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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

January 26, 1996

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) At the conclusion of its meeting on December 19, the FOMC announced a slight easing of reserve market conditions, trimming the federal funds rate from 5-3/4 percent to 5-1/2 percent. In implementing that policy over the intermeeting period, Desk operations were complicated by large swings in reserve demands associated with the year-end and in reserve supplies stemming from variations in the Treasury cash balance and the effects of foul winter weather on float.¹ As a consequence, the federal funds rate was volatile at times, although it averaged close to its intended level.²

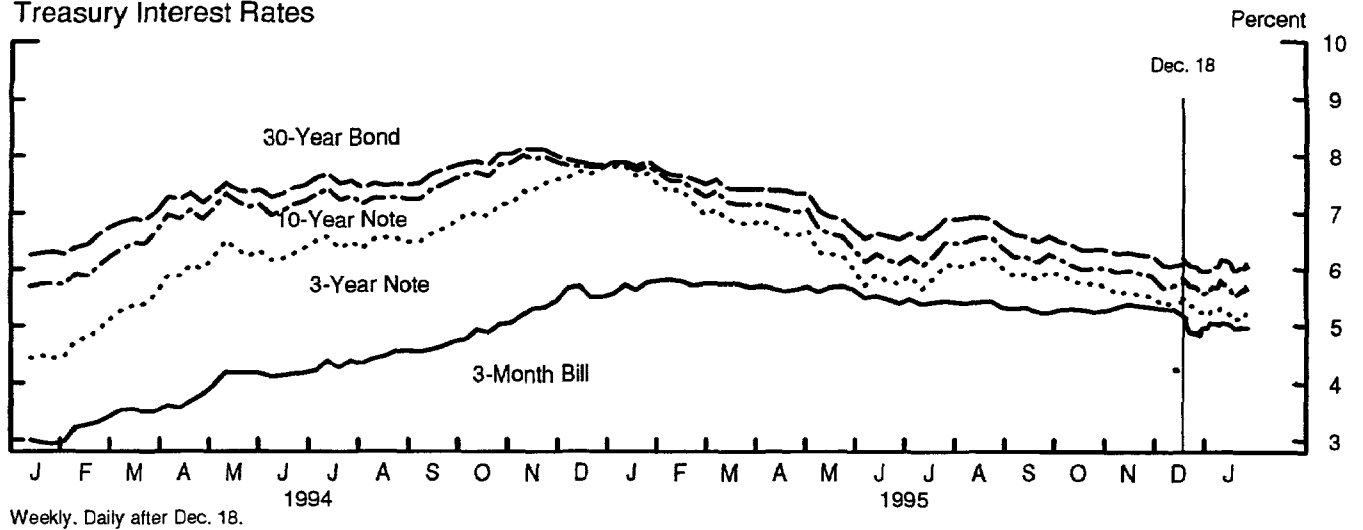
(2) Most market interest rates have fallen 15 to 35 basis points, on balance, since the last FOMC meeting, with a portion of that decline following on the heels of the Committee's action. As the intermeeting period unfolded, the expectation of fiscal restraint, the soft tone of anecdotal information and of some of the limited official data releases, and renewed concerns about the vigor of the expansion in several of our major trading partners apparently led many analysts to trim their assessment of the near-term prospects for spending. In reflection of this revised outlook, market participants seem to have built in a greater degree of easing in Federal Reserve policy in coming months, judging from futures rates (chart). In capital markets,

1. The allowance for adjustment plus seasonal borrowing, kept unchanged in the days immediately following the FOMC meeting, was eventually reduced \$25 million, to \$50 million, to take account of the seasonal downturn in borrowing. Firm reserve market conditions at times and technical problems at a money-center bank pushed borrowing well above its allowance on average over the intermeeting period.

2. Volatility in the funds market has been damped in the current maintenance period, despite a decline in required operating balances to levels last seen in the turbulent episode of early 1991.

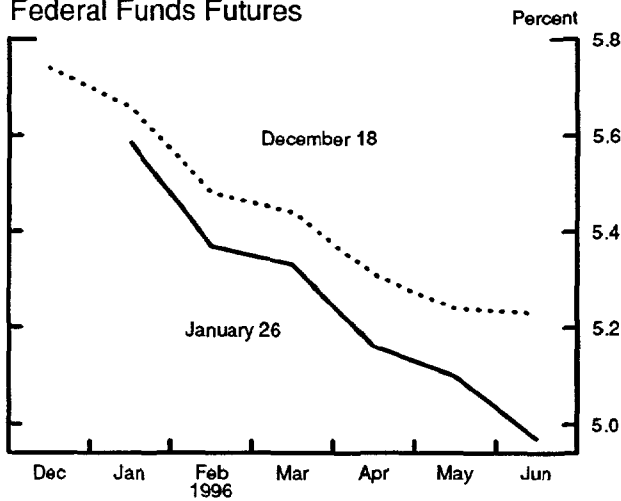
Chart 1

Treasury Interest Rates

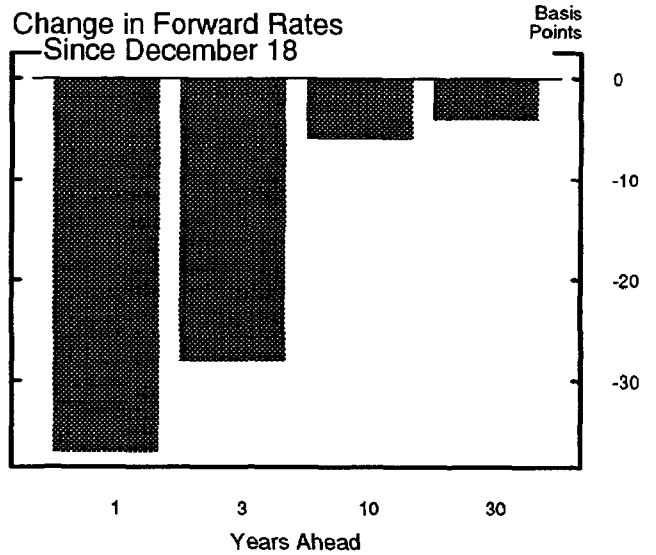


Weekly. Daily after Dec. 18.

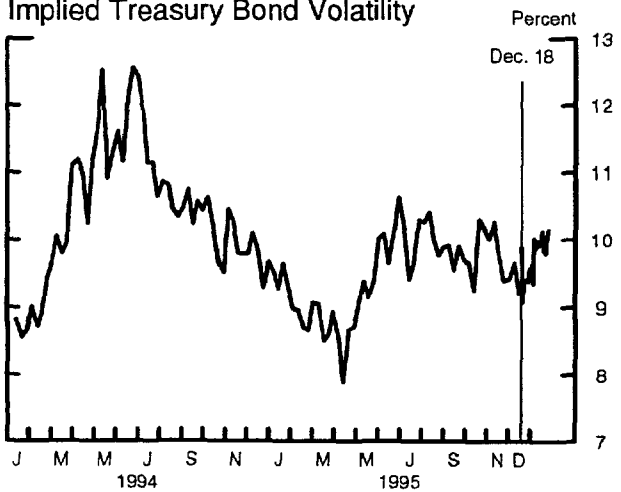
Federal Funds Futures



Change in Forward Rates Since December 18

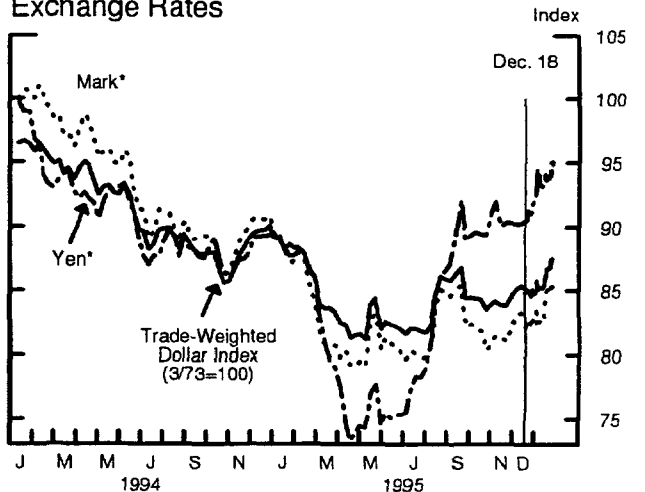


Implied Treasury Bond Volatility



Weekly. Daily after Dec. 18.

Exchange Rates



* Index, Jan 1994=100
Weekly. Daily after Dec. 18.

the largest decline in one-year forward rates for Treasury securities, about 35 basis points, was posted at one- to five-year maturities (chart). Market prices proved sensitive to the give and take of the debate on the budget in Washington. At times, bond yields approached two-year lows as investors anticipated the possibility of an agreement that would bring the budget into balance early in the next decade--or at least considerable near-term fiscal restraint when the economy already might be softening. Although the Secretary of the Treasury has warned that he will run out of room to borrow no later than March 1, financial markets are placing almost no weight on the possibility of default. Most major equity indexes rose 2 to 3-1/2 percent over the intermeeting period.

(3) Despite the decline in U.S. interest rates, the dollar's weighted-average exchange value rose a little more than 3 percent over the intermeeting period. Upward movements against European currencies were associated with even larger decreases in most interest rates there than in the United States, owing to increasing signs of weakening economic growth and related expectations of monetary easing. Interest rates in Japan generally rose in anticipation of economic recovery, but the dollar nonetheless appreciated against the yen on further signs of a narrowing of U.S. and Japanese current account imbalances.

; the Desk did not intervene.

(4) Incoming information suggests that the expansion of debt slowed in recent months, with total debt growing at an average annual rate of only 3-3/4 percent over the final two months of 1995.³ The

3. From the fourth quarter of 1994 to the fourth quarter of 1995, the debt of nonfinancial sectors expanded 5-1/4 percent, putting the aggregate just above the midpoint of its 3-to-7 percent annual range.

deceleration owed primarily to net federal debt, which did not increase on a seasonally adjusted basis, in part because, in order to deal with debt-ceiling constraints, the Treasury relied more on running down its cash balance than seasonal norms and because spending was held down by restrictive continuing resolutions. Growth of debt of nonfederal sectors in recent months remained on the slow track established around mid-year. Nonetheless, households continued to borrow at a brisk pace, despite rising debt-service burdens and delinquency rates. Capital market issuance held steady, in part as some corporations took advantage of lower market rates to fund longer term and replace bank debt. There were a few indications that obtaining credit might be getting harder--or at least that the trend toward greater availability is coming to an end: Several bank loan officers reported recently that lending standards had been tightened for both consumer and business borrowers. However, borrowing terms remained attractive, with spreads narrow in the market and still being eased at banks, although not as aggressively.

(5) Preliminary data suggest that bank credit growth has picked up noticeably in January from the sluggish pace that marked the closing months of 1995, even as banks lightened their holdings of government securities and securitized some of their loans. In particular, the growth of total loans has picked up briskly this month, pulled along by strength in the business and consumer categories. With bank credit reviving, M3 also staged a comeback, growing at rates of 4-1/4 and 8-1/4 percent, respectively, in December and January.⁴

4. The monetary data in this bluebook incorporate new benchmarks and seasonal adjustments, as well as a minor, technical redefinition of M2. Overnight Eurodollar and overnight wholesale RPs have been shifted from M2 to non-M2 M3. An appendix provides more detail on the new benchmarks and seasonal adjustments.

On a fourth-quarter-to-fourth-quarter basis, M3 increased at a 6 percent rate, placing it at the upper bound of its 2-to-6 percent annual range.

(6) The expansion of M2, at a rate of 5-1/2 percent over the last two months, picked up a bit relative both to the sluggish pace of the fall and to staff expectations at the time of the December FOMC meeting. Further declines in money market rates compared with sluggishly adjusting rates on deposits and money market funds and the flatness of the term structure appear to have made M2 assets relatively more attractive. Some of the growth in M2 came at the expense of bond mutual funds, which continued to post light inflows, and, perhaps, at the expense of direct investment in securities, although information on such portfolio flows is scant.⁵ All told, M2 in the fourth quarter was 4-1/4 percent above its level in the fourth quarter of 1994, in the upper portion on its 2-to-5 percent annual range, and its velocity, although most likely edging higher in the fourth quarter, was flat on the year.

