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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

AUGUST 8, 2002

# MONETARY POLICY ALTERNATIVES

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

# MONETARY POLICY ALTERNATIVES

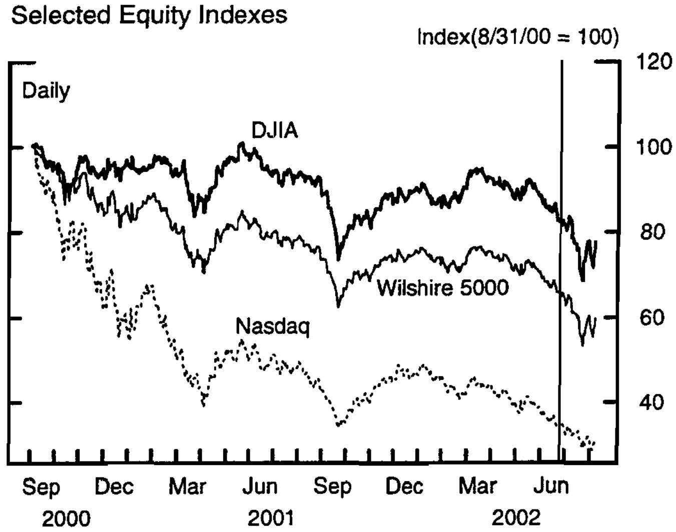
## Recent Developments

(1) Developments in financial markets since the June 25-26 FOMC meeting have been importantly shaped by movements in equity prices. Further revelations of corporate malfeasance, concerns among investors that more earnings restatements may be in store before the deadline for certifying financial statements, and negative guidance by a number of firms about second-half earnings contributed to steep declines in equity prices (Chart 1). At one point, the Wilshire 5000 index was off about 20 percent from its level at the time of the last FOMC meeting. Although equity prices have since rebounded on net from their late-July low, the recovery appears to have been hampered by a stream of disappointing data casting doubt on the strength of the economic recovery. On balance, most broad equity indexes declined about 7-1/2 percent over the intermeeting period. Investors withdrew a sizable sum from domestic equity mutual funds in July, apparently redirecting much of that into money market mutual funds and government bond funds. As judged by the extremely high levels of implied volatility derived from options prices, the near-term course for share prices remains quite uncertain.

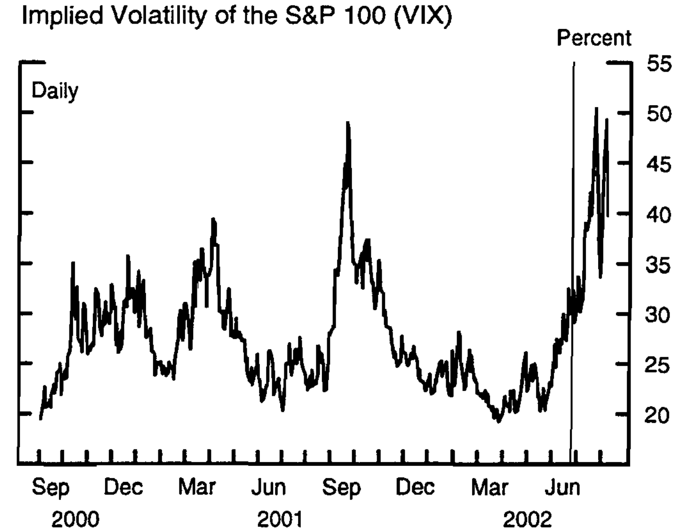
(2) Doubts about the quality of corporate balance sheets and the prospects for earnings growth pushed up corporate yield spreads, particularly for lower-tier issuers. The spread of the Merrill Lynch Master II high-yield index relative to comparable-maturity Treasury yields rose more than 150 basis points, on balance, over the intermeeting period, with nearly all industries in the index registering an increase. In addition, investors appear to be discriminating across individual firms to a greater degree, widening the distribution of risk spreads across issuers. Concerns about credit risk extended to several large financial intermediaries that were seen as especially vulnerable to the financial and potential level fallout from recent high-

## Chart 1
## Financial Market Indicators

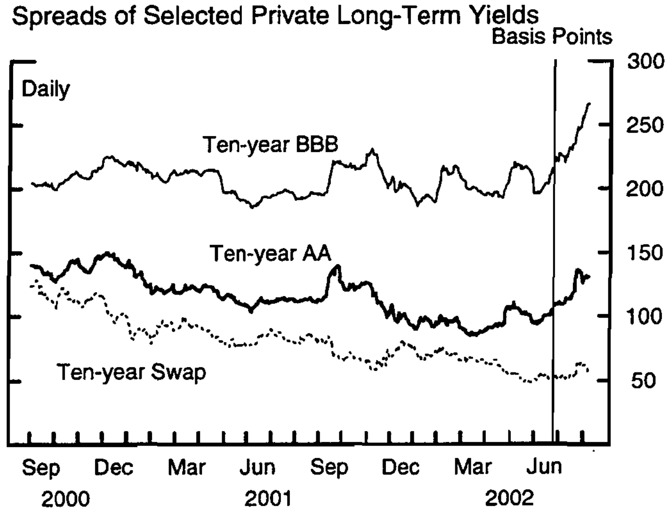
### Selected Equity Indexes




### Implied Volatility of the S&P 100 (VIX)

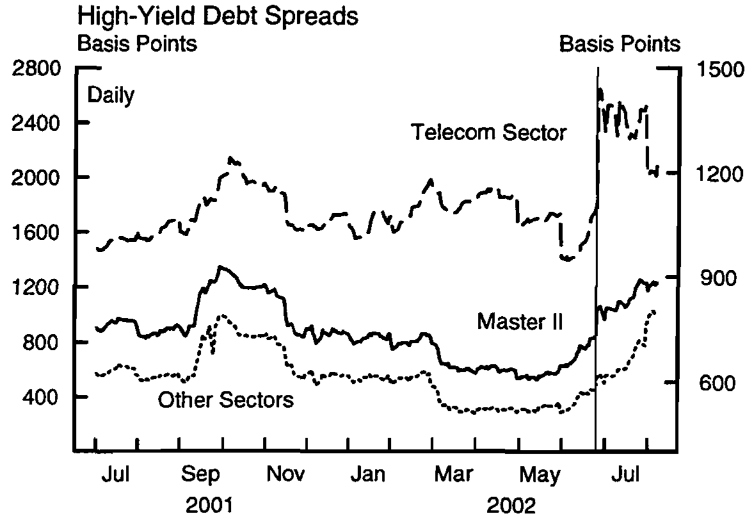



### Spreads of Selected Private Long-Term Yields



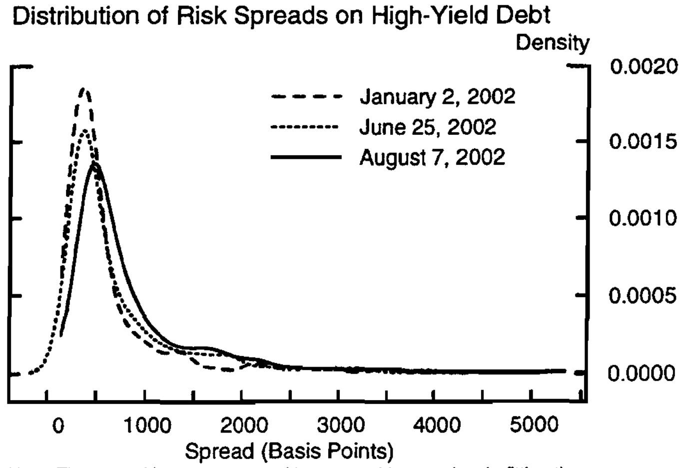

Note: Spreads measured over ten-year Treasury.

