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Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

Strictly Confidential (FR)
Class I - FOMC

March 24, 1995

MONETARY POLICY ALTERNATIVES

Recent Developments[1]

(1) The System tightened the stance of monetary policy further on February 1 to contain inflation pressures amid indications that the economy was continuing to advance at a substantial pace, boosting rates of resource utilization from already high levels. The Board approved a 1/2 percentage point hike in the discount rate, to 5-1/4 percent, and the FOMC allowed that increase to show through fully to reserve markets, raising the intended federal funds rate to 6 percent. Federal funds generally traded a little below the intended level during the intermeeting period.[2] Unusually low demands for excess reserves appear to have contributed to softness in the federal funds rate at times during the intermeeting period.

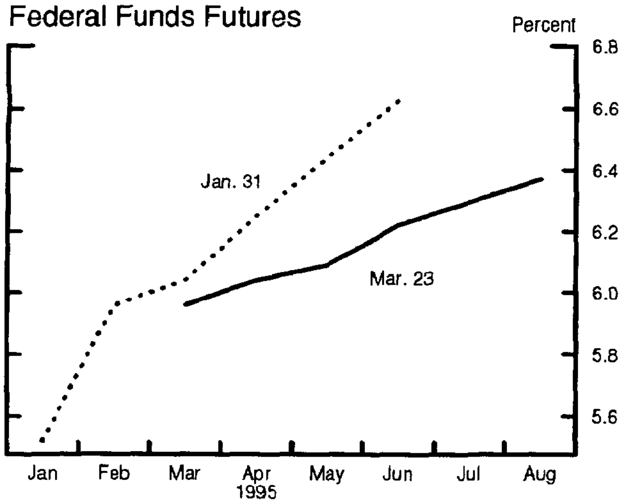
(2) The firming of reserve market conditions was anticipated by market participants and prompted little response in market rates; the prime rate, however, was hiked another 50 basis points, to 9 percent. As the period progressed, most market yields moved down considerably in reaction to data indicating that the pace of economic expansion was slowing appreciably, as well as to testimony and other comments by Federal Reserve officials that were interpreted as suggesting that, as a consequence, the period of policy tightening might be drawing to a close. The revision to expectations was reflected in a substantial downward movement in futures rates on federal funds and

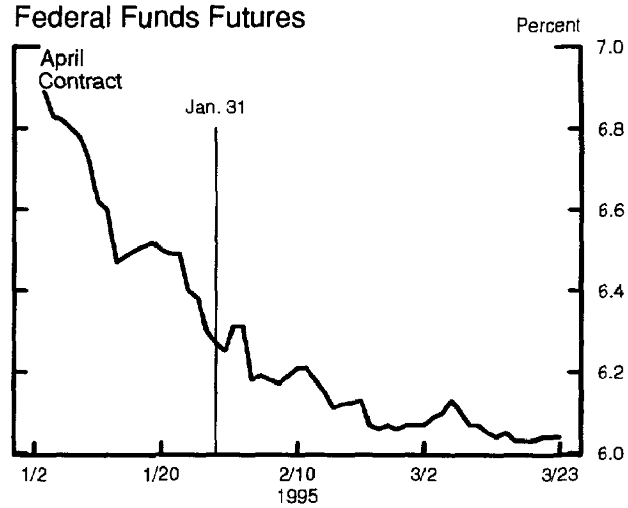
1. Financial market quotations in this bluebook are taken as of noon, Friday, March 24.
2. The allowance for adjustment and seasonal borrowing was left unchanged over the period at $75 million. Actual borrowing averaged slightly below its allowance.

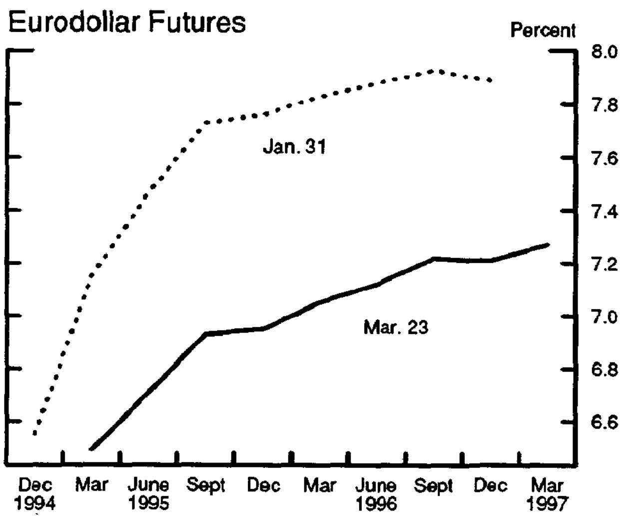
Eurodollar deposits (chart); making some allowance for liquidity premiums, the structure of these rates suggests that market participants now expect little if any further tightening in monetary policy. Most short-term rates fell 15 to 30 basis points over the period, while intermediate- and longer-term yields declined 30 to 60 basis points. Broad stock price indexes climbed 5 to 7 percent to record levels in response to heightened prospects for sustained moderate economic expansion with low inflation and the associated fall in interest rates and to earnings reports that were generally stronger than expected. U.S. capital markets were relatively undisturbed by several potentially disruptive events. The failure of Baring Brothers appeared to have few spillover effects domestically. News of large trading losses at Bankers Trust reduced the price of its shares and increased the spread on its uninsured debt, but left the prices of the securities of other institutions unaffected. Spreads on private paper more generally stayed narrow over the intermeeting period. A plunge in the foreign exchange value of the dollar did not appear to push up bond yields on balance, because it seemed attributable largely to the softening economic outlook. However, on days when the dollar's decline was sharpest, bond rates and their implied volatility moved up temporarily.

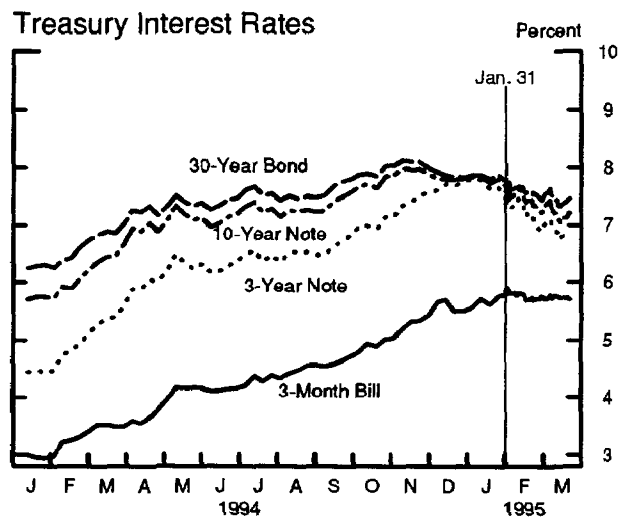
(3) The dollar's foreign exchange value fell 4-3/4 percent on a weighted-average basis against other G-10 currencies over the intermeeting period. It fell especially steeply around the time of the defeat of the Balanced Budget Amendment, perhaps suggesting eroding confidence in the ability of the U.S. government to address some of its serious economic concerns. Declines against the mark and the yen were particularly large--7 and 10-1/2 percent, respectively.

