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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

STRICTLY CONFIDENTIAL (FR) CLASS II FOMC

MARCH 14, 2002

MONETARY POLICY ALTERNATIVES

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

Strictly Confidential (F.R.) **March 14, 2002**
Class II – FOMC

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Market participants had largely anticipated the Committee's decision at its January meeting to leave the target federal funds rate unchanged and to retain the statement that the balance of risks was weighted toward economic weakness, but the accompanying press release was apparently read as suggesting optimism about the course of the economy going forward. In response, most interest rates edged higher that day. Over the intermeeting period, data on spending and output have come in considerably above market expectations and a fiscal stimulus package has been enacted, leading investors to see the economy as likely rebounding more rapidly than had been thought, a view reinforced by the Chairman's monetary policy testimony. As a result, market participants seem confident that there will be no change in the intended federal funds rate at this meeting, and a majority reportedly expect the Committee to shift its risk assessment to balance. Judging by fed funds futures rates, market participants now place significant odds on policy tightening at the May meeting and have boosted their anticipated path for policy going forward as much as 55 basis points (Chart 1). Eurodollar futures rates suggest that a cumulative tightening of about 300 basis points is expected by late next year.

(2) Implied forward rates on Treasury securities at intermediate- and longer-term maturities also have risen appreciably over the intermeeting period.[1] In

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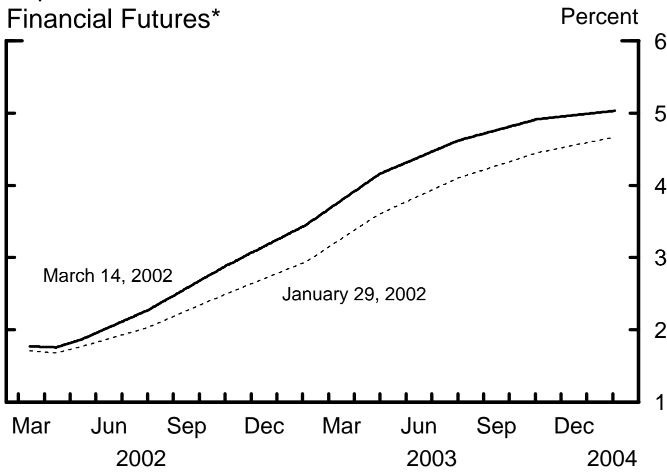
[1] The federal funds rate has averaged close to its 1-3/4 percent target over the intermeeting period. The Desk has purchased $10.5 billion of Treasury securities in outright operations: $8.6 billion of Treasury coupon securities in the market and $1.9 billion of bills from foreign official institutions. The outstanding volume of long-term System RPs has increased $5.0 billion to $23.0 billion.

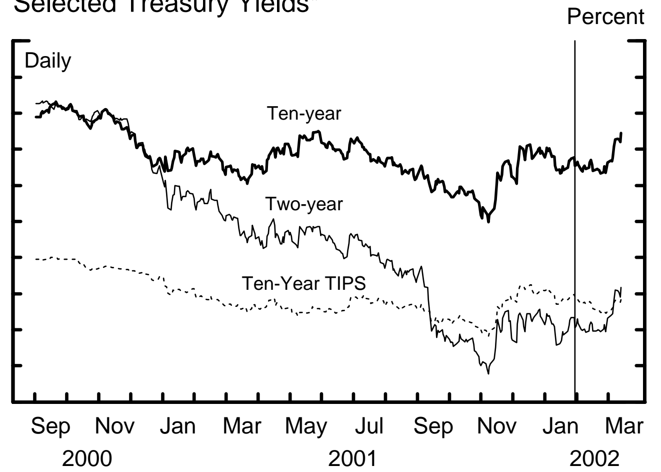
Chart 1
Financial Market Indicators

Expected Federal Funds Rates Estimated from Financial Futures*



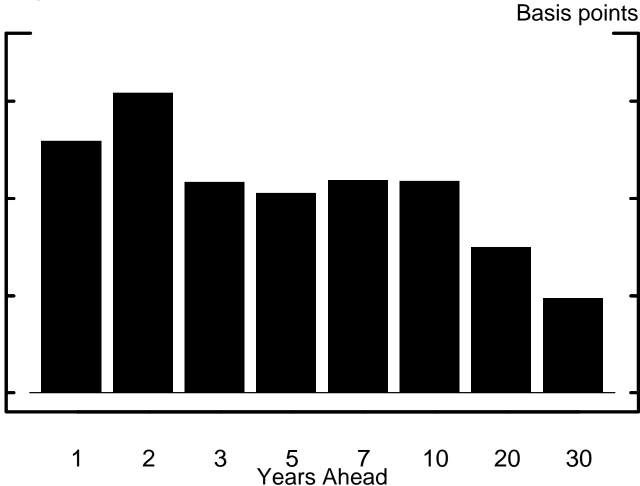
*Estimates from federal funds and eurodollar futures rates with an allowance for term premia and other adjustments.

Selected Treasury Yields*



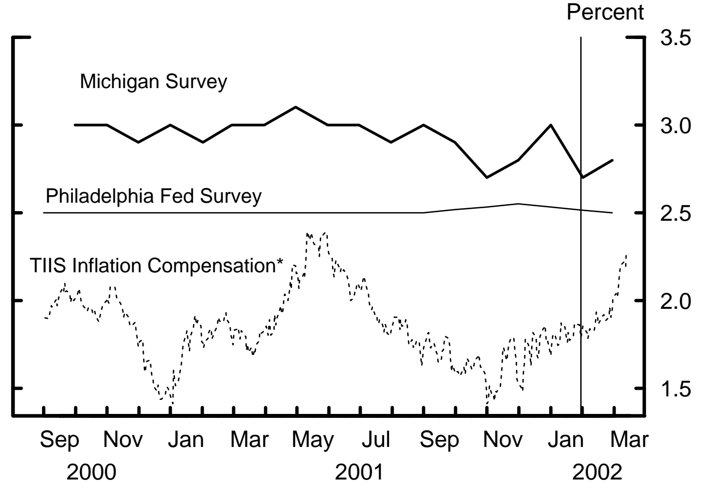
*Nominal Treasury yields are estimated from a smoothed yield curve based on off-the-run securities.