### High-Yield Debt Spreads



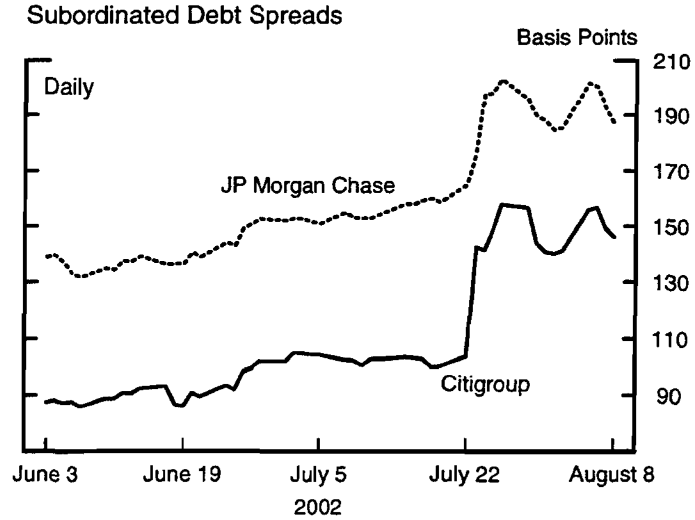

Note: Spreads measured over ten-year Treasury. Last observations are for August 7. Source: Merrill Lynch.

### Distribution of Risk Spreads on High-Yield Debt




Note: The spread is over a swap with comparable maturity. In fitting the distribution, outstanding securities are weighted by market value. Source: Merrill Lynch.

### Subordinated Debt Spreads




Note: Solid vertical line indicates June 26 FOMC meeting. Data are through August 8, except as noted.

profile defaults, reflected in increased yield spreads on subordinated debt and rates on credit default swaps. However, this greater wariness reportedly has not raised the short-term funding costs of these institutions.

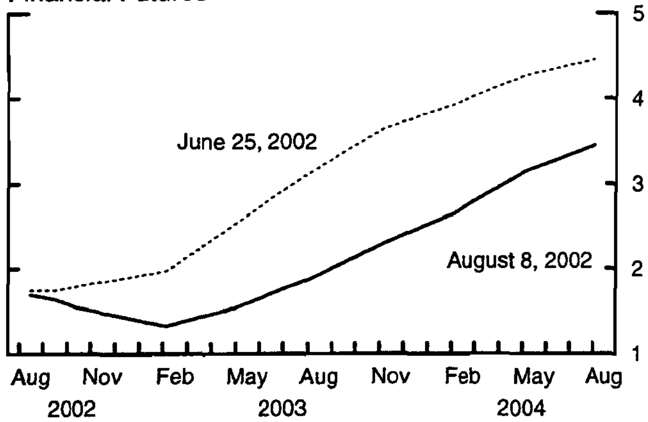
(3) Given the drag expected from lower equity prices and wider risk spreads, along with the weaker tone of recent macroeconomic data, market participants marked down the anticipated path of monetary policy substantially over the intermeeting period (Chart 2).[1,2] Rates on federal funds and eurodollar futures contracts suggest that market participants now place about one-in-three odds on a 25 basis point policy easing at the upcoming meeting and fully price in a policy move of that size by year-end. The shift in policy expectations and the heightened preference among investors for safe assets caused Treasury yields to plummet, with the two-year yield falling about 80 basis points. Yields on Treasury inflation-indexed securities also declined considerably, leaving inflation compensation at the ten-year maturity up a touch. Although investors sought the safety of Treasury securities, they did not demonstrate an unusually strong preference for the most liquid, on-the-run Treasury issues (see box on "Market Functioning and Liquidity" on page 3).

1. Financial markets reacted little to the FOMC's decision in June to leave the intended federal funds rate at 1-3/4 percent and to retain a neutral balance-of-risks statement, as those decisions were largely anticipated.

2. The federal funds rate has averaged close to its 1-3/4 percent target over the intermeeting period. The Desk has purchased $9.4 billion of Treasury securities in outright operations: $7.3 billion of Treasury coupon securities and bills in the market and $2.1 billion of bills from foreign official institutions. The outstanding volume of long-term System RPs has decreased $6 billion to a level of $12 billion.

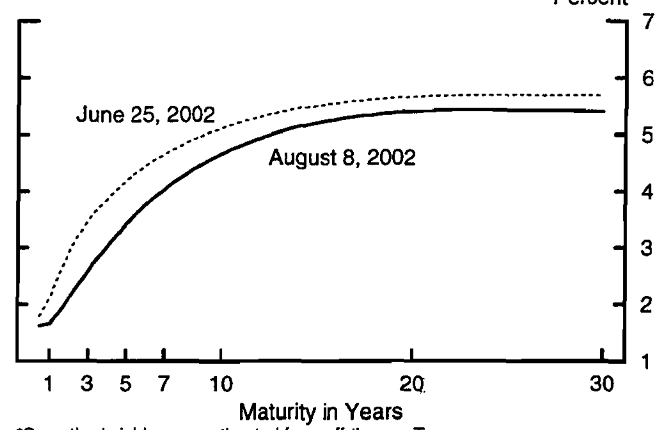
## Chart 2
## Financial Market Indicators

### Expected Federal Funds Rates Estimated from Financial Futures*



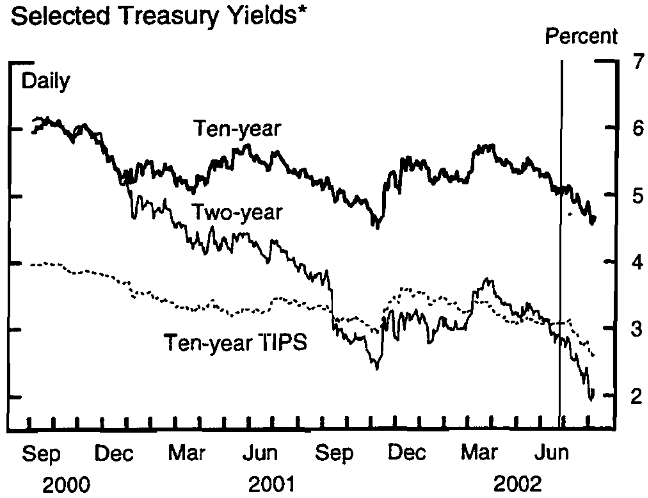

*Estimates from federal funds and eurodollar futures rates with an allowance for term premia and other adjustments.

### Treasury Yield Curve*



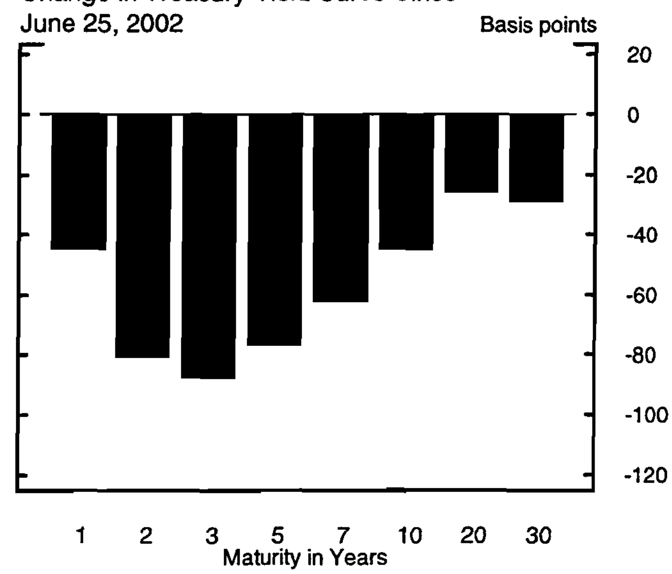

*Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi-annual coupons.

### Selected Treasury Yields*

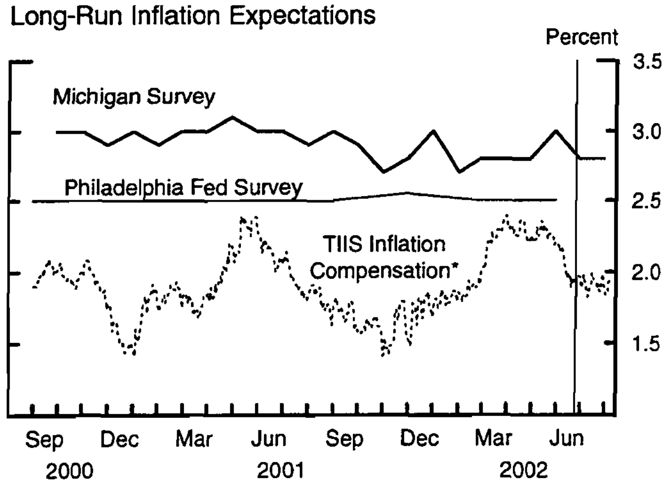



*Nominal Treasury yields are based on a smoothed yield curve estimated from off-the-run securities.

### Change in Treasury Yield Curve Since June 25, 2002

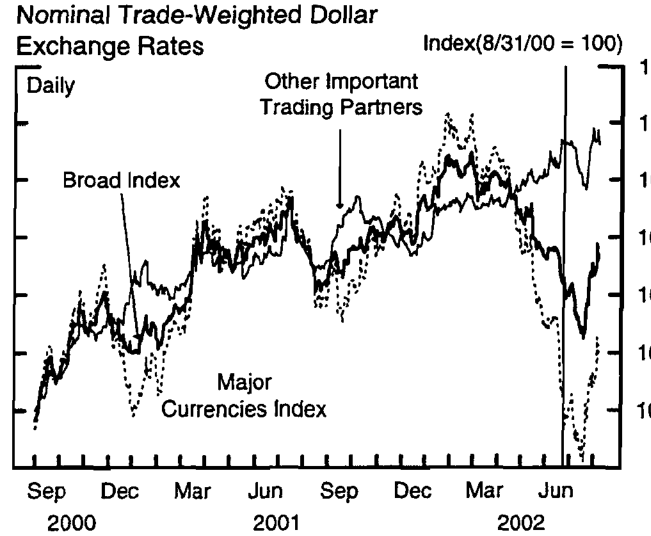



### Long-Run Inflation Expectations




*The inflation rate that equalizes the price of the January 2012 TIIS and the value of a portfolio of nominal securities with the same payments.

### Nominal Trade-Weighted Dollar Exchange Rates




Note: Solid vertical line indicates June 26 FOMC meeting. Daily data are through August 8.

**Market Functioning and Liquidity**

Despite the remarkable volatility of asset prices and heightened concerns about credit risk, most financial markets continued to function effectively over the intermeeting period. Market participants were skittish at times, particularly following rumors of liquidity strains at several prominent financial firms, but those episodes proved to be short-lived. Investors were also wary of potential problems at several large banks entangled in recent high-profile bankruptcies, but this did not appear to translate into increases in perceived counterparty credit risk or an impairment in market making for those firms.

Markets overall continued to function reasonably well, with reports citing only limited deterioration in the liquidity of the Treasury market and a more substantial drying up in some segments of the corporate bond market. In the Treasury market, bid-asked spreads widened modestly, but, unlike episodes of more severe market stress, dealers continued to make markets in off-the-run as well as on-the-run Treasury securities, and a substantial volume of securities changed hands. In corporate bond markets, bid-asked spreads reportedly increased to several times their typical levels for many issues, while trading in some lower-tier issues dried up altogether. Gross corporate bond issuance has been exceptionally weak for several weeks. In equity markets, trading volumes were very high. Although the market had to absorb a considerable volume of transactions, including sizable outflows from equity mutual funds, there was no indication of unusual difficulties in executing, clearing, or settling trades.

(4) The trade-weighted value of the dollar against major foreign currencies rose 1-1/4 percent, on balance, over the intermeeting period. European stock prices dropped more than those in the United States amid a similar combination of some disappointing indicators of economic activity and concerns about earnings and corporate accounting. Stock prices in Japan declined less than in other major economies, as data seemed to show a mild pickup in Japanese economic activity. Across major foreign economies, investors appeared to shift funds into less risky instruments and write down expectations for policy interest rates. Against this

backdrop, yields on ten-year government securities declined, but less than those on Treasuries. Over the intermeeting period, U.S. monetary authorities did not intervene in the foreign exchange market for their own accounts.

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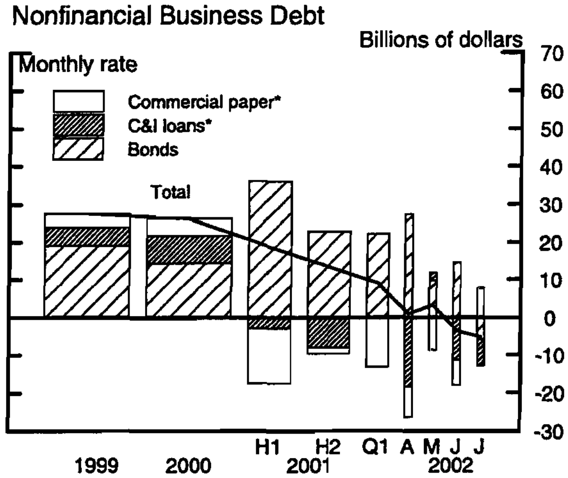
(5) Financial market conditions in Latin America worsened further during the intermeeting period. In Brazil, the *real* declined nearly 4 percent, on net, against the dollar, and sovereign bond yield spreads over Treasuries moved up about 150 basis points. Conditions had been more severe at times, largely on concerns about the policies of the leading candidates in the October presidential election, but the successful negotiation of an extension and enlargement of Brazil's IMF program prompted some rebound in the currency and narrowing of spreads. Pressures stemming in part from the continued economic disarray in Argentina led to a sharp depreciation of the Uruguayan peso and the imposition of a bank holiday in Uruguay. Banks have re-opened this week after the U.S. Treasury extended bridge loan financing of $1.5 billion ahead of disbursements from official international lending institutions expected later this week. The Colombian peso also depreciated significantly during the period, falling more than more than 9 percent against the dollar. In contrast, the Mexican peso firmed slightly, although Mexican debt spreads widened about 40 basis points. In the emerging Asian economies, changes in currency values and debt spreads were not generally large, although equity prices posted sizable declines.