Chart 1

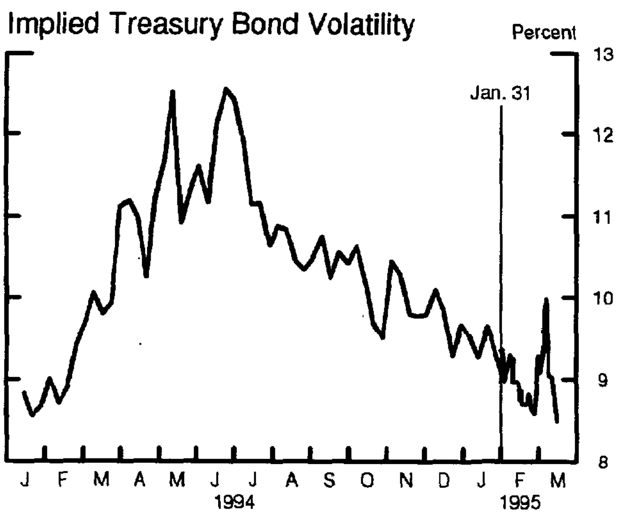








Weekly. Daily after Jan. 31.



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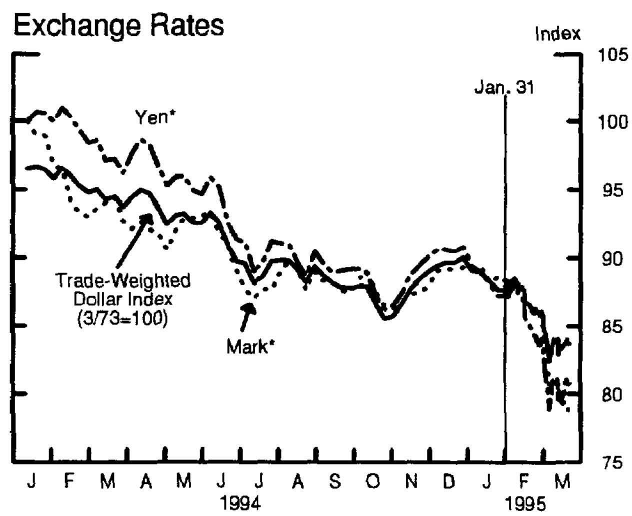


* Index, Jan 1994=100
Weekly. Daily after Jan. 31.

Long-term interest rates declined about 25 basis points in Germany, about half of the fall in the United States. The mark may have benefitted as well from stronger demands arising from political uncertainties in several European countries, notably Italy and Spain. The extent of the yen's strength against the dollar was somewhat puzzling; Japanese bond rates declined somewhat more than U.S. rates. The deterioration of the Mexican political and economic situation led to a sharp depreciation of the peso against the dollar and appeared to weigh on the dollar vis-a-vis major currencies. Intervention activity was substantial: U.S. monetary authorities purchased $1,420 million against marks and yen, split evenly between the System and the Treasury.

. The Bank of Mexico drew $1 billion on its swap line with the Federal Reserve early in the intermeeting period and later repaid $500 million out of the proceeds of a medium-term drawing of $3 billion on its swap line with the ESF. At this time, Mexico has outstanding drawings of $4 billion on the ESF and $1 billion on the Federal Reserve.

(4) Following a burst of growth in January, M2 has been nearly flat on net over the past two months, falling short of the 1-1/4 percent growth projected by the staff in the previous bluebook and leaving this aggregate a little above the lower bound of its 1-to-5 percent annual range.[3] The weakness in M2, particularly in money market funds, was mirrored by strengthening demands for investments

3. M1 also was about flat on net over February and March, although currency expanded at a 8-1/4 percent annual rate. Total reserves have declined at a 5-1/4 percent rate over the last two months, holding down expansion of the monetary base to a 6-1/4 percent pace.

outside of the monetary aggregates.[4] Investors have resumed net purchases of shares in bond funds after a year of redemptions, and purchases of stock funds have been brisk.[5] Also, noncompetitive tenders for Treasury securities have been heavy in recent months. Nonetheless, as in 1994, the growth of M2 has tracked that projected by the standard staff demand model. Based on the Greenbook projection for nominal GDP, the velocity of M2 has continued to increase in the first quarter, but less rapidly than last year.

(5) M3 has remained more robust than M2 in recent months, expanding at a 4 percent average pace over February and March, a little stronger than the staff expected. This aggregate in March is estimated to be slightly above its 0-to-4 percent range for 1995. The elevated growth of M3 appears to be associated with bank needs to fund loan growth. Large time deposits have been issued at a particularly rapid clip, and term Eurodollars and RPs have also been strong.

(6) Debt growth was relatively brisk on balance over the first few months of the year. Overall business borrowing has picked up in recent months, perhaps reflecting a widening financing gap. Business loans at banks surged at a 22 percent annual rate in February on the heels of similar growth in January; some deceleration, though to a still-hefty pace, seems to be in train in March. Commercial paper issuance also has been strong, while issuance of corporate bonds in public markets has picked up a little. By contrast, household borrowing is estimated to have moderated. Growth of consumer credit

4. M1 and M2 appear to have been depressed slightly in February and early March by delays in processing income tax refunds, which owed to stepped-up efforts by the IRS to curb fraud.

5. M2 plus stock and bond funds is estimated to have increased over February and March after declining since September.

in January was held down by weakness in auto loans. Consumer borrowing from banks slowed substantially in February, owing importantly to the virtual absence of tax-refund loans this year, but appears to have rebounded this month. In the tax-exempt sector, the volume of bonds outstanding likely has contracted, as bond issuance has been quite weak while retirements remain large. Total domestic nonfinancial sector debt is estimated to have expanded at a 6 percent pace through February, leaving this aggregate in the upper half of its 3-to-7 percent monitoring range.

MONEY, CREDIT, AND RESERVE AGGREGATES
(Seasonally adjusted annual rates of growth)

	Feb.	Mar.	Dec. to Mar.[1]	94:Q4 to Mar.[1]
Money and credit aggregates				
M1	-1.8	1.2	0.1	0.1
M2	-1.2	1.9	1.7	1.5
M3	2.8	5.1	5.0	4.5
Domestic nonfinancial debt	7.4	--	6.5	5.9
Federal	10.7	--	6.6	5.6
Nonfederal	6.1	--	6.4	6.0
Bank credit	4.2	9.1	8.2	7.7
Reserve measures[2]				
Nonborrowed reserves[3]	-2.7	-6.5	-4.0	-3.0
Total reserves	-4.2	-6.4	-5.0	-4.1
Monetary base	3.5	8.9	6.9	6.6
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	59	67	--	--
Excess reserves	946	824	--	--

1. Base period to February for debt aggregates.
2. Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements. Reserve figures for March assume excess reserves average $1 billion and adjustment and seasonal borrowings average $75 million in the maintenance periods ending March 29 and April 12.
3. Includes "other extended credit" from the Federal Reserve.

Policy alternatives

(7) Three policy alternatives are considered below. Under alternative B, federal funds trading would continue around 6 percent, in association with adjustment plus seasonal borrowing of $75 million.[6] Under alternative C, the federal funds rate would be increased to 6-1/2 percent by raising either the borrowing allowance to $125 million or the discount rate by 50 basis points. Alternative A, involving a reduction of the intended funds rate to 5-1/2 percent, could be effected by lowering either the borrowing allowance to $50 million or the discount rate by 50 basis points.

(8) A key element in assessing the appropriate stance of policy going forward is the interpretation of the causes and consequences of the sizeable movements in prices on securities and foreign exchange markets over recent months. As discussed in paragraph 2, the drop in dollar interest and exchange rates seemed primarily a response to the perceived softening in aggregate demand. The question is whether the market reaction has been appropriate to the new information in the sense of leaving rates at levels consistent with the Committee's objectives for the economy and prices. With an unchanged federal funds rate in the staff forecast, interest and exchange rates close to recent levels are associated with activity growing slowly enough to move the economy back to the neighborhood of its potential and core CPI inflation flattening out at a somewhat higher rate than in 1994. If the Committee believes such an outcome were both likely and acceptable, then it may be inclined to leave the current level of the federal funds rate in place, as under alternative B, unless and

6. Over the upcoming intermeeting period, the borrowing allowance likely will have to be raised to reflect the normal upturn in seasonal credit in the spring of the year.

until incoming economic data or a clarification of prospective fiscal policy begin to point to a different outlook.

