.10 | 0.91 | 2.44 | 4.27 | 5.62 | 4.41 | 5.88 |
| 2004 | 1.00 | 2.00 | 4.00 | 1.06 | 0.90 | 2.27 | 4.15 | 5.54 | 4.42 | 5.74 |
|  | 1.01 | 2.00 | 4.00 | 1.05 | 0.94 | 2.25 | 4.08 | 5.50 | 4.26 | 5.64 |
|  | 1.00 | 2.00 | 4.00 | 1.05 | 0.95 | 2.00 | 3.83 | 5.33 | 4.11 | 5.45 |
|  | 1.00 | 2.00 | 4.00 | 1.08 | 0.96 | 2.57 | 4.35 | 5.73 | 4.69 | 5.83 |
|  | 1.00 | 2.00 | 4.00 | 1.20 | 1.04 | 3.10 | 4.72 | 6.04 | 4.93 | 6.27 |
|  | 1.03 | 2.01 | 4.01 | 1.46 | 1.29 | 3.26 | 4.73 | 6.01 | 4.85 | 6.29 |
|  | 1.26 | 2.25 | 4.25 | 1.57 | 1.36 | 3.05 | 4.50 | 5.82 | 4.71 | 6.06 |
|  | 1.43 | 2.43 | 4.43 | 1.68 | 1.50 | 2.88 | 4.28 | 5.65 | 4.52 | 5.87 |
|  | 1.61 | 2.58 | 4.58 | 1.86 | 1.68 | 2.83 | 4.13 | 5.46 | 4.40 | 5.75 |
|  | 1.76 | 2.75 | 4.75 | 2.04 | 1.79 | 2.85 | 4.10 | 5.47 | 4.38 | 5.72 |
|  | 1.93 | 2.93 | 4.93 | 2.26 | 2.11 | 3.09 | 4.19 | 5.52 | 4.45 | 5.73 |
|  | 2.16 | 3.15 | 5.15 | 2.45 | 2.22 | 3.21 | 4.23 | 5.47 | 4.35 | 5.75 |
| 2005 | 2.28 | 3.25 | 5.25 | 2.61 | 2.37 | 3.39 | 4.22 | 5.36 | 4.24 | 5.71 |
|  | 2.50 | 3.49 | 5.49 | 2.77 | 2.58 | 3.54 | 4.17 | 5.20 | 4.16 | 5.63 |
|  | 2.63 | 3.58 | 5.58 | 2.97 | 2.80 | 3.91 | 4.50 | 5.40 | 4.29 | 5.93 |
|  | 2.79 | 3.75 | 5.75 | 3.09 | 2.84 | 3.79 | 4.34 | 5.33 | 4.18 | 5.86 |
|  | 3.00 | 3.98 | 5.98 | 3.22 | 2.90 | 3.72 | 4.14 | 5.15 | 4.20 | 5.72 |
|  | 3.04 | 4.01 | 6.01 | 3.38 | 3.04 | 3.69 | 4.00 | 4.96 | 4.08 | 5.58 |
|  | 3.26 | 4.25 | 6.25 | 3.57 | 3.29 | 3.91 | 4.18 | 5.06 | 4.18 | 5.70 |
|  | 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 |
|  | 1 | 8.38 | 7.85 | 6.90 | 6.69 |
| 2003 | 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 |


| 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 |
| 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 |
| 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 $/ \mathrm{msi} / \mathrm{index} . \mathrm{html}$.

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

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

to five alternative target inflation rates, $\pi^{*}=0,1,2,3,4$ percent, where $f_{t}^{*}$ is the implied federal funds rate, $\pi_{t-1}$ 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

$$
\begin{aligned}
\Delta M B_{t}^{*} & =\pi^{*}+(10 \text {-year moving average growth of real GDP }) \\
& -(4 \text {-year moving average of base velocity growth })
\end{aligned}
$$

to five alternative target inflation rates, $\pi^{*}=0,1,2,3,4$ percent, where $\Delta M B_{t}{ }^{*}$ 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 $\left(\left(y_{t}-y_{t-40}\right) / 40\right) \times 400$, 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 $m=1, \ldots, 10$ 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),

$$
R(m)=\mathrm{a}_{0}+\left(\mathrm{a}_{1}+\mathrm{a}_{2}\right)\left(1-\mathrm{e}^{-m / 50}\right) /(m / 50)-\mathrm{a}_{2} \times \mathrm{e}^{-m / 50}
$$

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 $D(m)=\left(1-e^{-R(m) \times m}\right) / R(m)$. 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. InflationIndexed 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/.


[^0]:    ${ }^{1}$ 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.

[^1]:    Dashed lines indicate 10-year moving averages.

[^2]:    *All values are given in billions of dollars.