(6) Borrowing by domestic nonfinancial businesses has been quite weak over the past two months (Chart 3). Net issuance of corporate bonds turned negative in July, and business loans at banks continued to run off. By contrast, commercial paper outstanding turned up in July–its first monthly advance since December. The sluggishness of total business borrowing likely reflected the modest financing gap as well as drawdowns of liquid assets by many firms as conditions in credit markets

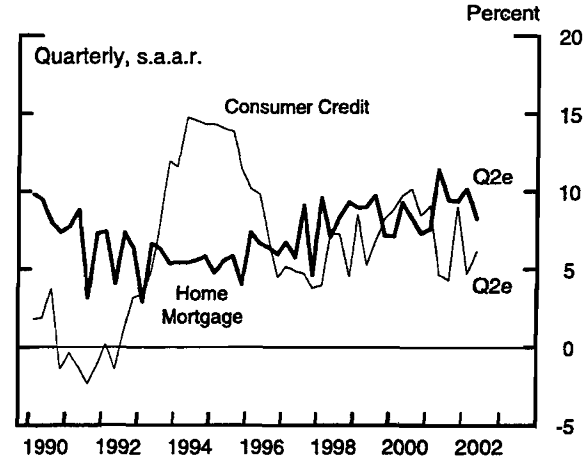
## Chart 3
## Debt and Money Growth

### Growth of Components of Nonfinancial Business Debt



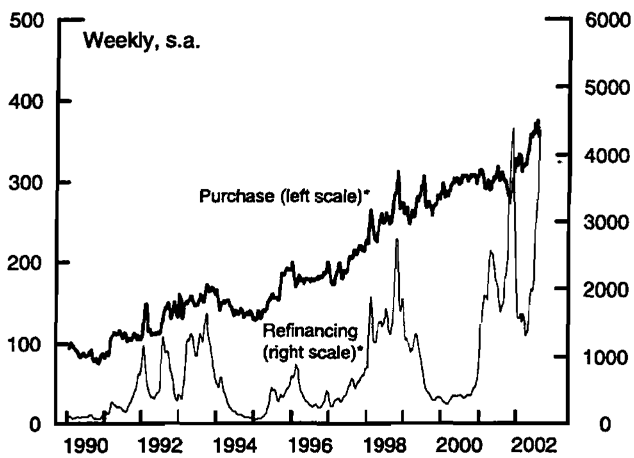

* Seasonally adjusted.

### Growth of Household Debt



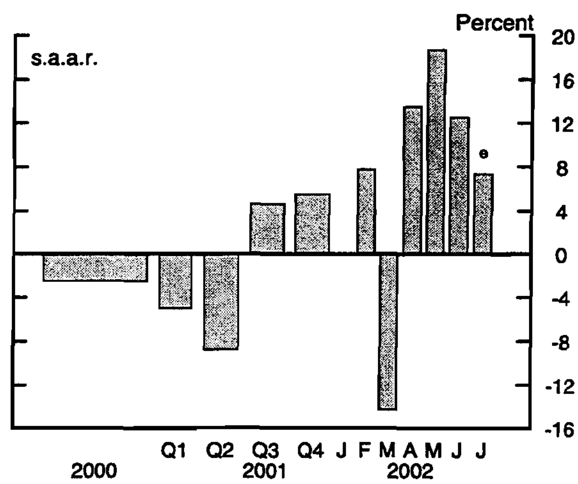

e Estimated.

### MBA Residential Mortgage Indexes



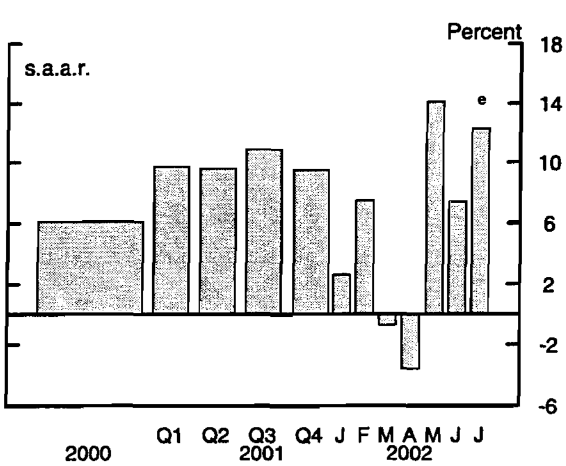

* Four-week moving average.
Note. March 16, 1990 = 100 for n.s.a. series.

### Growth of Federal Debt



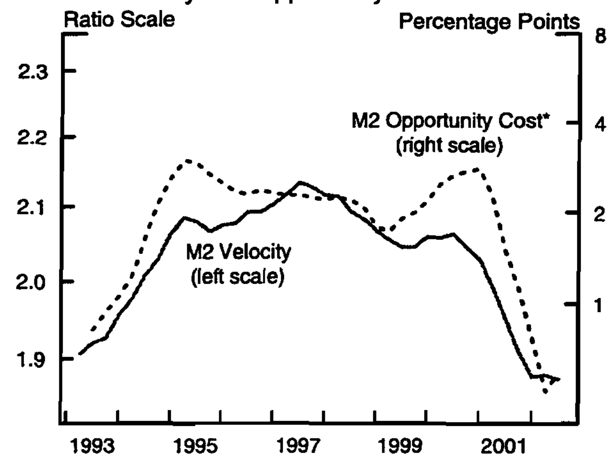

Note. Treasury debt held by the public, month end.
e Estimated.

### Growth of M2




e Estimated.

### M2 Velocity and Opportunity Cost




* Two-quarter moving average.

MARA:HM

deteriorated. According to the August Senior Loan Officer Opinion Survey, a significant net fraction of banks experienced weaker demand for C&I loans over the past three months, with many institutions pointing to a lessened need on the part of their customers to finance capital spending and mergers and acquisitions. In that survey, banks on net also reported that they continued to tighten standards and terms for business loans. In contrast to business debt, household debt is estimated to have expanded at a brisk pace in the second quarter. Home mortgage debt continued to grow robustly, boosted by the strength of the housing market and refinancing activity, while consumer credit rose at a moderate rate. Borrowing by the federal government surged in the second quarter when tax receipts proved to be quite weak. The statutory ceiling on the public debt was increased $450 billion on June 28, allowing the Treasury to borrow in volume in July.

(7) After expanding at a 7-1/2 percent pace in June, M2 is estimated to have accelerated to a 12-1/4 percent annual rate in July, more than twice that anticipated in the June Bluebook. The unexpected strength in M2 growth evidently owed in part to the sizable outflows from equity mutual funds into retail money market funds and, perhaps, liquid deposits. In addition, M2 growth has likely benefitted from a resumption of heavy mortgage refinancings spurred by the decline in long-term interest rates. Although total currency growth was moderate by recent standards, shipments to Latin America appear to have remained strong in July and early August, with those to Uruguay picking up in response to the financial turmoil in that country.

