

The Federal Reserve Board and Monetary Policy

A Case Study
May 10, 2006

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Figure 1. The Target for the Federal Funds Rate

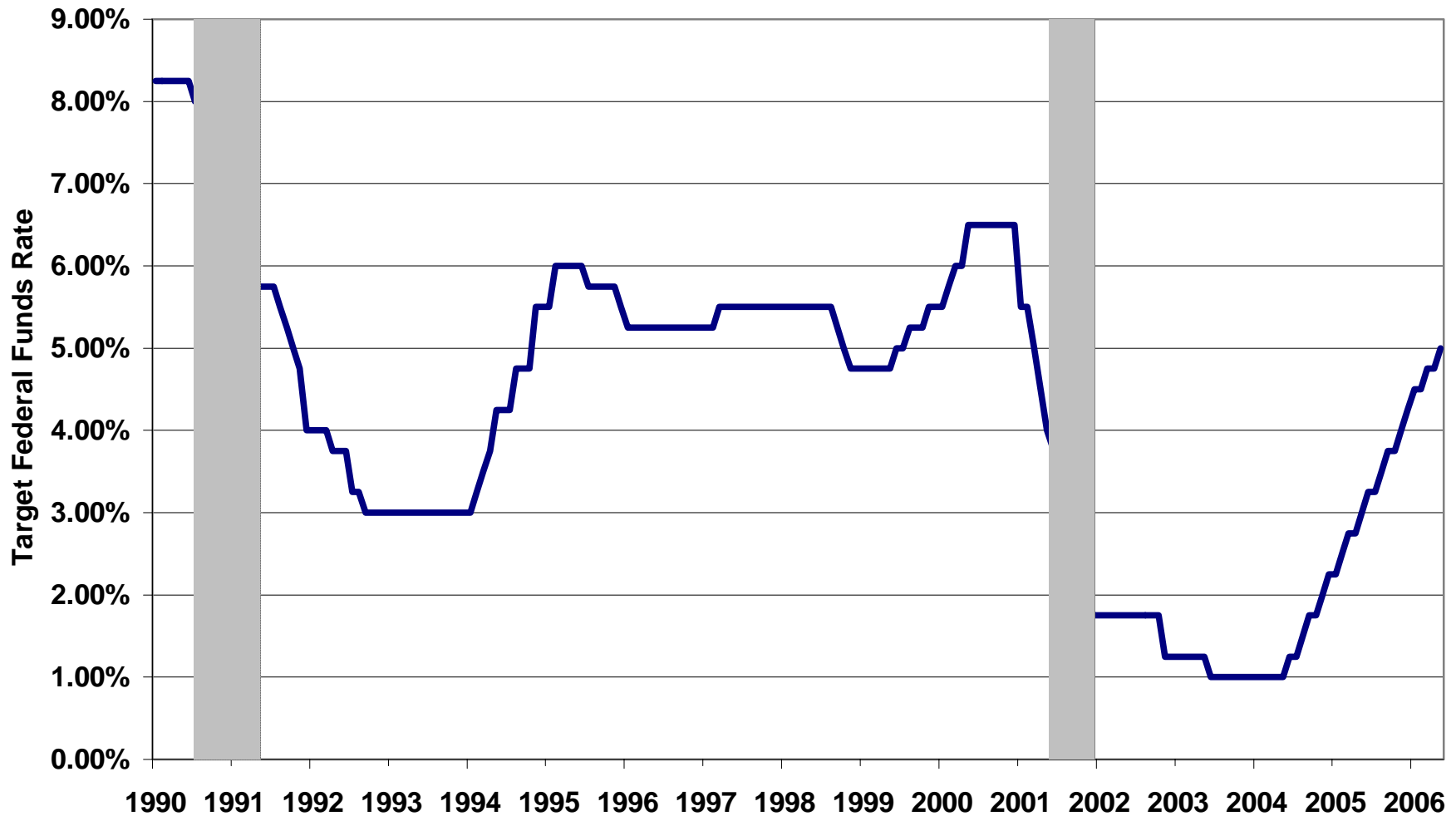
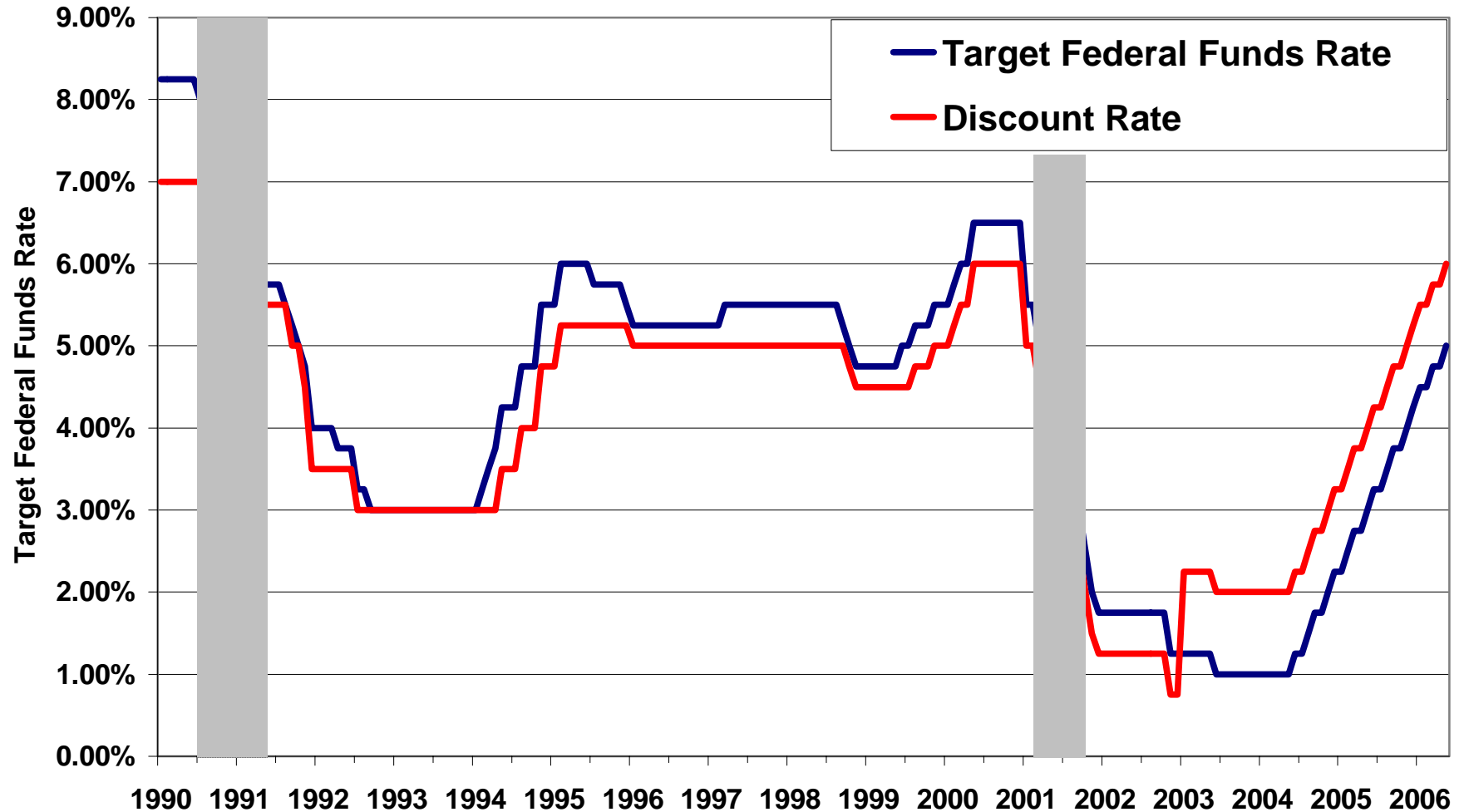


Figure 2. The Target Federal Funds Rate and the Discount Rate



May 10th

FOMC Announcement

- The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5 percent.

The reasons

- Economic growth has been quite strong so far this year. The Committee sees growth as likely to moderate to a more sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.
- As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.

The future

- The Committee judges that some further policy firming may yet be needed to address inflation risks but emphasizes that the extent and timing of any such firming will depend importantly on the evolution of the economic outlook as implied by incoming information. In any event, the Committee will respond to changes in economic prospects as needed to support the attainment of its objectives.

The vote

- Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Susan S. Bies; Jack Guynn; Donald L. Kohn; Randall S. Kroszner; Jeffrey M. Lacker; Mark W. Olson; Sandra Pianalto; Kevin M. Warsh; and Janet L. Yellen.

A discount rate change

- In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate to 6 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco.