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JANUARY 30, 1998

MONETARY POLICY ALTERNATIVES

PREPARED FOR THE FEDERAL OPEN MARKET COMMITTEE
BY THE STAFF OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

January 30, 1998

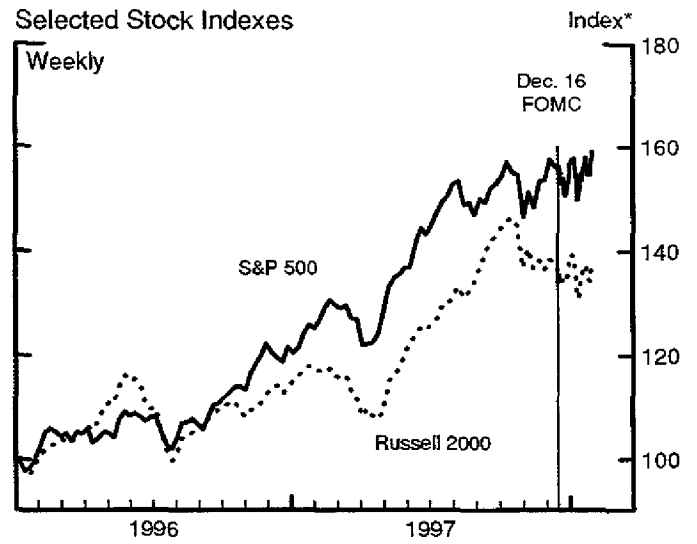
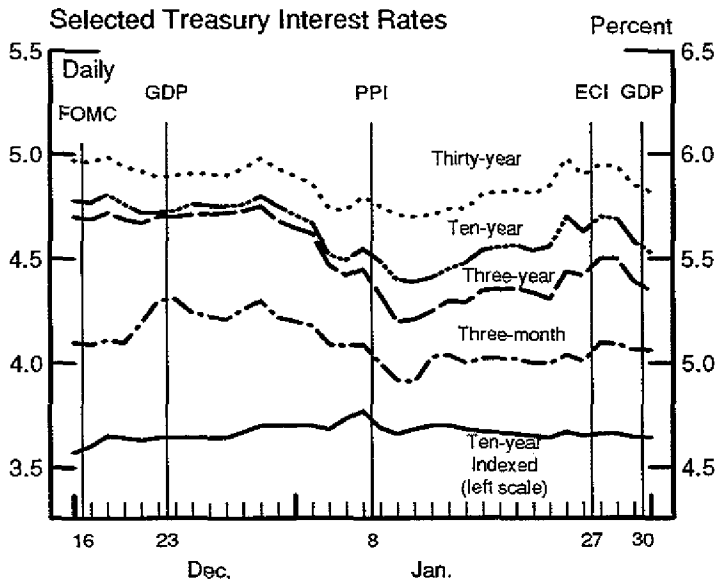
MONETARY POLICY ALTERNATIVES

Recent Developments

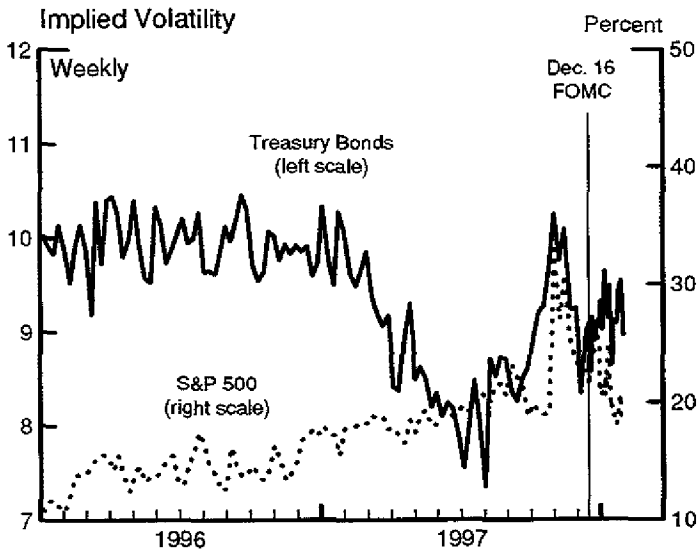
(1) Financial market developments over the intermeeting period were once again dominated by investors' changing perceptions of the Asian economic turmoil and its potential repercussions for the U.S. economy. The Committee's widely anticipated decision to hold policy unchanged at its December meeting elicited essentially no market response, and Treasury securities traded in a relatively narrow range through the year-end (Chart 1).¹ Early in January, however, heightened concerns over the turbulence in Asia combined with its implications for U.S. prices and output, which were underscored by statements of Federal Reserve officials, seemed to augment the demand for dollar-denominated assets and especially for Treasury securities. By mid-January, yields on Treasury notes and bonds had dropped as much as 50 basis points from their levels at the December FOMC meeting. Short-term rates fell over these weeks as well, apparently on the view that the impact here of troubles in Asia could prompt an easing in monetary policy in coming months. Over the remainder of the intermeeting period, Treasury yields retraced some of their earlier declines, partly as market participants seemed to become more confident that effective steps were being taken to deal with the situations in several Asian countries. On balance, intermediate- and long-term Treasury yields fell 15 to 35 basis points over the intermeeting period while yields on short-

1. The Desk provided a substantial volume of reserves around the year-end to address an increase in the demand for excess reserves, seasonal advances in required reserves, and drains on the supply of reserves stemming from seasonal movements in currency in circulation. Nonetheless, some reserve pressures were evident at year-end, with funds trading as high as 10 percent late in the day on December 31 and a handful of large banks turning to the discount window. These pressures subsided quickly in following days and there were few signs of unusual reserve pressures later in January, even though required operating balances fell to a seasonal trough just below \$14 billion.

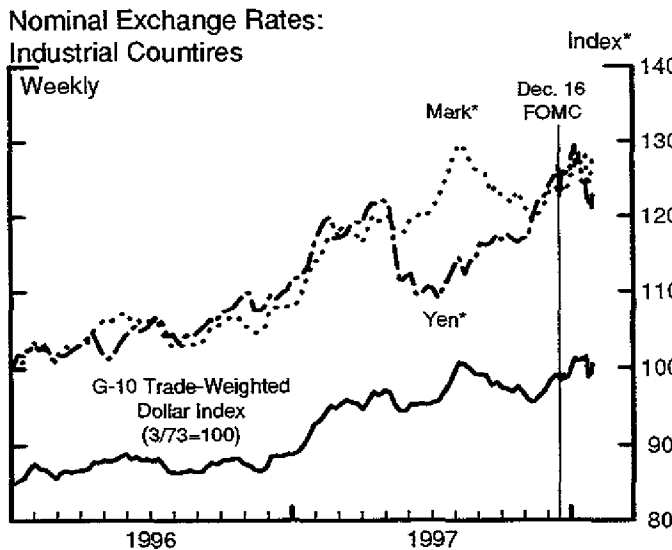
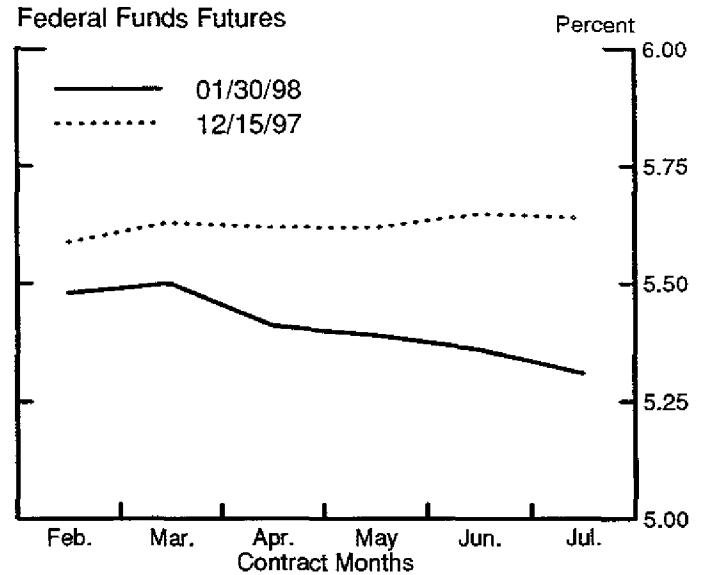
Chart 1



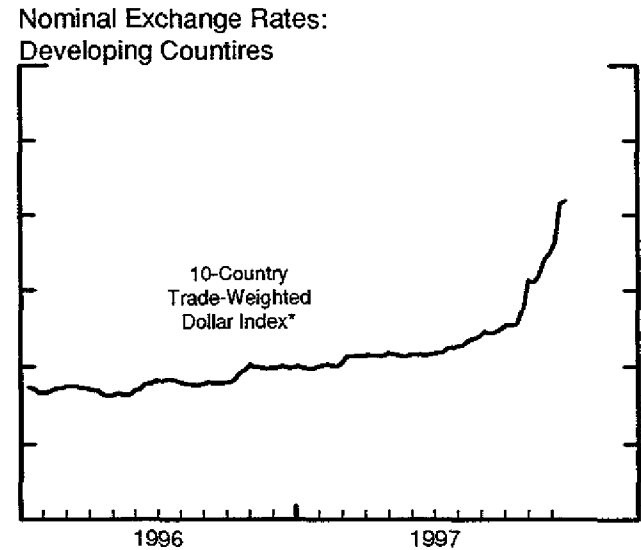
*Index, Jan 1996=100
Daily beginning December 15.



Daily beginning December 15.



*Index, Jan 1996=100
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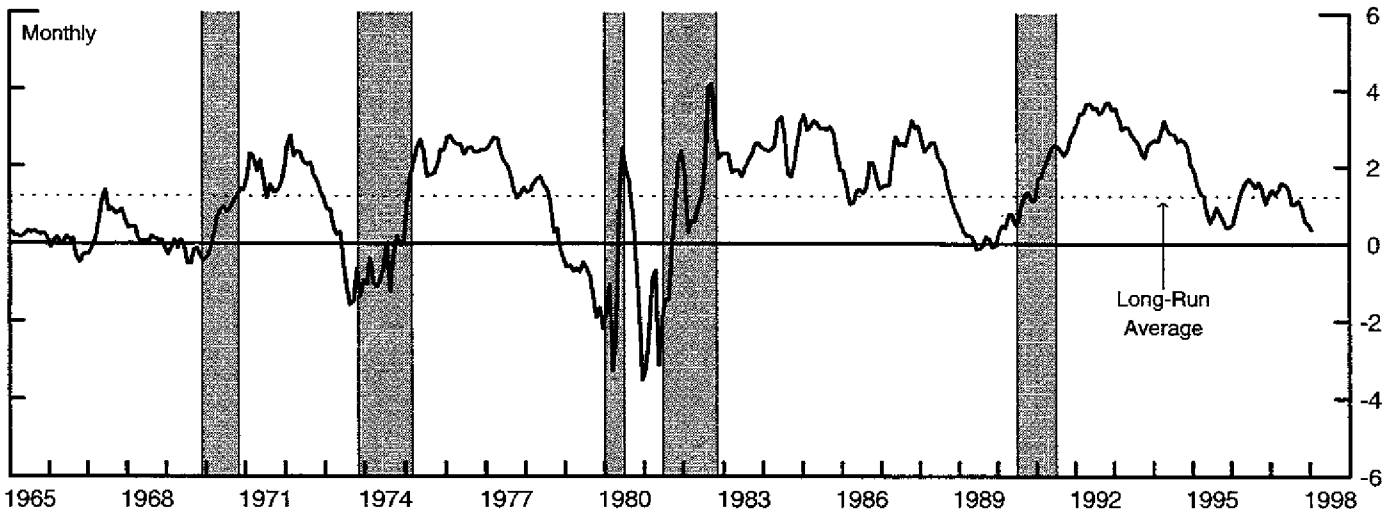
*Index, Jan 1997=100
Daily beginning December 15.

term Treasuries edged lower. The rally in bond markets over the intermeeting period probably helped to support equity prices. Corporate earnings announcements for the fourth quarter for the most part met or exceeded analysts' downward-revised expectations, but concerns about the effects of Asian developments made investors more cautious in their assessment of the trajectory for corporate profits going forward. Many major stock price indexes recorded small gains on balance.