Implied One-Year Forward Rates*



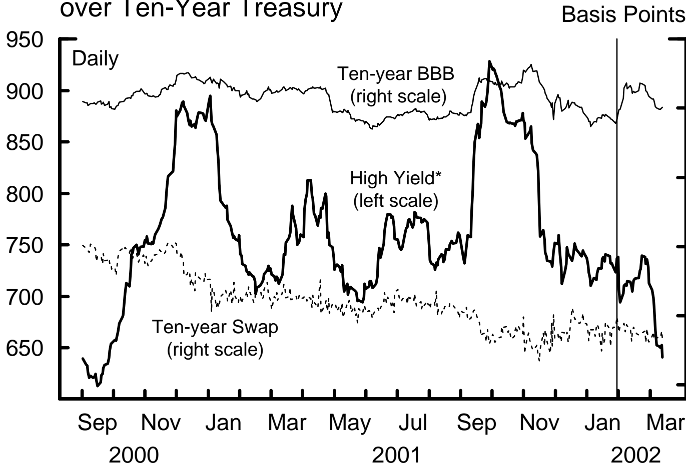
*Change since day before January FOMC Meeting.

Long-Run Inflation Expectations



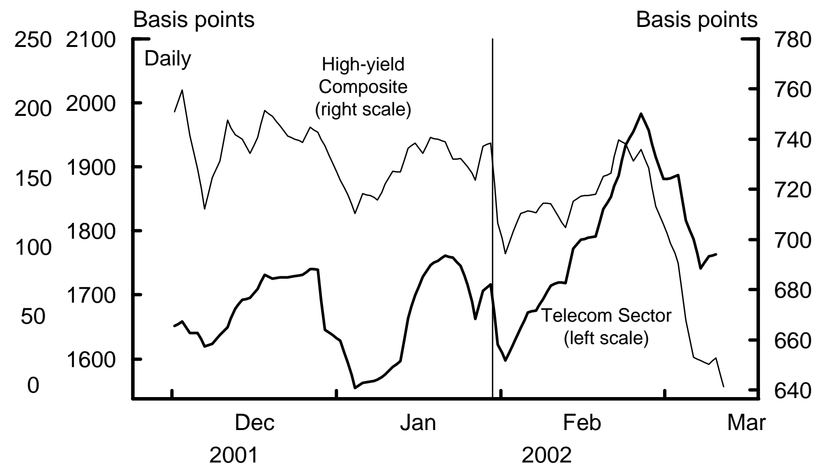
*The inflation rate that would equalize the price of the ten-year TIIS and the value of a portfolio of nominal zero-coupon securities with the same payments.

Spreads of Selected Private Long-Term Yields over Ten-Year Treasury



*Source. Merrill Lynch. Master II index.

High-Yield Bond Spreads



Source. Merrill Lynch. Graphed above are the spreads of the Master II index and the telecom index over the ten-year treasury yield estimated from a smoothed yield curve based on off-the-run securities.

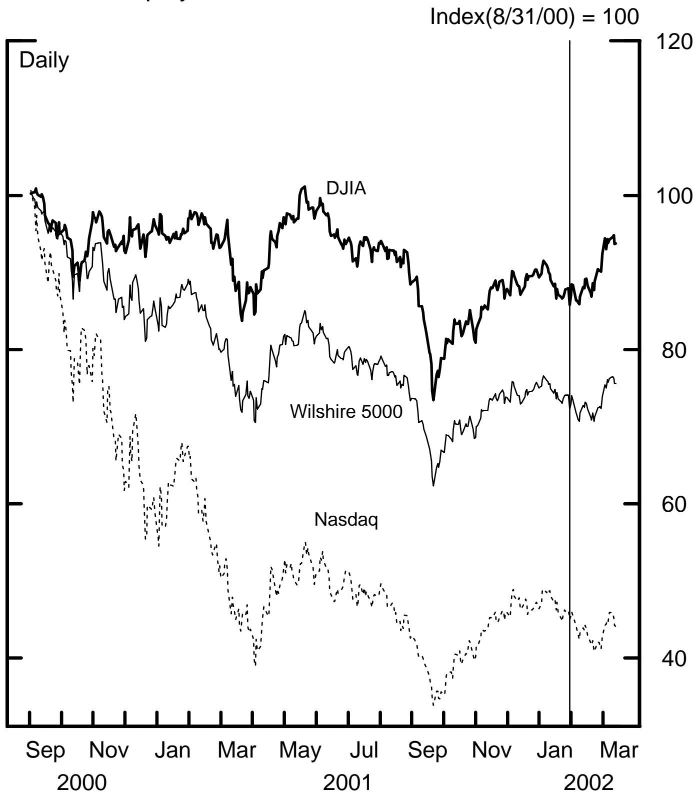
Note: Solid vertical line indicates January 30 FOMC meeting.

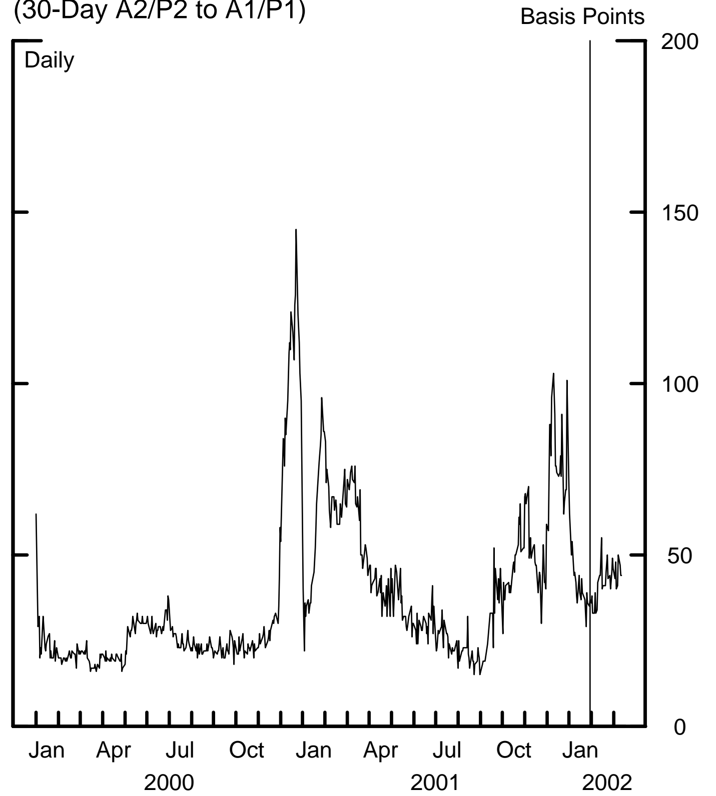
part, investors have probably built in higher real interest rates over the longer run in light of incoming data on spending and activity suggesting more impetus to aggregate demand, increases in equity wealth, and higher estimates of underlying productivity growth. In addition, inflation expectations may have moved up in response to the more rapid rebound in economic activity now foreseen, as well as the recent runup in oil prices, although the evidence is mixed. A survey measure of household inflation expectations has only edged up, but inflation compensation as measured by the spread of nominal over indexed yields has risen substantially.[2] On balance, nominal yields on Treasury coupon securities have risen 35 to 55 basis points since the January meeting. Yields on high-grade corporate bonds have generally risen a bit less, and broad measures of speculative-grade yields have actually fallen as the improved economic outlook led investors to trim their assessment of credit risk. The better outlook also has boosted equity prices, with broad indexes up about 4-1/2 percent since the January meeting (Chart 2). The telecommunications and technology sectors have performed less well, however, as concerns about accounting practices and lowered earnings forecasts have weighed on the bond and equity prices of some firms in these industries. Accounting worries also contributed to the effective exclusion of a few more firms from the commercial paper market and widened risk spreads in that market.

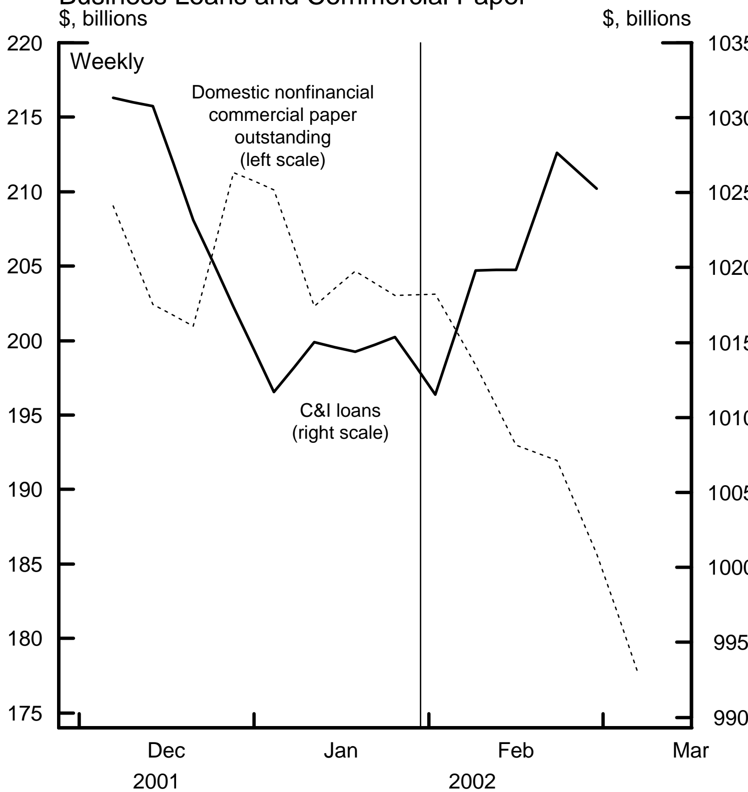
(3) The major currencies index of the exchange value of the dollar has declined 1-1/2 percent on balance since the January FOMC meeting. The dollar came under downward pressure in early March after the President's decision to impose steel

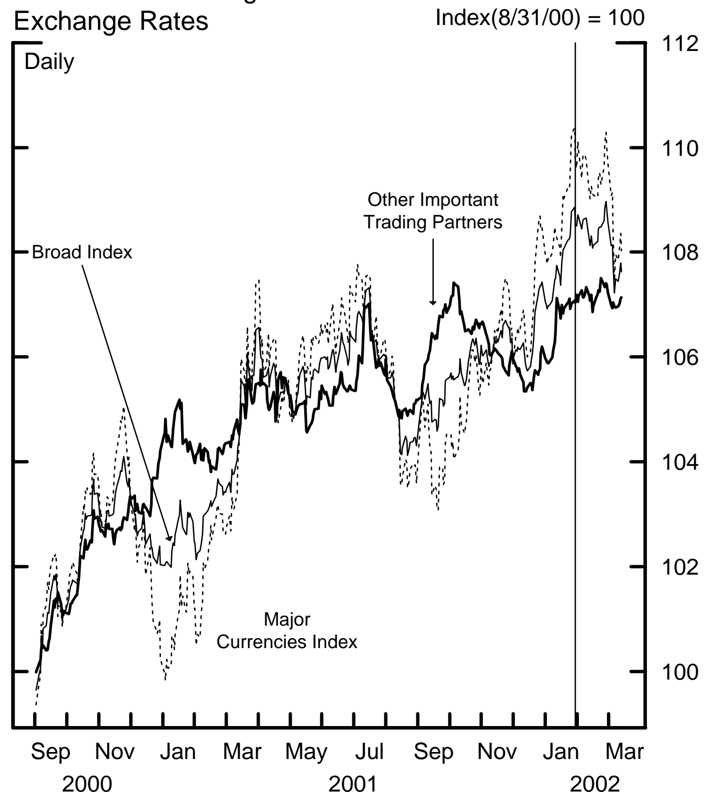
[2] The 50 basis point rise in inflation compensation derived from the indexed debt market probably overstates the change in inflation expectaions. In mid-February, the Treasury reassured investors that it would continue to issue indexed debt, which may have pulled down real yields by bolstering expected liquidity in that market.

Chart 2
Financial Market Indicators









Note: Solid vertical line indicates January 30 FOMC meeting.

tariffs, perhaps as that move raised concerns about official policy toward the dollar. With the exception of Japan, monetary policy in other industrial countries has remained on hold, while interest rates on long-term government securities have moved up about 20 to 30 basis points, and stock prices have moved higher. The dollar fell most sharply against the yen–about 3-1/2 percent–despite negative economic news from Japan and a government "anti-deflation" package that proved disappointing. Japanese stock prices have rallied sharply, rising more than 10 percent during the intermeeting period, buoyed perhaps by new restrictions on short sales of stock as well as by strengthening in global equity markets.[3]

(4) The index of the exchange value of the dollar versus the currencies of our other important trading partners has changed little over the intermeeting period. In Argentina, the peso depreciated steeply when foreign exchange markets there reopened on February 11 following an extended bank holiday; the peso has declined almost 60 percent since Argentina abandoned its pegged exchange rate regime in early January. The Brazilian *real* and Mexican peso have appreciated somewhat against the dollar, and stock prices in both countries have risen over the intermeeting period. Share prices in tech-heavy emerging Asian markets have posted even larger gains, in part on continued expectations that the global electronics market will particularly benefit from a U.S. economic recovery. Although the EMBI+ spread for Argentina widened, those for other emerging markets have narrowed about 120 basis points on average during the intermeeting period as the global economic outlook improved.