## Policy Alternatives

(8) The staff has read economic data over the intermeeting period as implying that the economy's near-term momentum has flagged and sees the substantial decline in share values and further tightening of credit markets as weighing on spending going forward. In light of the annual revisions to the national income and product accounts, the staff views the longer-term prospects for potential output growth as somewhat lower than had been anticipated.[3] As a result, real GDP growth has been marked about 1 percentage point over the second half of this year and 1/2 percentage point in 2003 relative to the June Greenbook. The downward revision to the growth of projected aggregate demand exceeded that to the growth of aggregate supply, implying that the staff now sees a wider output gap over the projection period, despite an assumption in this Greenbook that the Committee will put off the tightening that had been built into the last forecast and instead maintain the current level of the federal funds rate through the end of next year. Corporate bond yields edge down over the next six quarters as abating fears of additional revelations of corporate wrongdoing and some improvement in credit quality lead to a narrowing of risk spreads. Share prices are seen as climbing moderately to provide investors a fairly typical equity return. The projected slack in the economy offsets the price pressure from an assumed depreciation of the dollar and a diminished benefit from the passthrough of lower energy prices to core inflation, so that core PCE inflation runs 1-1/2 percent this year and next, unchanged from the June Greenbook.

(9) The economic outcomes forecasted by the staff may well be less appealing to the Committee than those presented seven weeks ago. However, the Committee might still view the projected near-term weakness as unlikely to be ameliorated by policy action at this meeting and the prospect for output growth next

3. The box on the next page highlights some implications of the data revisions for monetary policy and r*.

**Some Implications of Recent Data Revisions for Monetary Policy Rules and r***

In the recent annual revisions to the national income and product accounts, the Bureau of Economic Analysis trimmed 0.4 percentage point from real GDP growth on average from 1999 to 2001 and made the swing in the level of real GDP during the economic recession a bit more pronounced. The resulting downwardly revised path of output per hour led the staff to lower its assessment of structural productivity growth over that period by a like amount. As can be seen in the output gap plotted in the upper left panel of Chart 4, the level of output surpassed that of its potential by a bit more in the latter stage of the economic expansion than previously estimated and the subsequent drop-off during the recession is now seen as steeper. The BEA also marked down core PCE inflation in 2000 but raised it thereafter (upper right panel).

The output gap and inflation are two arguments of the Taylor rule. The lower panel plots the interest-rate recommendations from a modified Taylor rule that uses the staff's measure of the output gap, inflation as proxied by the four-quarter change in the core PCE price index, an assumed equilibrium real funds rate of 2-1/2 percent, and an inflation goal of 1-1/2 percent. The dotted and dashed lines, respectively, depict the rule's recommendations based on pre-revision and post-revision data. In general, the policy paths do not differ markedly, in part because changes to data for 2000 had offsetting implications for interest rates. Because the BEA revisions paint a somewhat worse inflation picture in recent quarters, the rule prescribes a bit tighter policy than had been the case with the pre-revision data.

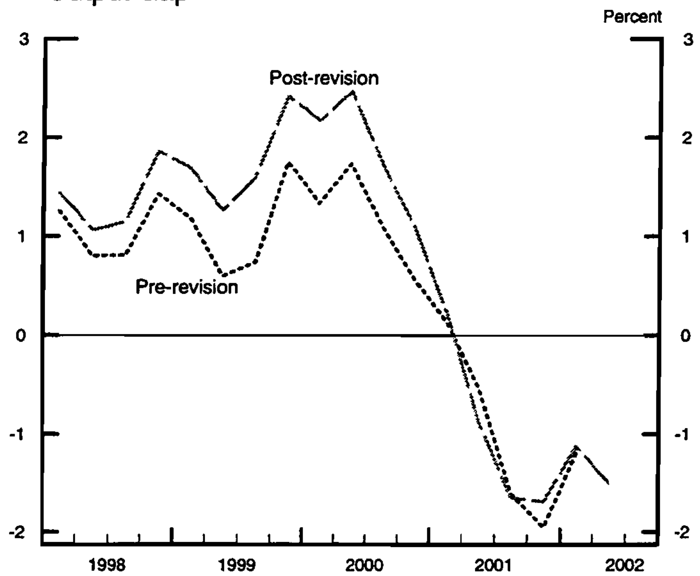
The Taylor rule recommendation that policy should have been tighter over the past few quarters importantly depends on the assumption that the natural real federal funds rate is constant. Staff estimates of the equilibrium real federal funds rate derived from small and large econometric models, in contrast, have trended lower and have been at or below 2-1/2 percent since 2000 (Chart 5). The estimate derived from the indexed debt market has also moved lower over that period, but from a much higher level.

The revisions both to the historical data and the Greenbook assessment of near-term economic trends had notable consequences for some of these estimates. Those based only on historical data have declined over the intermeeting period in part because the actual real rate is seen in retrospect to have been lower over the past 1-1/2 years (as inflation has been higher). The measures of the equilibrium real rate based on historical data augmented by the staff projection have declined a bit further, reflecting the weaker assessment of aggregate demand embodied in the staff forecast. By contrast, the estimate of the equilibrium real federal funds rate based on indexed Treasury yields is unchanged.