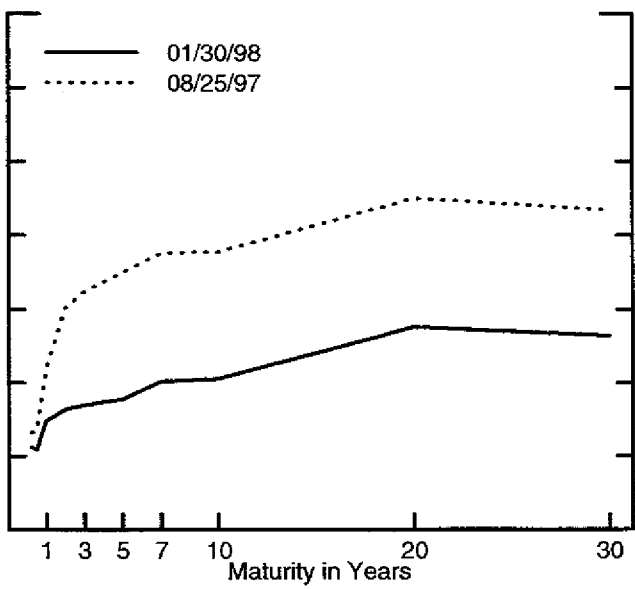
(2) The slope of the Treasury yield curve--measured as the yield spread between the ten-year Treasury note and the three-month Treasury bill--narrowed a little further over the intermeeting period and, at about 35 basis points currently, the spread has fallen $\frac{3}{4}$ percentage point since August to stand considerably below its average level of $1\frac{1}{4}$ percentage points since 1965 (Chart 2). Unlike most prior episodes of pronounced flattening in the yield curve, this time around there have been sizable declines in yields at maturities of two years or more while those for short-term Treasury bills, anchored by Federal Reserve policy, have held fairly steady. Some of the drop in longer-term rates still likely reflects enhanced demand for safe and liquid dollar assets amid turmoil in foreign markets, in effect reducing the term premium at the long end of the yield curve. In addition, investors' concerns about an incipient buildup in inflationary pressures that would prompt monetary policy tightening have been much attenuated since August. Indeed, the current shape of the yield curve seems consistent with a view common among market participants that calls for a slowing in output growth accompanied by low and stable inflation, with relatively minor adjustments to the stance of monetary policy. Judging from recent federal funds futures quotes, market

Chart 2

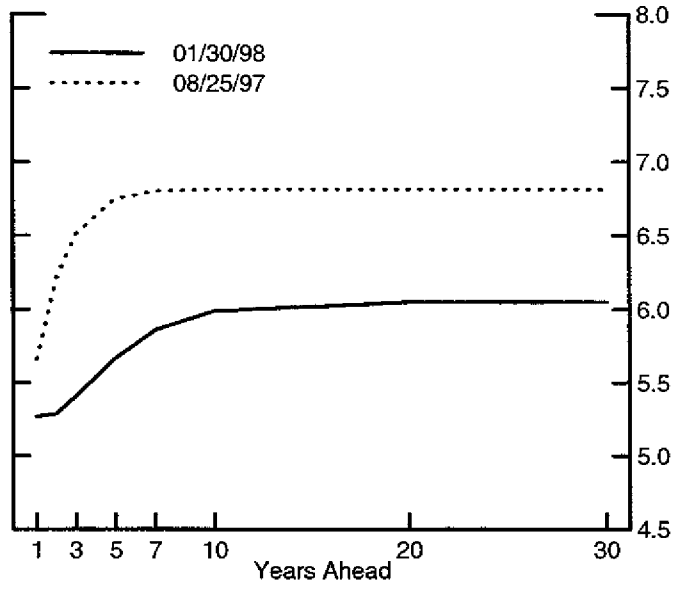
Spread Between Treasury 10-year Note Yield and 3-Month Bill Yield



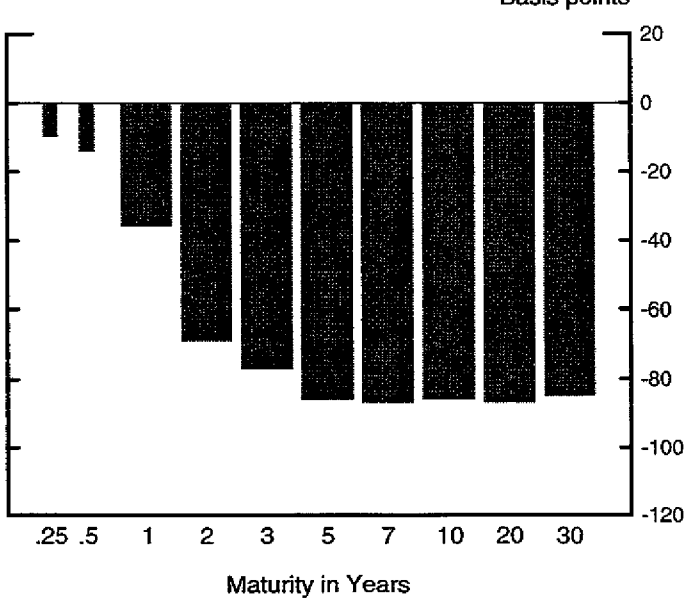
Treasury Yield Curve



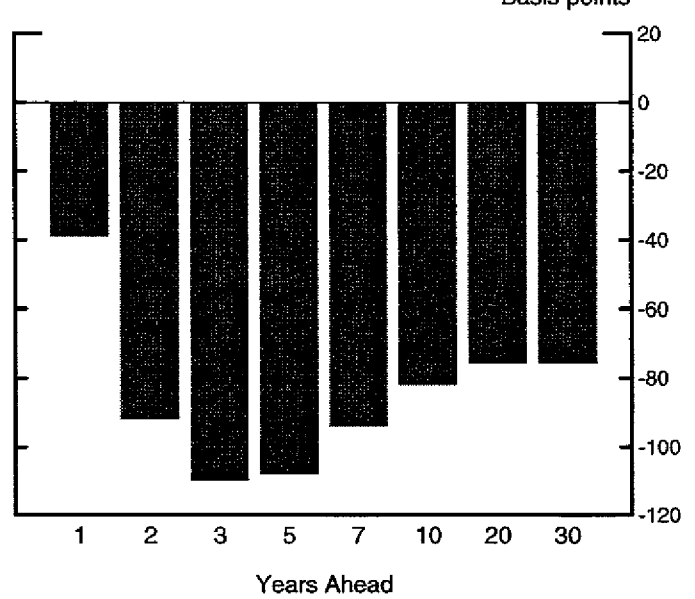
Implied One-Year Forward Rates



Change Since 08/25/97



Change Since 08/25/97



participants currently rate the odds for a policy easing at the February FOMC meeting as slim at most, but consider the probability of a small easing by midyear to be somewhat higher.

(3) Since the December FOMC meeting, the dollar has continued to appreciate against the currencies of emerging market economies in Asia. The dollar rose a further 6 percent against the won over the intermeeting period, but has been little changed since early January. The factors that have helped to stabilize the situation in Korea include President-elect Kim Dae-jung's public support of strong adjustment measures and material progress in resolving the short-term liquidity problems of Korean financial institutions. The Indonesian rupiah fell 46 percent against the dollar over the intermeeting period on concerns about the government's commitment to economic reform and about longer-term political stability. The weakness in the rupiah led to downward pressures on other regional currencies. The Malaysian ringgit and Thai baht fell 8 percent and 11 percent, respectively, vis-a-vis the dollar over the intermeeting period. Equity markets rallied in those countries whose currencies had fallen the most, apparently as some investors felt that both equity prices and currencies had dropped far enough to warrant taking a chance on companies with strong export potential.

(4) On balance, the exchange value of the dollar against the currencies of most industrialized countries was up somewhat over the intermeeting period. European currencies were affected by growing market realization of the adverse impact of the Asian crisis on European economies. The dollar gained around 2 percent against the Canadian dollar,

To counter the associated decline in the Monetary Conditions Index, the Bank of Canada raised short-term

rates 50 basis points. The one major exception was the yen, which appreciated 3 percent against the dollar on balance, as the prospects for additional fiscal stimulus, along with somewhat greater stability in the region, appeared to support the yen.

i. The Desk did not intervene in the foreign exchange market during the period.

(5) Growth of the broad monetary aggregates finished 1997 on a strong note and that tone has been sustained into the new year. M2 expanded at a 6 percent pace in the fourth quarter last year, boosting its growth over the four quarters of 1997 to just above the upper end of its annual range.² The velocity of M2 fell in the fourth quarter of 1997 for the second time in as many quarters, retracing a small portion of its upward drift over the period since mid-1994. M2 growth in January is now projected at 7½ percent, well above the staff's projection at the December FOMC meeting. Much of this strength in M2 has likely been associated with recent gains in nominal income. In addition, M2 has been boosted by a pickup of mortgage refinancing and, perhaps, some substitution away from market instruments whose yields have declined relative to those on M2 assets.³ M3 also accelerated in the last quarter of 1997, and its growth over the year--at 8¼ percent--came in well above the upper end of its annual range. M3 growth in January--now projected at 10½ percent--also exceeded the staff projection in December and was propelled by the strength in M2, a sharp jump in RP

2. The monetary data in this bluebook reflect benchmark revisions and new seasonal adjustment factors. The revised data are scheduled to be released to the public on February 5. These revisions have reduced M2 growth over the four quarters of 1997 by 0.1 percentage point and have raised M3 growth by 0.1 percentage point.

3. Noncompetitive tenders for Treasury securities have been weaker in recent months.

financing by a few banks, and continued solid expansion in bank credit. Business loan growth at banks remained brisk in December and January; the strength was related to financing needs associated with a spate of merger activity in recent months and perhaps rising business inventories.

(6) Total domestic nonfinancial debt advanced at about a 5 percent pace in December, putting its estimated annual growth over 1997 at about 4½ percent--well within the 3 to 7 percent annual range for the debt aggregate. Federal debt growth stayed low and nonfederal debt growth apparently remained elevated in December, bolstered by strong business borrowing. Credit supply conditions have changed little on balance of late. In securities markets, risk spreads have been about flat, except for a small firming of junk spreads. At domestic banks, C&I loan standards were about unchanged, and spreads were narrowed further, albeit by fewer banks than in previous quarters. At branches and agencies of foreign banks, particularly Japanese institutions, however, the recent pace of tightening of terms and standards picked up. The survey results also suggested a continued modest tightening in standards on credit card and other consumer loans.

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

	Dec.	Jan.	96:Q4 to 97:Q4	97:Q4 to Jan.
<u>Money and Credit Aggregates</u>				
M1	5.2	-1.2	-1.5	2.1
Adjusted for sweeps	7.7	3.9	5.9	5.8
M2	6.0	7.5	5.1	6.8
M3	9.8	10.4	8.3	10.2
Domestic nonfinancial debt	5.0	--	4.6	--
Federal	2.2	--	0.6	--
Nonfederal	6.0	--	6.0	--
Bank credit	10.3	15.2	8.8	13.3
Adjusted ¹	10.5	11.6	8.3	11.2
<u>Reserve Measures</u>				
Nonborrowed reserves ²	4.1	-16.3	-6.4	-4.6
Total reserves	8.5	-19.2	-6.3	-5.1
Adjusted for sweeps	11.8	-3.5	8.8	4.1
Monetary base	10.0	-1.6	6.0	4.3
Adjusted for sweeps	10.4	-0.2	7.7	5.2
Memo: (millions of dollars)				
Adjustment plus seasonal borrowing	324	209	--	--
Excess reserves	1683	1693	--	--

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).

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. The above monetary data incorporate revisions associated with the annual benchmark and seasonal review and are strictly confidential until released in early February.