(5) Borrowing by domestic nonfinancial sectors appears to have picked up a bit of late, reflecting stronger demand and, aside from a few specific problem spots, no further reductions in credit availability. Net borrowing by nonfinancial businesses

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[3] and U.S. monetary authorities did not intervene.

in the bond, commercial paper, and bank loan markets combined, which was negligible in January, rose to about $13-1/2 billion in February, a slightly faster pace than in the second half of last year (Chart 3). Much of the increase owed to a rise in net bond issuance, as businesses continued to substitute bonds for shorter-term sources of funds. Offerings by investment-grade firms have been particularly heavy. By contrast, heightened concerns about accounting practices and the record default rate on bonds may have made investors wary about high-yield securities, and net issuance in that market in February was at the low end of its recent range. In early March, net bond issuance appears to have remained robust, with the bulk again coming from investment-grade firms. Commercial and industrial loans at banks posted a substantial gain in February after four months of sizable declines. However, some of this rise reflected draws on commercial paper backup lines by a few large firms after concerns about their accounting practices forced them to pay down commercial paper. Household borrowing appears to have remained relatively robust this year. Consumer credit expanded at a 9-1/4 percent pace in January, a bit faster than in the fourth quarter, as auto sales–while well off the record pace posted last fall–held up fairly well. Although the pace of mortgage refinancing has fallen back considerably, it remains elevated, and with housing activity still brisk, applications for mortgage loans to purchase houses have stayed above their level in the fourth quarter. Growth in Treasury debt, which had been modest in December and January, picked up noticeably in February.[4]

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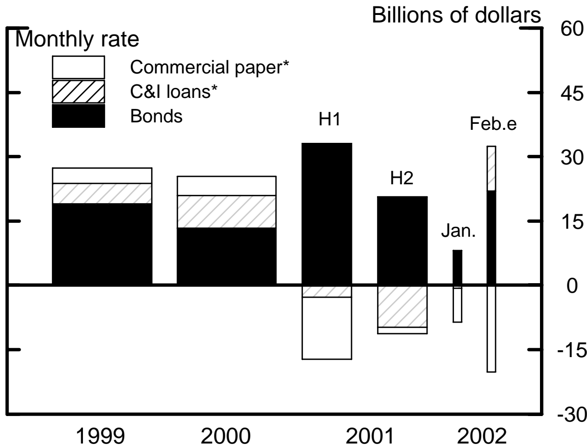
[4] Unless the Congress raises the public debt limit, there is a possibility that the limit will be reached around the end of March, before the arrival of April tax payments. In that event, the Treasury would have to take special measures to try to avoid delays in scheduled payments. Treasury market participants do not appear to be anticipating payment difficulties related to the debt ceiling, as can be judged from the absence of any special risk premium in rates on Treasury bills maturing in late March and early April.

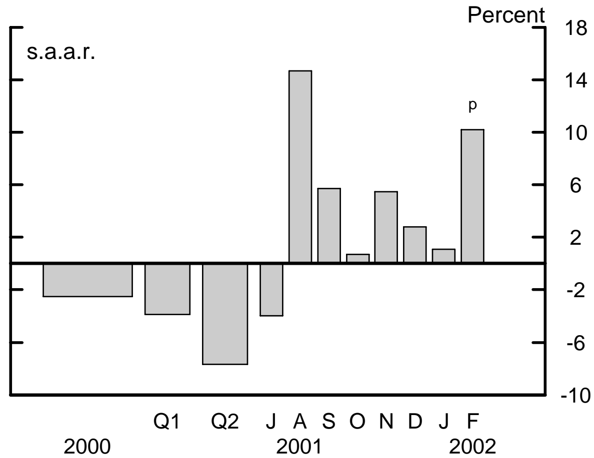
Chart 3
Debt and Money Growth

Growth of Components of Nonfinancial Business Debt



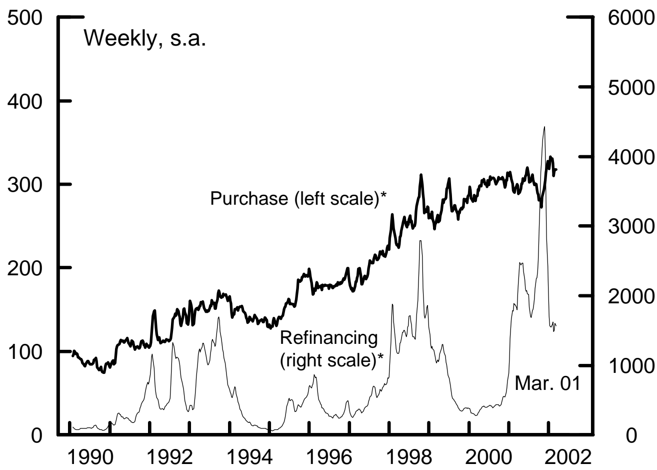
* Seasonally adjusted.
e Staff estimate.

Growth of Federal Debt



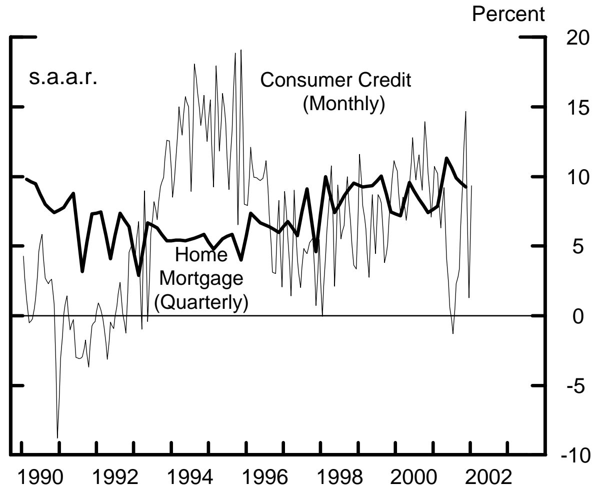
p Preliminary.
Note. Treasury Debt held by the public, end of month.