(7) M1 continues to run off, contracting at rates of 4-1/2 and 6-1/2 percent in December and January, respectively.⁶ Programs to sweep funds from OCDs to avoid reserve requirements have spread further, serving to trim about 12-1/4 percentage points from average growth rates of the aggregate in the past two months.⁷ Currency

5. Preliminary indications suggest that M2 plus stock and bond mutual funds expanded at rates of 9 and 5-1/4 percent, respectively, in December and January. From the fourth quarter of 1994 to the fourth quarter of last year, this measure expanded at a 7-1/2 percent rate, with about 3-1/2 percentage points of this increase representing the effects of capital gains.

6. In December and January, the monetary base expanded at an average rate of 3-1/2 percent, while total reserves declined at an 8-3/4 percent rate.

7. Adjusted for retail sweeps, the monetary base expanded at an average rate of 6-3/4 percent over the past two months, while total reserves rose at a 15-1/2 percent rate.

growth, however, revived some, in part owing to a stirring in foreign demands in December. Demand deposits grew at about a 10 percent rate on average over the past two months, partly as the pickup in mortgage activity induced some temporary flows through those accounts. For 1995, M1 contracted 1-3/4 percent, but absent retail sweeps it would have expanded 1-1/2 percent based on initial amounts swept.

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

	Dec.	Jan.	94:Q4 to 95:Q4	95:Q4 to Jan.
<u>Money and credit aggregates¹</u>				
M1	-4.5	-6.6	-1.8	-5.3
Adjusted for OCD sweeps	5.2	8.4	1.4	6.2
M2	5.6	5.4	4.2	5.2
M3	4.3	8.2	6.1	6.0
Domestic nonfinancial debt	2.3	--	5.3	--
Federal	-2.4	--	4.3	--
Nonfederal	4.0	--	5.6	--
Bank credit	1.3	--	7.9	--
<u>Reserve measures</u>				
Nonborrowed reserves ²	0.3	-14.6	-4.9	-9.0
Total reserves	1.4	-18.8	-4.9	-10.9
Adjusted for OCD sweeps	19.6	11.0	1.3	11.7
Monetary base	4.8	2.1	4.1	2.8
Adjusted for OCD sweeps	7.3	6.0	4.9	5.8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	257	54	--	--
Excess reserves	1278	1318	--	--

1. The monetary data in this bluebook reflect a minor redefinition of M2 as well as new benchmark and seasonal adjustments.
2. Includes "other extended credit" from the Federal Reserve.

NOTE: 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.

Long-Run Scenarios

(8) This section considers the implications of alternative long-run strategies for monetary policy and highlights several risks to the staff's assessment of economic prospects. The first set of scenarios examines two alternative strategies with different economic outcomes that the Committee might pursue. The baseline strategy begins with the Greenbook's projection for 1996 and 1997 and thereafter keeps inflation steady at about 3 percent. The tighter strategy extends the higher funds rate scenario of the Greenbook, with the objective of attaining price stability shortly after the turn of the decade.^{8 9}

(9) Both the baseline and tighter scenarios embody the same underlying assumptions concerning macroeconomic forces and relationships. With regard to fiscal policy, both assume no further progress in reducing the federal deficit through the seven-year simulation period.¹⁰ Also in both simulations, the natural rate of unemployment is assumed to be 5-3/4 percent. In light of the various uncertainties associated with any forecasting exercise, the results reported below should be read only as suggestive of the general patterns likely to be engendered by each of the alternatives.

8. An easier strategy is not presented because, with the Greenbook baseline of unemployment staying near its natural rate and inflation remaining at 3 percent, the policy objectives associated with such a strategy are unclear. If the outlook in the Greenbook is not viewed as likely, then a lower path for the funds rate could be consistent with the Committee's objectives. Below, in examining risks to the Greenbook forecast, we consider the implications of alternative outlooks for aggregate demand and supply.

9. The baseline forecast was extended beyond the horizon of the Greenbook by judgmental assessment of long-run macroeconomic trends and key relationships. Simulations of the staff econometric model were used to estimate how variables would deviate from the baseline.

10. If an agreement was struck that put the budget on a path toward balance early in the next decade, the equilibrium real funds rate would ultimately fall about one percentage point.

(10) Under the baseline strategy, the Committee does not take active steps to reduce inflation below its current trend of 3 percent. As shown in the top panel of Chart 2, the nominal federal funds rate is maintained at 5-1/2 percent; the associated real rate of 2-1/2 percent puts the economy in the neighborhood of its potential. Under the tighter scenario, the Committee actively promotes long-term price stability by raising the federal funds rate by 100 basis points over the course of 1996 and maintaining it at this level in 1997. This initial restraint must be followed by reductions in the nominal funds rate that outpace the drop in the inflation rate. The real funds rate must be lowered to move policy to a neutral stance in order to avoid overshooting price stability. While output returns to potential over time, the sacrifice ratio in the model implies that reducing inflation 2 percentage points, as in this strategy, entails a cumulative output loss of approximately 8 percent of potential GDP in the interim. However, the model does not include forward-looking expectations that might allow a possible role for central bank credibility in lowering the cost of attaining price stability. Nor does the model incorporate a significant long-term gain in potential output growth from reducing inflation.

(11) Chart 3 indicates economic outcomes that could result if the real equilibrium federal funds rate were shocked up or down by 50 basis points in 1996:Q1. Such a shock could arise from higher or lower aggregate demand than projected, or lower or higher potential output, which in turn might arise from a change in the natural rate