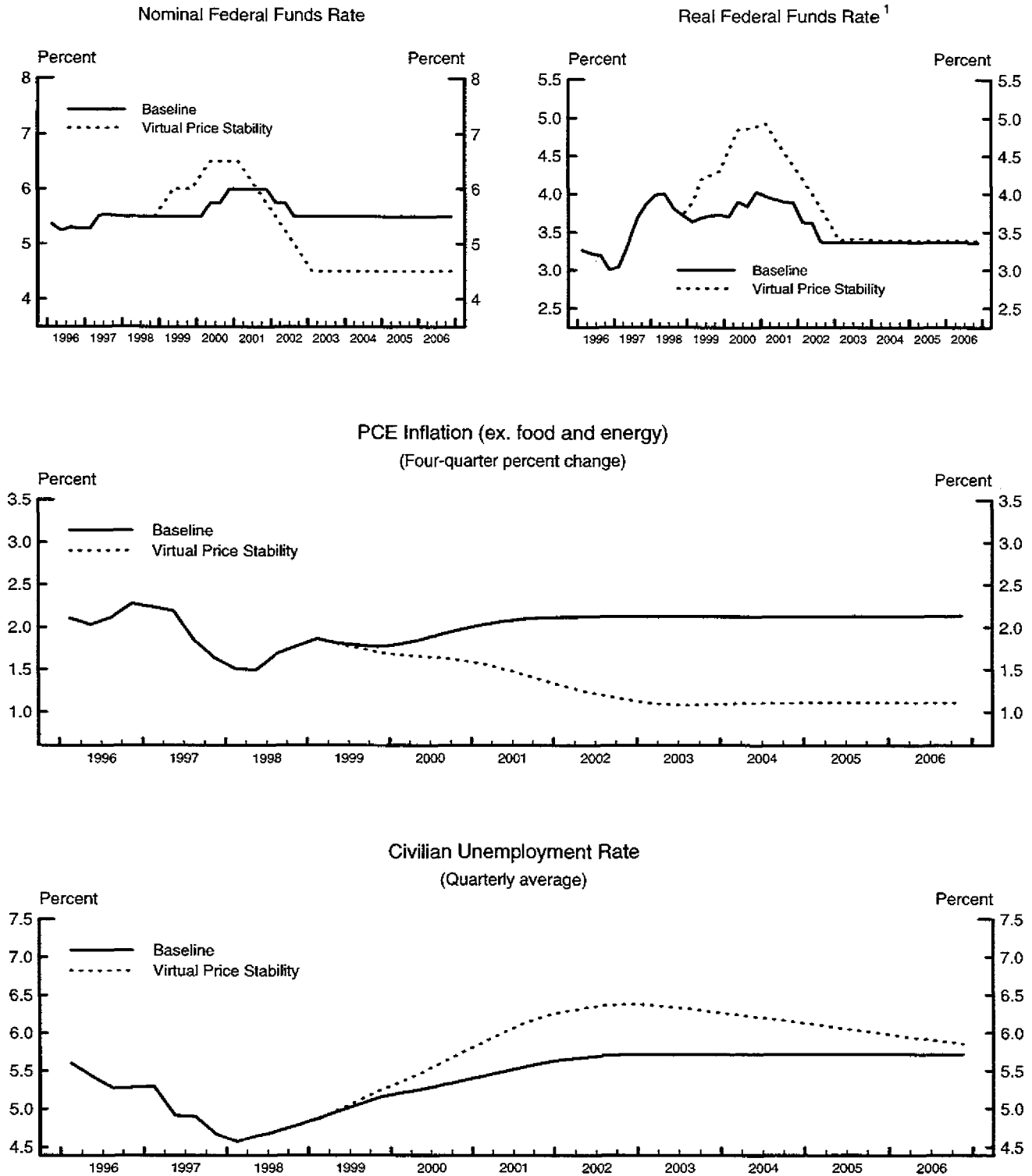
Longer-Term Scenarios

(7) This section considers alternative longer-term scenarios for monetary policy and highlights some important risks over the Greenbook forecast horizon and beyond. Starting from a "baseline" scenario that judgmentally extends the Greenbook forecast, the staff model was used to gauge the effects of: 1) an alternative monetary policy designed to achieve virtual price stability in around five years; 2) a delayed recovery in Asia; and 3) a more favorable productivity trend.

(8) For the baseline extension, key domestic assumptions are that fiscal policy gradually moves the federal budget to a position of modest surplus and that the NAIRU is 5½ percent. Owing to the potential for an unsustainable widening of the current account deficit, the baseline extension builds in a real depreciation of the dollar. Specifically, we have assumed a 1½ percent real depreciation each year, which is sufficient to stabilize the current account deficit relative to GDP. Foreign real GDP growth picks up to an above-trend pace in 2000 and 2001, as the economic difficulties in Asia unwind, and gradually returns to trend over the next several years.

(9) In the **baseline** scenario, shown by solid lines in Chart 3, core PCE inflation remains below 2 percent through the end of the Greenbook projection period. By 2000, however, the Committee faces some upward pressures on inflation: The unemployment rate remains below the staff estimate of the NAIRU, and the dollar and foreign GDP swing from depressing to buoying U.S. GDP and inflation. The Committee can hold inflation to a little more than 2 percent by increasing the nominal federal funds rate from 5½ to 6 percent in

Chart 3
Alternative Strategies for Monetary Policy



1. The real federal funds rate is calculated as the quarterly nominal funds rate minus the four-quarter percent change in the PCE chain-weight price index excluding food and energy.

2000.⁴ This relatively modest increase in the funds rate is sufficient to contain inflation in large part because it is associated with a more pronounced rise in bond yields as the yield curve reverts to a more normal slope. The unemployment rate needs to move up to slightly above the NAIRU to offset the inflationary impacts of the continuing decline in the dollar.⁵ Because the favorable supply shocks that have brought inflation down in recent years are assumed not to persist in the baseline, further disinflation requires that the unemployment rate exceed the NAIRU by even more for a time.⁶ To achieve **virtual price stability**—defined as 1 percent PCE inflation—in around five years, the Committee could increase the funds rate by 1 percentage point starting early next year in order to raise the unemployment rate temporarily above the NAIRU by a full percentage point.

4. In these exercises, the unemployment rate alone is taken as the index of resource pressures in the economy. As noted in the Greenbook, the staff believes that capacity utilization in manufacturing is likely to drop over the next two years, damping price increases. Capacity expansion should slow considerably by 2000, however, and the baseline extension implicitly assumes that a continuation of modest capacity growth would tend to raise the utilization rate to help bring about a more normal alignment with the unemployment rate over time.

5. Although the baseline extension builds in a steady depreciation in the dollar over the whole period, it seems likely that the decline would be more abrupt at times. Increases in the prices of goods and services that result from a sharp decline that promised a period of subsequent stability may more likely be viewed as one-time events and less likely to be built into inflation expectations than those resulting from the steady decline assumed in the baseline. If so, the extent to which policy has to hold the unemployment rate above the NAIRU to contain the effects of a dollar depreciation may be overstated in the baseline. Sharp declines in the dollar, however, may run a higher risk of elevating uncertainty and causing economic and financial dislocations.

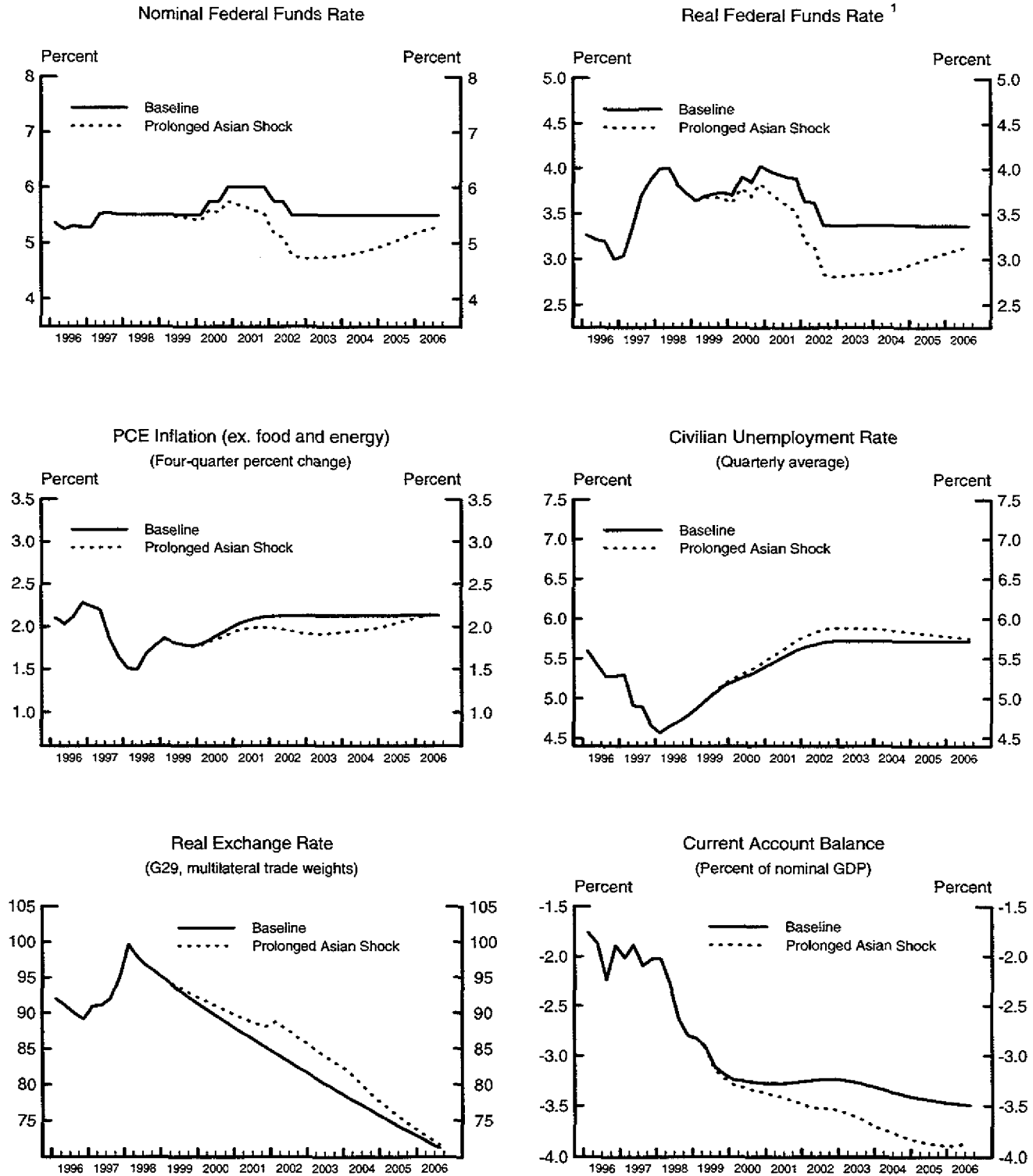
6. In the version of model used for these simulations, inflation, as well as other expectations, adjust gradually to economic conditions as households and businesses form expectations using some, but not complete, knowledge of the underlying structure of the economy. Under this expectation mechanism, the model has a sacrifice ratio over five years of about $2\frac{1}{2}$: that is, a one percentage point reduction in inflation can be achieved only by pushing the unemployment rate above the NAIRU by the equivalent of $2\frac{1}{2}$ percentage points for one year.

(10) Chart 4 presents a **prolonged Asian shock** scenario in which the difficulties in the economies of Asia unwind much more gradually than in the baseline, where they start to diminish in 1999 and then largely disappear by 2001.⁷ The U.S. economy is affected by both a lower level of foreign GDP and a dollar that, at least initially, falls more slowly than in the baseline, though it then depreciates more rapidly toward the end of the period. The relatively higher dollar contributes to better near-term inflation performance, even though the Committee is assumed to lower interest rates to cushion the contractionary effect on output. A federal funds rate that drops as much as 75 basis points below the baseline trajectory is sufficient to keep output close to the baseline path.

(11) Chart 5 presents two scenarios in which trend productivity growth is permanently raised one percentage point. In the staff's model, higher trend productivity growth will over time increase the rate of growth of real wages by an equivalent amount and raise the level of the real interest rate associated with a normal level of resource utilization and stable inflation. Real rates must be higher because faster economic growth boosts permanent income, thereby stimulating consumption relative to current income, and because investment must rise to ensure that the capital stock keeps pace with production, which is growing faster. In the **fixed unemployment path** scenario, the Committee raises rates immediately to keep aggregate demand in line with aggregate supply. This limits the demand for labor and any upward pressure on wages. Moreover, wages are inherently less flexible than prices, so firms with reduced unit labor costs compete to expand output and this puts

7. At its maximum, the added impact of the assumed delay of the recovery in Asia on the U.S. economy amounts to about three-quarters of the impact of the Asian crisis expected in 1998.