MBA Residential Mortgage Indexes



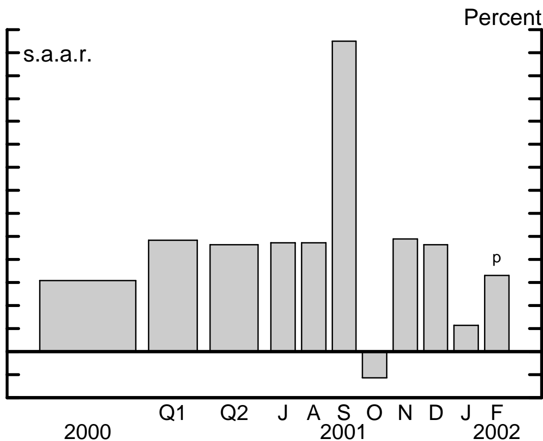
* 4-week moving average.
Note. March 16, 1990 = 100 for n.s.a. series.

Growth of Household Debt



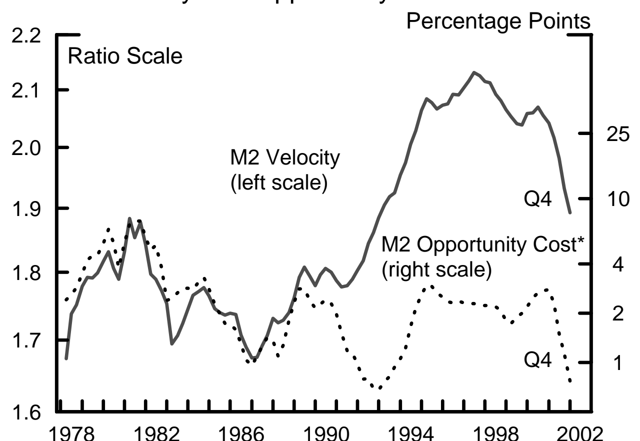
Note. Final observation for home mortgage is 2001Q4.
Final observation for consumer credit is January.

Growth of M2



p Preliminary.
Note. Data incorporate the effects of the annual seasonal review process.

M2 Velocity and Opportunity Cost



* Two-quarter moving average.

MARA:MI

(6) M2 growth rebounded to a 6-1/2 percent annual rate in February, after running at just a 2-1/4 percent pace in January. Nonetheless, money growth thus far this year has slowed considerably from its robust pace over the last two months of 2001, likely owing in part to the waning influence of prior declines in opportunity costs on holding M2 assets. Retail money market mutual funds, which accounted for much of the deceleration in M2, appear to have been depressed by a shift into bond and equity funds as concerns about volatility in financial markets ebbed. The slower pace of mortgage refinancings also has contributed to the deceleration in M2.

Policy Alternatives

(7) Stronger-than-expected economic data and the passage of a fiscal stimulus package have led the staff to mark up its forecast for spending and output appreciably since the January meeting. As in the prior forecast, the staff assumes that the federal funds rate will be held at 1-3/4 percent through the first half of this year. Thereafter, however, the funds rate rises sooner and more steeply, reaching 4 percent by the end of 2003. While the assumed tightening is less pronounced than that currently built into market rates, longer-term Treasury yields and mortgage rates are anticipated to remain close to current levels through 2003. Corporate yields are projected to edge lower as the improving economic outlook leads investors to mark down their assessments of credit risk, and stock prices are projected to rise a bit faster than nominal GDP. These changes in domestic financial conditions, along with the firming in underlying demand, are projected to be consistent with growth of output above that of the staff's upwardly revised estimate of potential GDP growth. By late 2003, the output gap is about eliminated and the unemployment rate falls to about 5-1/4 percent, around staff estimates of the NAIRU. In the interim, though, the persistent output gap contributes to a slight downtrend in core PCE inflation. Total PCE inflation, responding largely to higher oil prices, rises a bit over the forecast period.

(8) Unless the Committee's sense of the outlook differs materially from that embodied in the staff forecast, it might be inclined to **keep the federal funds rate unchanged** at this meeting. In the staff forecast, holding the funds rate steady for a little while longer is consistent with both unemployment and core inflation edging lower. Even if the Committee suspects that policy may have to be firmed sooner than assumed in the staff forecast, the uncertainty regarding the strength of the rebound may make it particularly advantageous to await further readings on the economy

before acting, especially given the lack of evident pressures on resources. If so, selection of the balance-of-risks statement to accompany an unchanged target funds rate may be the primary focus of the Committee's discussion at this meeting. (A box on the next page discusses the balance of risks in more detail.) This bluebook will consider the three possibilities for the balance-of-risk statement given an unchanged funds rate and touch upon two policy choices bracketing an unchanged policy–easing or tightening 1/4 percentage point.

(9) If the Committee remains mostly concerned about the possibility that the recovery could falter, it might wish to **hold the funds rate unchanged and retain a balance of risks weighted toward economic weakness**. The recent spate of stronger-than-expected economic news might stem importantly from a reversal of the temporary depressing effects of the terrorist attacks on aggregate demand, with the pace of growth going forward quite possibly weaker. In the staff forecast, the abatement of the inventory runoff accounts for a considerable portion of the strength in GDP growth over the next few quarters, implying that growth of final demand is noticeably below that of GDP. The forecasted pickup in final demand over the second half of 2002 and in 2003 depends importantly on continued solid growth in consumer spending–which leaves the personal saving rate at a level that is quite low by the standards of all but the past few years–and a turnaround in investment that is far from assured. Concerns about the strength of final demand, coupled with the possibility that the economy might be able to operate at higher levels of labor utilization without engendering inflation pressures than assumed in the staff forecast, might be viewed as providing the Committee with ample scope to pursue a more accommodative policy. Indeed, such concerns may be sufficiently worrisome to justify **easing 1/4 percentage point** at this meeting (presumably while retaining the balance of risks tilted toward economic weakness). In this view, failing to ease may

The Balance-of-Risks Statement

As noted in the main text, market participants are split on the balance of risks that the Committee will announce at the conclusion of this meeting, with a majority expecting a shift to a neutral risk assessment. In principle, the Committee's decision on the balance of risks would seem to depend on three determinations. First, it must weigh the implications for the appropriate setting of the policy rate of likely deviations from its twin goals of maximum employment and price stability. Second, the Committee must assess the distribution of outcomes around that forecast–that is, the skew of potential shocks. And lastly, the Committee would seem to need to form some assessment of the length of the time period over which this balance should be weighed–that is, how far ahead does the "foreseeable future" stretch.