Chart 2

ALTERNATIVE STRATEGIES FOR MONETARY POLICY

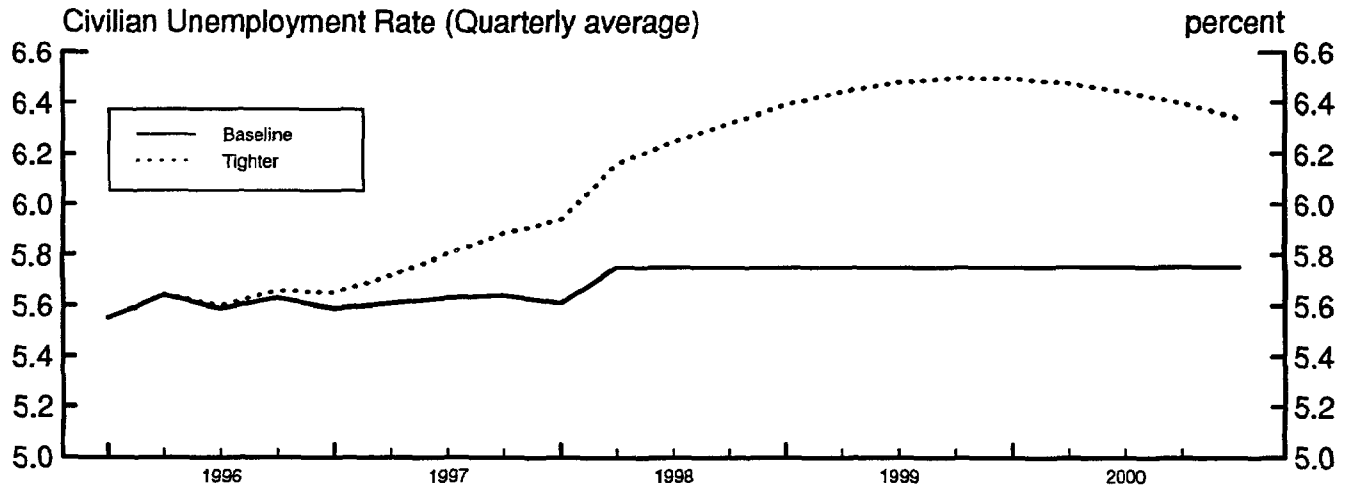
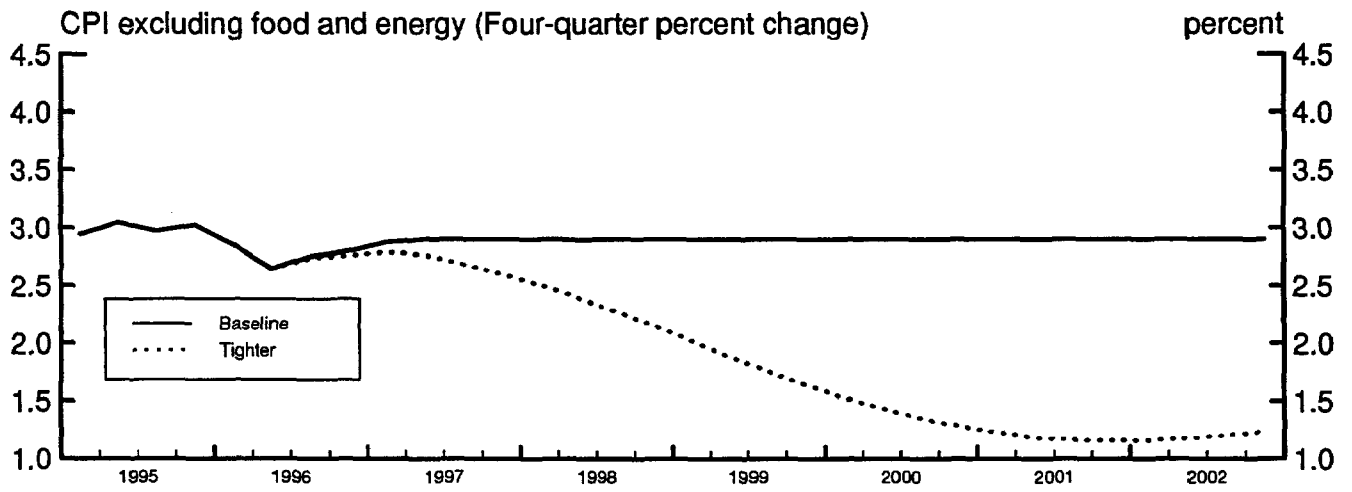
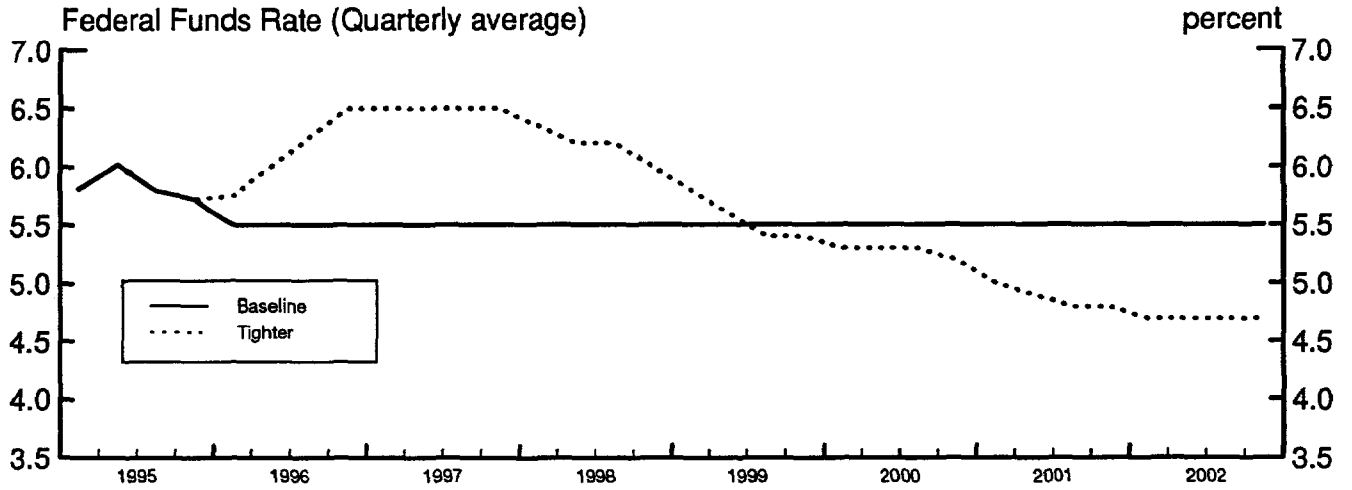
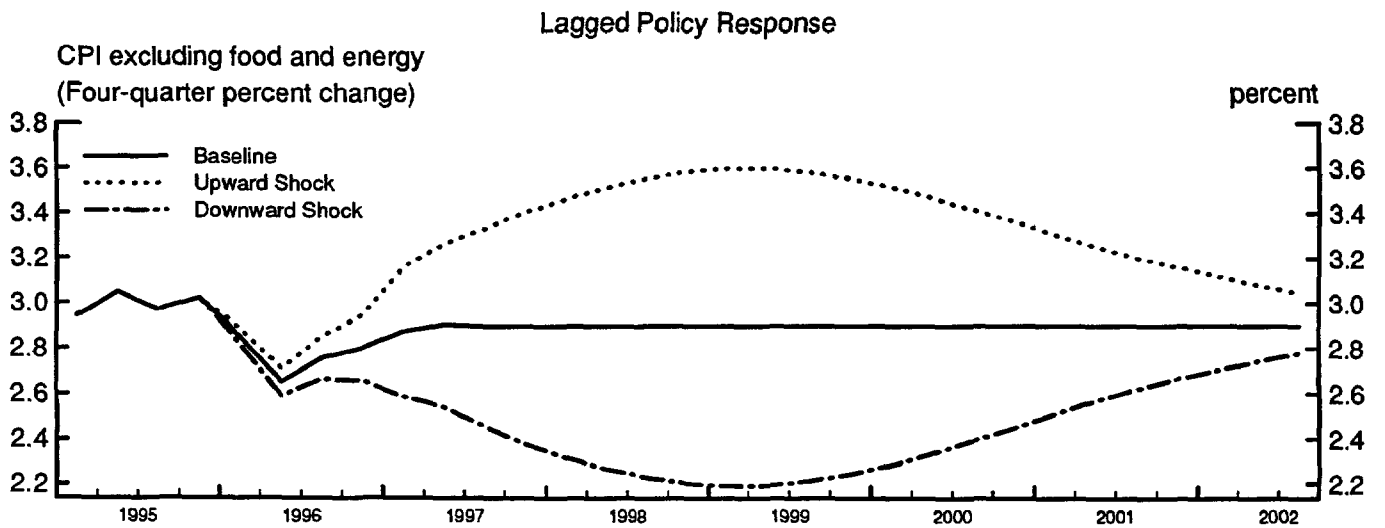
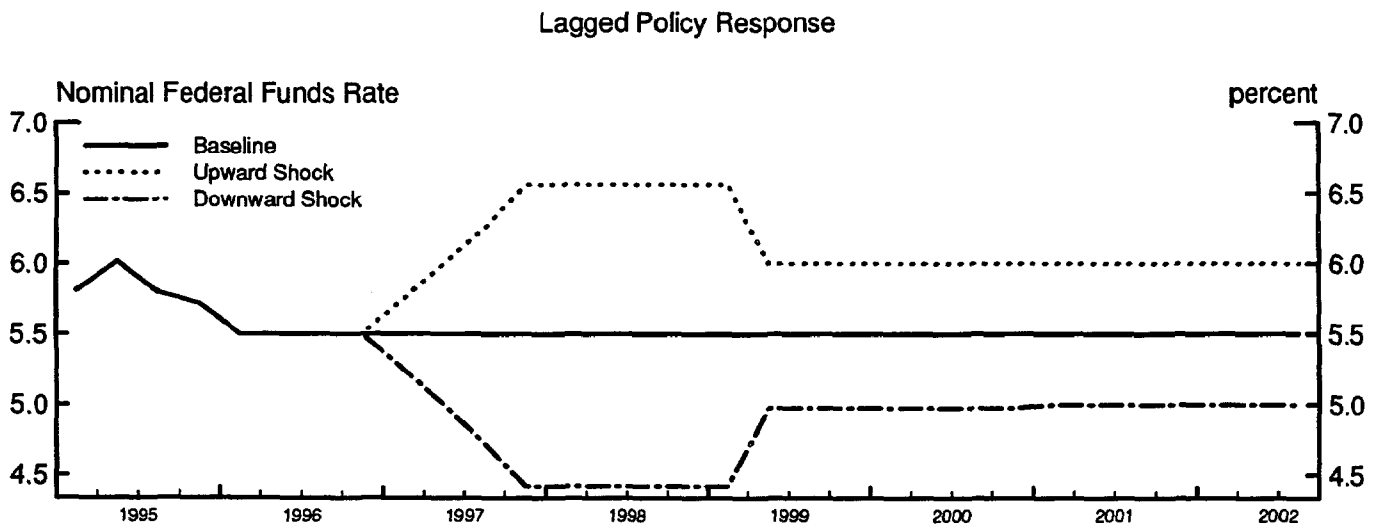
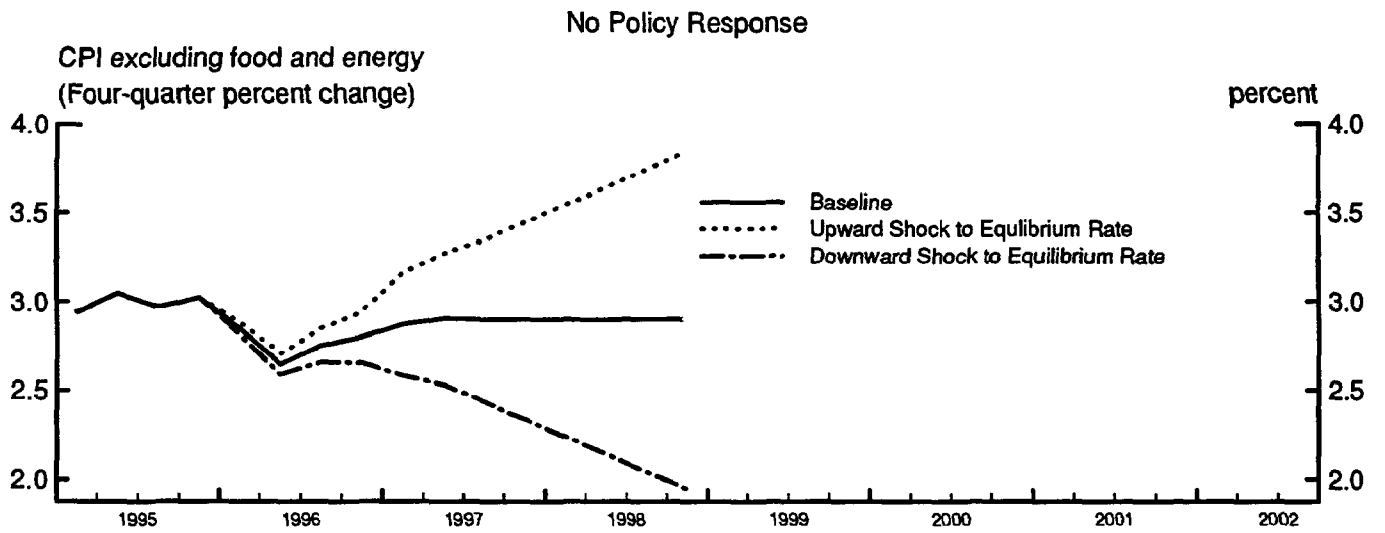


Chart 3
 SHOCKS TO THE EQUILIBRIUM REAL FUNDS RATE
 (FIFTY BASIS POINTS)



of unemployment.¹¹ In the top panel, the Committee is assumed not to adjust the nominal funds rate over the next three years in response to this shock, but instead it keeps the funds rate along the baseline path. The resulting imbalance between the actual and equilibrium real rates sets off ever increasing or decreasing inflation, which in turn serves to widen the real rate imbalance over time--exacerbating the inflation instabilities.

(12) The divergences of inflation from the baseline become perceptible only after the first year or so. The lower two panels assume that, after a year, accumulating evidence that the equilibrium real federal funds rate has changed prompts the Committee to respond. These responses, shown in the middle panel, are calibrated to bring inflation back to the 3 percent baseline path at the end of the simulation period. In order to do so, the Committee must offset the inadvertent stimulus or restraint, resulting from the lag in adjusting policy, by subsequently holding the real rate above, or below, its equilibrium value for a time. The deliberate overshooting of the equilibrium funds rate is mirrored in an overshooting of the natural rate of unemployment in the opposite direction. The symmetry of the paths of inflation in these simulations stems from the specification that the Committee had a fixed goal for inflation of 3 percent. If, instead, the Committee were to follow an "opportunistic" strategy, it would lean in the required direction against unexpected upward shocks to the equilibrium rate of interest, but for downward shocks it would not ease as much as in this simulation. This smaller amount of

11. In the staff model, the interest elasticities imply that an increase, for example, in the real equilibrium funds rate of 1/2 percentage point could be brought about by raising aggregate demand or lowering potential output by 1 percent. Potential output would decline by 1 percent if the NAIRU rose by 1/2 percentage point--based on estimates of Okun's Law.

easing, sufficient to return the economy to its potential but not beyond, would lock in the decline in the inflation resulting from the inadvertently restrictive policy during the period of the recognition lag.