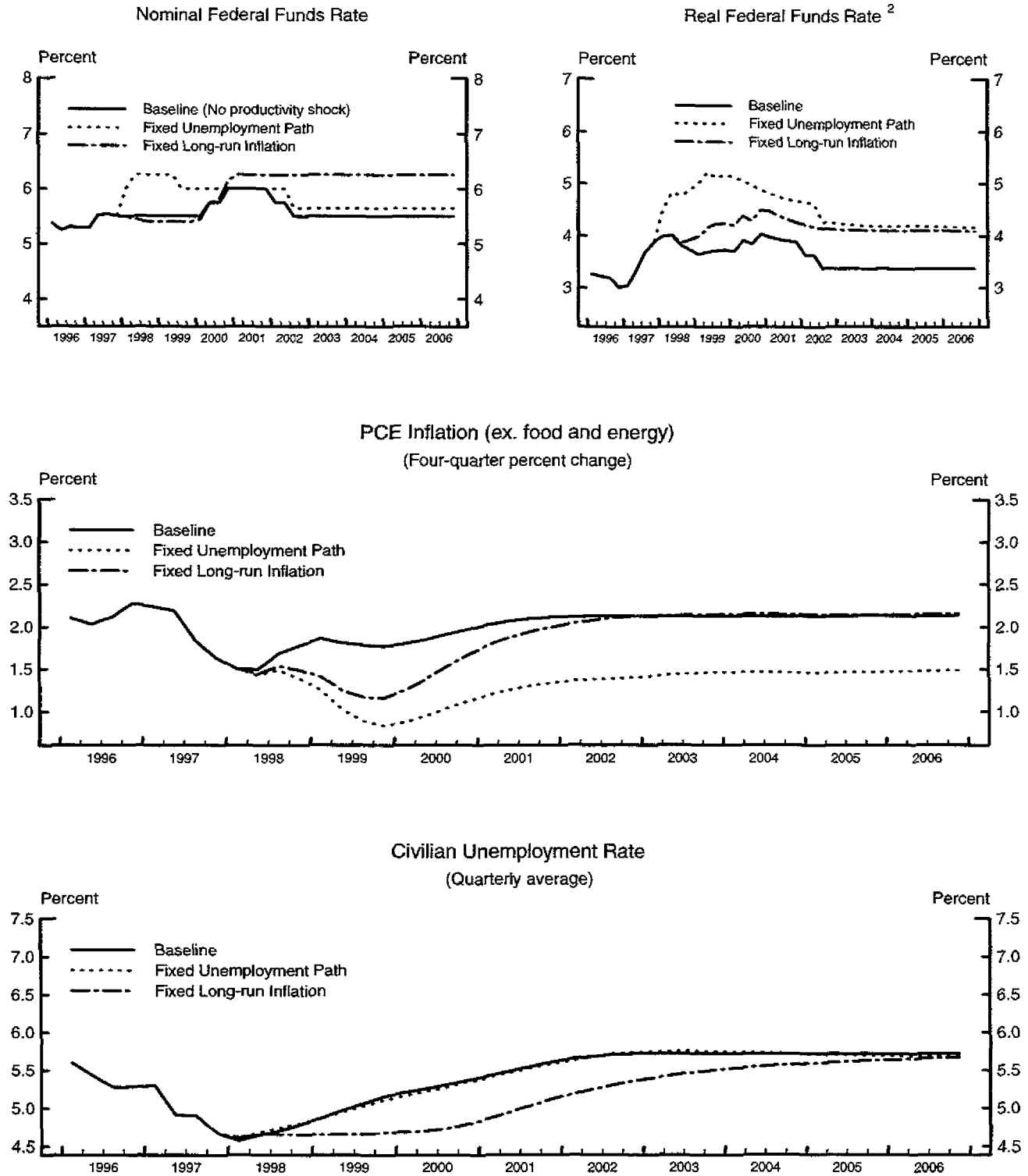
Chart 4
A Prolonged Asian Shock



1. The real federal funds rate is calculated as the quarterly nominal funds rate minus the four-quarter percent change in the PCE chain-weight price index excluding food and energy.

Chart 5

Alternative Responses to a Productivity Shock¹



1. Productivity growth is raised permanently by one percentage point starting in 1998:Q1.

2. The real federal funds rate is calculated as the quarterly nominal funds rate minus the four-quarter percent change in the PCE chain-weight price index excluding food and energy.

downward pressure on price inflation. Alternatively, the Federal Reserve could keep real rates the same for awhile, allowing the increase in demand to reduce the unemployment rate (**fixed long-run inflation** scenario). The resulting rise in labor compensation does not push up inflation for a time because the increase in productivity holds down unit labor costs. This configuration might make it appear that the economy has a lower NAIRU, but ultimately the unemployment rate must return to the true, unchanged NAIRU to avoid ever-rising inflation.

Long-Run Ranges for 1998

(12) As background for the Committee's discussion of the annual ranges for 1998, the table below presents staff projections for money and debt consistent with the Greenbook forecast, as well as three alternative sets of ranges for Committee consideration.

Growth of Money and Debt and Alternative Ranges

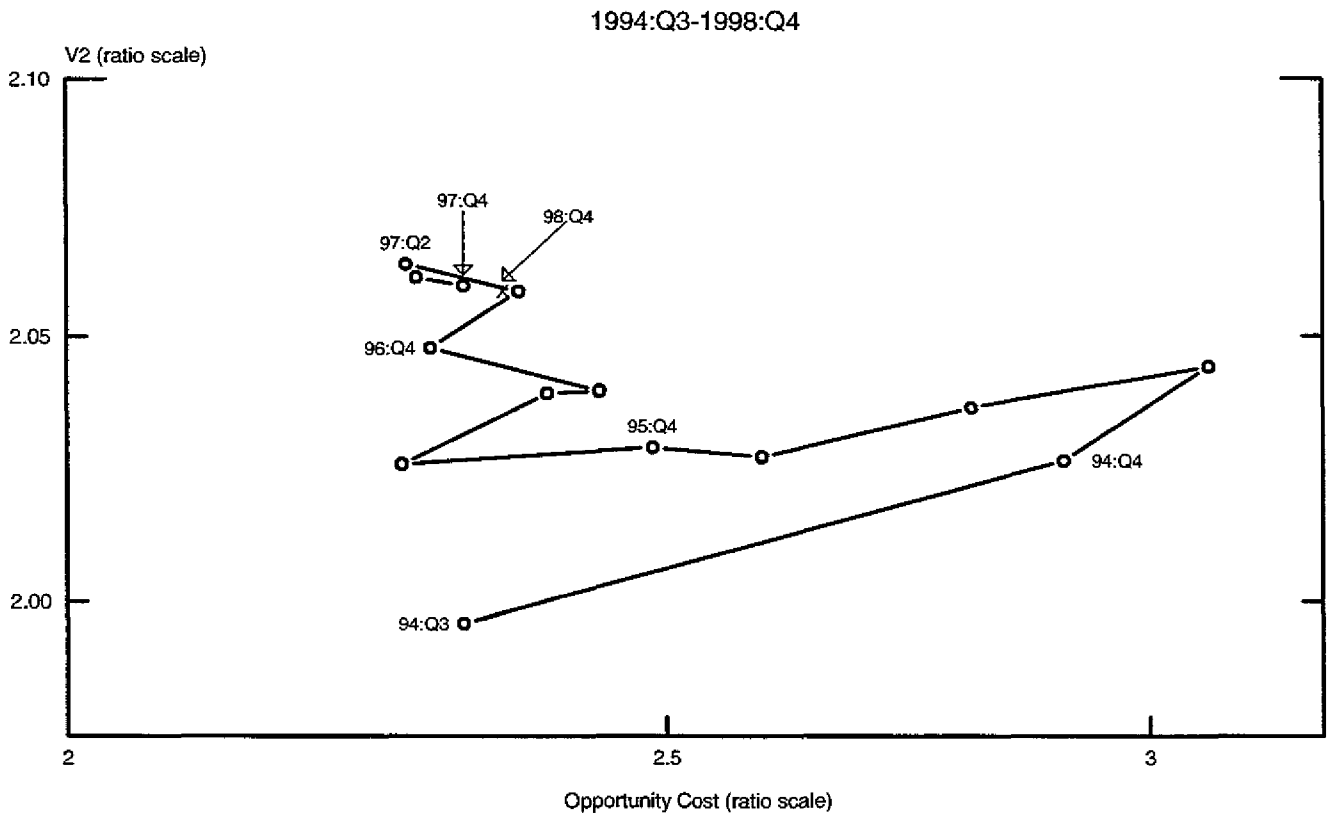
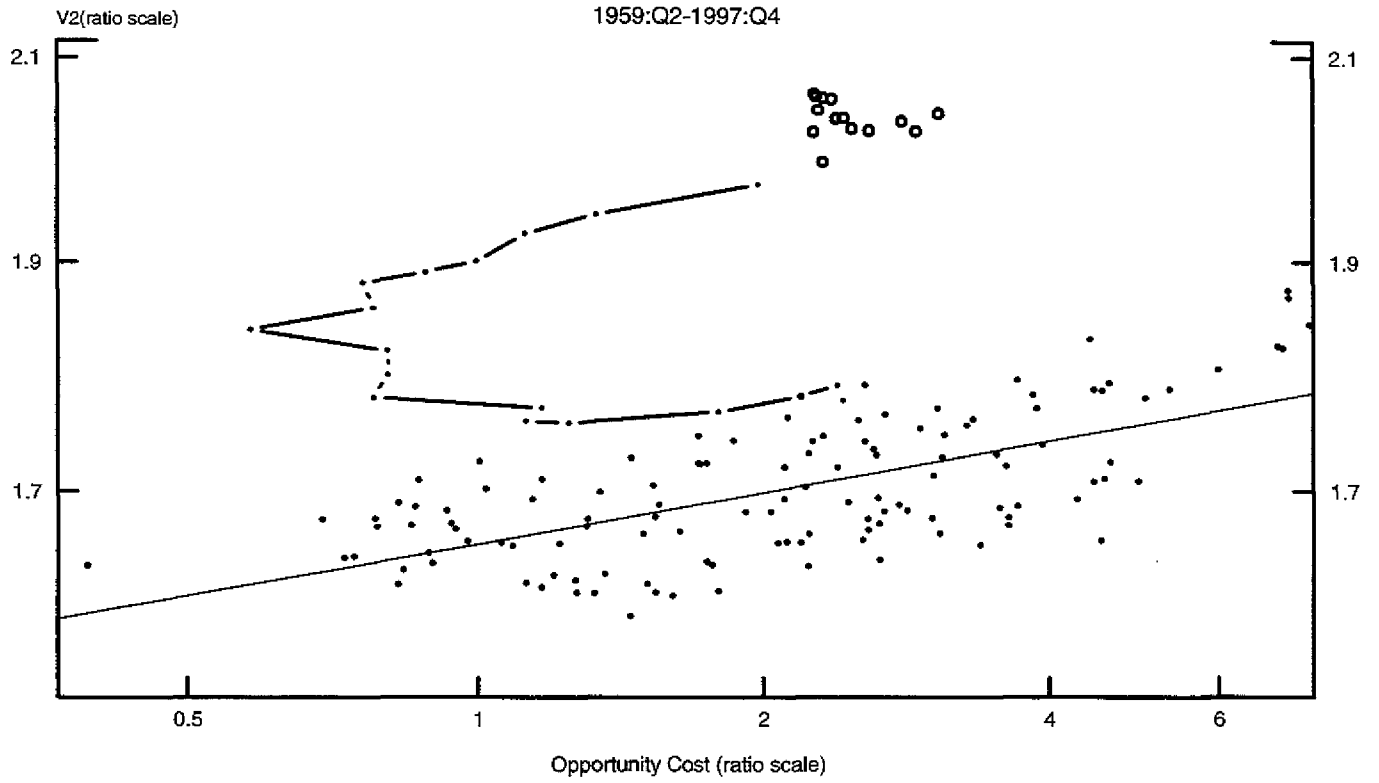
	(percent)				
	1997	1998	Alt. I	Alt. II	Alt. III
	(actual)	(projected)	(provisional)		
M2	5.1	3½	1 to 5	1 to 5	1 to 5
M3	8.3	6¾	2 to 6	3 to 7	2 to 6
Debt	4.6	5¾	3 to 7	3 to 7	2 to 6
Memo:					
Nominal GDP	5.8	3½			

Projected money and debt growth

(13) M2 growth is expected to decline appreciably from 5 percent over the four quarters of last year to 3½ percent this year. The slowing in the rate of expansion of M2 reflects projected deceleration in nominal GDP from growth of 5¾ percent last year to 3½ percent this year, and the Greenbook assumption of an unchanged stance of monetary policy, which keeps the opportunity cost of holding M2 balances unchanged. As shown in the lower panel of Chart 6, from mid-1994 to mid-1997 a small uptrend in M2 velocity was associated with a stable spread, on balance, of the three-month Treasury bill rate over the weighted-