(9) The softer cast to recent economic data along with statements by Federal Reserve officials have led market participants to the virtually unanimous opinion that the FOMC will keep its policy stance on hold at this Committee meeting. Consequently, there would likely be little change in interest rates in response to the choice of alternative B. While sentiment in foreign exchange markets has proven difficult to predict, no clear rationale presents itself for significant further dollar depreciation over the intermeeting period.

(10) A case for the 1/2 percentage point increase in the federal funds rate of alternative C could be made on the grounds that, with economic activity having already overshot its potential and the persistence of the slowdown in economic growth not yet firmly established, more insurance should be taken out against a serious deterioration in inflation trends. The risk of such an outcome would seem even greater if it were judged that markets have overreacted, implying undesirable additional stimulus from the declines in interest and exchange rates and the rise in stock prices. The need for prompt further policy firming would be especially pressing to the extent that the Committee were dissatisfied with the prospects in the staff forecast for a sustained higher level of core inflation. Judging from the alternative simulations in the Greenbook, even a 50 basis point increase in the federal funds rate would leave the core CPI inflation rate in 1996 above that in 1994 and might not be sufficient to restore a downward tilt in subsequent years.

(11) With financial markets having built in no near-term monetary policy tightening, choice of alternative C would come as a

surprise. Market participants might alter their perceptions of the Federal Reserve's longer-term intentions and likely reactions to future economic data. The resulting higher expected path of short-term interest rates over the intermediate term would act to raise bond rates, especially in real terms. But for nominal yields, the more favorable inflation prospects for the out years, and the associated reduction in expected short-term interest rates for those years, would serve as a partial offset. The unexpected rise in U.S. real interest rates across the term structure, other things equal, would provide support for the dollar on foreign exchange markets.

(12) The easing in reserve market conditions under alternative A could be justified if the unexpected weakness in the recent economic data were read as indicating that previous policy tightenings risked an unacceptably sharp slowdown in spending later this year--especially since a real federal funds rate remaining above its longer-term average might add to the restraint on demand already in the pipeline. Concerns in this regard might be accentuated by the further deterioration in the Mexican situation and repercussions on U.S. net exports. In this view, with pressures on resources possibly abating appreciably, the risks of worsening inflation would seem minimal. In effect, choice of alternative A would imply a view that not only have longer-term interest and exchange rates not overshot on the downside, but that policy may still be too tight to allow markets to compensate fully for oncoming economic weakness.

(13) The 50 basis point easing of the federal funds rate under alternative A also would surprise market participants. Both long- and short-term rates are likely to fall substantially as a result, as would the foreign exchange value of the dollar. Although

the Federal Reserve's anti-inflationary credibility has apparently increased over the last few months, it could begin to erode if incoming data were to indicate that inflation pressures were not abating, prompting the market to judge that the easing had been unwarranted. Under those circumstances, long-term rates would begin to retrace their initial declines, particularly if the dollar came under persistent, intense downward pressure.

(14) The table below shows staff projections of money and debt aggregates through September under the unchanged reserve market conditions of alternative B. (More detailed data, including money growth rates under alternatives A and C, are shown in the table and charts on the following pages.) From a March base, average M2 growth would pick up to a 2-1/2 percent rate, while average M3 growth would slow to a 3 percent pace.[7] The projected strengthening in M2 growth, despite the staff's forecast of weaker nominal GDP expansion, reflects both a continued rise in the offering rates on deposits and the reduced attractiveness of financial assets of longer maturities owing to the lower bond yields.[8] Diminishing M3 growth mirrors the

7. Over the six months ending in September, M1 would be little changed. Total reserves would decline at a 4 percent pace, reflecting a runoff of transactions deposits. With further rapid expansion of currency, however, the monetary base is expected to grow at about a 7 percent rate over the period. This projection does not take into account implementation of an additional sweep program from OCDs to MMDAs that recently came to the attention of the staff. The actual implementation is uncertain both in size and timing, but as planned, would occur May 1 and involve about $3 billion. This would reduce the growth rate of M1 from March to September by 1/2 percentage point, but would have no effect on M2.

8. The staff expects that individual nonwithheld payments over the April tax season will be substantially larger than in recent years. Considerable volatility in the monthly growth rates of liquid deposits in April and May is possible, depending upon individuals' behavior in building up liquid balances in advance of the April 17 tax date and the timing of clearings of tax checks against those accounts. On

(Footnote continues on next page)

anticipated moderation in bank funding needs following the outsized burst in lending activity over the first quarter of the year. The bulk of this slowdown in M3 is expected to be concentrated in large time deposits. By September, M2 would be in the lower half, and M3 near the top, of their respective 1-to-5 percent and 0-to-4 percent annual growth ranges. Somewhat slower growth in the monetary aggregates would result from the higher opportunity costs of alternative C, while somewhat faster growth would occur under alternative A. The

	Alternative B
Growth from March to September	
M2	2-1/2
M3	3
M1	1/4
Domestic Nonfinancial Debt[1]	4-3/4
Growth from 1994:Q4 to September	
M2	2-1/4
M3	3-3/4
M1	1/4
Domestic Nonfinancial Debt	5

1. February to September for debt aggregate.

effect of a 50-basis-point change in the federal funds rate on M2 growth over the six-month period would be expected to be about one-half percentage point. In neither a tightening nor an easing would

(Footnote continued from previous page)
balance, the staff has built in somewhat stronger liquid deposits in April and somewhat weaker in May arising from the heavier final payments this year. Later refunds contribute slightly to stronger deposit growth in April as well.