Long-Run Ranges for 1996

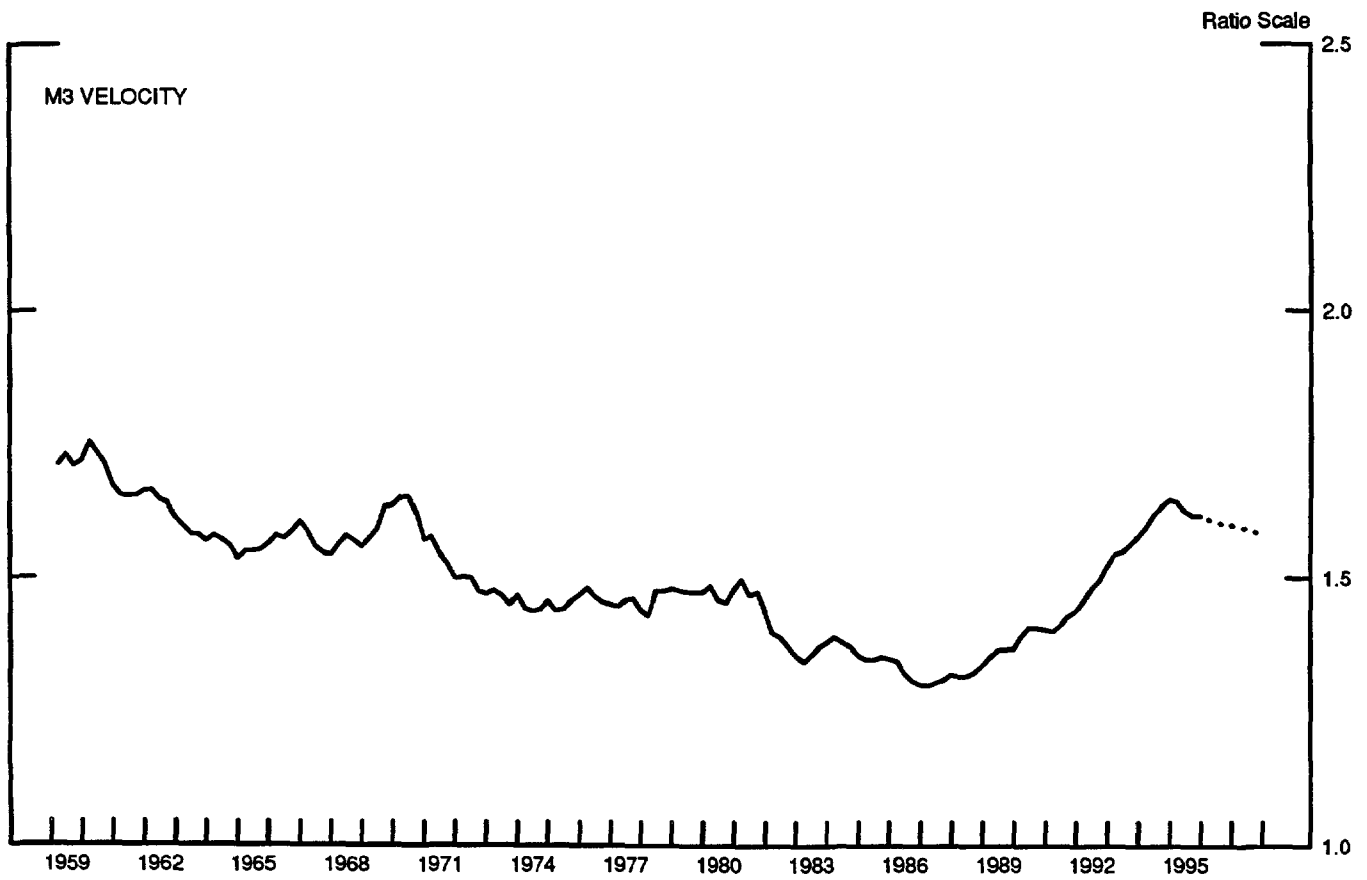
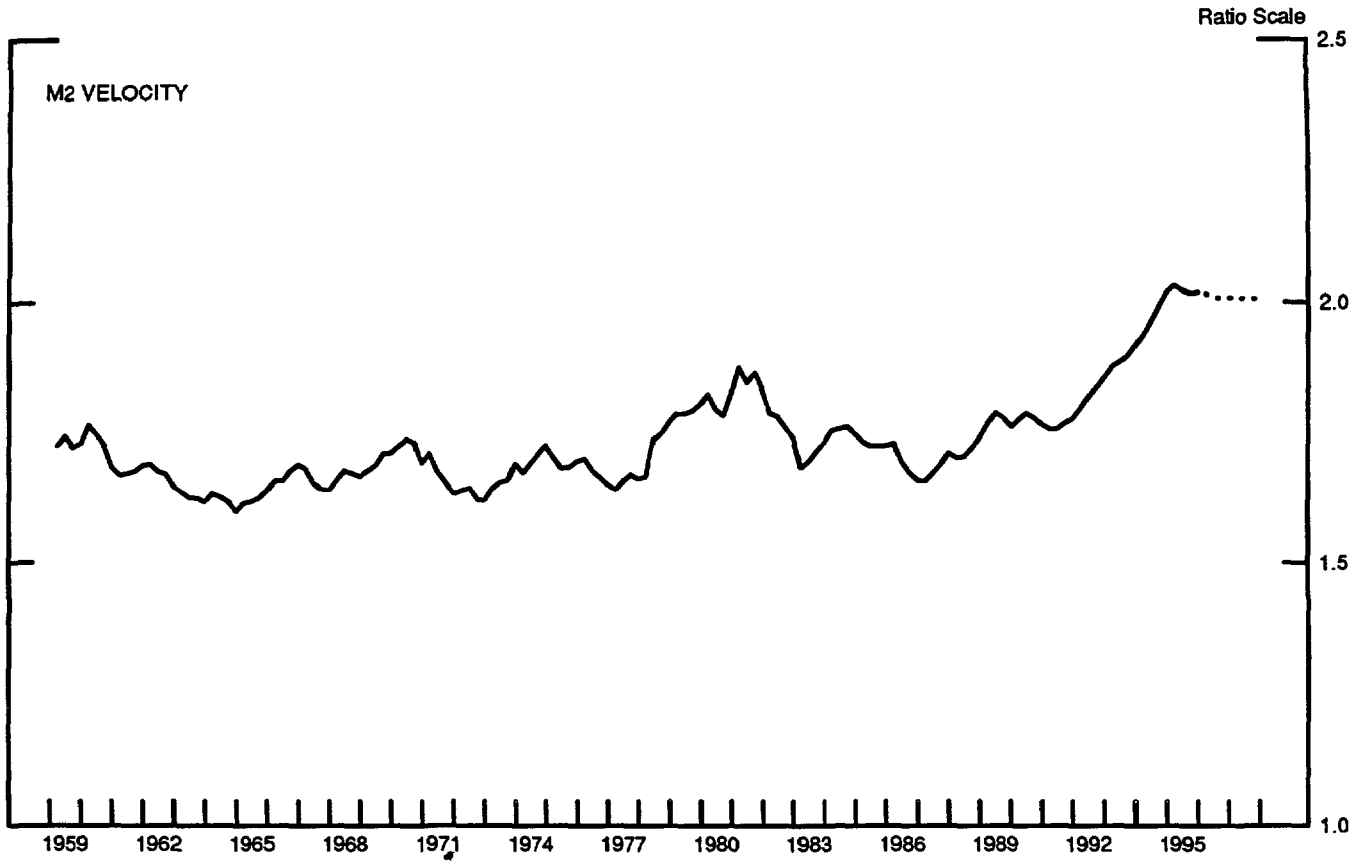
(13) As background for the Committee's discussion of its money and debt ranges for 1996, the table below presents projections for the growth of money and credit consistent with the staff Greenbook forecast.

	Actual <u>1995</u>	Staff Projections 1996 <u>(Greenbook)</u>
M2	4.2	5-1/4
M3	6.1	5-3/4
Debt	5.3	4-1/2
M1	-1.8	-2-1/2
Adjusted for sweeps	1.4	4-3/4
Nominal GDP	4.2	4-1/2

(14) The staff projects M2 growth of 5-1/4 percent in 1996, up from 4-1/4 percent last year. Such growth would be a bit faster than that of nominal GDP, implying a slight drop in the velocity of M2 after little change last year (chart 4). The projected decline of velocity reflects the effects of the recent flattening of the yield curve, which will enhance the attractiveness of liquid monetary assets relative to longer-term investments.¹² The standard staff econometric model of M2 demand, which explains longer-run velocity movements solely by short-term opportunity costs, forecasts essentially no change in velocity for 1996, given the flat funds rate in the Greenbook forecast. The model underpredicted M2 growth by about 2 percentage points last year, and the staff believes that the decline in long-term rates contributed to the forecast error; the staff M2 projection

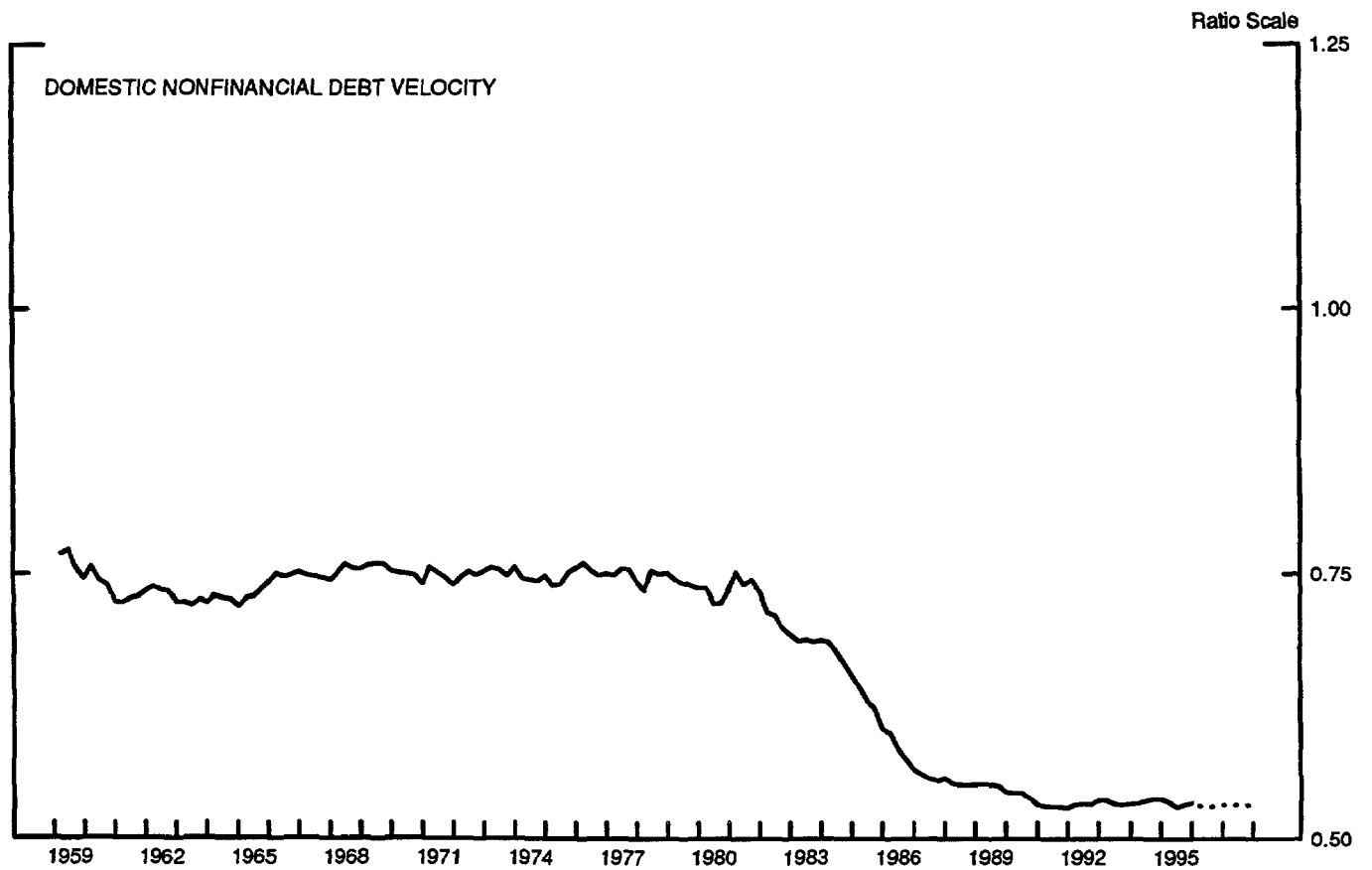
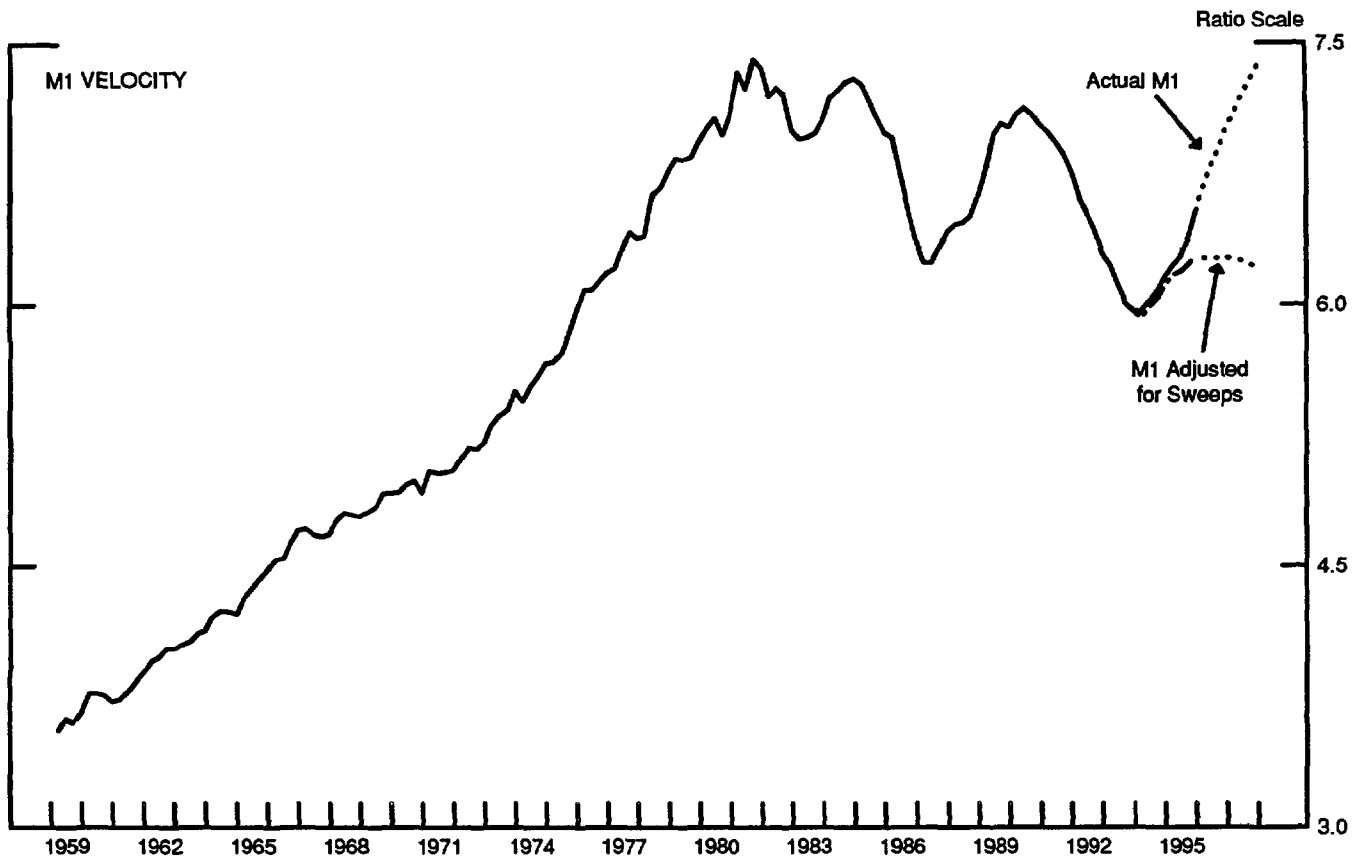
¹² Even though the staff forecast assumes a pickup in longer-term rates, on average over 1996 the yield curve is flatter than in 1995.