Chart 6

M2 Velocity and Opportunity Cost



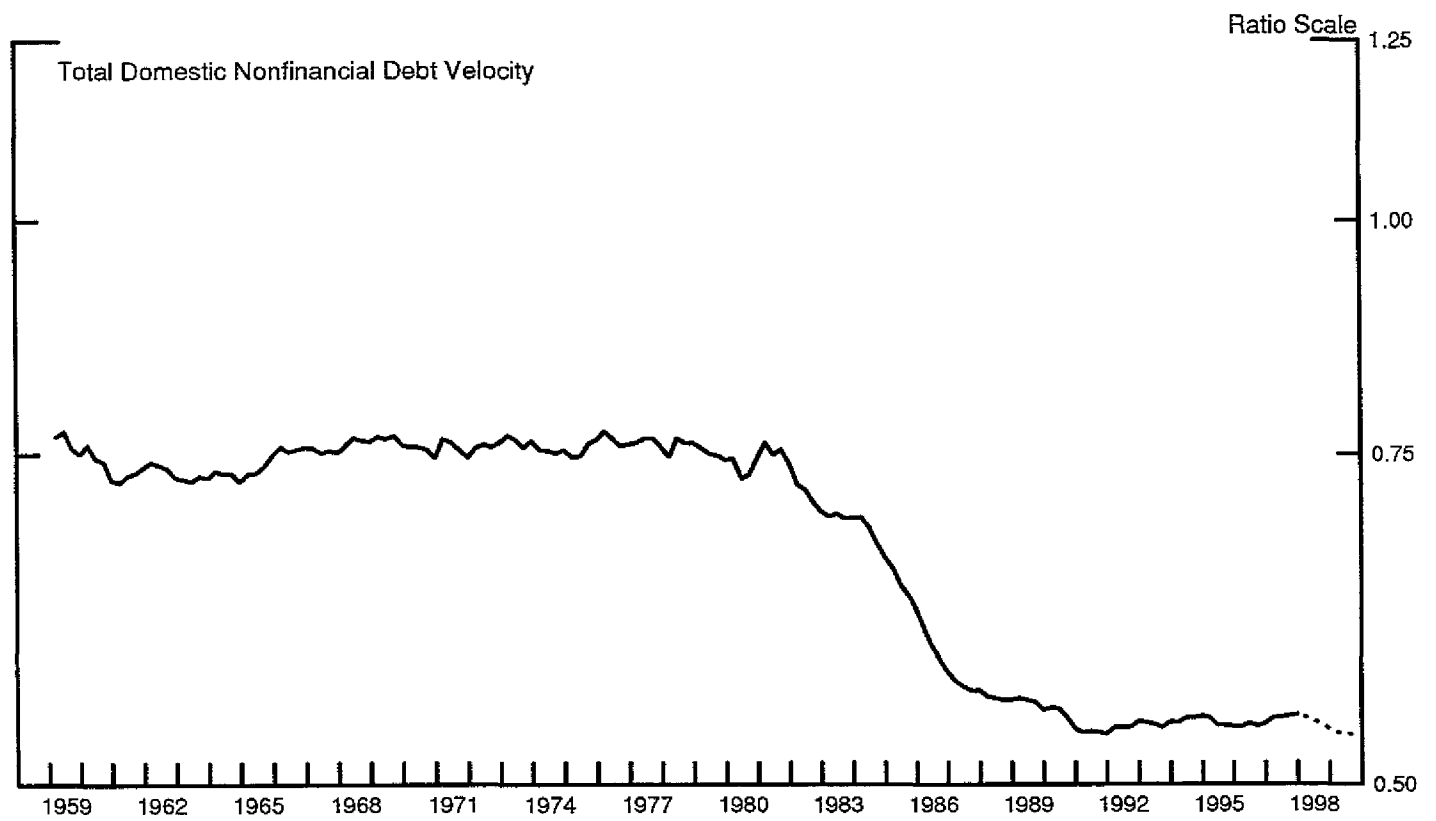
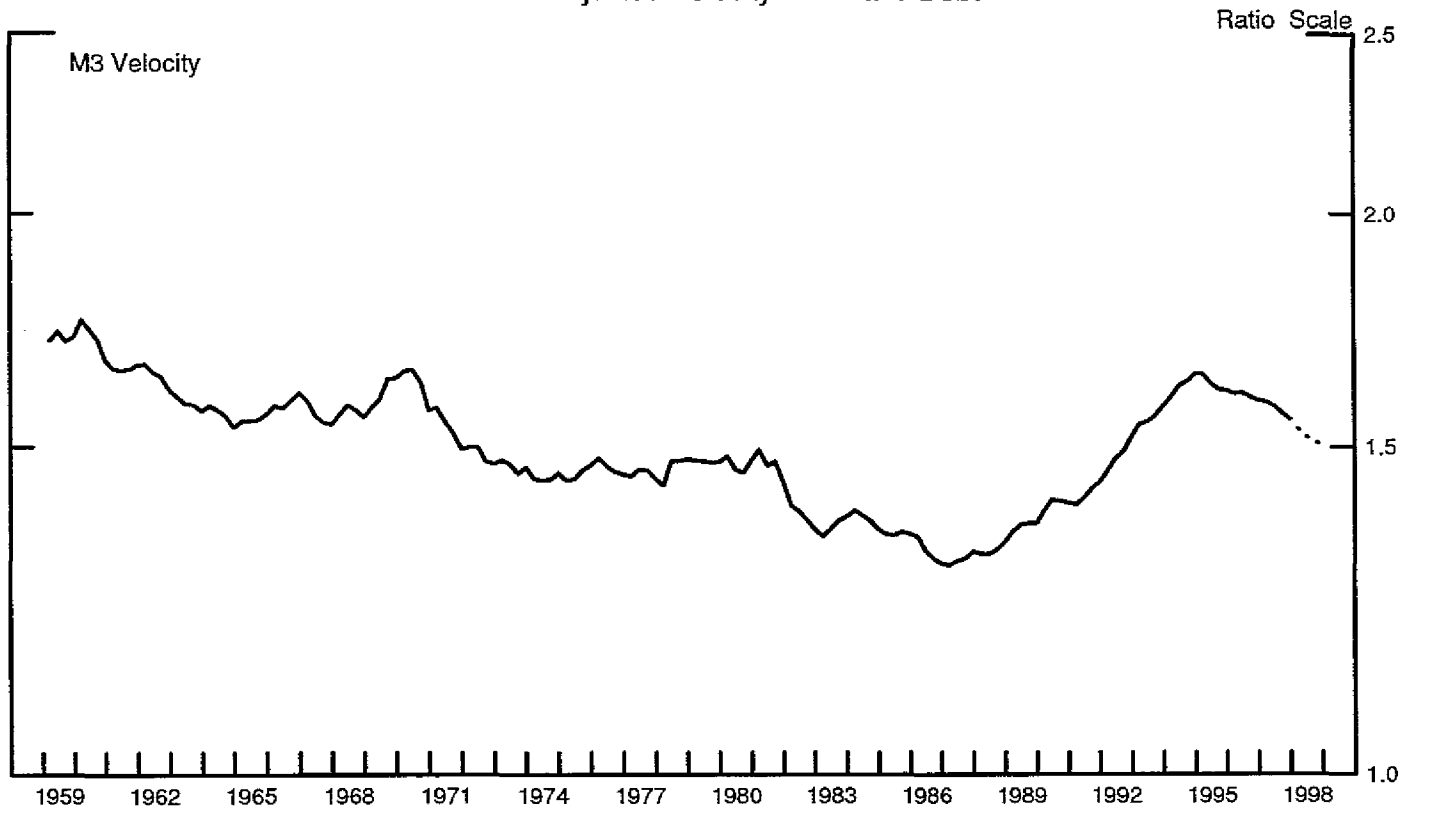
average own rate on the components of M2. However, over the final two quarters of last year, V2 remained near its second-quarter level, with little change in M2's opportunity cost. In the staff forecast, the period of no velocity trend is extended, as nominal GDP and M2 grow at the same rate this year. One source of the previous uptrend in V2, and associated downtrend in M2 demand, may well have been continued allocation of savings into the equity market; in 1998, owing to the downdraft of equity prices predicted by the staff, we expect slower inflows to stock mutual funds and greater preference for more secure M2 assets, which have fixed principal values.

(14) The staff expects most of the deceleration in nominal GDP and M2 in 1998 to show through to M3. The growth in this aggregate is projected to decline from 8¼ percent last year to 6¾ percent this year. Even so, the expansion of M3 relative to that of GDP remains high, implying a further appreciable decline in M3 velocity (Chart 7). The forecast of M3 has been elevated by the rapid growth in both bank credit and M3 in recent months and by the projection of a relatively robust pace of depository credit expansion this year. As discussed below, total debt growth is likely to be strong relative to GDP this year, and with profit margins and capitalization of depositories at high levels, these institutions are expected to remain sufficiently accommodative suppliers of credit to hold on to their share of lending. Also, heavy inflows to institution-only money funds likely will boost M3 growth again this year, as businesses further increase their reliance on these money funds as an attractive cash management instrument.

(15) Unlike the deceleration foreseen for nominal GDP and the broader money aggregates, growth of the debt of domestic nonfinancial sectors is anticipated to pick up from

Chart 7

Actual and Projected Velocity of M3 and Debt



a 4½ percent rate last year to a 5¼ percent rate this year. Thus, debt velocity is expected to drop in 1998, after increasing on balance over the last two years (Chart 7). To a minor extent, the rise in debt relative to spending reflects the evident surge in home mortgage refinancings, which is likely to entail some cashing out of equity. More important, business borrowing should be boosted relative to capital spending this year by weaker growth of internal funds as profits lag as well as by increased net retirements of equities associated with merger and acquisition and share repurchase activity. With debt rising relative to income for businesses, lenders may become somewhat wary of prospective repayment performance. However, the staff does not anticipate a significant deterioration in business or household credit quality or a substantial pullback in credit availability, in part because refinancing of outstanding debt at lower rates will reduce debt-service obligations.

Issues related to money and debt ranges

(16) In recent years, the Committee has selected ranges for both of the broad monetary aggregates on the rationale that, given continued heightened uncertainty about money demand, the ranges should represent benchmarks for average money growth over time under conditions of price stability and normal velocity behavior, not forecasts of money growth over the specific upcoming year or two. The debt range by contrast has been used to convey projected growth over the particular upcoming year or two. The Committee's choice of ranges at this meeting would seem to boil down to whether to continue past practice, as in alternative I, to switch the rationale for the M3 range from the one previously used for the broader monetary aggregates ranges to the one that in the past applied mainly to the debt

range, as in alternative II, or to switch the rationale for the debt range to one more consistent with price stability, as in alternative III.

(17) In the past, one source of conflict between the two rationales for choosing annual ranges for the money and credit aggregates has been the fact that nominal GDP was anticipated to grow at a pace that differed from what would be expected under conditions of price stability. This conflict does not arise this year. The staff estimates that in future years measured potential real GDP will grow at an annual rate of $2\frac{1}{2}$ percent and broad GDP price indexes will have a bias of a bit more than a $\frac{1}{2}$ percentage point per year. Thus, under conditions of true price stability, nominal GDP would grow at about a 3 percent rate—very close to the $3\frac{1}{2}$ percent nominal GDP growth that the staff is projecting for 1998.

(18) With M2 velocity anticipated to be about flat in 1998, as it would be under conditions of sustained price stability, M2 as projected for 1998 and under conditions of price stability are very close, and both fall well within the Committee's provisional range. Even if the stance of policy needs to be substantially tightened or eased, M2 is likely to be in its current range. Under the tighter or easier scenarios of the Greenbook, Part I, in which the FOMC's federal funds rate intention is adjusted upward or downward by 25 basis points in each quarter of this year, annual M2 growth in 1998 likely would vary from $3\frac{1}{2}$ percent by less than one percentage point.

(19) The current provisional range for M3 is consistent with the behavior of that aggregate under price stability if it grows nearly one percentage point faster than GDP, as it

did on average over the three decades prior to the 1990s.⁸ Nonetheless, the staff forecast places M3 growth well above this provisional range, as relatively rapid credit growth, a healthy depository share of that growth, and continued structural shifts toward using M3 money funds for cash management result in a further steep decline in M3 velocity this year that is not likely to persist in the long run. A question for the Committee is whether to move the range to encompass likely growth (alternative II) or to leave it at the provisional, price stability, range.