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in Billions									
Jan-95	3625.0	3625.0	3625.0	4326.4	4326.4	4326.4	1148.8	1148.8	1148.8
Feb-95	3621.5	3621.5	3621.5	4336.4	4336.4	4336.4	1147.1	1147.1	1147.1
Mar-95	3627.1	3627.1	3627.1	4354.9	4354.9	4354.9	1148.2	1148.2	1148.2
Apr-95	3639.8	3638.6	3637.4	4374.1	4373.4	4372.7	1150.3	1149.8	1149.3
May-95	3645.8	3642.2	3638.6	4382.9	4380.7	4378.5	1148.5	1147.0	1145.5
Jun-95	3655.1	3649.2	3643.3	4393.6	4389.9	4386.2	1150.2	1147.5	1144.8
Jul-95	3665.4	3657.4	3649.4	4405.8	4400.8	4395.9	1152.4	1148.2	1144.0
Aug-95	3675.1	3665.6	3656.1	4417.6	4411.8	4406.0	1154.6	1149.1	1143.6
Sep-95	3684.7	3673.9	3663.1	4429.6	4422.9	4416.2	1156.7	1150.0	1143.3
Monthly Growth Rates									
Jan-95	4.4	4.4	4.4	7.1	7.1	7.1	1.0	1.0	1.0
Feb-95	-1.2	-1.2	-1.2	2.8	2.8	2.8	-1.8	-1.8	-1.8
Mar-95	1.9	1.9	1.9	5.1	5.1	5.1	1.2	1.2	1.2
Apr-95	4.2	3.8	3.4	5.3	5.1	4.9	2.2	1.7	1.1
May-95	2.0	1.2	0.4	2.4	2.0	1.6	-1.8	-2.9	-4.0
Jun-95	3.1	2.3	1.6	2.9	2.5	2.1	1.7	0.5	-0.7
Jul-95	3.4	2.7	2.0	3.3	3.0	2.7	2.3	0.7	-0.8
Aug-95	3.2	2.7	2.2	3.2	3.0	2.8	2.4	0.9	-0.5
Sep-95	3.1	2.7	2.3	3.3	3.0	2.8	2.2	1.0	-0.3
Quarterly Average Growth Rates									
95 Q1	1.8	1.8	1.8	4.5	4.5	4.5	0.1	0.1	0.1
95 Q2	2.5	2.1	1.7	4.1	3.9	3.7	0.6	0.0	-0.5
95 Q3	3.1	2.5	1.8	3.1	2.8	2.4	1.7	0.3	-1.0
Growth Rate									
From To									
Dec-94 Mar-95	1.7	1.7	1.7	5.0	5.0	5.0	0.1	0.1	0.1
Dec-94 Jun-95	2.4	2.1	1.7	4.3	4.1	4.0	0.4	-0.1	-0.5
Mar-95 Jun-95	3.1	2.4	1.8	3.6	3.2	2.9	0.7	-0.2	-1.2
Mar-95 Sep-95	3.2	2.6	2.0	3.4	3.1	2.8	1.5	0.3	-0.9
94 Q4 Mar-95	1.5	1.5	1.5	4.5	4.5	4.5	0.1	0.1	0.1
94 Q4 Jun-95	2.2	1.9	1.6	4.1	4.0	3.8	0.4	-0.0	-0.4
94 Q4 Sep-95	2.5	2.2	1.8	3.9	3.7	3.5	0.9	0.2	-0.5
94 Q4 95 Q2	2.1	1.9	1.7	4.3	4.2	4.1	0.3	0.1	-0.2
94 Q4 95 Q3	2.5	2.1	1.8	3.9	3.8	3.6	0.8	0.2	-0.5