Chart 4
ACTUAL AND PROJECTED VELOCITY OF M2 AND M3*



*Projections are based on staff forecasts of GDP and money.

Chart 5
ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT*



*Projections are based on staff forecasts of GDP, money, and debt.

for 1996 implicitly allows for a similar type of, albeit smaller, model error this year.¹³

(15) The staff forecast calls for M3 growth of 5-3/4 percent over 1996, down from 6 percent last year, implying a somewhat smaller decline in M3 velocity than last year. The slight slowing of M3 from 1995 reflects an anticipated 1-1/4 percentage point moderation in bank credit growth (after adjustment for security revaluations), which is only partly offset by a modest step-up in thrift asset expansion. Bank funding needs are held down by weaker loan demand, as households and businesses rely more on long-term borrowing in response to the decline in bond and mortgage rates in recent months. The projection makes some allowance for a shift to deposit funding as a consequence of the recent elimination of deposit insurance premiums for well-capitalized banks, but banks may become even more willing to issue, and price attractively, wholesale deposits that are included in M3 than assumed in the staff's projection.

(16) The staff is projecting growth of domestic nonfinancial debt this year at 4-1/2 percent. Both the federal and nonfederal components are seen as growing at rates close to that of nominal GDP. The moderation in nonfederal credit demands from last year in part reflects some backing off of consumer installment borrowing, as both borrowers and lenders become a bit more cautious in the face of rising debt repayment burdens. By contrast, growth of home mortgage debt is projected to maintain the pace of the last couple of years, accompanied by a little further pickup in refinancing activity. In the business sector, increases in internal funds should help to damp

13. M2 demand might have become more sensitive to long-term interest rates in recent years owing to the readier availability of bond and stock mutual funds, which have reduced transactions costs of shifting along the yield curve.

credit demands as equity retirements and spending on new capital remain at the levels of 1995.

(17) The table below compares money and debt under the Greenbook baseline forecast with the economic forecasts embodying easier and tighter monetary policies that are discussed in Part I of the Greenbook. Whereas the federal funds rate is assumed to remain at 5-1/2 percent in 1996 under the Greenbook baseline, the funds rate in the alternative strategies is gradually lowered or raised to reach a level in the fourth quarter of this year that is 1 percentage point below or above the baseline. The impact of these policy differences on the growth of nominal GDP is only about 1/4 percentage point this year, though that difference would widen in 1997. The differences in nominal GDP show through to the monetary aggregates and debt. In addition, M2 and, to a lesser extent, M3 would be affected in the same direction by the alternative paths for interest rates and, hence, opportunity costs.¹⁴

(18) The table also shows three alternative sets of ranges for M2, M3, and debt for 1996 for Committee consideration.¹⁵ Alternative I represents the provisional ranges selected by the Committee last July. Alternatives II and III raise the M2 and M3 ranges by 1 and 2 percentage points, respectively. The range for debt under all three alternatives is held at its provisional level of 3 to 7 percent because the staff projection under all three policies is in the middle portion of this range.

14. For example, M2 in the easier strategy is boosted by faster income and lower opportunity costs as interest rates decline.

15. Appendix B shows the Committee's announced annual ranges for money and credit since 1979.

Staff Projections and Alternative Money and Debt Ranges for 1996
(Q4 to Q4, percent)

	<u>Staff Projections</u>			<u>Alternative Ranges</u>		
	<u>Easier</u>	<u>Baseline (Greenbook)</u>	<u>Tighter</u>	<u>Alt. I (Provisional)</u>	<u>Alt. II</u>	<u>Alt. III</u>
M2	6	5-1/4	4-1/2	1 to 5	2 to 6	3 to 7
M3	6-1/4	5-3/4	5-1/4	2 to 6	3 to 7	4 to 8
Debt	4-3/4	4-1/2	4-1/4	3 to 7	3 to 7	3 to 7
Nominal GDP	4-3/4	4-1/2	4-1/4			

(19) On average over the last two years, the velocities of M2 and M3 have been behaving more in line with historical relationship, than they did earlier in the 1990s. This might raise questions about whether the aggregates are conveying information about the paths of nominal GDP and spending and whether the Committee should increase the attention paid to them. Major and persistent deviations from expectations in the expansion of money and debt may be symptomatic of unanticipated developments in the intermediation and credit process that should be examined for their potential implications for the economy. However, the staff believes that considerable doubts remain as to the relationships between the aggregates and nominal GDP, given the aberrant behavior in the early 1990s, which in retrospect is still partly inexplicable, and the increased availability of other financial instruments, notably bond and stock mutual funds. Consequently, a longer period of time during which the behavior of velocity can be assessed under a variety of economic and financial circumstances is probably required before much weight can be placed on those aggregates.

(20) The staff baseline forecasts for M2 and M3 are, respectively, above and near the upper bounds of the provisional ranges of alternative I. If the Committee viewed the role of the ranges as one

of communicating to the public the rates of money growth that it expected would accompany its desired outcome for the economy and prices in 1996, adoption of alternative I would seem most consistent with a deliberate disinflation policy (tighter alternative). In recent semi-annual monetary policy reports to the Congress, however, the Federal Reserve has explained that these relatively low ranges were not centered on the Committee's expectations for money growth, but rather were indicative of money expansion under conditions of price stability if velocity were to behave in line with its historical pattern. The Committee has noted in these reports that actual growth could even run above the ranges in the transition to price stability. In this context, frequent alteration of the annual ranges would risk confusing observers about the Committee's ultimate policy intent. The remaining uncertainty about the behavioral properties of the broad measures going forward may reinforce Committee reluctance to "fine-tune" its annual ranges, especially if the Committee were concerned that such adjustments might be interpreted as implying that it was placing more weight on these indicators than it intended.

(21) Alternative II nods in the direction of acknowledging the upside probabilities embodied in the staff M2 and M3 projections by raising their ranges by enough clearly to encompass--albeit in the upper portions--the staff baseline money forecast. By encompassing expected money growth this alternative still could be seen as consistent with the baseline Greenbook forecast for the economy. Under the "easier" strategy, M2 would be just as likely as not to overshoot its upper bound, and there would also be risks in this regard if lower interest rates were required to achieve the nominal income in the staff forecast. This alternative might also be in accord with an

opportunistic disinflation strategy in that M2 is expected to lie in the upper portion of its range, implying stronger reactions to upward than to downward demand shocks to nominal income and inflation, as discussed in the previous section. Should the inflation rate move down further in later years, the ranges could be restored to their current provisional settings.

(22) Alternative III better centers projected baseline growth of both M2 and M3 within the ranges. Choice of this alternative would seem to rest on the view that the ranges should be mainly oriented toward providing Congress and the public with an estimated growth interval for each aggregate over the relevant year that essentially balances the risks of an over- or undershoot if the economy performs as the Committee expects. Under such an approach, the Committee would attempt to incorporate fully in advance intermediate-run effects, such as responsiveness to interest-rate movements or other factors, into the specified ranges. More willingness to adjust the current year's ranges at mid-year also could be part of this approach. This approach would not necessarily imply that the Committee would place more weight on the aggregates in the conduct of policy. Indeed, the Committee could continue to deemphasize the use of the ranges as intermediate policy targets. Alternative III would seem especially appealing in the context of conveying information about expected money growth if the Committee had a fairly strong presumption that further easing actions could well prove warranted this year to forestall an unacceptably weak economic performance or to adjust to lessening inflation pressures. Or, if the Committee accepts the relationships embedded in the staff forecast, this alternative could seem attractive if the

Committee did not contemplate downward pressure on inflation this year through either a deliberate or opportunistic strategy.

Short-run Policy Alternatives

(23) The unchanged funds rate of alternative B is consistent with the staff Greenbook forecast. In that forecast, with a steady nominal funds rate, the unemployment rate remains a touch below the staff's estimate of the natural rate and core inflation edges higher, but only to about 3 percent in 1997. Not only might alternative B be seen as attractive if the Committee concurred with this outlook and found the results acceptable, but it also might have appeal as a "wait and see" strategy because delays in data have curtailed the new information available to the Committee since it eased policy in December. A similar point could be made about the fiscal situation, which might be clarified to some extent in the next few weeks given negotiations now underway between the President and Congressional leaders.

(24) The staff outlook appears to be more buoyant than that of market participants, who evidently view the odds of a modest policy easing at the upcoming meeting to be about even and expect appreciable declines in the funds rate over coming months. Thus, rates could edge higher under alternative B.¹⁶ However, the extent of any rise in such rates likely would be tempered in the near term by the perception that the Committee had merely postponed easing pending the availability of more information. Over time, an economy and monetary policy more consistent with the staff outlook than that of the market would put additional upward pressure on rates. The dollar would be expected to trade around recent higher levels on foreign exchange markets. Markets are likely to continue to pay close attention to shifting

16. Reserve management may continue to be complicated to a degree for the next few weeks by the very low level of required reserve balances resulting from the ongoing introduction of deposit sweep arrangements interacting with seasonal lows in reserve balances. These developments may in turn be associated with greater volatility in the federal funds market.

fiscal prospects, and if potential default on Treasury debt still looms in late February, markets could become skittish, given that the Treasury has indicated that its scope to maneuver to avoid default will be exhausted by the beginning of March.

(25) Justification for a quarter-point reduction in the federal funds rate under alternative A would seem to rest on a belief that the economy is weaker than in the staff outlook, as might be inferred from the tone of some anecdotal reports and recent data, or that the prospects for disinflation are brighter. In this regard, the effects of the recently firmer dollar on spending and prices might be seen as giving scope for some modest lowering of interest rates. An easing in the next few months, although not necessarily at this meeting, is consistent with expectations both of market participants, as embodied in the yield curve, and, as suggested by the Blue Chip survey, of many outside forecasters whose inflation outlook on average nonetheless does not differ significantly from the staff's.

(26) Money market interest rates would fall by less than a quarter point under alternative A, given current expectations. Such a decline in the federal funds rate could be achieved by adding nonborrowed reserves through open market operations, reducing the borrowing allowance by a small amount, or through a 25 basis point reduction in the discount rate to 5 percent.¹⁷ Intermediate- and long-term interest rates could drop significantly should market participants view actions at two successive meetings as suggesting that the Federal Reserve had reason to believe that economy is weak and inflation risks

¹⁷. Judging from experience from September 1992 through January 1994, putting the funds rate equal to the discount rate would present no special operational problems.

are minimal. Against this background, incoming economic data suggesting a more buoyant economy could cause a sharp reversal of the interest rate declines.