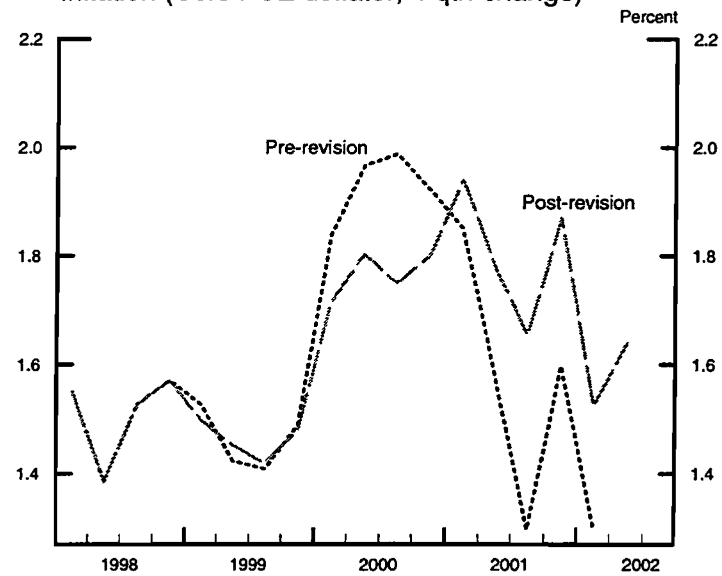
# Chart 4

## Effect of NIPA Revisions on Taylor Rule Prescriptions

### Output Gap




### Inflation (Core PCE deflator, 4 qtr. change)

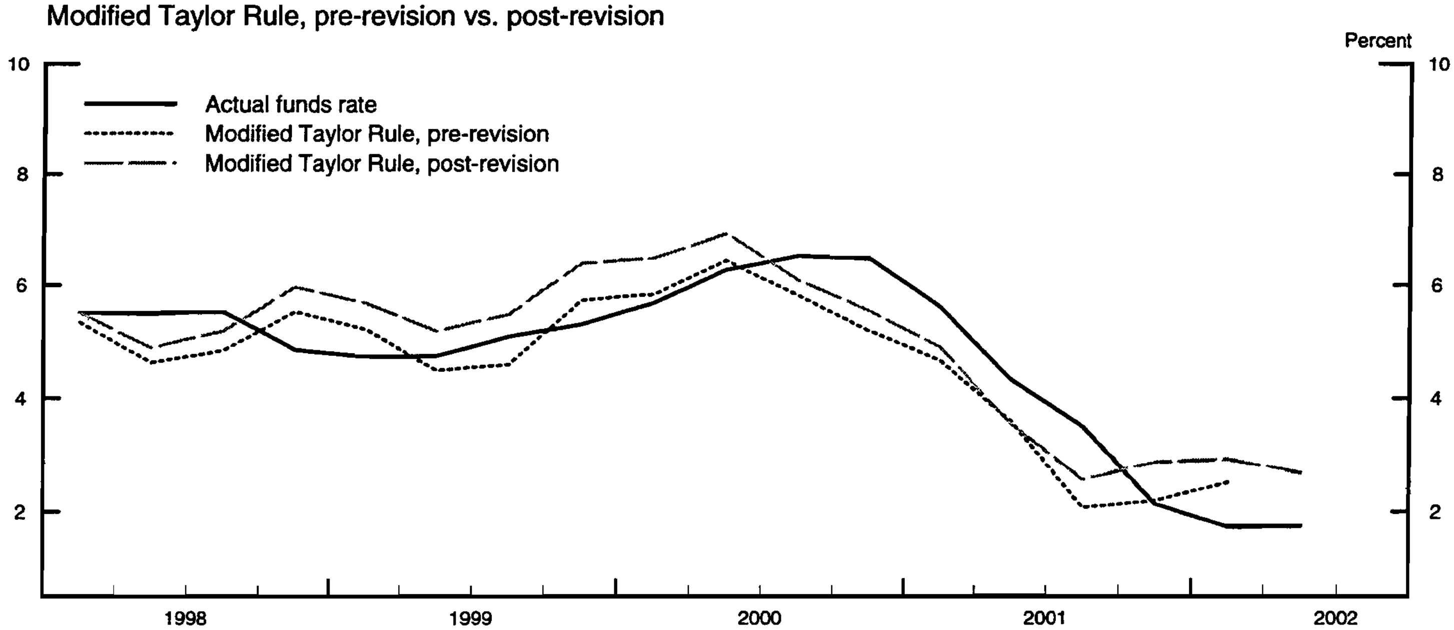



### Description of Staff Modified Taylor Rule[1]

Prescribed Funds Rate $i_t = r^* + \pi_t + ay_t + b(\pi_t - \pi^*)$

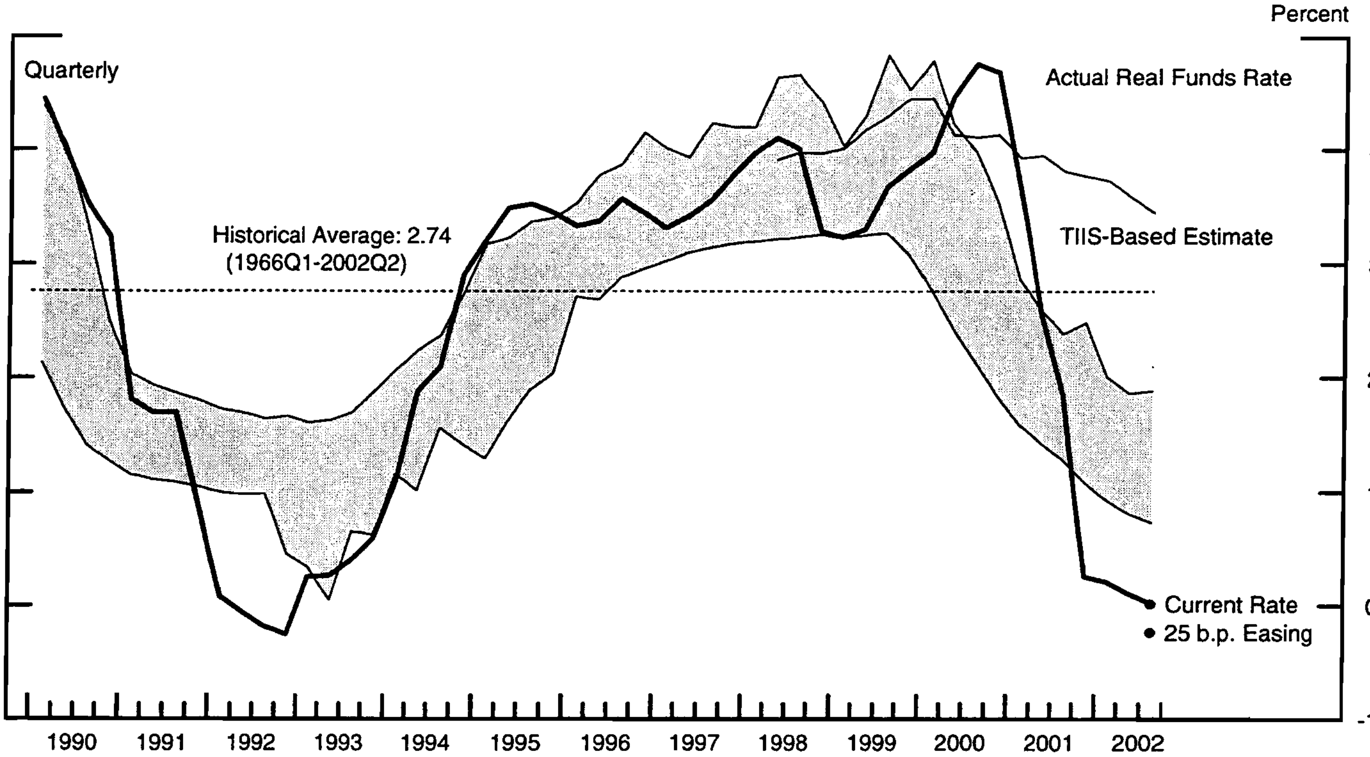
i : nominal funds rate
r* : equilibrium real funds rate
$\pi$ : inflation rate (4-qtr avg.)
y : output gap
$\pi^*$ : inflation target

### Modified Taylor Rule, pre-revision vs. post-revision




1.) Taylor's original 1993 rule used $r^*=2$, $\pi^*=2$, a=0.5, b=0.5, an output gap obtained by linear detrending, and the rate of inflation for the (old, non-chain-weight) GDP deflator. We use here the Core PCE deflator, the staff (Greenbook) estimate of the output gap, $r^*=2.5$, $\pi^*=1.5$, a=1 and b=0.5. This rule fits the data better than Taylor's specification.

## Chart 5
## 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 six estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2002Q3.