All three judgments are inherently subjective and hard to disentangle, but, given the brief history of announcing a risk assessment, investors will be particularly keen to interpret whatever the Committee decides at the this meeting–combined with how policy actually evolves over subsequent meetings–as a precedent regarding the time span covered by the foreseeable future. By design, the balance-of-risk statement was not supposed necessarily to predict policy action at the next meeting, so it would seem that the horizon of the foreseeable future extends past May. Just how far past May the foreseeable future extends is an open question, the answer to which depends on the Committee's confidence in its ability to predict events increasingly distant in time. That, in turn, should be related to the Committee's assessment of the imbalances that exist at the start of the forecast period and the distribution of potential shocks. At a time when uncertainties about the outlook may be especially elevated, the foreseeable future might be measured in quarters, not years.

ultimately induce inflation that is viewed as too low to provide an adequate cushion to set negative real federal funds rates if needed in the future to counteract the effects of adverse demand shocks.

(10) By contrast, the Committee might be inclined to **hold the funds rate unchanged and adopt a neutral balance of risks** at this meeting if it is more confident that the growth of output will be around its potential and sees inflation as contained. The especially adverse outcomes for the economy that the Committee was worried about at the prior few meetings may seem much less likely now. Indeed, in recent weeks, data surprises have nearly all run on the upside, supporting the view that

risks are no longer skewed toward economic weakness. Unlike the outlook at the time of the January meeting, the Greenbook forecast shows less overall slack in resource utilization, little updrift in the unemployment rate, and less of a downtrend to inflation. To be sure, the real funds rate is unsustainably low, and if the nominal funds rate were held at its current level for very long, inflation would begin to intensify. But as discussed in the box on the balance of risks, heightened uncertainty about the outlook could have the effect of making the horizon over which the Committee defines the foreseeable future relatively limited. And in that shorter run, at least according to the staff forecast, inflation is likely to drift lower and output growth will be a tad above that of its potential.

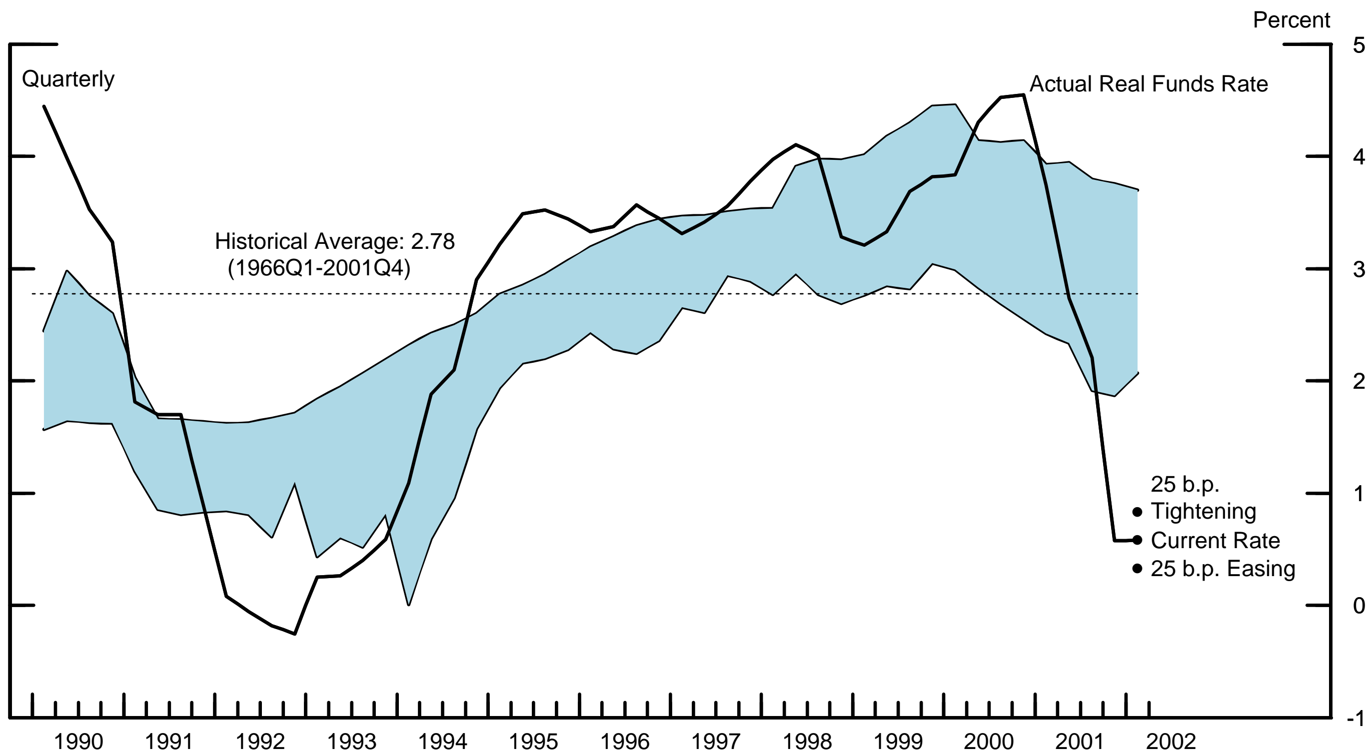
(11) If the Committee reads the strength of recent economic indicators as signaling that lasting economic growth above potential is a distinct likelihood, it might wish to **hold the funds rate unchanged and move the balance of risks toward heightened inflation pressures**. With the economy seeming to have regained its footing, the Committee might view a balance toward inflation as especially appropriate in light of the unsustainably low level of the real funds rate, the recent uptick in measures of inflation expectations based on Treasury inflation-indexed securities, and the possibility that sharp increases in oil prices could feed through to prices and wages more generally. Indeed, the surprising resilience exhibited by the economy of late raises the possibility that spending may snap back more rapidly than in the Greenbook. If the Committee were especially concerned that, if it did not move promptly to begin to restore the funds rate to more sustainable levels, inflation pressures could build over time to the point that they would be difficult to contain, it might even choose to implement a **quarter-point increase in the target funds rate** along with a balance of risks weighted toward inflation pressures. In particular, the apparent turnaround of demand in the high-tech sector, favorable news on

productivity, accelerator effects stemming from the recent pickup in output growth, and the business tax incentives included in the fiscal stimulus package might be imparting an even more sizable impetus to investment spending than in the staff forecast. Forces such as these help to explain why some measures of the equilibrium real funds rate have been boosted as much as a half a percentage point over the intermeeting period (Chart 4). Such an increase in estimates of the equilibrium real funds rate implies that just maintaining the same degree of policy stimulus would require increasing the nominal funds rate target.