1994 Target Ranges: 1.0 to 5.0 (M2) 0.0 to 4.0 (M3)

Chart 2

ACTUAL AND TARGETED M2

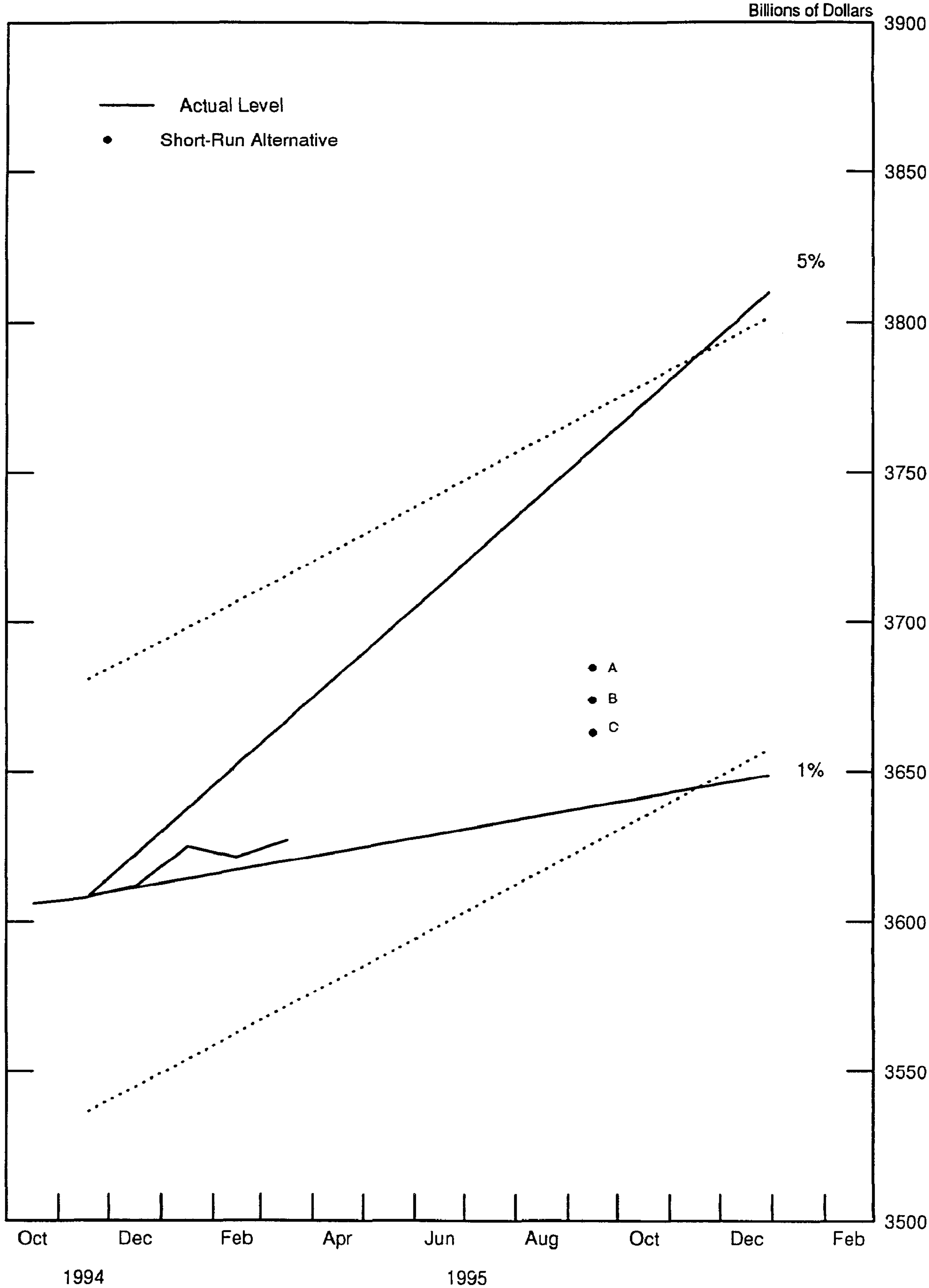


Chart 3

ACTUAL AND TARGETED M3

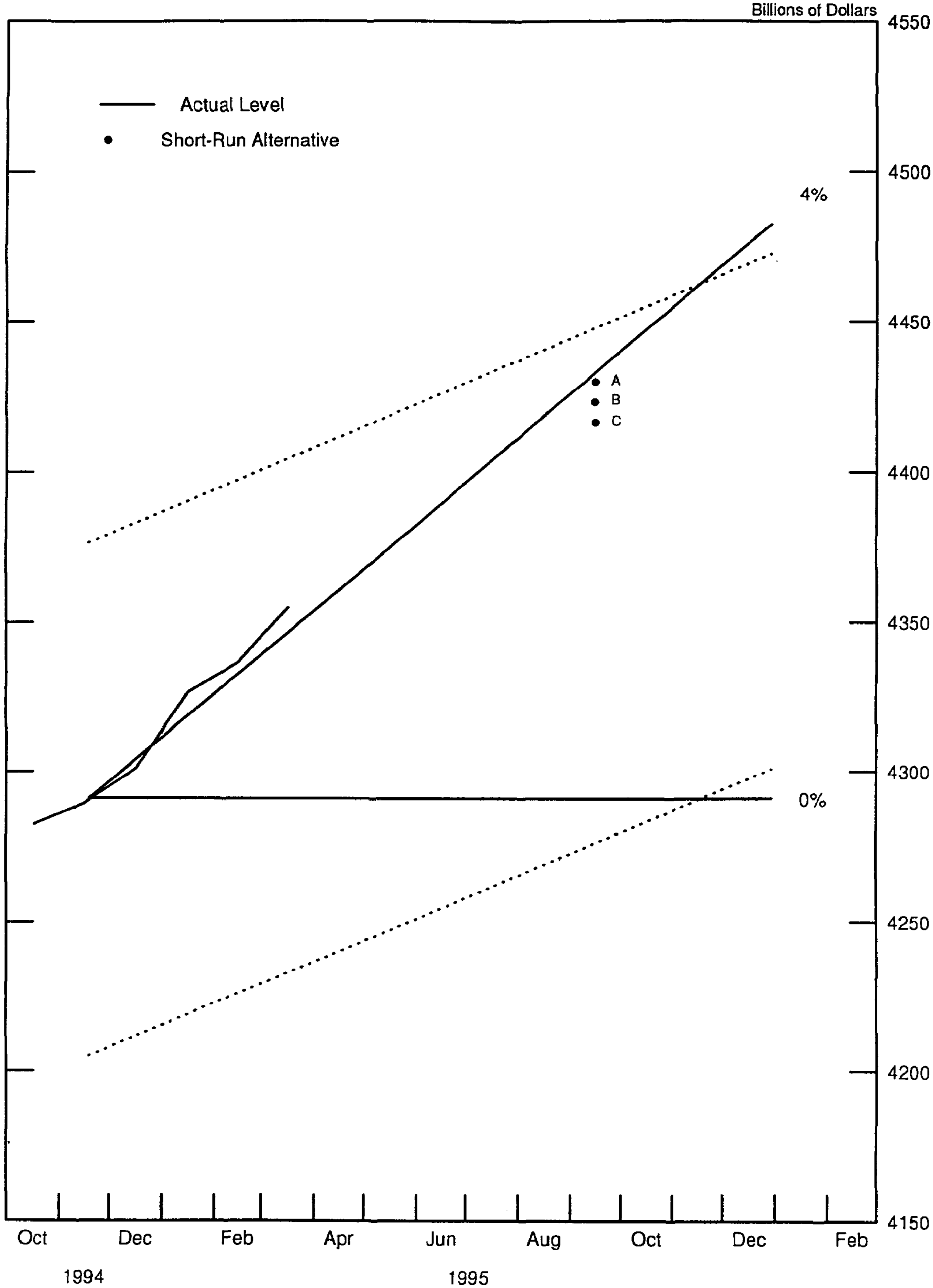
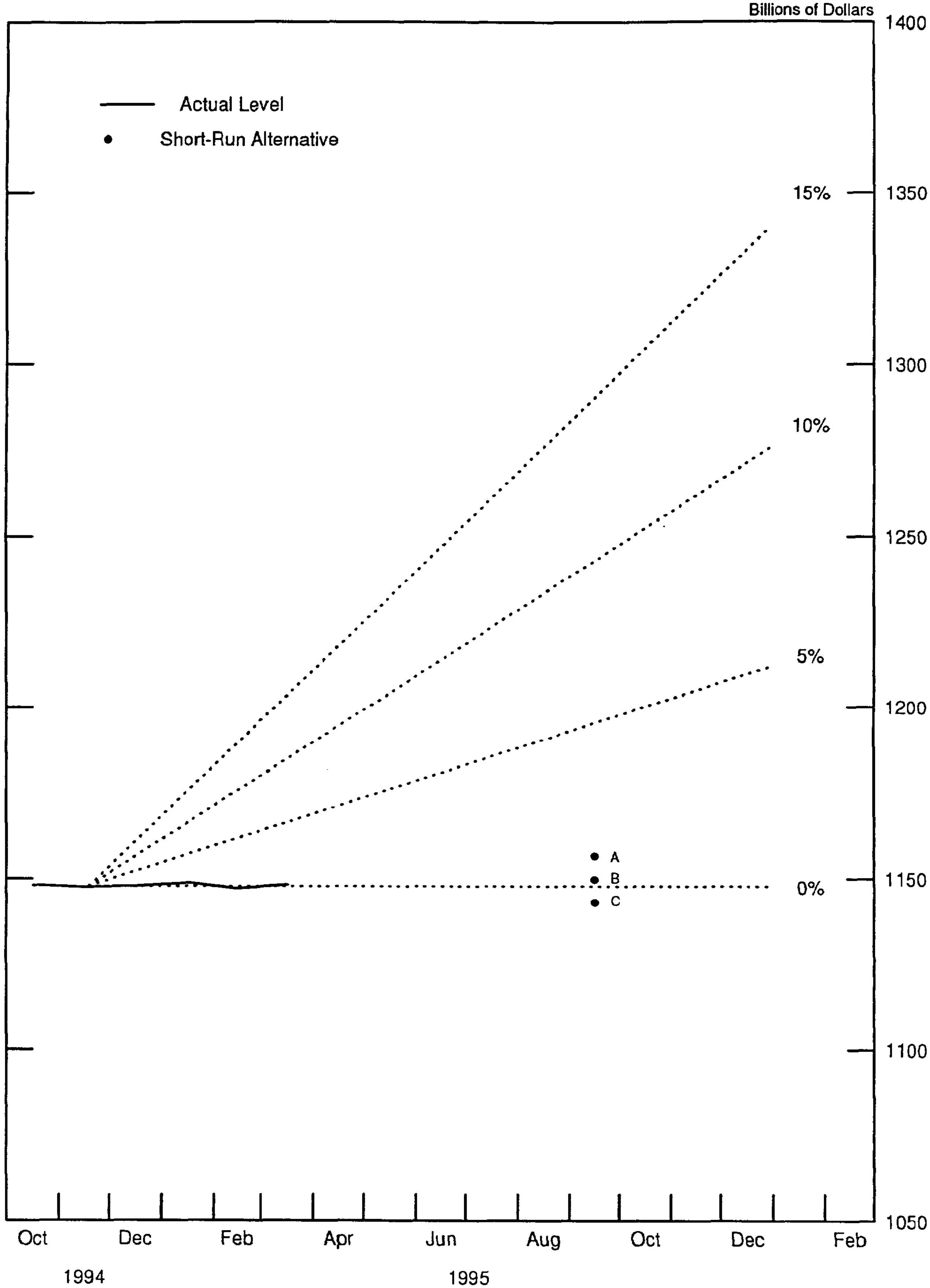