(27) If the Committee agreed with the staff outlook for spending and inflation and wanted to make deliberate progress toward price stability, the choice of a quarter-point increase in the federal funds rate under alternative C might be favored. Such a policy tightening would come as a complete surprise to market participants, and short-term interest rates would rise substantially. Intermediate- and long-term rates would also move appreciably higher, especially in real terms, as market participants re-evaluated the expected path for monetary policy. With the direction of interest rates here and abroad beginning to diverge, the dollar could well strengthen further on foreign exchange markets.

(28) The table below shows money and credit growth under alternative B for the January-to-June period. Relative to the experience of recent months, we would expect some pickup in credit growth to accompany the staff GDP projection, partly as the federal government returns to more normal patterns of funding and cash balances given the assumed lifting of the debt ceiling. Growth of total debt of domestic nonfinancial sectors is expected to expand at a 6 percent rate from January to June, leaving this aggregate around the center of its tentative range for 1996. The expansion in M2 is expected to continue to be supported by last year's declines in opportunity costs and the relatively flat yield curve. The spread of

sweeps will lead to further reductions in M1 and the reserve aggregates. By midyear M2 would be at or slightly above its 1-to-5 percent tentative 1996 range under all three alternatives. M3 at midyear would be just within its 2-to-6 percent range.

Growth of Money and Debt
January to June 1996
(percent at annual rates)

M2	5
M3	5-1/2
M1	-2-3/4
Adjusted for sweeps	3-3/4
Debt	6
Federal	8
Nonfederal	5-1/4

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1				
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C		
Levels in Billions											
Dec-95	3670.7	3670.7	3670.7	4584.3	4584.3	4584.3	1124.8	1124.8	1124.8		
Jan-96	3687.1	3687.1	3687.1	4615.7	4615.7	4615.7	1118.6	1118.6	1118.6		
Feb-96	3702.1	3701.5	3700.9	4636.4	4636.1	4635.7	1114.0	1113.7	1113.5		
Mar-96	3719.7	3717.9	3716.0	4658.5	4657.3	4656.1	1111.5	1110.7	1110.0		
Apr-96	3738.9	3735.8	3732.7	4682.5	4680.6	4678.7	1109.9	1108.6	1107.3		
May-96	3752.5	3748.3	3744.1	4700.7	4698.1	4695.6	1108.9	1106.9	1104.9		
Jun-96	3769.9	3764.9	3759.9	4722.6	4719.7	4716.7	1108.2	1105.5	1102.8		
Monthly Growth Rates											
Dec-95	5.6	5.6	5.6	4.3	4.3	4.3	-4.5	-4.5	-4.5		
Jan-96	5.4	5.4	5.4	8.2	8.2	8.2	-6.6	-6.6	-6.6		
Feb-96	4.9	4.7	4.5	5.4	5.3	5.2	-5.0	-5.3	-5.5		
Mar-96	5.7	5.3	4.9	5.7	5.5	5.3	-2.7	-3.3	-3.8		
Apr-96	6.2	5.8	5.4	6.2	6.0	5.8	-1.7	-2.3	-2.9		
May-96	4.4	4.0	3.7	4.7	4.5	4.4	-1.1	-1.9	-2.7		
Jun-96	5.6	5.3	5.1	5.6	5.5	5.4	-0.8	-1.5	-2.3		
Quarterly Averages											
95 Q4	4.0	4.0	4.0	4.4	4.4	4.4	-5.1	-5.1	-5.1		
96 Q1	5.2	5.1	5.0	5.9	5.8	5.8	-4.9	-5.0	-5.1		
96 Q2	5.5	5.1	4.8	5.6	5.5	5.3	-2.0	-2.7	-3.2		
Growth Rate											
From	To										
Dec-94	Dec-95		4.6	4.6	4.6	6.1	6.1	6.1	-2.1	-2.1	-2.1
Jan-96	Jun-96		5.4	5.1	4.7	5.6	5.4	5.3	-2.2	-2.8	-3.4
94 Q4	Dec-95		4.3	4.3	4.3	6.0	6.0	6.0	-1.9	-1.9	-1.9
95 Q4	Jan-96		5.2	5.2	5.2	6.0	6.0	6.0	-5.3	-5.3	-5.3
95 Q4	Jun-96		5.4	5.1	4.9	5.7	5.6	5.5	-3.1	-3.5	-3.9
94 Q4	95 Q4		4.2	4.2	4.2	6.1	6.1	6.1	-1.8	-1.8	-1.8
95 Q4	96 Q1		5.2	5.1	5.0	5.9	5.8	5.8	-4.9	-5.0	-5.1
95 Q4	96 Q2		5.4	5.2	4.9	5.8	5.7	5.6	-3.5	-3.8	-4.2
1995 Growth Ranges:			1 to 5			2 to 6					
1996 Growth Ranges:			1 to 5			2 to 6					
(provisional)											

Directive Language

(29) Presented below for the members' consideration is draft wording relating to the Committee's ranges for the aggregates in 1996 and the operating paragraph for the intermeeting period.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at its THIS meeting in July reaffirmed the range it had established RANGES on January 31-February 1 for growth of M2 AND M3 OF __ TO __ AND __ TO __ PERCENT RESPECTIVELY of 1 to 5 percent, measured from the fourth quarter of 1994 1995 to the fourth quarter of 1995 1996. The Committee also retained the monitoring range of 3 to 7 percent for the year that it had set for growth of total domestic nonfinancial debt WAS SET AT __ TO __ PERCENT FOR THE YEAR. The Committee raised the 1995 range for M3 to 2 to 6 percent as a technical adjustment to take account of changing intermediation patterns. For 1996, the Committee established on a tentative basis the same ranges as in 1995 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1995 to the fourth quarter of 1996. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to decrease slightly (SOMEWHAT)/MAINTAIN/INCREASE (SLIGHTLY/SOMEWHAT) the existing degree of pressure on reserve positions. 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, slightly (SOMEWHAT) greater reserve restraint (WOULD/MIGHT) or slightly (SOMEWHAT) 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.

APPENDIX A

MONEY STOCK REVISIONS

Measures of the money stock have been revised to incorporate the results of the annual benchmark and seasonal factor review, as well as a minor redefinition of M2. The attached tables compare growth rates of the old and revised series. These data should be regarded as strictly confidential until their release to the public in mid-February.

The revisions had no net effect on the annual growth rate of M2 over 1995, but they raised the annual growth rates of M1 and M3 by 0.1 percentage point over the past year. For earlier years, revisions to the annual growth rates of M2 ranged between -0.5 and +0.4 percentage point, while the annual growth rates of M1 and M3 were revised by smaller amounts.

Redefinition

There has been a minor redefinition of M2, involving a shift of the volatile overnight wholesale RPs and Eurodollars from M2 into non-M2 M3. The redefinition, which did not affect M1 or M3, lowered M2 in all years since 1969, by amounts that cumulated to \$118 billion in 1995.

Benchmark Revisions

The benchmark incorporates minor revisions to data reported on the detailed weekly and quarterly deposit reports, and it takes account of deposit data from call reports for banks and thrifts that do not report on any of the detailed deposit reports. The benchmark also incorporates historical data for a number of money market mutual funds that began reporting for the first time during 1995, raising the levels of M2 and M3 over the year by amounts that cumulate to \$1 billion and \$9 billion, respectively.

Seasonal Review Revisions

In a process similar to that used in previous years, seasonal factors for the monetary aggregates have been revised using the X-11 ARIMA procedure applied to the benchmarked data through December 1995. However, this year, seasonal factors were constructed for total RPs and total Eurodollar deposits, both of which are now entirely in non-M2 M3. Furthermore, seasonally adjusted non-M1 M2 and non-M2 M3 have each been redefined to be the sum of their seasonally adjusted components; previously, both non-M1 M2 and non-M2 M3 were seasonally adjusted as a whole.

Appendix Table A.1: Comparison of Revised and Old M1 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference	Difference due to	
				Benchmark	Seasonals
1994					
October	-1.6	-2.9	1.3	0.1	1.2
November	-0.2	-0.6	0.4	0.1	0.3
December	0.0	0.4	-0.4	0.0	-0.4
1995					
January	0.5	1.0	-0.5	-0.1	-0.4
February	-1.5	-1.8	0.3	0.0	0.3
March	0.9	0.6	0.3	0.3	0.0
April	2.6	1.9	0.7	0.4	0.3
May	-5.2	-7.0	1.8	0.3	1.5
June	-1.8	0.9	-2.7	-0.1	-2.6
July	0.9	1.2	-0.3	-0.2	-0.1
August	-1.7	-1.7	0.0	0.2	-0.2
September	-3.9	-3.8	-0.1	0.1	-0.2
October	-8.8	-10.4	1.6	0.1	1.5
November	-2.9	-3.6	0.7	0.0	0.7
December	-4.5	-3.8	-0.7	0.1	-0.8
1996					
January	-6.6	-6.2	-0.4	0.0	-0.4
Quarterly					
94Q4	-0.6	-1.2	0.6	0.2	0.4
95Q1	-0.1	0.1	-0.2	0.0	-0.2
95Q2	-0.5	-0.9	0.4	0.2	0.2
95Q3	-1.5	-1.0	-0.5	0.0	-0.5
95Q4	-5.1	-5.7	0.6	0.0	0.6
Semi-Annual					
94Q4 - 95Q2	-0.3	-0.4	0.1	0.2	-0.1
95Q2 - 95Q4	-3.3	-3.3	0.0	0.1	-0.1
Annual (Q4 to Q4)					
1994	2.4	2.4	0.0	0.0	0.0
1995	-1.8	-1.9	0.1	0.1	0.0

Appendix Table A.2: Comparison of Revised and Old M2 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference	Difference due to			
				Redefinition*	Benchmark	Seasonals	
1994							
October	0.0	-1.3	1.3	-0.6	0.0	1.9	
November	1.0	0.6	0.4	0.4	-0.2	0.2	
December	0.9	1.7	-0.8	-1.1	0.0	0.3	
1995							
January	2.0	3.9	-1.9	-2.4	0.2	0.3	
February	0.8	-1.4	2.2	1.6	0.0	0.6	
March	2.6	2.5	0.1	0.3	0.0	-0.2	
April	4.2	4.4	-0.2	1.2	-0.3	-1.1	
May	5.0	5.4	-0.4	-0.4	-0.1	0.1	
June	10.4	11.9	-1.5	0.2	-0.3	-1.4	
July	6.3	6.2	0.1	1.3	-0.1	-1.1	
August	6.7	8.3	-1.6	-1.1	0.1	-0.6	
September	4.4	4.4	0.0	-0.8	0.2	0.6	
October	2.4	-1.0	3.4	0.9	0.1	2.4	
November	3.7	2.5	1.2	0.9	-0.3	0.6	
December	5.6	6.1	-0.5	-0.5	0.0	0.0	
1996							
January	5.4	7.1	-1.7	-1.7	0.0	0.0	
Quarterly							
94Q4	0.2	-0.3	0.5	-0.4	0.1	0.8	
95Q1	1.4	1.7	-0.3	-0.6	0.0	0.3	
95Q2	4.3	4.4	-0.1	0.6	-0.2	-0.5	
95Q3	7.0	7.7	-0.7	0.1	-0.1	-0.7	
95Q4	4.0	2.8	1.2	0.2	0.0	1.0	
Semi-Annual							
94Q4 - 95Q2	2.9	3.1	-0.2	0.0	-0.1	-0.1	
95Q2 - 95Q4	5.5	5.3	0.2	0.2	-0.1	0.1	
Annual (Q4 to Q4)							
1994	0.6	1.1	-0.5	-0.6	0.1	0.0	
1995	4.2	4.2	0.0	0.1	-0.1	0.0	

* The redefinition of M2 has no affect on M1 or M3.