(12) Market participants widely expect the funds rate to be held constant at this meeting and increasingly are looking for the FOMC to characterize the risks to the outlook as symmetric. Retention of a balance of risks weighted toward economic weakness would surprise many, and would probably pull interest rates modestly lower. The outcome for equity prices and exchange rates is more difficult to gauge and no doubt would be influenced by the wording of the announcement: If investors see the FOMC's statement as evidencing its desire to see output return to potential more quickly than they had previously anticipated, they might mark up their outlook for profits, and stock prices could accordingly rise. Any initial decline in the dollar might be offset to some degree by the associated increased attractiveness of U.S. financial assets. But there is also a chance that investors could read the FOMC's policy statement as presaging a weaker economy than they had anticipated. This possibility would be even more likely if the Committee caught market participants unawares by easing 1/4 percentage point. In either event, stock prices could fall and that decline, in turn, would tend to reinforce the initial decline in interest rates.

(13) The selection of a neutral balance of risks would be in line with the expectations of the majority of market participants, but some investors would still be surprised by the decision. The effects in financial markets in this case would likely be

Chart 4
Actual Real Federal Funds Rate and
Range of Estimated Equilibrium Real Rates



Note: The shaded range represents the maximum and the minimum values each quarter of five estimates of the equilibrium real federal funds rate. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2002Q1.

Equilibrium Funds Rate Estimates

Percent

	2000	2001H1	2001H2	2002Q1
Statistical Filter				
-Based on historical data*	*3.0*	*2.7*	*2.7*	*2.7*
January Bluebook	*2.7*	*2.4*	*2.3*	*2.3*
-Based on historical data and the staff forecast	*2.8*	*2.4*	*2.3*	*2.2*
January Bluebook	*2.5*	*1.9*	*1.7*	*1.6*
FRB/US Model				
-Based on historical data**	*3.8*	*2.7*	*1.9*	*2.1*
January Bluebook	*3.8*	*2.6*	*2.0*	*1.8*
-Based on historical data and the staff forecast	*3.1*	*2.5*	*2.4*	*2.6*
January Bluebook	*2.9*	*2.2*	*2.3*	*2.4*
Treasury Inflation-Indexed Securities	*4.2*	*3.9*	*3.8*	*3.7*
January Bluebook	*4.2*	*3.9*	*3.8*	*3.7*

* Also employs the staff projection for the current and next quarters.
** Also employs the staff projection for the current quarter. Backward-looking moving averages, rather than centered moving averages, are used to estimate the persistent and transitory components of shocks to the model.

rather muted but might encompass a small increase in interest rates, a drop in stock prices, and a small rise in the foreign exchange value of the dollar.

(14) Market participants do not expect a move to a balance of risks toward inflation pressures at this meeting, much less one accompanied by a quarter-point increase in the target funds rate. As a result, either choice would push interest rates higher across the term structure while equities could come under heavy selling pressure. The extent of the market reaction could be sizable and, of course, would depend importantly on the wording of the announcement and the associated market perceptions about the future course of policy. In particular, the reaction in markets could be attenuated if the wording of the announcement emphasized that the Committee viewed itself as merely unwinding some of the insurance it had taken out late last year at a time of unusual uncertainty, and that it intended to wait thereafter, rather than embark on a path that would promptly realign the real interest rate to a more normal level.

(15) M2 growth is projected to slow this year to a pace somewhat above that of nominal GDP. The waning stimulus from past policy easings, considerably wider opportunity costs later this year accompanying the assumed tightening of policy, and more attractive returns on equities and other market instruments are key factors contributing to the anticipated deceleration of M2. Next year, the further assumed tightening of policy and the associated widening of opportunity costs pulls M2 growth well below that of nominal GDP, implying a significant increase in velocity.

(16) Total domestic nonfinancial debt is expected to advance at about a 5-1/2 percent pace over the first two quarters of this year. Given the strength of readings from recent economic indicators, the pace of business borrowing is projected to increase over coming months, spurred by a pickup in investment spending and an associated widening of the financing gap. The improvement in the economy should,

over time, contribute to improved credit quality in the business sector and narrower risk spreads. Borrowing by households is likely to slow somewhat in line with an anticipated ebbing of the demand for autos and new homes. Federal debt is projected to advance at about a 3-1/2 percent rate over the first half of this year and at a - somewhat faster rate in the latter half of the year. Next year, federal debt growth drops off sharply with the economic recovery returning the federal budget to surplus by the second quarter of the year.

Directive and Balance-of-Risks Language

(17) Presented below for the members' consideration is draft wording for (1) the directive and (2) the "balance of risks" sentence to be included in the press release issued after the meeting (not part of the directive).

(1) Directive Wording

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee in the immediate future seeks conditions in reserve markets consistent with maintaining /INCREASING /REDUCING the federal funds rate at/TO an average of around ___~~1-3/4~~ percent.

(2) "Balance of Risks" Sentence

Against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the Committee believes that the risks [ARE BALANCED WITH RESPECT TO PROSPECTS FOR BOTH GOALS] [ARE WEIGHTED MAINLY TOWARD CONDITIONS THAT MAY GENERATE HEIGHTENED INFLATION PRESSURES] [continue to be weighted mainly toward conditions that may generate economic weakness] in the foreseeable future.