Chart 4

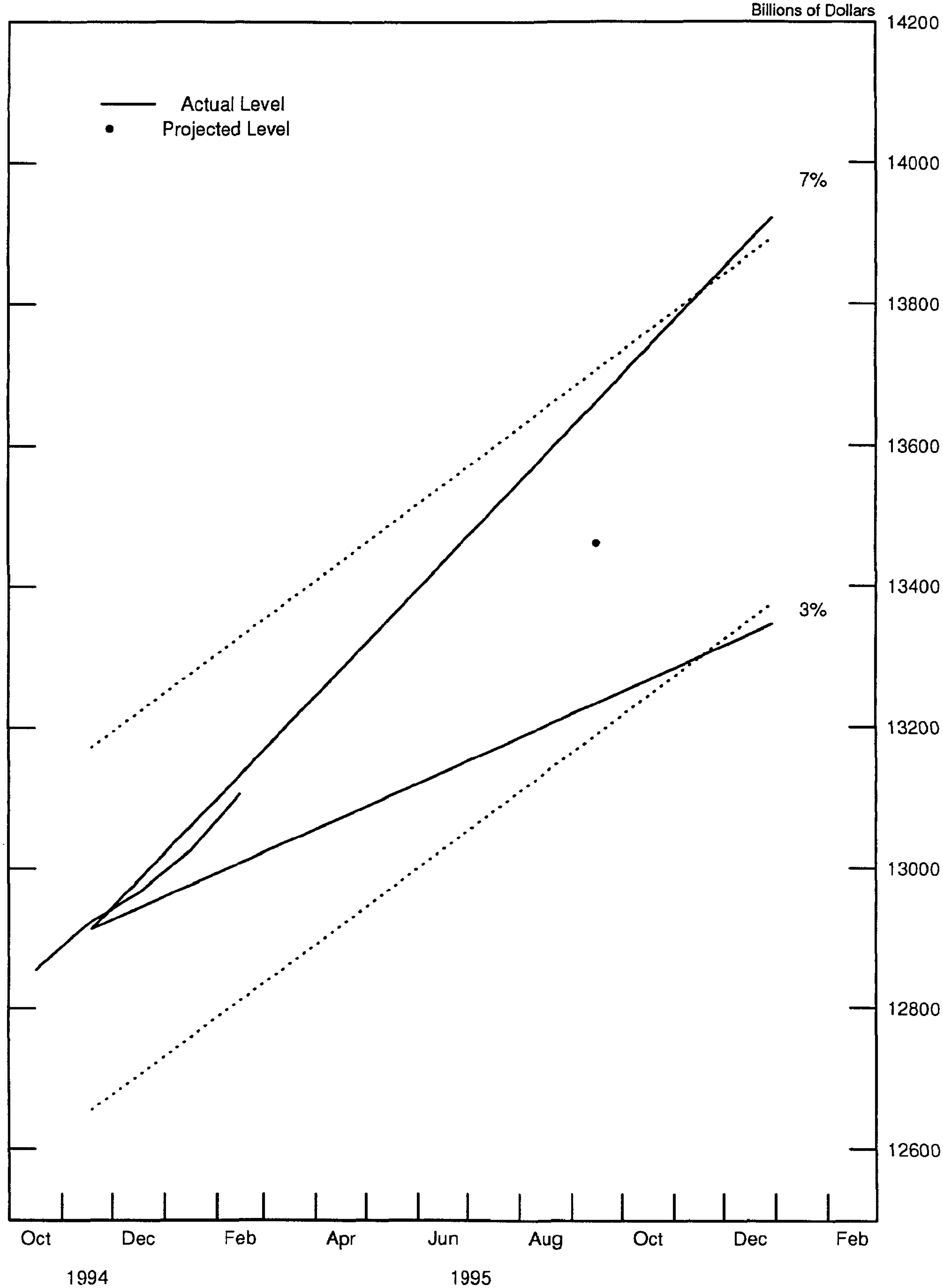
M1



Billions of Dollars
Actual Level
Short-Run Alternative
15%
10%
5%
0%
A
B
C
1400
1350
1300
1250
1200
1150
1100
1050
Oct
Dec
Feb
Apr
Jun
Aug
Oct
Dec
Feb
1994
1995

Chart 5

DEBT


Billions of Dollars
Actual Level
Projected Level
7%
3%
14200
14000
13800
13600
13400
13200
13000
12800
12600
Oct
Dec
Feb
Apr
Jun
Aug
Oct
Dec
Feb
1994
1995

the growth of the broader aggregates be expected to breach the upper or lower bands of their annual ranges, although M3 is virtually at the upper end of its range under alternative A.

(15) Consistent with the forecasted moderation in nominal spending, the debt of domestic nonfinancial sectors is expected to slow to around a 4-3/4 percent pace from February to September, bringing its rate of growth from the fourth quarter of last year to 5 percent--the mid-point of its monitoring range. Its nonfederal component is projected to follow a virtually identical pattern. Borrowing by nonfinancial businesses is likely to edge off; enlarged bond issuance brought about by declines in long-term interest rates should be more than offset by an ebbing of bank lending and commercial paper issuance. Household borrowing should moderate with spending, led by a reduction in flows of consumer credit, which might also be affected by increased interest charges. The tendency toward increasingly generous provision of credit by banks and other institutional lenders might well draw to a close as rising debt service burdens and the economic slowdown begin to raise some cautionary flags about prospective credit quality.

Directive Language

(16) Presented below is draft wording for the operational paragraph that includes the usual options for Committee consideration.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/MAINTAIN/increase somewhat the existing degree of pressure on reserve positions, ~~taking account of a possible increase in the discount rate~~. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat (SLIGHTLY) greater reserve restraint (WOULD) (MIGHT) or somewhat (SLIGHTLY) lesser reserve restraint would (MIGHT) be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over coming months.