(20) The provisional debt range readily encompasses the staff projection for 1998, but it is not likely to be consistent with the behavior of debt under conditions of price stability. In the steady state, the stock of business capital and consumer durables--and the debt used to finance them--probably would be growing at close to the rate of GDP. To be sure, there are a number of influences that might cause the velocity of debt to trend one way or another for a considerable period--for example, changes in tax laws or tastes that shifted the debt/equity mix, or financial innovation that promoted greater intermediation and a concomitant increase in both financial assets and liabilities on balance sheets. On average beginning in 1960, debt growth has exceeded that of nominal GDP somewhat. But that overage is entirely accounted for by the 1980s, when firms and households greatly increased their leverage, and innovation and deregulation encouraged the expansion of financial intermediation. Hence, going forward, absent evidence of ongoing disturbances to the

8. However, there is considerable uncertainty about longer-term trends in M3 velocity. On the one hand, M3 growth over the past three years has been on the order of 1¾ percentage points faster than that of nominal GDP. On the other hand, it is hard to envision why nominal magnitudes would grow at differing rates in the very long run, implying that all the monetary and credit aggregates should be centered around the expected 3 percent growth rate of nominal GDP.

relationship between debt and spending, the best estimate of steady-state debt growth would seem to be equal to the growth rate of nominal GDP. If the Committee wanted to adopt the same price-stability rationale for the debt aggregate that it has in the past for M2 and M3, a significant reduction of the range would seem to be called for, perhaps to 1 to 5 percent or, as a halfway house, 2 to 6 percent, as in alternative III, matching the ranges for debt and M3. However, even this alternative would leave the midpoint of the range well below the staff's projection for debt this year.

Short-Run Policy Alternatives

(21) The staff is projecting reasonably steady measured CPI inflation at around 2 percent over the second half of 1998 and in 1999, after increases of only about half that size over the first half of this year. In this forecast, upward pressure on inflation associated with a tight labor market is offset by downward pressures emanating importantly from the rise in the dollar and decline in oil prices in 1997 and early 1998 and from declining capacity utilization. The staff forecast is built on an unchanged federal funds rate, and if the Committee agrees that this is both a reasonable and desirable outcome under those conditions, retaining the current stance of policy under **alternative B** would be appropriate. Even if the Committee suspects that the staff forecast has misjudged the likely economic situation, in the current circumstances waiting for additional information might be seen as unlikely to have significantly destabilizing effects on the economy. If, for example, the damping effects of the Asian crisis turn out to be greater than is built into the forecast, since the economy still would be operating beyond its sustainable potential for a while, the Committee should have enough time to take appropriate countervailing action before the resulting economic weakness and disinflation proceeds further or faster than the Committee would find desirable. On the other hand, even if inflation pressures turn out to be more intense than the staff expects--perhaps because persistent tightness in labor markets continues to boost the growth of compensation increasingly beyond that of productivity--downward price pressures already in the pipeline will still keep inflation quite low for a time. In these circumstances, the Committee should be able to head off a potential upturn in inflation before higher actual inflation gets built into wage and price decisions.

(22) Because markets put very low odds on any move at the February meeting, interest rates should not react significantly if the Committee keeps the stance of policy unchanged. A portion of the flight-to-quality effects seems to have unwound in the last two weeks as conditions in parts of Asia appeared to improve. Markets, though, are likely to remain highly sensitive to developments abroad and at home that bear on the strength of final demands and pressures on prices in the United States, given unusually divergent views on the outlook among market participants. Rates on intermediate- and long-term Treasury securities could retrace still more of their recent backup if incoming data, consistent with the staff outlook, confirm the slowdown in growth, including a further buildup of inventories, and a flattening of consumer prices. Worries about corporate earnings should mount, though not enough to boost quality spreads appreciably in corporate bond markets or put much downward pressure on equity prices, which would be bolstered by any downward drift in bond yields. The dollar would be expected to trade around its levels of late, off some from its recent peak.

(23) The Committee may see sufficient chances of a shortfall in activity from the staff forecast to suggest a small easing at this time--as in the 25 basis point decline in the federal funds rate under **alternative A**. The Committee has held the nominal federal funds rate constant since March, even as inflation and inflation expectations have fallen, raising the real funds rate to a high level. The rise in the real funds rate may have been viewed as a beneficial development when risks in the economic outlook seemed tilted toward strong economic growth and a rising output gap. However, given forecasts that now see appreciably slower growth and lower inflation than was earlier foreseen, the Committee may now interpret the recent increase in the short-term real rate as risking tighter financial conditions than would

be consistent with satisfactory economic performance. Indeed, the very damped behavior of the CPI over the first half of this year in the staff forecast may portend a further reduction in inflation expectations and an additional rise in real short-term rates over coming months if the nominal funds rate were left unchanged. To date, the steady nominal funds rate does not seem to have appreciably impeded the drop in nominal, and possibly real, long-term rates as the market took out expected tightening and built in a small ease. But at some point, failure to ratify current expectations might put upward pressure on rates, nominal and real, and more certainly would inhibit the pricing in of further easing. This suggests that an easing of policy could have an unusually pronounced effect on long-term rates over time because it would facilitate building in further easing, as well as reduce short-term rates by nearly the full 25 basis point decline in the funds rate. The drop in yields would tend to boost equity prices and depress the dollar.

(24) **Alternative C** might be favored if the Committee saw the economy as continuing to operate beyond its potential, with the risk that sustained pressures on labor markets might show through more forcefully than in the staff forecast to higher labor costs and prices, perhaps hinted at in the recent employment cost report. Domestic spending continues to be supported by very favorable conditions in debt and equity markets. The decline in long-term rates should spur spending, in part as borrowers free cash flow by refinancing higher cost debt. In this environment, counting on Asian developments to defuse enough of the momentum in the economy may be viewed as too risky, especially as the rebound in Asian stock markets and in commodity prices may suggest that limits to Asian turmoil may be in sight. In response to the tightening, short-term rates would rise by at least

the 25 basis point increase in the federal funds rate. Intermediate- and long-term yields would also rise, although market participants are unlikely to build in much further tightening in light of the situation in Asia, thereby constraining the extent of the increase. Stocks would come under some selling pressure, accentuated perhaps by the uncertainty precipitated by such a surprise in policy. The dollar would tend to rise on foreign exchange markets.

(25) As discussed in detail in the Long-Run Ranges section of this bluebook, we would expect growth of the broad money aggregates to slow this year relative to last year and relative to their pace of expansion in recent months. That deceleration is expected to start soon, in keeping with the moderation in nominal income. By June, M2 would be $4\frac{1}{4}$ percent at an annual rate above its fourth-quarter level—in the upper portion of its provisional range. M3 would be $7\frac{1}{2}$ percent above its base, well above the upper end of its provisional range. Borrowing by domestic nonfinancial sectors is expected to be well maintained in coming months, paced by the business sector. Household debt growth will continue to be led by mortgage financing, owing in part to the burst in refinancing activity and accompanying cash-outs, and to continued aggressive promotion to subprime borrowers. The very small federal deficit implies that, on balance, Treasury debt issuance will only about replace maturing debt. As a consequence, debt of domestic nonfinancial sectors is projected to grow at a 5 percent annual rate over the first half of 1998, at the midpoint of its provisional range.

Directive Language

(26) Presented below for the members' consideration is draft wording relating to the Committee's ranges for the aggregates in 1998 and the operational paragraph for the intermeeting period.

1998 RANGES

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 ~~THIS~~ its meeting in July reaffirmed the ESTABLISHED ranges it had established in February for growth of M2 and M3 of ~~___ TO ___ 4 to 5~~ percent and ~~___ TO ___ 2 to 6~~ percent respectively, measured from the fourth quarter of 1997 ~~1996~~ to the fourth quarter of 1998 ~~1997~~. The range for growth of total domestic nonfinancial debt was SET AT ~~___ TO ___ maintained at 3 to 7~~ percent for the year. ~~For 1998, the Committee agreed on a tentative basis to set the same ranges as in 1997 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1997 to the fourth quarter of 1998.~~ 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 conditions in reserve markets consistent with maintaining/INCREASING/DECREASING the federal funds rate at/TO an average of around ~~___ 5-1/2~~ percent. 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, a SOMEWHAT/slightly higher federal funds rate WOULD/MIGHT or a SOMEWHAT/slightly lower federal funds rate WOULD/might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with some moderation in the growth in M2 and M3 over coming months.

Alternative Growth Rates for Key Money and Credit Aggregates

	M2			M3			Debt	
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	All Alternatives	
Monthly Growth Rates								
Sep-97	5.8	5.8	5.8	8.4	8.4	8.4	4.7	
Oct	4.9	4.9	4.9	7.8	7.8	7.8	5.3	
Nov	6.5	6.5	6.5	10.7	10.7	10.7	5.2	
Dec	6.0	6.0	6.0	9.8	9.8	9.8	5.0	
Jan-98	7.5	7.5	7.5	10.4	10.4	10.4	5.2	
Feb	4.9	4.7	4.6	7.2	7.1	7.0	5.9	
Mar	4.0	3.6	3.3	6.8	6.6	6.4	5.5	
Apr	5.5	5.1	4.7	8.1	7.9	7.7	3.5	
May	0.9	0.5	0.1	4.7	4.5	4.3	4.1	
Jun	2.5	2.2	1.9	5.4	5.3	5.2	4.5	
Quarterly Averages								
97 Q2	4.0	4.0	4.0	7.4	7.4	7.4	4.7	
97 Q3	5.0	5.0	5.0	7.8	7.8	7.8	4.0	
97 Q4	6.1	6.1	6.1	9.1	9.1	9.1	5.1	
98 Q1	6.1	6.0	5.9	9.2	9.2	9.1	5.4	
98 Q2	3.7	3.4	3.0	6.7	6.5	6.3	4.5	
Growth Rate								
From	To							
Jan-98	Jun-98	3.5	3.2	2.9	6.5	6.3	6.2	4.8
97 Q4	Jan-98	6.8	6.8	6.8	10.2	10.2	10.2	5.1
97 Q4	Jun-98	4.5	4.3	4.1	7.6	7.5	7.4	4.9
95 Q4	96 Q4	4.6	4.6	4.6	6.9	6.9	6.9	5.2
96 Q4	97 Q4	5.1	5.1	5.1	8.3	8.3	8.3	4.6
1997 Annual Ranges:		1.0 to 5.0			2.0 to 6.0			3.0 to 7.0
1998 Provisional Ranges:		1.0 to 5.0			2.0 to 6.0			3.0 to 7.0