Money and Debt Aggregates

Seasonally adjusted

Period	Money stock measures					Domestic nonfinancial debt		
	M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	U. S. government[1]	other[1]	total[1]
	1	2	3	4	5	6	7	8
Annual growth rates (%):								
Annually (Q4 to Q4)								
1999	1.9	6.3	7.8	11.2	7.7	-2.5	9.5	6.7
2000	-1.7	6.1	8.6	17.4	9.3	-6.7	8.6	5.3
2001	6.8	10.3	11.3	18.4	12.8	-1.3	7.5	5.9
Quarterly(average)								
2001-Q1	2.7	9.7	11.7	19.3	12.6	-5.2	7.0	4.7
Q2	6.0	9.3	10.2	23.1	13.5	-7.0	8.6	5.7
Q3	16.5	11.3	9.9	8.1	10.3	3.1	6.3	5.7
Q4	1.5	9.5	11.7	18.8	12.4	3.9	7.5	6.9
Monthly								
2001-Feb.	3.4	9.2	10.9	14.8	11.0	-2.8	6.6	4.9
Mar.	9.3	11.5	12.1	2.1	8.6	1.4	7.3	6.2
Apr.	2.5	9.7	11.7	32.2	16.6	-10.4	8.6	5.1
May	7.5	5.6	5.1	33.8	14.4	-16.7	11.4	6.3
June	9.7	10.4	10.7	20.4	13.6	1.6	6.9	6.0
July	13.9	9.4	8.2	1.4	6.9	4.5	3.6	3.7
Aug.	9.1	9.4	9.5	-12.2	2.5	7.6	6.6	6.8
Sep.	60.0	27.0	17.8	19.2	24.6	12.3	7.2	8.1
Oct.	-42.8	-2.3	9.4	28.4	7.3	0.0	7.1	5.8
Nov.	2.3	9.8	11.9	21.4	13.4	-0.1	8.7	7.2
Dec.	15.0	9.3	7.7	12.8	10.4	3.1	7.3	6.6
2002-Jan.	3.1	2.2	2.0	-4.7	0.0	-0.5	4.0	3.2
Feb. p	1.3	6.6	8.0	5.8	6.3			
Levels ($billions):								
Monthly								
2001-Oct.	1161.6	5373.2	4211.6	2498.9	7872.2	3373.2	15779.9	19153.1
Nov.	1163.8	5417.0	4253.2	2543.5	7960.4	3372.8	15894.8	19267.7
Dec.	1178.3	5458.9	4280.6	2570.7	8029.6	3381.4	15991.8	19373.2
2002-Jan.	1181.3	5469.1	4287.8	2560.6	8029.7	3380.1	16045.4	19425.5
Feb. p	1182.6	5499.0	4316.4	2573.0	8072.1			
Weekly								
2002-Feb. 4	1181.5	5478.4	4296.9	2585.8	8064.2			
11	1175.6	5489.0	4313.4	2572.0	8061.0			
18	1191.8	5507.5	4315.7	2572.8	8080.3			
25p	1185.1	5509.8	4324.8	2568.2	8078.0			
Mar. 4p	1181.8	5504.2	4322.4	2566.5	8070.7			

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

Changes in System Holdings of Securities [1]

(Millions of dollars, not seasonally adjusted)

Strictly Confidential
Class II FOMC

March 14, 2002

	Treasury Bills			Treasury Coupons						Federal	Net change	Net RPs [5]		
				Net Purchases [3]						Agency	total			
	Net Purchases [2]	Redemptions (-)	Net Change	< 1	1-5	5-10	Over 10	Redemptions (-)	Net Change	Redemptions (-)	outright holdings [4]	Short-Term [6]	Long-Term [7]	Net Change
1999	---	---	---	11,895	19,731	4,303	9,428	1,429	43,928	157	43,771	2,035	8,347	10,382
2000	8,676	24,522	-15,846	8,809	14,482	5,871	5,833	3,779	31,215	51	15,318	-2,163	7,133	4,970
2001	15,503	10,095	5,408	15,663	22,814	6,003	8,531	16,802	36,208	120	41,496	3,492	636	4,128
2000 QIV	3,795	4,822	-1,027	2,000	3,111	1,281	982	1,567	5,806	---	4,779	1,398	4,067	5,465
2001 QI	3,782	1,076	2,706	1,672	5,792	1,283	1,791	3,951	6,586	120	9,172	1,884	-1,378	506
QII	3,097	7,476	-4,379	6,611	8,592	2,047	3,573	6,656	14,167	---	9,788	639	-2,186	-1,547
QIII	3,965	1,543	2,422	1,619	5,854	1,691	1,535	5,723	4,976	---	7,398	3,832	2,587	6,419
QIV	4,659	---	4,659	5,761	2,577	982	1,632	473	10,479	---	15,138	-4,223	10,847	6,624
2001 Jul	718	---	718	235	4,193	756	815	4,668	1,330	---	2,048	1,455	-1	1,454
Aug	2,899	---	2,899	1,385	810	935	720	1,055	2,795	---	5,694	-499	3,421	2,922
Sep	348	1,543	-1,195	---	851	---	---	---	851	---	-344	11,963	983	12,946
Oct	772	---	772	1,411	22	422	1,184	473	2,566	---	3,338	-10,012	5,503	-4,509
Nov	3,075	---	3,075	1,408	1,920	459	---	---	3,787	---	6,862	-4,236	3,360	-876
Dec	812	---	812	2,942	634	101	448	---	4,125	---	4,937	2,088	3,862	5,951
2002 Jan	2,772	---	2,772	---	2,872	---	582	---	3,454	---	6,226	1,115	-4,871	-3,756
Feb	1,042	---	1,042	2,894	1,101	334	1,054	---	5,383	---	6,425	-3,647	-1,401	-5,048
2001 Dec 19	278	---	278	1,467	634	74	---	---	2,175	---	2,453	6,082	429	6,510
Dec 26	30	---	30	---	---	27	448	---	475	---	505	2,968	2,000	4,968
2002 Jan 2	19	---	19	---	---	---	---	---	---	---	19	6,372	571	6,943
Jan 9	143	---	143	---	1,799	---	---	---	1,799	---	1,942	-9,643	-2,714	-12,357
Jan 16	334	---	334	---	---	---	582	---	582	---	916	-29	-3,000	-3,029
Jan 23	159	---	159	---	1,073	---	---	---	1,073	---	1,232	3,835	-3,000	835
Jan 30	2,135	---	2,135	---	---	---	---	---	---	---	2,135	-2,904	-2,571	-5,476
Feb 6	94	---	94	---	374	334	---	---	708	---	802	-1,511	1,286	-225
Feb 13	413	---	413	1,463	---	---	---	---	1,463	---	1,876	-4,095	1,000	-3,095
Feb 20	214	---	214	1,432	---	---	582	---	2,014	---	2,228	7,053	2,000	9,053
Feb 27	307	---	307	---	727	---	472	---	1,199	---	1,505	-5,747	---	-5,747
Mar 6	345	---	345	---	365	347	---	---	712	---	1,057	3,462	---	3,462
Mar 13	200	---	200	1,455	1,086	---	---	---	2,541	---	2,741	-6,363	---	-6,363
2002 Mar 14	238	---	238	---	---	---	---	---	---	---	238	2,969	-1,000	1,969
Intermeeting Period														
Jan 30-Mar 14	1,870	---	1,870	4,349	2,552	681	1,054	---	8,636	---	10,506	-9,358	5,000	-4,358
Memo: LEVEL (bil. $)														
Mar 14			208.6	91.5	158.5	52.0	81.0		383.0	0.0	591.5	-15.6	23.0	7.4

1. Change from end-of-period to end-of-period.
2. Outright purchases less outright sales (in market and with foreign accounts).
3. Outright purchases less outright sales (in market and with foreign accounts). Includes short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.
4. Includes redemptions (-) of Treasury and agency securities.
5. RPs outstanding less matched sale-purchases.
6. Original maturity of 15 days or less.
7. Original maturity of 16 to 90 days.

MRA:SEF