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year	3-month	1-month	fund	loan	3-year	10-year	30-year	offered	Buyer	fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
94 -- High	5.85	5.70	6.26	6.73	6.31	6.11	5.12	8.50	7.79	8.00	8.13	9.05	7.37	9.57	9.25	6.79
-- Low	2.97	2.94	3.12	3.35	3.11	3.11	2.68	6.00	4.44	5.70	6.25	7.16	5.49	7.02	6.97	4.12
95 -- High	5.97	5.81	6.31	6.75	6.39	6.08	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
-- Low	5.40	5.57	5.88	5.98	6.11	5.73	5.16	8.50	6.82	7.13	7.40	8.32	6.25	8.77	8.38	6.41
Monthly																
Mar 94	3.34	3.50	3.78	4.11	3.77	3.63	2.86	6.06	5.40	6.48	6.91	7.82	6.16	7.96	7.68	4.55
Apr 94	3.56	3.68	4.09	4.57	4.01	3.81	3.03	6.45	5.99	6.97	7.27	8.20	6.48	8.55	8.32	4.96
May 94	4.01	4.14	4.60	5.03	4.51	4.28	3.29	6.99	6.34	7.18	7.41	8.37	6.46	8.78	8.60	5.46
Jun 94	4.25	4.14	4.55	4.98	4.52	4.36	3.61	7.25	6.27	7.10	7.40	8.30	6.38	8.62	8.40	5.45
Jul 94	4.26	4.33	4.75	5.17	4.73	4.49	3.75	7.25	6.48	7.30	7.58	8.45	6.48	8.82	8.61	5.52
Aug 94	4.47	4.48	4.88	5.25	4.81	4.65	3.95	7.51	6.50	7.24	7.49	8.36	6.44	8.82	8.51	5.53
Sep 94	4.73	4.62	5.04	5.43	5.03	4.90	4.15	7.75	6.69	7.46	7.71	8.62	6.55	8.93	8.64	5.54
Oct 94	4.76	4.95	5.39	5.75	5.51	5.02	4.30	7.75	7.04	7.74	7.94	8.80	6.83	9.25	8.93	5.78
Nov 94	5.29	5.29	5.72	6.13	5.79	5.40	4.62	8.15	7.44	7.96	8.08	8.95	7.27	9.43	9.17	6.10
Dec 94	5.45	5.60	6.21	6.67	6.29	6.08	5.00	8.50	7.71	7.81	7.87	8.78	7.07	9.51	9.20	6.66
Jan 95	5.53	5.71	6.21	6.59	6.24	5.86	5.17	8.50	7.66	7.78	7.85	8.75	6.84	9.40	9.15	6.82
Feb 95	5.92	5.77	6.03	6.28	6.16	6.05	5.36	9.00	7.25	7.47	7.61	8.55	6.45	9.13	8.83	6.68
Weekly																
Dec 7 94	5.47	5.67	6.15	6.57	6.26	6.07	4.91	8.50	7.62	7.82	7.92	8.78	7.17	9.50	9.15	6.56
Dec 14 94	5.48	5.70	6.26	6.73	6.31	6.11	4.97	8.50	7.72	7.81	7.88	8.79	7.02	9.47	9.25	6.75
Dec 21 94	5.56	5.51	6.20	6.64	6.26	6.09	5.04	8.50	7.69	7.80	7.85	8.75	6.99	9.53	9.18	6.79
Dec 28 94	5.45	5.51	6.22	6.73	6.30	6.05	5.12	8.50	7.79	7.81	7.83	8.78	6.97	9.50	9.18	6.75
Jan 4 95	5.40	5.57	6.25	6.72	6.39	5.96	5.18	8.50	7.80	7.84	7.88	8.77	6.94	9.57	9.22	6.83
Jan 11 95	5.53	5.72	6.31	6.75	6.28	5.79	5.18	8.50	7.80	7.85	7.88	8.70	6.87	9.33	9.19	6.87
Jan 18 95	5.45	5.63	6.16	6.56	6.16	5.73	5.16	8.50	7.63	7.73	7.81	8.81	6.78	9.41	9.05	6.82
Jan 25 95	5.42	5.76	6.21	6.57	6.24	5.90	5.17	8.50	7.67	7.81	7.89	8.69	6.78	9.31	9.13	6.75
Feb 1 95	5.63	5.80	6.15	6.43	6.22	6.03	5.23	8.57	7.45	7.67	7.76	8.54	6.63	9.18	8.94	6.75
Feb 8 95	5.95	5.81	6.10	6.39	6.18	6.05	5.37	9.00	7.38	7.55	7.66	8.62	6.44	9.26	8.80	6.69
Feb 15 95	5.93	5.79	6.09	6.37	6.17	6.06	5.43	9.00	7.39	7.55	7.64	8.55	6.40	9.12	8.84	6.66
Feb 22 95	5.94	5.71	5.97	6.19	6.14	6.06	5.48	9.00	7.16	7.40	7.58	8.49	6.34	8.96	8.73	6.60
Mar 1 95	5.88	5.74	5.91	6.07	6.11	6.03	5.49	9.00	6.95	7.27	7.50	8.52	6.31	9.04	8.53	6.51
Mar 8 95	5.93	5.75	5.96	6.15	6.18	6.07	5.61	9.00	7.06	7.37	7.57	8.43	6.40	8.91	8.62	6.50
Mar 15 95	5.94	5.75	5.91	6.04	6.17	6.08	5.50	9.00	6.88	7.18	7.43	8.32	6.25	8.81	8.38	6.44
Mar 22 95	5.97	5.74	5.88	5.98	6.13	6.05	5.52	9.00	6.82	7.13	7.40	--	6.34	8.77	8.40	6.41
Daily																
Mar 17 95	5.95	5.74	5.88	5.98	6.13	6.05	--	9.00	6.81	7.12	7.37	--	--	--	--	--
Mar 22 95	5.97	5.73	5.87	6.00	6.12	6.05	--	9.00	6.87	7.21	7.46	--	--	--	--	--
Mar 23 95	6.01	5.71	5.86	5.98	6.12	6.04	--	9.00	6.87	7.21	7.47	--	--	--	--	--

NOTE: Weekly data for columns 1 through 11 are statement week averages. Data in column 7 are taken from Donoghue's Money Fund Report. Columns 12, 13 and 14 are 1-day quotes for Friday, Thursday or Friday, respectively, following the end of the statement week. Column 13 is the Bond Buyer revenue index. Column 14 is the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments. Column 15 is the average contract rate on new commitments for fixed-rate mortgages (FRMs) with 80 percent loan-to-value ratios at major institutional lenders. Column 16 is the average initial contract rate on new commitments for 1-year, adjustable-rate mortgages (ARMs) at major institutional lenders offering both FRMs and ARMs with the same number of discount points.

Strictly Confidential (FR)-
Class II FOMC

MARCH 27, 1995

Money and Credit Aggregate Measures

Seasonally adjusted

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	L	total loans and investments[1]	U. S. government[2]	other[2]	total[2]
	1	2	3	4	5	6	7	8	9	10
Annual growth rates(%):										
Annually (Q4 to Q4)										
1992	14.3	2.0	-2.3	-6.3	0.5	1.5	3.7	10.7	2.8	4.7
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.5	4.1	5.2
1994	2.3	0.9	0.3	3.6	1.4	2.4	6.8	5.7	5.0	5.2
Quarterly(average)										
1994-Q1	5.5	1.8	0.1	-5.8	0.6	2.4	8.7	7.3	5.0	5.6
1994-Q2	2.6	1.7	1.3	-1.2	1.3	1.6	6.6	5.4	4.5	4.8
1994-Q3	2.4	0.7	-0.1	8.6	1.9	1.7	7.2	3.9	4.9	4.7
1994-Q4	-1.2	-0.4	-0.0	13.1	1.7	3.9	4.3	5.9	5.3	5.5
Monthly										
1994-FEB.	4.8	-1.0	-3.7	-20.1	-3.9	-0.6	3.3	6.0	4.8	5.1
MAR.	4.3	3.8	3.5	-4.6	2.5	0.7	7.9	8.8	3.9	5.2
APR.	1.8	2.6	3.0	4.1	2.9	3.6	10.3	3.9	4.9	4.6
MAY	0.7	1.0	1.2	-4.6	0.2	1.7	2.3	4.2	4.4	4.3
JUNE	3.7	-1.1	-3.3	15.5	1.4	-0.7	4.5	4.9	4.7	4.7
JULY	5.4	3.4	2.4	11.6	4.6	5.1	13.0	1.1	4.8	3.8
AUG.	-1.5	-1.1	-1.0	1.6	-0.7	-0.5	4.7	6.1	5.2	5.4
SEP.	0.2	-0.6	-1.0	12.6	1.4	0.7	4.5	6.0	5.7	5.8
OCT.	-3.0	-1.3	-0.5	19.5	1.9	5.8	3.4	5.4	5.3	5.3
NOV.	-0.6	0.6	1.1	9.2	1.9	3.6	3.7	8.5	4.9	5.9
DEC.	0.3	1.4	1.8	13.6	3.3	9.6	7.1	1.1	5.4	4.3
1995-JAN.	1.0	4.4	5.9	21.2	7.1	4.5	11.3	2.5	6.7	5.6
FEB. p	-1.8	-1.2	-0.9	23.1	2.8		4.2			
Levels ($billions):										
Monthly										
1994-OCT.	1148.1	3606.1	2458.0	676.3	4282.4	5233.6	3290.7	3469.6	9386.9	12856.5
NOV.	1147.5	3607.8	2460.3	681.5	4289.3	5249.5	3300.8	3494.1	9425.1	12919.2
DEC.	1147.8	3611.9	2464.0	689.2	4301.1	5291.5	3320.3	3497.4	9467.6	12965.0
1995-JAN.	1148.8	3625.0	2476.2	701.4	4326.4	5311.3	3351.7	3504.7	9520.5	13025.1
FEB. p	1147.1	3621.5	2474.4	714.9	4336.4		3363.5			
Weekly										
1995-FEB. 6	1150.4	3626.8	2476.5	705.5	4332.4					
13	1146.8	3621.5	2474.8	710.4	4331.9					
20	1145.5	3618.6	2473.1	713.9	4332.5					
27	1146.2	3620.4	2474.2	726.7	4347.1					
MAR. 6 p	1147.2	3617.3	2470.1	727.8	4345.2					
13 p	1147.0	3625.3	2478.3	726.9	4352.2					