Chart 8

Actual and Projected M2

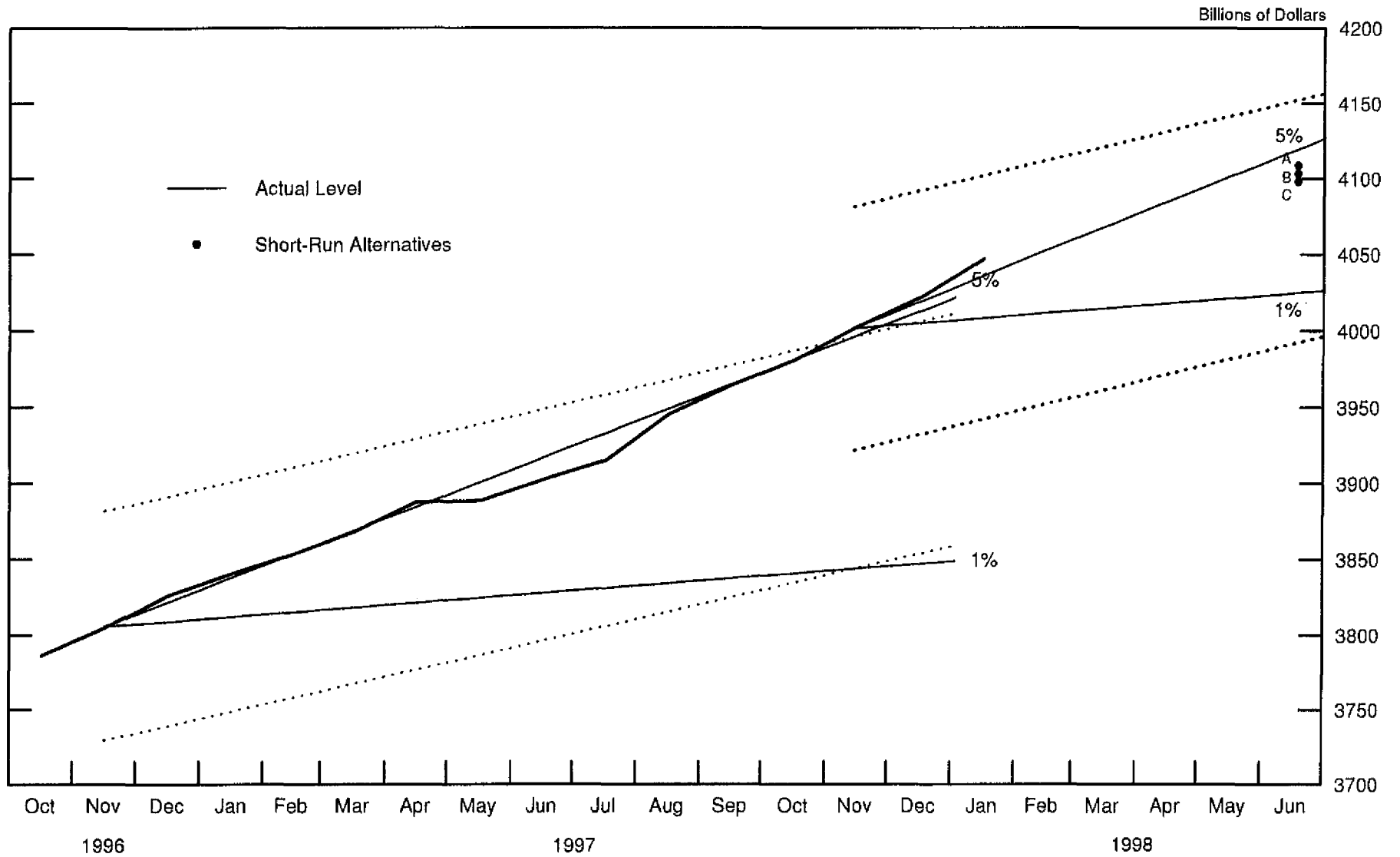


Chart 9

Actual and Projected M3

Billions of Dollars

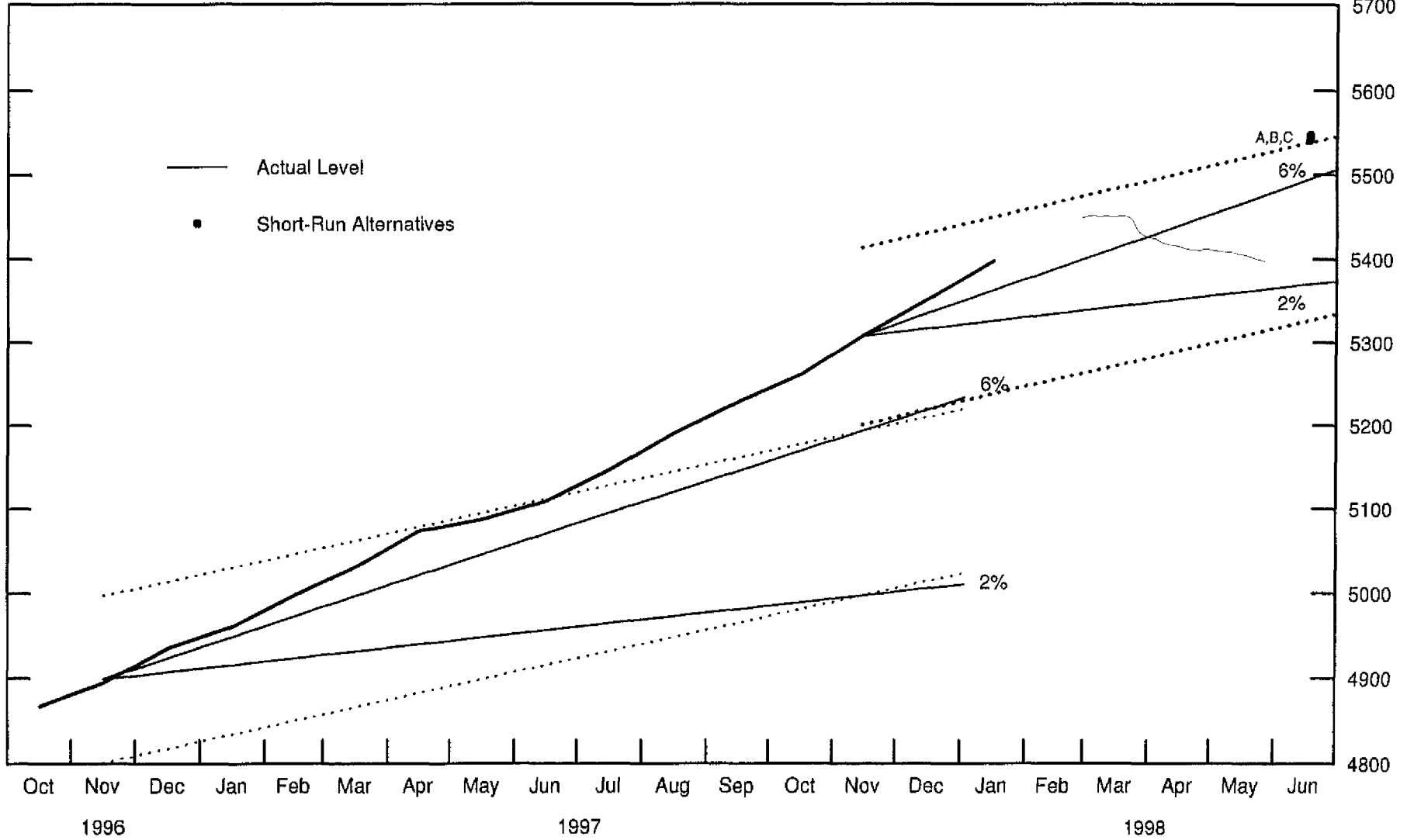
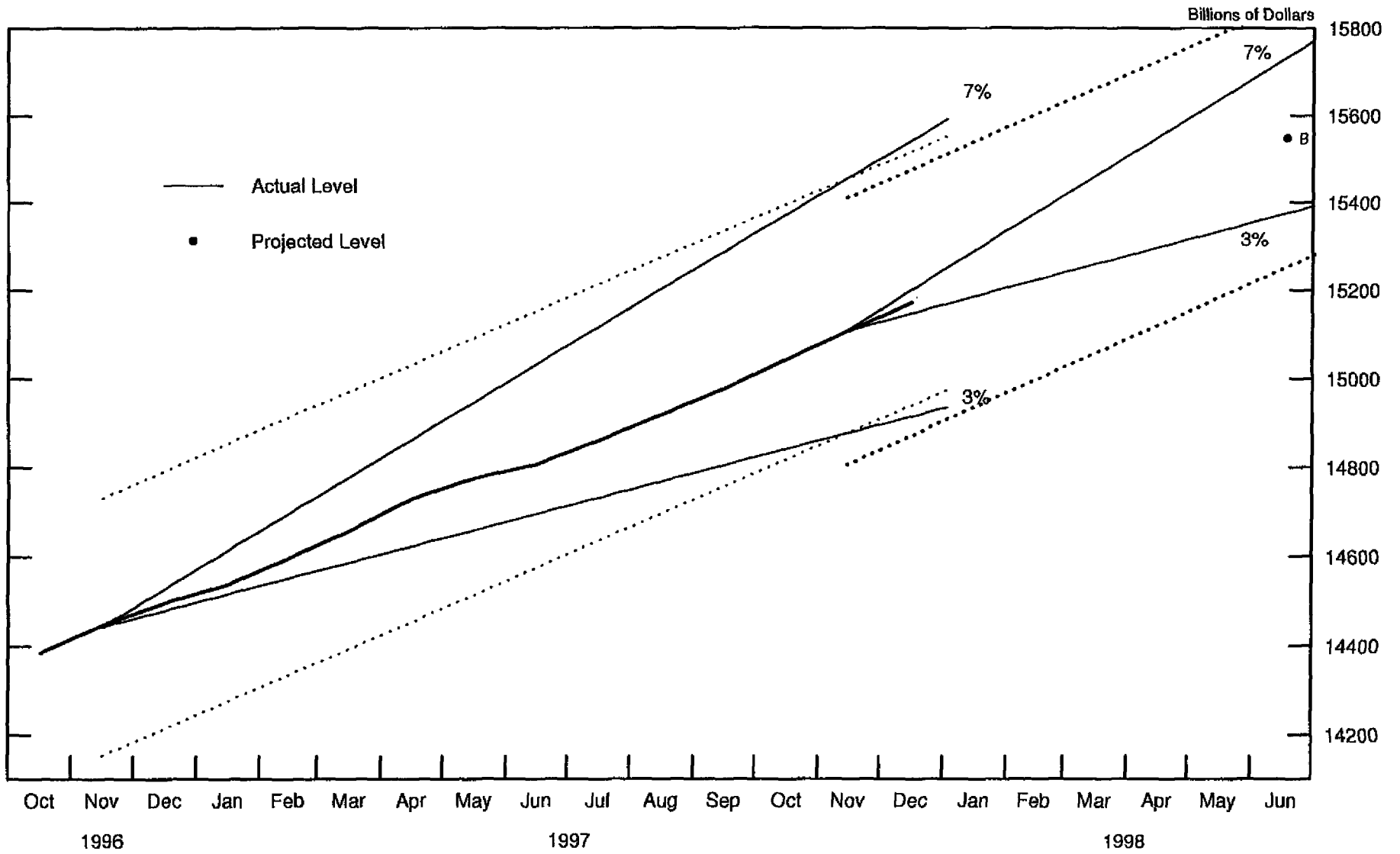


Chart 10

Actual and Projected Debt



Appendix A

ADOPTED LONGER-RUN RANGES FOR THE MONETARY AND CREDIT AGGREGATES

(percent annual rates)

	M1		M2		M3		Domestic Non-financial Debt ¹	
QIV 1979 - QIV 1980	4 - 6.5	(7.3) ²³	6 - 9	(9.8)	6.5 - 9.5	(9.9)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3) ²⁴	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	(3.1)	1 - 5	(1.3)	4.5 - 8.5	(4.5)
QIV 1991 - QIV 1992	n.s.	(14.3)	2.5 - 6.5	(1.9)	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)
QIV 1995 - QIV 1996	n.s.	(-4.6)	1 - 5	(4.6)	2 - 6	(6.8)	3 - 7	(5.0)
QIV 1996 - QIV 1997	n.s.	(-1.5)	1 - 5	(5.1)	2 - 6	(8.3)	3 - 7	(4.6)

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.

