The Board of Governors of the Federal Reserve System submitted its semiannual Monetary Policy Report to the Congress on July 18. In his testimony on the Report before both houses of Congress, Federal Reserve Chairman Alan Greenspan stated that monetary policy in 2001 “has confronted an economy that slowed sharply last year and has remained weak this year, following an extraordinary period of buoyant expansion,” but also noted projections of “a slight strengthening of real activity later this year.”

Implied yields on federal funds futures, often used to gauge expected monetary policy, fell only slightly after the Chairman’s testimony to the House. Although a sharp increase in implied yields occurred after the June 27 meeting of the Federal Open Market Committee, yields drifted downward throughout July. Since the June meeting, implied yields have fallen between 6 and 41 basis points (bp) across the various maturities beyond July. Although market participants continue to place a significant probability on a further 25 bp cut before year’s end, implied yields reflect expectations that the Fed is near the end of an easing cycle.

The Report also contains economic projections of the Board and Federal Reserve Bank presidents. The central tendency of the forecasts of real GDP growth for 2001 was revised downward from 2%–2½% in February to 1¼%–2% in July. Inflation projections according to the Personal Consumption Expenditures Price Index were adjusted upward from 1¾%–2¼% to 2%–2½%. The projections for the fourth-quarter civilian unemployment rate rose from about 4½% to 4¾–5%. The central tendency for 2002 real GDP growth is 3¾–4%.