1. Adjusted for breaks caused by reclassifications.
2. Debt data are on a monthly average basis, derived by averaging end-of-month levels of adjacent months, and have been adjusted to remove discontinuities.

p preliminary
pe preliminary estimate

Strictly Confidential (FR)-
Class II FOMC

MARCH 27, 1995

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA[1]	Savings deposits[2]	Small denomi-nation time deposits[3]	Money market mutual funds: general purpose and broker/dealer[4]	Money market mutual funds: Institutions only	Large denomi-nation time deposits[5]	Term RP's NSA[1]	Term Euro-dollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptan-ces
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels ($billions):															
Annual (Q4)															
1992	290.1	336.5	380.0	83.0	1177.5	882.2	359.2	205.8	358.4	81.8	46.7	154.5	331.0	365.5	20.6
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.9	46.5	170.8	330.2	383.8	15.5
1994	352.5	382.9	404.0	114.2	1157.5	806.5	384.5	180.7	357.7	103.7	54.0	179.9	364.8	411.6	10.9
Monthly															
1994-FEB.	328.9	388.6	411.6	94.9	1221.9	775.0	359.5	182.1	331.8	92.3	47.9	173.2	341.7	401.2	14.9
MAR.	332.0	388.6	412.5	100.0	1222.0	772.0	361.9	183.8	330.3	95.5	46.2	173.9	344.9	390.8	15.5
APR.	334.5	388.1	412.0	98.9	1220.0	770.1	370.5	183.1	329.8	99.0	46.5	174.8	354.7	387.1	14.0
MAY	337.3	385.6	412.4	102.5	1214.8	770.8	373.5	177.5	332.4	98.0	47.7	175.7	357.3	392.6	11.6
JUNE	340.0	386.3	412.5	106.8	1206.8	772.9	370.7	177.9	335.0	102.5	50.3	176.7	348.8	392.7	10.8
JULY	342.8	388.0	413.1	109.3	1201.2	775.4	375.8	178.7	338.2	103.1	51.0	177.7	353.4	392.8	10.9
AUG.	345.1	386.6	410.8	110.8	1192.6	780.7	376.2	177.4	341.5	101.3	51.2	178.5	357.7	387.7	11.4
SEP.	347.2	386.5	408.9	111.7	1183.7	786.5	376.6	176.3	347.3	102.2	52.1	179.1	350.4	391.7	11.9
OCT.	350.0	384.4	405.4	113.6	1171.0	796.0	379.7	180.8	353.0	102.3	53.0	179.5	355.7	404.2	11.7
NOV.	353.0	382.3	403.8	112.7	1157.6	806.8	384.2	180.5	357.7	103.4	55.3	179.9	365.2	404.0	10.9
DEC.	354.5	382.0	402.9	116.3	1143.9	816.6	389.7	180.8	362.3	105.4	53.7	180.3	373.6	426.5	10.1
1995-JAN.	357.7	383.5	399.2	124.5	1129.5	832.0	392.6	186.3	363.2	109.3	55.0	180.5	366.1	428.6	9.7
FEB. p	358.8	384.1	395.7	119.3	1111.8	852.0	392.2	180.4	373.0	112.5	57.8				

1. Net of money market mutual fund holdings of these items.
2. Includes money market deposit accounts.
3. Includes retail repurchase agreements. All IRA and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.
4. Excludes IRA and Keogh accounts.
5. Net of large denomination time deposits held by money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.

p preliminary

March 24, 1995

NET CHANGES IN SYSTEM HOLDINGS OF SECURITES[1]

Millions of dollars, not seasonally adjusted

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total[4]	Net RPs[5]
	Net purchases[2]	Redemptions (-)	Net change	Net purchases[3]				Redemptions (-)	Net Change			
				within 1 year	1-5	5-10	over 10					
1992	13,086	1,600	11,486	1,096	13,118	2,818	2,333	---	19,365	632	30,219	-13,215
1993	17,717	---	17,717	1,223	10,350	4,168	3,457	767	18,431	774	35,374	5,974
1994	17,484	---	17,484	1,238	9,168	3,818	3,606	2,337	15,493	1,002	31,975	-7,412
1993 ---Q1	---	---	---	279	1,441	716	705	---	3,141	289	2,851	-461
---Q2	7,749	---	7,749	244	2,490	1,147	1,110	---	4,990	91	12,648	10,624
---Q3	1,268	---	1,268	511	3,700	1,297	817	298	6,028	228	7,067	-8,644
---Q4	8,700	---	8,700	189	2,719	1,008	826	468	4,273	166	12,807	4,455
1994 ---Q1	2,164	---	2,164	147	1,413	1,103	618	616	2,665	411	4,418	-11,663
---Q2	6,639	---	6,639	364	2,817	1,117	896	440	4,754	307	11,086	4,179
---Q3	1,610	---	1,610	151	2,530	938	840	302	4,157	114	5,654	-8,530
---Q4	7,071	---	7,071	575	2,408	660	1,252	979	3,916	169	10,818	8,602
1994 March	900	---	900	147	1,413	1,103	618	---	3,281	108	4,073	40
April	1,101	---	1,101	209	2,817	1,117	896	440	4,599	180	5,520	-5,332
May	1,395	---	1,395	155	---	---	---	---	155	70	1,480	5,441
June	4,143	---	4,143	---	---	---	---	---	---	58	4,085	4,070
July	---	---	---	---	---	---	---	302	-302	20	-322	-5,023
August	1,610	---	1,610	---	---	---	---	---	---	63	1,547	2,793
September	---	---	---	151	2,530	938	840	---	4,459	31	4,428	-6,301
October	518	---	518	450	---	---	---	979	-529	62	-72	819
November	6,109	---	6,109	---	200	---	---	---	200	70	6,239	4,718
December	444	---	444	125	2,208	660	1,252	---	4,245	37	4,652	3,066
1995 January	---	---	---	---	---	---	---	621	-621	91	-712	-14,471
February	---	---	---	---	---	---	---	---	---	55	-55	-686
Weekly												
December 21	444	---	444	---	---	---	---	---	---	---	444	3,624
28	---	---	---	---	---	---	---	---	---	7	-7	1,419
January 4	---	---	---	---	---	---	---	---	---	---	---	3,084
11	---	---	---	---	---	---	---	---	---	27	-27	-6,919
18	---	---	---	---	---	---	---	621	-621	---	-621	3,849
25	---	---	---	---	---	---	---	---	---	64	-64	-10,071
February 1	---	---	---	---	---	---	---	---	---	---	---	-2,855
8	---	---	---	---	---	---	---	---	---	---	---	-4,452
15	---	---	---	---	---	---	---	---	---	---	---	5,932
22	---	---	---	---	---	---	---	---	---	---	---	-1,122
March 1	---	---	---	---	---	---	---	---	---	55	-55	-620
8	---	---	---	---	---	---	---	---	---	---	---	-2,663
15	---	---	---	---	---	---	---	---	---	---	---	10,858
22	---	---	---	---	---	---	---	---	---	---	---	-5,732
Memo: LEVEL (bil. $)[6]												
March 22			185.4	214.8	86.7	27.0	35.5		364.0		375.4	-14.1

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.
4. Reflects net change in redemptions (-) of Treasury and agency securities.
5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).
6. The levels of agency issues were as follows:

	within 1 year	1-5	5-10	over 10	total
March 22	1.6	1.4	0.5	0.0	3.5