

## Update on Federal monetary policy

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The U.S. economy generally performed well in the first half of 2007. Activity continued to increase moderately, on average, over the period; businesses added jobs at a steady pace; and the unemployment rate remained at 4-1/2 percent. Overall inflation, however, picked up as a result of sizable increases in energy and food prices. At the same time, core inflation (which excludes the direct effects of movements in energy and food prices) held at about the same rate as in 2006; this measure smoothes through some of the volatility in the high-frequency data and thus is generally a better gauge of underlying inflation trends. In conjunction with the FOMC meeting at the end of June, the members of the Board of Governors and the Reserve Bank presidents, all of whom participate in the deliberations of the FOMC, provided economic projections for 2007 and 2008 for this report. The central tendency of the FOMC participants' forecasts for the increase in real GDP is 2-1/4 percent to 2-1/2 percent over the four quarters of 2007 and 2-1/2 percent to 2-3/4 percent in 2008. The civilian unemployment rate is expected to lie between 4-1/2 percent and 4-3/4 percent in the fourth quarter of 2007 and to be at about the top of that range in 2008. As for inflation, FOMC participants expect that the increase in the price index for personal consumption expenditures excluding food and energy (core PCE inflation) will total 2 percent to 2-1/4 percent over the four quarters of 2007 and will drift down to 1-3/4 percent to 2 percent in 2008.