1/30/98 (MARP)

SELECTED INTEREST RATES
(percent)

	Short-Term							Long-Term								
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	bank prime loan	U.S. government constant maturity yields			indexed yields		corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages primary market	
		3-month	6-month	1-year	3-month	1-month		3-year	10-year	30-year	5-year	10-year			fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
96 -- High	5.66	5.19	5.35	5.61	5.57	5.88	8.50	6.56	6.99	7.13	--	--	8.23	6.34	8.42	6.01
-- Low	5.11	4.79	4.70	4.57	5.13	5.28	8.25	4.94	5.58	6.00	--	--	7.00	5.63	6.94	5.19
97 -- High	5.80	5.27	5.40	5.66	5.82	5.90	8.50	6.64	6.92	7.12	3.67	3.67	8.27	6.14	8.18	5.91
-- Low	5.05	4.85	4.99	5.07	5.34	5.37	8.25	5.69	5.74	5.90	3.52	3.27	7.05	5.40	6.99	5.45
Monthly																
Jan 97	5.25	5.03	5.10	5.30	5.43	5.43	8.25	6.16	6.58	6.83	--	3.41	7.93	5.99	7.82	5.56
Feb 97	5.19	5.01	5.06	5.23	5.37	5.39	8.25	6.03	6.42	6.69	--	3.29	7.81	5.90	7.65	5.49
Mar 97	5.39	5.14	5.26	5.47	5.53	5.51	8.30	6.38	6.69	6.93	--	3.45	8.08	6.04	7.90	5.64
Apr 97	5.51	5.16	5.37	5.64	5.71	5.61	8.50	6.61	6.89	7.09	--	3.62	8.23	6.14	8.14	5.87
May 97	5.50	5.05	5.30	5.54	5.70	5.61	8.50	6.42	6.71	6.94	--	3.58	8.01	5.94	7.94	5.81
Jun 97	5.56	4.93	5.13	5.38	5.66	5.60	8.50	6.24	6.49	6.77	--	3.60	7.85	5.79	7.69	5.69
Jul 97	5.52	5.05	5.12	5.24	5.60	5.56	8.50	6.00	6.22	6.51	3.64	3.64	7.62	5.62	7.50	5.57
Aug 97	5.54	5.14	5.19	5.27	5.60	5.55	8.50	6.06	6.30	6.58	3.57	3.57	7.67	5.68	7.48	5.55
Sep 97	5.54	4.95	5.09	5.23	5.60	5.49	8.50	5.98	6.21	6.50	3.61	3.58	7.58	5.64	7.43	5.55
Oct 97	5.50	4.97	5.09	5.17	5.65	5.49	8.50	5.84	6.03	6.33	3.60	3.57	7.44	5.63	7.29	5.51
Nov 97	5.52	5.14	5.17	5.17	5.74	5.53	8.50	5.76	5.88	6.11	3.55	3.54	7.24	5.59	7.21	5.49
Dec 97	5.50	5.16	5.24	5.24	5.80	5.78	8.50	5.74	5.81	5.99	3.63	3.60	7.10	5.44	7.10	5.52
Weekly																
Nov 28 97	5.50	5.13	5.22	5.21	5.78	5.56	8.50	5.77	5.86	6.06	3.56	3.54	7.20	5.55	7.17	5.47
Dec 5 97	5.55	5.13	5.22	5.25	5.81	5.68	8.50	5.79	5.86	6.04	3.58	3.55	7.23	5.48	7.15	5.50
Dec 12 97	5.43	5.10	5.23	5.23	5.81	5.74	8.50	5.78	5.87	6.07	3.58	3.56	7.07	5.45	7.17	5.52
Dec 19 97	5.67	5.12	5.21	5.20	5.80	5.82	8.50	5.69	5.77	5.96	3.64	3.62	7.05	5.41	7.07	5.51
Dec 26 97	5.32	5.27	5.28	5.26	5.82	5.90	8.50	5.71	5.74	5.90	3.66	3.64	7.05	5.40	6.99	5.53
Jan 2 98	5.68	5.24	5.24	5.23	5.74	5.71	8.50	5.70	5.75	5.93	3.71	3.69	6.96	5.41	7.03	5.50
Jan 9 98	5.60	5.04	5.04	4.99	5.58	5.48	8.50	5.37	5.49	5.75	3.73	3.71	6.86	5.32	6.94	5.50
Jan 16 98	5.48	5.00	4.97	4.92	5.50	5.44	8.50	5.28	5.45	5.74	3.75	3.69	6.96	5.25	6.89	5.56
Jan 23 98	5.50	5.02	5.02	4.96	5.51	5.44	8.50	5.36	5.59	5.87	3.72	3.66	7.11	5.30	6.99	5.53
Jan 30 98	5.57	5.06	5.06	5.01	5.53	5.46	8.50	5.43	5.63	5.89	3.71	3.65	6.96	5.33	7.12	5.59
Daily																
Jan 14 98	5.36	5.04	4.97	4.93	5.53	5.44	8.50	5.30	5.45	5.74	3.76	3.70	--	--	--	--
Jan 15 98	5.60	5.00	4.95	4.93	5.50	5.44	8.50	5.29	5.48	5.74	3.75	3.68	--	--	--	--
Jan 16 98	5.54	5.02	5.00	4.98	5.51	5.44	8.50	5.35	5.54	5.81	3.75	3.67	--	--	--	--
Jan 19 98	5.54	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Jan 20 98	5.52	5.02	5.00	4.98	5.51	5.44	8.50	5.36	5.57	5.83	3.72	3.66	--	--	--	--
Jan 21 98	5.40	5.00	5.01	4.96	5.50	5.44	8.50	5.34	5.54	5.81	3.71	3.65	--	--	--	--
Jan 22 98	5.47	5.00	5.00	4.92	5.50	5.43	8.50	5.31	5.56	5.85	3.71	3.64	--	--	--	--
Jan 23 98	5.51	5.04	5.06	4.99	5.51	5.44	8.50	5.44	5.70	5.98	3.72	3.67	--	--	--	--
Jan 26 98	5.62	5.01	5.06	4.99	5.52	5.45	8.50	5.42	5.63	5.90	3.70	3.65	--	--	--	--
Jan 27 98	5.52	5.10	5.09	5.05	5.54	5.46	8.50	5.50	5.70	5.95	3.72	3.66	--	--	--	--
Jan 28 98	5.58	5.09	5.09	5.06	5.55	5.47	8.50	5.50	5.69	5.94	3.72	3.66	--	--	--	--
Jan 29 98	5.63	5.06	5.03	4.99	5.53	5.47	8.50	5.39	5.58	5.85	3.70	3.64	--	--	--	--
Jan 30 98	5.60 ^P	5.06	5.04	4.97	5.52	--	8.50	5.35	5.53	5.82	3.71	3.64	--	--	--	--

NOTE: Weekly data for columns 1 through 12 are week-ending averages. As of September 1997, data in column 6 are interpolated from data on certain commercial paper trades settled by the Depository Trust Company; prior to that, they reflect an average of offering rates placed by several leading dealers. Columns 13 and 14 are 1-day quotes for Friday or Thursday, respectively. Column 14 is the Bond Buyer revenue index. 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 Debt Aggregates

Seasonally adjusted

February 2, 1998

Period	Money stock measures and liquid assets					Domestic nonfinancial debt		
	M1	M2	nontransactions components		M3	U. S. government ¹	other ¹	total ¹
			In M2	In M3 only				
	1	2	3	4	5	6	7	8
Annual growth rates(%):								
Annually (Q4 to Q4)								
1995	-1.6	3.9	6.6	15.4	6.1	4.4	5.7	5.4
1996	-4.5	4.6	8.7	15.7	6.9	3.7	5.8	5.2
1997	-1.5	5.1	7.8	19.4	8.3			
Quarterly(average)								
1997-Q1	-1.4	5.1	7.7	18.0	8.0	1.8	5.2	4.3
Q2	-4.5	4.0	7.4	18.9	7.4	0.4	6.2	4.7
Q3	0.3	5.0	6.7	16.9	7.8	-0.6	5.6	4.0
Q4	-0.3	6.1	8.5	18.7	9.1			
Monthly								
1997-Jan.	-2.2	4.5	7.3	11.9	6.2	-0.6	4.9	3.4
Feb.	-2.2	3.8	6.2	25.8	8.8	1.5	5.9	4.8
Mar.	-4.2	4.7	8.2	19.4	8.1	4.4	5.3	5.1
Apr.	-7.5	6.1	11.3	22.9	10.0	2.1	7.1	5.8
May	-4.5	0.2	2.0	13.5	3.3	-4.2	6.6	3.8
June	1.2	4.2	5.4	7.5	5.0	-4.2	4.7	2.4
July	0.3	3.8	5.2	26.0	9.1	1.0	5.7	4.5
Aug.	6.4	9.3	10.3	13.7	10.3	1.6	5.6	4.6
Sep.	-8.7	5.8	11.2	16.6	8.4	1.1	5.9	4.7
Oct.	-3.2	4.9	7.9	16.6	7.8	0.5	7.0	5.3
Nov.	6.3	6.5	6.6	23.5	10.7	0.3	6.9	5.2
Dec.	5.2	6.0	6.2	21.6	9.8			
1998-Jan. pe	-1	8	11	19	10			
Levels (\$billions):								
Monthly								
1997-Aug.	1071.4	3944.9	2873.5	1246.2	5191.1	3784.5	11133.3	14917.8
Sep.	1063.6	3963.9	2900.4	1263.4	5227.3	3787.9	11187.9	14975.9
Oct.	1060.8	3980.2	2919.4	1280.9	5261.1	3789.6	11253.0	15042.5
Nov.	1066.4	4001.8	2935.5	1306.0	5307.8	3790.4	11317.5	15107.9
Dec.	1071.0	4021.7	2950.7	1329.5	5351.1			
Weekly								
1997-Dec. 1	1072.0	4014.6	2942.6	1313.0	5327.6			
8	1064.4	4011.5	2947.1	1328.1	5339.6			
15	1065.1	4011.4	2946.3	1335.7	5347.0			
22	1070.4	4023.0	2952.6	1327.7	5350.7			
29	1075.0	4037.1	2962.1	1325.9	5362.9			
1998-Jan. 5	1080.6	4040.4	2959.8	1340.9	5381.3			
12p	1058.3	4037.5	2979.2	1357.4	5394.9			
19p	1064.7	4044.7	2980.0	1348.0	5392.7			

1. 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

Note: These data incorporate revisions associated with the annual benchmark and seasonal review and are strictly confidential until released in early February.

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

January 30, 1998

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					
1995	10,932	900	10,032	390	5,366	1,432	2,529	1,776	7,941	1,003	16,970	-1,023
1996	9,901	---	9,901	524	3,898	1,116	1,655	2,015	5,179	409	14,670	5,351
1997	9,147	---	9,147	5,748	20,299	3,101	5,827	1,996	32,979	1,540	40,586	-64
1996 ---Q1	---	---	---	---	---	---	---	1,228	-1,228	108	-1,336	-8,879
---Q2	3,399	---	3,399	65	1,839	654	920	787	2,691	138	5,952	2,959
---Q3	---	---	---	459	2,060	462	735	---	3,716	79	3,637	-2,454
---Q4	6,502	---	6,502	---	---	---	---	---	---	85	6,417	13,726
1997 ---Q1	---	---	---	818	3,985	---	1,117	607	5,314	230	5,084	-11,149
---Q2	4,602	---	4,602	877	5,823	1,233	1,894	376	9,451	498	13,554	6,771
---Q3	---	---	---	644	2,697	---	---	598	2,744	571	2,173	-4,493
---Q4	4,545	---	4,545	3,409	7,794	1,868	2,816	416	15,471	241	19,775	8,807
1997 January	---	---	---	---	---	---	---	607	-607	187	-793	-10,151
February	---	---	---	818	1,125	---	---	---	1,943	27	1,916	-475
March	---	---	---	---	2,861	---	1,117	---	3,978	17	3,961	-524
April	4,006	---	4,006	---	1,924	---	---	376	1,548	24	5,530	41,665
May	---	---	---	383	1,102	734	988	---	3,206	---	3,206	-42,664
June	596	---	596	494	2,797	499	906	---	4,696	474	4,818	7,771
July	---	---	---	---	---	---	---	598	-598	287	-885	-11,981
August	---	---	---	---	---	---	---	---	---	179	-179	7,669
September	---	---	---	644	2,697	---	---	---	3,341	105	3,236	-181
October	---	---	---	---	---	770	648	416	1,002	215	787	-4,412
November	---	---	---	1,462	3,323	485	954	---	6,224	26	6,198	5,519
December	4,545	---	4,545	1,947	4,471	613	1,214	---	8,245	---	12,790	7,700
Weekly												
October 29	---	---	---	---	---	---	---	---	---	35	-35	-9,186
November 5	---	---	---	---	---	---	---	---	---	26	-26	6,824
12	---	---	---	1,451	---	---	---	---	1,451	---	1,451	-2,080
19	---	---	---	---	1,890	---	---	---	1,890	---	1,890	-22
26	---	---	---	11	1,433	485	954	---	2,883	---	2,883	1,935
December 3	---	---	---	---	---	---	---	---	---	---	---	5,338
10	2,545	---	2,545	1,947	1,831	613	1,214	---	5,605	---	8,150	-17,575
17	---	---	---	---	2,640	---	---	---	2,640	---	2,640	9,984
24	2,000	---	2,000	---	---	---	---	---	---	---	2,000	-2,758
31	---	---	---	---	---	---	---	---	---	---	---	13,491
January 7	---	---	---	---	---	---	---	---	---	---	---	-19,515
14	---	750	-750	---	---	---	---	---	---	---	-750	5,084
21	---	750	-750	---	---	---	---	478	-478	---	-1,228	-987
28	---	250	-250	---	---	---	---	---	---	---	-250	2,043
Memo: LEVEL (bil. \$) ⁶ January 28			212.4	49.4	94.1	41.3	48.3		233.1		446.2	-17.6

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
0.3	0.2	0.3	0.0	0.8

January 28