Appendix Table A.3: Comparison of Revised and Old M3 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference	Difference due to	
				Benchmark	Seasonals
1994					
October	2.5	1.8	0.7	0.1	0.6
November	3.0	1.6	1.4	-0.1	1.5
December	4.2	3.4	0.8	0.0	0.8
1995					
January	6.6	6.4	0.2	0.0	0.2
February	3.4	2.7	0.7	0.3	0.4
March	5.5	6.4	-0.9	-0.2	-0.7
April	6.6	6.1	0.5	0.5	0.0
May	7.8	7.6	0.2	0.4	-0.2
June	10.5	12.4	-1.9	0.4	-2.3
July	7.5	8.4	-0.9	-0.1	-0.8
August	7.4	8.2	-0.8	-0.2	-0.6
September	5.4	4.5	0.9	0.3	0.6
October	3.9	3.3	0.6	-0.1	0.7
November	2.8	0.9	1.9	-0.3	2.2
December	4.3	3.6	0.7	0.0	0.7
1996					
January	8.2	8.6	-0.4	0.0	-0.4
Quarterly					
94Q4	2.4	1.7	0.7	0.1	0.6
95Q1	4.8	4.4	0.4	0.0	0.4
95Q2	6.7	6.9	-0.2	0.3	-0.5
95Q3	8.0	8.8	-0.8	0.1	-0.9
95Q4	4.4	3.6	0.8	-0.1	0.9
Semi-Annual					
94Q4 - 95Q2	5.8	5.7	0.1	0.2	-0.1
95Q2 - 95Q4	6.3	6.2	0.1	0.0	0.1
Annual (Q4 to Q4)					
1994	1.6	1.4	0.2	0.1	0.1
1995	6.1	6.0	0.1	0.1	0.0

Appendix Table A.4: Revisions to the Monetary Aggregates
(4th quarter-to-4th quarter seasonally adjusted growth rates, in percent)

	M1			M2			M3		
	Revised	Old	Diff	Revised	Old	Diff	Revised	Old	Diff
1980	7.5	7.4	0.1	8.7	8.9	-0.2	9.6	9.6	0.0
1981	5.4	5.4	0.0	9.0	9.3	-0.3	12.4	12.4	0.0
1982	8.8	8.8	0.0	8.8	9.1	-0.3	9.7	9.8	-0.1
1983	10.3	10.4	-0.1	11.8	12.2	-0.4	9.5	9.5	0.0
1984	5.4	5.5	-0.1	8.1	8.1	0.0	10.8	10.9	-0.1
1985	12.0	12.0	0.0	8.6	8.8	-0.2	7.7	7.7	0.0
1986	15.5	15.5	0.0	9.2	9.3	-0.1	9.0	9.0	0.0
1987	6.3	6.3	0.0	4.2	4.3	-0.1	5.9	5.9	0.0
1988	4.3	4.3	0.0	5.7	5.3	0.4	6.3	6.3	0.0
1989	0.5	0.6	-0.1	5.2	4.9	0.3	4.0	3.9	0.1
1990	4.2	4.1	0.1	4.1	4.0	0.1	1.8	1.7	0.1
1991	7.9	7.9	0.0	3.1	2.9	0.2	1.2	1.2	0.0
1992	14.3	14.3	0.0	1.8	2.0	-0.2	0.6	0.5	0.1
1993	10.5	10.5	0.0	1.4	1.7	-0.3	1.0	1.0	0.0
1994	2.4	2.4	0.0	0.6	1.1	-0.5	1.6	1.4	0.2
1995	-1.8	-1.9	0.1	4.2	4.2	0.0	6.1	6.0	0.1

APPENDIX B

ADOPTED LONGER-RUN RANGES FOR THE MONETARY AND CREDIT AGGREGATES
(percent annual rates)

	<u>M1</u>		<u>M2</u>		<u>M3</u>		<u>Domestic Non-financial Debt</u> ¹	
QIV 1979 - QIV 1980	4 - 6.5	(7.3) ^{2,3}	6 - 9	(9.8)	6.5 - 9.5	(9.9)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3) ^{2,4}	6 - 9	(9.4)	6.5 - 9.5	(11.4)	6 - 9	(8.8) ⁵
QIV 1981 - QIV 1982	2.5 - 5.5	(8.5) ²	6 - 9	(9.2)	6.5 - 9.5	(10.1)	6 - 9 ⁶	(7.1) ⁵
QIV 1982 - QIV 1983	5 - 9 ⁷	(7.2)	7 - 10 ⁸	(8.3)	6.5 - 9.5	(9.7)	8.5 - 11.5	(10.5)
QIV 1983 - QIV 1984	4 - 8 ⁹	(5.2)	6 - 9	(7.7)	6 - 9	(10.5)	8 - 11	(13.4)
QIV 1984 - QIV 1985	3 - 8	(12.7)	6 - 9	(8.6)	6 - 9.5	(7.4)	9 - 12	(13.5)
QIV 1985 - QIV 1986	3 - 8	(15.2)	6 - 9	(8.9)	6 - 9	(8.8)	8 - 11	(12.9)
QIV 1986 - QIV 1987	n.s. ¹⁰	(6.2)	5.5 - 8.5	(4.0)	5.5 - 8.5	(5.4)	8 - 11	(9.6)
QIV 1987 - QIV 1988	n.s.	(4.3)	4 - 8	(5.3)	4 - 8	(6.2)	7 - 11	(8.7)
QIV 1988 - QIV 1989	n.s.	(0.6)	3 - 7	(4.6)	3.5 - 7.5	(3.3)	6.5 - 10.5	(8.1)
QIV 1989 - QIV 1990	n.s.	(4.2)	3 - 7	(3.9)	1 - 5 ¹¹	(1.8)	5 - 9	(6.9)
QIV 1990 - QIV 1991	n.s.	(8.0)	2.5 - 6.5	(2.8)	1 - 5	(1.2)	4.5 - 8.5	(4.5)
QIV 1991 - QIV 1992	n.s.	(14.3)	2.5 - 6.5	(2.0)	1 - 5	(0.5)	4.5 - 8.5	(4.6)
QIV 1992 - QIV 1993	n.s.	(10.5)	1 - 5 ¹²	(1.4)	0 - 4 ¹²	(0.6)	4 - 8 ¹²	(4.9)
QIV 1993 - QIV 1994	n.s.	(2.3)	1 - 5	(1.0)	0 - 4	(1.4)	4 - 8	(5.3)
QIV 1994 - QIV 1995	n.s.	(-1.8)	1 - 5	(4.2)	2 - 6 ¹³	(6.1)	3 - 7	(5.3)

NOTE: Numbers in parentheses are actual growth rates as reported at end of policy period in February Monetary Policy Report to Congress. Subsequent revisions to historical data (not reflected above) have altered growth rates by up to a few tenths of a percent.

n.s.--not specified.

Footnotes on following page

1. Targets are for bank credit until 1983; from 1983 onward targets are for domestic nonfinancial sector debt.
2. The figures shown reflect target and actual growth of M1-B in 1980 and shift-adjusted M1-B in 1981. M1-B was relabelled M1 in January 1982. The targeted growth for M1-A was 3-1/2 to 6 percent in 1980 (actual growth was 5.0 percent); in 1981 targeted growth for shift-adjusted M1-A was 3 to 5-1/2 percent (actual growth was 1.3 percent).
3. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.
4. Adjusted for the effects of shifts out of demand deposits and savings deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -(4-1/2) to -2 and 6 to 8-1/2 percent, respectively. Actual M1-B growth (not shift adjusted) was 5.0 percent.
5. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.
6. Range for bank credit is annualized growth from the December 1981 - January 1982 average level through the fourth quarter of 1982.
7. Base period, adopted at the July 1983 FOMC meeting, is 1983 QII. At the February 1983 meeting, the FOMC had adopted a 1982 QIV to 1983 QIV target range for M1 of 4 to 8 percent.
8. Base period is the February-March 1983 average.
9. Base period, adopted at the July 1985 FOMC meeting, is 1985 QII. At the February 1983 meeting, the FOMC had adopted a 1984 QIV to 1985 QIV target range for M1 of 4 to 7 percent.
10. No range for M1 has been specified since the February 1987 FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.
11. At the February 1990 meeting, the FOMC specified a range of 2-1/2 to 6-1/2 percent. This range was lowered to 1 to 5 percent at the July 1990 meeting.
12. At the February 1993 meeting, the FOMC specified a range of 2 to 6 percent for M2, 1/2 to 4-1/2 percent for M3, and 4-1/2 to 8-1/2 percent for domestic nonfinancial debt. These ranges were lowered to 1 to 5 percent for M2, 0 to 4 percent for M3, and 4 to 8 percent for domestic nonfinancial debt at the July 1993 meeting.
13. At the February 1995 FOMC meeting, the FOMC specified a range of 0 to 4 percent. This range was raised to 2 to 6 percent at the July 1995 meeting.

January 26, 1996

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages		
		3-month	6-month	1-year	3-month	1-month			3-year	10-year	30-year			secondary market fixed-rate	primary market fixed-rate ARM	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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	6.21	5.81	6.31	6.75	6.39	6.10	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
-- Low	5.40	4.89	5.05	4.98	5.55	5.73	5.16	8.50	5.36	5.68	6.06	6.98	5.65	7.40	7.11	5.53
Monthly																
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	9.41	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
Mar 95	5.98	5.73	5.89	6.03	6.15	6.07	5.51	9.00	6.89	7.20	7.45	8.40	6.32	8.90	8.46	6.45
Apr 95	6.05	5.65	5.77	5.88	6.11	6.06	5.54	9.00	6.68	7.06	7.36	8.31	6.22	8.71	8.32	6.35
May 95	6.01	5.67	5.67	5.65	6.02	6.05	5.51	9.00	6.27	6.63	6.95	7.89	6.16	8.32	7.96	6.14
Jun 95	6.00	5.47	5.42	5.33	5.90	6.05	5.46	9.00	5.80	6.17	6.57	7.60	6.07	7.96	7.57	5.87
Jul 95	5.85	5.42	5.37	5.28	5.77	5.87	5.39	8.80	5.89	6.28	6.72	7.72	6.21	8.03	7.61	5.83
Aug 95	5.74	5.40	5.41	5.43	5.77	5.85	5.27	8.75	6.10	6.49	6.86	7.84	6.37	8.24	7.86	5.93
Sep 95	5.80	5.28	5.30	5.31	5.73	5.82	5.24	8.75	5.89	6.20	6.55	7.55	6.18	8.01	7.64	5.81
Oct 95	5.76	5.28	5.32	5.28	5.79	5.81	5.20	8.75	5.77	6.04	6.37	7.36	6.05	7.88	7.48	5.74
Nov 95	5.80	5.36	5.27	5.14	5.74	5.80	5.26	8.75	5.57	5.93	6.26	7.30	5.89	7.79	7.38	5.64
Dec 95	5.60	5.14	5.13	5.03	5.62	5.84	5.20	8.65	5.39	5.71	6.06	7.10	5.74	7.53	7.20	5.57
Weekly																
Oct 11 95	5.72	5.30	5.34	5.29	5.79	5.82	5.20	8.75	5.81	6.07	6.43	7.27	6.08	7.81	7.50	5.75
Oct 18 95	5.71	5.29	5.32	5.27	5.78	5.80	5.21	8.75	5.74	5.99	6.33	7.32	5.97	7.86	7.38	5.72
Oct 25 95	5.76	5.25	5.32	5.29	5.79	5.81	5.20	8.75	5.76	6.02	6.34	7.40	6.02	7.93	7.45	5.73
Nov 1 95	5.76	5.28	5.29	5.23	5.78	5.80	5.22	8.75	5.70	6.03	6.34	7.33	5.93	7.73	7.44	5.67
Nov 8 95	5.71	5.34	5.27	5.15	5.75	5.81	5.20	8.75	5.60	5.95	6.28	7.38	5.94	7.84	7.37	5.64
Nov 15 95	5.74	5.40	5.30	5.16	5.74	5.81	5.21	8.75	5.61	5.98	6.30	7.27	5.89	7.77	7.35	5.65
Nov 22 95	5.81	5.36	5.27	5.13	5.73	5.80	5.23	8.75	5.55	5.93	6.25	7.29	5.89	7.83	7.35	5.61
Nov 29 95	5.91	5.34	5.26	5.14	5.74	5.79	5.26	8.75	5.53	5.88	6.24	7.14	5.78	7.61	7.33	5.60
Dec 6 95	5.75	5.31	5.21	5.06	5.68	5.83	5.21	8.75	5.37	5.68	6.06	7.10	5.65	7.56	7.18	5.53
Dec 13 95	5.73	5.30	5.20	5.08	5.67	5.85	5.21	8.75	5.43	5.72	6.06	7.13	5.79	7.54	7.15	5.55
Dec 20 95	5.90	5.15	5.13	5.03	5.65	5.88	5.22	8.71	5.44	5.78	6.12	7.10	5.79	7.55	7.23	5.64
Dec 27 95	5.48	4.89	5.05	4.98	5.55	5.81	5.16	8.50	5.36	5.71	6.06	6.98	5.71	7.40	7.11	5.55
Jan 3 96	5.35	4.96	4.96	4.91	5.48	5.73	5.15	8.50	5.25	5.60	5.97	7.08	5.63	7.47	7.02	5.46
Jan 10 96	5.53	5.03	5.00	4.91	5.44	5.61	5.11	8.50	5.28	5.70	6.07	7.17	5.79	7.42	7.08	5.45
Jan 17 96	5.61	5.02	4.92	4.84	5.43	5.58	5.04	8.50	5.23	5.69	6.10	7.00	5.70	7.37	7.02	5.48
Jan 24 96	5.44	4.97	4.87	4.78	5.37	5.53	5.03	8.50	5.14	5.59	6.02	7.11	5.77	7.54	7.00	5.37
Daily																
Jan 19 96	5.40	4.96	4.86	4.76	5.37	5.53	--	8.50	5.10	5.54	5.97	--	--	--	--	--
Jan 25 96	5.56	4.97	4.91	4.80	5.34	5.50	--	8.50	5.23	5.70	6.11	--	--	--	--	--
Jan 26 96	5.55p	4.97	4.90	4.77	5.34	5.40	--	8.50	5.18	5.65	6.04	--	--	--	--	--