### Equilibrium Real Funds Rate Estimates

Percent

| | 2000 | 2001 | 2002H1 | 2002Q3 |
|---|---|---|---|---|
| Statistical Filter | | | | |
| - Two-sided: | | | | |
| • Based on historical data* | 2.4 | 1.5 | 1.2 | 1.1 |
| *June Bluebook* | *2.6* | *2.3* | *2.2* | -- |
| • Based on historical data and the staff forecast | 2.3 | 1.3 | 0.9 | 0.7 |
| *June Bluebook* | *2.4* | *1.9* | *1.7* | *1.6* |
| - One-sided: | | | | |
| • Based on historical data* | 4.1 | 2.5 | 1.6 | 1.1 |
| *June Bluebook* | *3.8* | *2.9* | *2.3* | -- |
| FRB/US Model | | | | |
| - Two-sided: | | | | |
| • Based on historical data** | 2.7 | 1.9 | 1.3 | 1.2 |
| *June Bluebook* | *2.9* | *2.1* | *1.5* | -- |
| • Based on historical data and the staff forecast | 2.9 | 2.4 | 1.9 | 1.9 |
| *June Bluebook* | *3.1* | *2.5* | *2.2* | *2.2* |
| - One-sided: | | | | |
| • Based on historical data** | 3.6 | 2.2 | 1.3 | 1.2 |
| *June Bluebook* | *3.6* | *2.3* | *1.4* | -- |
| Treasury Inflation-Indexed Securities | 4.2 | 3.9 | 3.7 | 3.4 |
| *June Bluebook* | *4.2* | *3.9* | *3.7* | -- |

* Also employs the staff projection for the current and next quarters.

** Also employs the staff projection for the current quarter.

year to run only a bit in excess of that of aggregate supply as desirable. In the staff outlook, the removal of the expectation of policy tightening in coming quarters has already fostered lower long-term rates that help to offset some of the consequences for spending of recent bad news. If the Committee believes that this configuration of financial market conditions is likely to be supportive of sustainable economic expansion, it might decide **to leave the funds rate unchanged and to retain the current statement of balanced risks**. The Committee may also favor this policy if it suspects that the staff forecast of aggregate demand is somewhat pessimistic. In that regard, the recent strength in auto purchases and soaring mortgage applications may suggest that household spending will once again outpace expectations, buoyed by a real federal funds rate that is close to zero and still noticeably below estimates of its equilibrium rate. Moreover, as noted in the discussion of alternative simulations in the Greenbook, some measures of the equity premium are now high by historical standards, perhaps raising the odds that equity prices could rebound substantially more than in the baseline and bolster aggregate demand.

(10) Market participants would tend to infer from the announcement of an unchanged policy and retention of balanced risks that the FOMC is confident that the expansion is on a sustainable track. Because market participants place some odds on easing at this meeting, they would likely raise the path expected for the funds rate going forward, and short-term yields would edge up. Bond yields would probably tick higher, and, unless this set of actions and the wording of the associated announcement were to give investors more confidence about the durability of the expansion, equity prices would soften. However, greater disappointment by investors–and a more sizable negative reaction in equity markets–cannot be ruled out, in which case bond yields might decline in response.

(11) The Committee could find the staff's assessment of underlying economic trends to be plausible but also be concerned that market skittishness, increased caution in domestic credit markets, and worsening prospects for many emerging financial markets raise the odds of especially adverse economic outcomes. If the Committee does not see these risks as palpable enough to justify policy ease at this time, it may wish to convey to market participants its intent to follow developments especially carefully and its willingness to ease in response to a further dimming in the outlook. In this case, it could choose to **keep the federal funds rate unchanged and shift the assessment of the balance of risks toward economic weakness,** while crafting the announcement accordingly. In these circumstances, money market rates would likely decline some, as most market participants would see the likelihood of a near-term ease as having grown. While bond yields might edge off, equity prices could firm to the degree this decision were seen to confirm a vigilant posture against the potential for a downturn.

(12) In the current Greenbook, the staff has both raised the path expected for the unemployment rate this year and next and lowered its assessment of the degree of labor market slack consistent with unchanged inflation. While policy action at this meeting is unlikely to leave much of an imprint on economic activity over the balance of this year, the Committee might desire to promote faster economic growth next year than in the Greenbook forecast in order to make more distinct progress in reducing resource slack over time--especially if it believed that inflation would likely remain in a zone near price stability. In that case, the Committee might choose to **reduce the federal funds rate 25 basis points.** Indeed, as discussed in the box below, the simulation exercise of the FRB/US model dubbed "perfect foresight" policy indicates that lowering the funds rate to a bit below 1-1/2 percent would minimize deviations of the unemployment rate from its natural rate and inflation from an

assumed goal that was as low as 1 percent over the extended Greenbook period. That result, of course, depends on a long list of assumptions–including that the staff's assessment of near-term weakness in demand is correct and that the structure of FRB/US is a complete and certain representation of the economy. Alternatively, the Committee might believe that heightened economic uncertainty may restrain household and business spending more than is factored into the Greenbook forecast so as to warrant a quarter-point reduction in the funds rate at this time. Moreover,

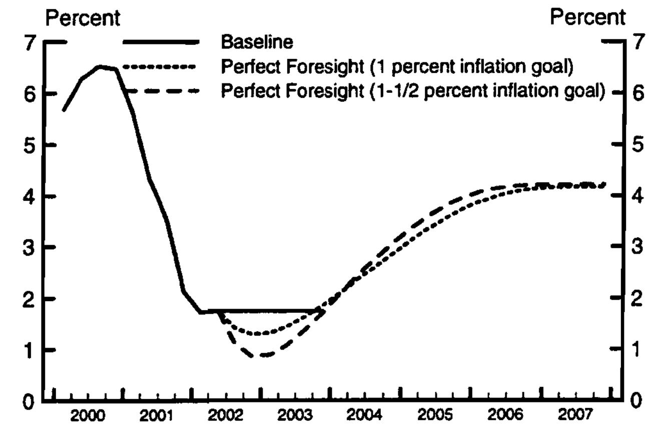
**A "Perfect Foresight" Policy**

We updated the "perfect foresight" experiment using an extension of the Greenbook forecast through 2007. In this exercise, the FRB/US model is solved to find a path for the funds rate that minimizes an equally weighted discounted sum of squared deviations of the unemployment rate from its natural rate and core PCE inflation from a long-run goal, subject to a penalty on changing the funds rate. The Greenbook extension was designed to capture several key features of the staff outlook. In particular, potential output is assumed to grow at a rate of 3-1/4 percent after 2003, and the unemployment rate consistent with stable inflation remains at 5 percent. Economic growth abroad is expected to settle at a 3-3/4 percent rate after 2003, and the dollar is assumed to depreciate nearly 3 percent per year, the combined effect of which holds the ratio of the current account deficit to nominal GDP at around 5 percent. The federal budget balance is assumed to improve gradually, with the unified deficit averaging 3/4 percent of nominal GDP from 2004 to 2007.

