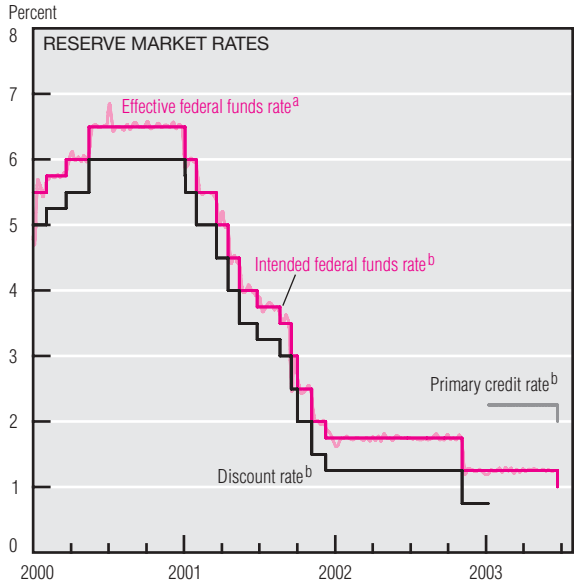
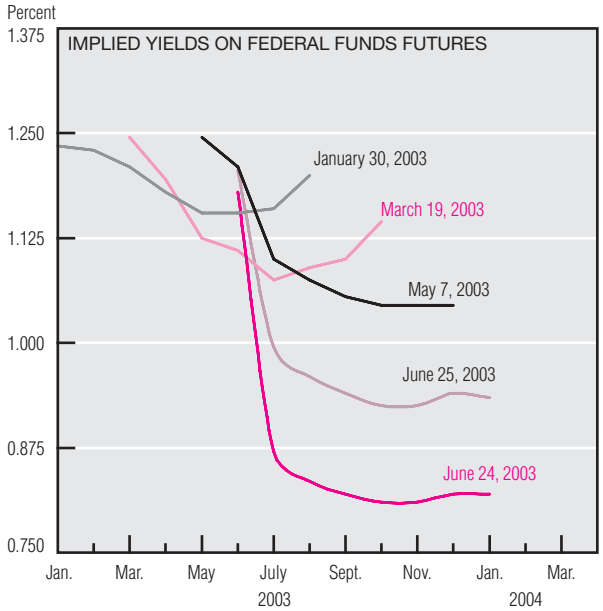
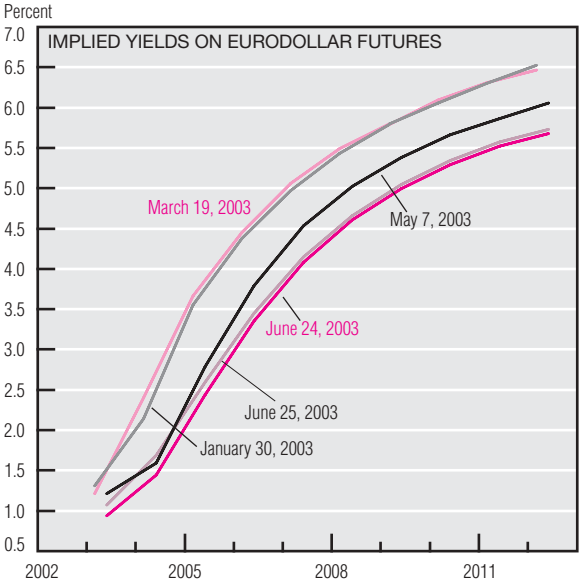
Monetary Policy







Balance of Risks[c]

Statement prior to change	Change in federal funds target rate: –0.5	–0.25	0	0.25	0.5
Inflationary	0	0	5	3	1
Balanced	0	0	7	2	0
Weakness	6	4	3	0	0
No statement	3	0	1	0	0

a. Weekly average of daily figures.
b. Daily observations.
c. Data taken from immediate press releases beginning in May 1999.
SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15; and Bloomberg Financial Information Services.

At its June 25 meeting, the Federal Open Market Committee (FOMC) lowered the intended federal funds rate 25 basis points (bp) to 1%, the thirteenth rate cut since the current round of easing began in January 2001. The FOMC's press release stated that although "recent signs point to a firming in spending," the economy "has yet to exhibit sustainable growth." The committee also noted that "the probability, although minor, of an unwelcome fall in inflation exceeds that of a pickup in inflation." In a related action, the Board of Governors approved a 25 bp cut in the discount rate to 2%.

Implied yields on federal funds futures have declined sharply since the FOMC last met on May 6. The actual rate cut did not surprise market participants, although some expected it to be larger. The day before the meeting, implied yields placed a 100% probability on a cut of at least 25 bp with a roughly equal probability of either a 25 bp or a 50 bp cut. After the cut, implied yields bounced up about 12 bp across the maturities. Participants in the fed funds futures market do not foresee any tightening during the current year. Implied yields on eurodollar futures, which give a longer-term view of policy expectations, indicate a round of tightening beginning next year.

At its May 6 meeting, the FOMC said the risks were weighted mainly "toward weakness over the foreseeable future." Roughly two-thirds of the time, such statements have been followed by policy easing at the next meeting. Nearly half the time, a 50 bp cut has occurred. The June 25 statement said that the risks for sustainable growth "are roughly equal," but that the possibility of further disinflation is the dominant concern.