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.

p - preliminary data

Money and Credit Aggregate Measures

Seasonally adjusted

JANUARY 29, 1996

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt ¹		
	M1	M2	nontransactions components		M3	L	total loans and investments ¹	U. S. government ²	other ²	total ²
			In M2	In M3 only						
	1	2	3	4	5	6	7	8	9	10
Annual growth rates (%):										
Annually (Q4 to Q4)										
1993	10.5	1.7	-1.9	-2.5	1.0	1.3	5.0	8.4	4.1	5.2
1994	2.4	1.1	0.5	3.5	1.4	2.5	6.9	5.7	5.0	5.2
1995	-1.9	4.2	7.1	15.7	6.0		8.0			
Quarterly (average)										
1995-Q1	0.1	1.7	2.5	18.6	4.4	6.4	7.6	5.1	5.3	5.3
1995-Q2	-0.9	4.4	6.9	19.4	6.9	7.8	14.8	5.4	7.5	7.0
1995-Q3	-1.0	7.7	11.6	14.0	8.8	9.6	6.0	4.6	4.1	4.2
1995-Q4	-5.7	2.8	6.6	7.6	3.6		2.8			
Monthly										
1995-JAN. pe	1.0	3.9	5.3	19.2	6.4	5.8	11.6	2.4	5.1	4.4
FEB.	-1.8	-1.4	-1.3	24.2	2.7	9.0	4.5	10.5	5.7	7.0
MAR.	0.6	2.5	3.4	26.3	6.4	9.6	9.1	7.2	4.9	5.5
APR.	1.9	4.4	5.5	14.7	6.1	6.4	28.2	0.7	9.2	6.9
MAY	-7.0	5.4	11.2	18.2	7.6	6.8	9.3	6.2	10.1	9.1
JUNE	0.9	11.9	16.8	14.9	12.4	8.8	5.6	8.6	4.1	5.3
JULY	1.2	6.2	8.5	18.9	8.4	12.0	5.8	4.3	1.8	2.4
AUG.	-1.7	8.3	12.8	7.5	8.2	8.1	4.7	2.0	4.1	3.5
SEP.	-3.8	4.4	8.0	5.3	4.5	8.7	6.8	0.8	4.7	3.7
OCT.	-10.4	-1.0	3.2	24.1	3.3	4.5	1.0	2.9	3.9	3.6
NOV.	-3.6	2.5	5.2	-6.7	0.9	0.6	1.4	6.7	4.8	5.3
DEC.	-3.8	6.1	10.2	-8.4	3.6		1.3			
1996-JAN. pe	-6	7	13	16	9					
Levels (\$billions):										
Monthly										
1995-AUG.	1143.4	3743.1	2599.7	773.8	4516.9	5584.2	3543.0	3621.4	10021.4	13642.8
SEP.	1139.8	3756.8	2617.0	777.2	4534.0	5624.6	3563.0	3623.8	10060.6	13684.4
OCT.	1129.9	3753.8	2623.9	792.8	4546.6	5645.6	3565.9	3632.6	10093.0	13725.6
NOV.	1126.5	3761.6	2635.2	788.4	4550.0	5648.3	3570.2	3652.9	10133.6	13786.5
DEC.	1122.9	3780.6	2657.7	782.9	4563.5		3574.0			
Weekly										
1995-DEC. 4	1122.3	3770.4	2648.1	786.9	4557.2					
11	1122.6	3771.6	2649.1	780.0	4551.6					
18	1120.3	3780.1	2659.8	777.1	4557.2					
25	1125.1	3786.9	2661.8	783.9	4570.7					
1996-JAN. 1	1124.3	3787.3	2663.0	788.3	4575.7					
8 p	1117.1	3794.0	2676.9	788.3	4582.3					
15 p	1118.3	3811.3	2693.0	798.8	4610.1					

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

Monetary data are pre-benchmark, that is, they do NOT incorporate revisions from the most recent annual benchmark and seasonal review.

Components of Money Stock and Related Measures

Class II FOMC

JANUARY 29, 1996

Seasonally adjusted unless otherwise noted

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA ¹	Savings deposits ²	Small denomination time deposits ³	Money market mutual funds		Large denomination time deposits ⁴	Term RPs NSA ¹	Term Euro-dollars NSA ¹	Savings bonds	Short-term Treasury securities	Commercial paper ¹	Bankers acceptances
							general purpose and broker/dealer ⁵	Institutions only							
							1	2							
Levels (\$billions):															
Annual (Q4)															
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.7	46.5	170.8	337.1	381.8	15.5
1994	352.5	383.1	404.0	114.9	1157.7	810.5	383.9	180.7	357.5	103.5	53.0	179.9	377.5	400.9	13.5
1995	371.3	387.8	358.5	118.0	1120.2	932.0	471.5	215.7	415.7	111.1	60.0				
Monthly															
1994-DEC.	354.5	382.2	402.9	117.2	1144.2	821.0	389.0	180.8	361.4	105.6	52.2	180.3	384.3	401.3	14.0
1995-JAN.	357.7	383.6	399.3	124.0	1129.8	836.5	392.1	186.3	361.9	109.4	52.9	180.5	385.9	402.8	13.4
FEB.	358.8	384.1	395.9	118.4	1111.9	856.4	391.5	180.4	371.3	113.4	56.1	180.4	404.4	414.7	13.4
MAR.	362.5	383.3	393.3	118.3	1094.9	879.3	390.9	189.0	378.8	113.4	58.2	180.5	416.4	421.7	14.1
APR.	365.7	381.2	393.6	115.9	1082.4	898.2	396.0	192.9	379.6	116.5	59.7	180.9	413.5	430.8	13.9
MAY	368.1	380.6	385.0	116.8	1081.4	912.3	405.4	194.8	383.4	121.7	60.8	181.6	404.4	443.8	12.3
JUNE	367.4	386.8	380.7	117.6	1091.1	919.3	426.2	205.6	385.6	119.9	62.0	182.3	415.5	427.5	11.3
JULY	367.1	389.5	379.4	114.4	1091.4	924.0	442.0	212.4	392.2	115.5	63.2	183.0	437.6	428.0	11.8
AUG.	368.3	390.1	376.2	118.2	1098.1	927.2	455.9	210.8	395.3	118.3	62.9	183.7	436.5	435.0	12.2
SEP.	369.1	389.8	372.0	120.9	1105.2	928.8	462.6	213.5	398.8	116.4	62.4	184.1	455.6	438.0	12.9
OCT.	370.5	387.3	363.4	118.5	1112.2	930.3	466.4	215.8	411.4	116.3	61.9	184.4	460.4	441.2	13.0
NOV.	371.0	387.0	359.7	116.4	1117.0	932.6	471.3	214.8	416.8	111.6	61.1	184.6	465.0	435.6	13.1
DEC.	372.5	389.1	352.5	119.0	1131.3	933.2	476.9	216.6	418.9	105.4	57.1				

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

Monetary data are pre-benchmark, that is, they do NOT incorporate revisions from the most recent annual benchmark and seasonal review.

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES¹
Millions of dollars, not seasonally adjusted

CLASS II-FOMC

January 26, 1996

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					
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
1995	10,932	900	10,032	390	4,966	1,239	3,122	1,476	8,241	1,303	16,970	-1,023
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
1995 ---Q1	---	---	---	---	---	---	---	621	-621	229	-850	-4,083
---Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,395
---Q3	842	---	842	---	100	---	100	---	200	501	541	-15,979
---Q4	5,621	900	4,721	390	2,317	400	1,884	485	4,506	261	8,965	8,644
1995 January	---	---	---	---	---	---	---	621	-621	91	-712	-8,171
February	---	---	---	---	---	---	---	---	---	55	-55	-686
March	---	---	---	---	---	---	---	---	---	83	-83	4,774
April	---	---	---	---	2,549	839	1,138	370	4,156	20	4,136	-2,758
May	---	---	---	---	---	---	---	---	---	30	-30	2,474
June	4,470	---	4,470	---	---	---	---	---	---	262	4,208	10,678
July	---	---	---	---	---	---	---	---	---	333	-333	-13,602
August	433	---	433	---	---	---	---	---	---	122	311	-2,984
September	409	---	409	---	100	---	100	---	200	46	563	608
October	1,350	900	450	---	---	---	---	485	-485	83	-118	-427
November	4,271	---	4,271	---	---	400	---	---	400	120	4,551	2,404
December	---	---	---	390	2,317	---	1,884	---	4,591	58	4,533	6,666
Weekly												
October 25	---	---	---	---	---	---	---	---	---	83	-83	3,436
November 1	1,350	900	450	---	---	---	---	---	---	---	450	-4,808
8	241	---	241	---	---	400	---	---	400	---	641	2,783
15	3,768	---	3,768	---	---	---	---	---	---	---	3,768	-3,731
22	70	---	70	---	---	---	---	---	---	---	70	1,953
29	193	---	193	---	---	---	---	---	---	120	73	-542
December 6	---	---	---	390	2,317	---	800	---	3,507	---	3,507	1,402
13	---	---	---	---	---	---	1,084	---	1,084	55	1,029	-4,827
20	---	---	---	---	---	---	---	---	---	---	---	5,804
27	---	---	---	---	---	---	---	---	---	3	-3	1,191
January 3	---	---	---	---	---	---	---	---	---	---	---	4,220
10	---	---	---	---	---	---	---	---	---	---	---	-6,458
17	---	---	---	---	---	---	---	1,228	-1,228	---	-1,228	-2,199
24	---	---	---	---	---	---	---	---	---	---	---	-9,687
Memo: LEVEL (bil. \$) ⁶												
January 24			195.5	219.2	84.9	31.5	36.9		372.5		391.9	-16.8

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
1.4	0.7	0.5	0.0	2.6

January 24