
INTEREST RATE MANAGEMENT

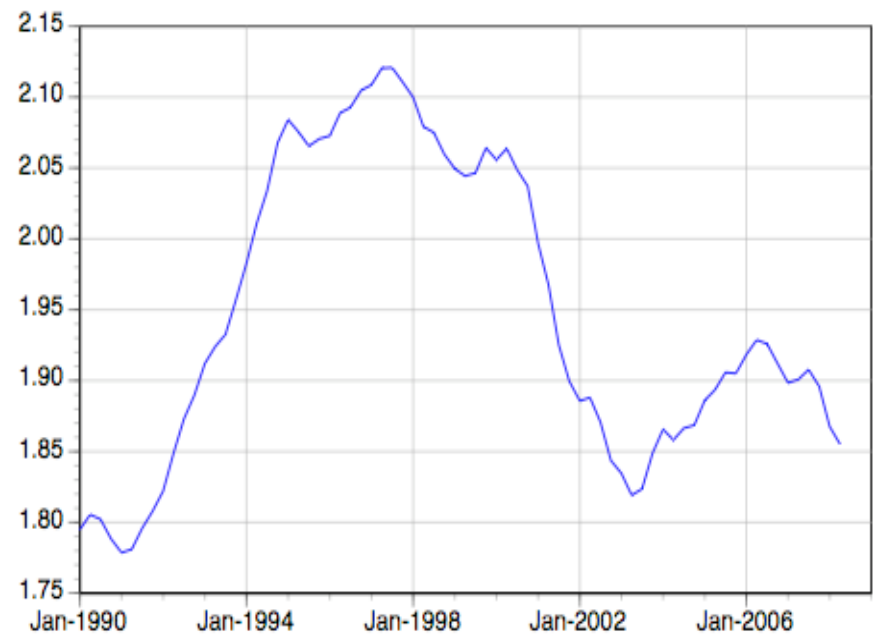
Alice: Good morning everyone. Today's meeting is the 5th FOMC meeting of the year. I'd like to bring to everyone's attention that the next meeting is set for September 16th.

Alice: I've put together today's chart for your review. It outlines the velocity of the circulation of money. As you can see it seems to be getting lazier.

Velocity of Circulation of Money

Nominal GDP ÷ M2

Q1, 1990 – Q2, 2008 (advance)



Member: What are you talking about?

Member: I thought the velocity of money was supposed to be a constant.

Alice: It is...can't you see, it's supposed to be two.

Member: Well duh!!!

Alice: A theoretical two. I can see it poifectly!

Member: I think we really have to be worried about inflation. I think it's gonna get out of control.

Member: Wait a minute...my neighbor just lost her job. Isn't that a definition of a recession?

Member: No, I think it's two consecutive quarters of negative GDP growth. I'm an expert, you know.

Member: Well, by that definition we did not have a recession in the early part of this decade.

Alice: Last week the Commerce Department released revised GDP numbers. Given the good quality of statistics we have, it's taken seven months to figure out that the real growth rate in the last quarter of last year was not .6% but -.2%.

Member: Wow...that's a big percentage change!

Alice: Sometimes I have to wonder about you. You know these quarterly numbers are annualized and over the last three quarters of the year, economic growth has been smaller than this finger.

Chairman: Oh jeez Alice, don't start that! What are we gonna do?

Alice: The minutes are already written up. We're gonna be vigilant, **we're gonna leave all the interest rates unchanged and we're going to have a neutral bias.**