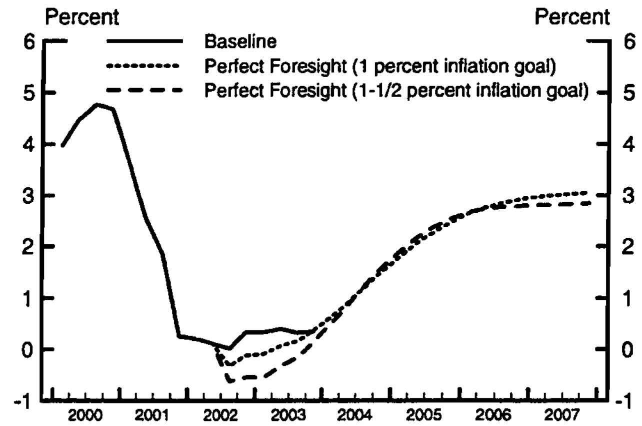
The solid line in Chart 6 plots the path for the funds rate assumed in the Greenbook out to 2003, while the dotted line depicts the path generated by the perfect foresight exercise in which the inflation goal is assumed to be 1 percent. The nominal funds rate averages about 1/4 percentage point lower over the next six quarters in the perfect foresight simulation than in the Greenbook baseline. If the inflation goal were assumed to be 1-1/2 percent (as in the dashed line), the current funds rate could be cut in half, at least for the next few quarters, to work down perceived unused resources while holding inflation around its current level.

## Chart 6
## "Perfect Foresight" Strategy for Monetary Policy

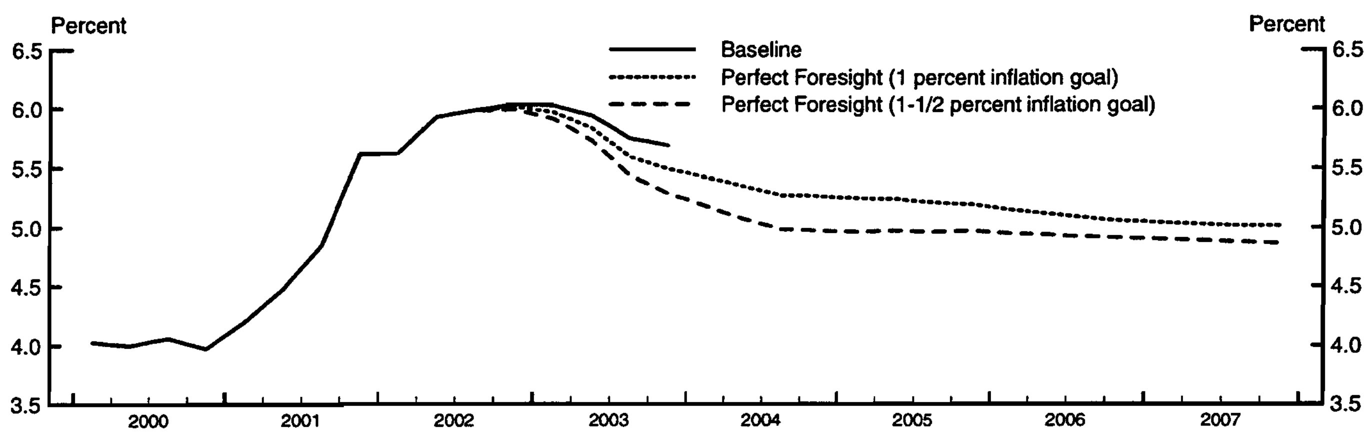
### Nominal Federal Funds Rate



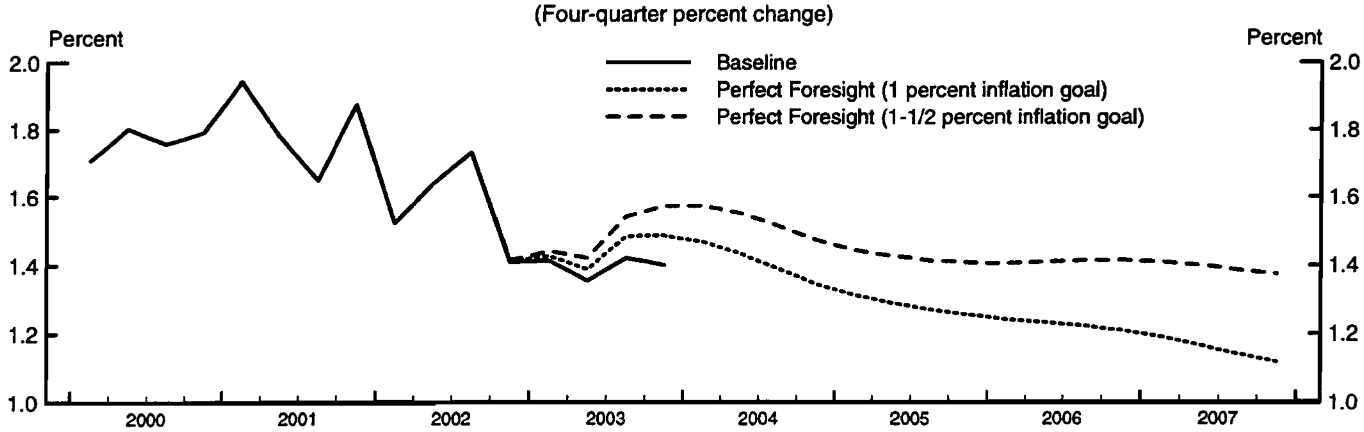

### Real Federal Funds Rate[1]




### Civilian Unemployment Rate




### PCE Inflation (ex. food and energy)
(Four-quarter percent change)




1. The real federal funds rate is calculated as the quarterly nominal funds rate minus the four-quarter lagged core PCE inflation rate as a proxy for inflation expectations.

the Committee may believe that any additional disinflation could put economic activity and prices uncomfortably close to the point at which the zero nominal bound on short-term interest rates would constrain future policy.

(13) Given prevailing market expectations, short-term rates would fall if the Committee were to ease policy at this meeting, but the extent of the drop would depend importantly on the characterization of the balance of risks and the wording of the announcement. If market participants were convinced that the Federal Reserve would ensure that the recovery was not faltering, equity prices would rise and risk spreads fall, while Treasury bond rates would edge higher. However, there is some chance that market participants might view the easing as implying that the Federal Reserve sees much weaker demand and the economy slipping back into recession. Such an interpretation could put downward pressure on equity prices and bond yields and upward pressure on risk spreads.

(14) Under conditions of an unchanged federal funds rate and the economy unfolding along the lines of the Greenbook forecast, business borrowing is projected to recover from the very anemic pace of late as businesses have less room to deplete their liquid assets and external financing needs edge higher. If, as assumed in the forecast, market jitters recede and conditions in the corporate bond market improve, credit demands are expected to be directed once again to the bond market. Given their still-firm capital positions and earnings, bankers likely will continue to be selective lenders, accommodating solid credits and avoiding marginal ones. In the household sector, debt growth is expected to remain fairly brisk–outpacing growth in income–led by mortgage debt as housing activity continues to be elevated and as individuals tap accumulated home equity to finance spending. As in the business sector, apart from the shakier borrowers, household spending should not be materially constrained by financial conditions beyond the substantial loss of equity wealth.

Paced by the household component, nonfederal debt is projected to grow at a 5-1/2 percent clip over the second half of this year, about the same as in the first half. Total debt of nonfinancial sectors is forecast to grow at a similar rate over the second half, significantly faster than nominal GDP. As conditions in domestic financial markets tend to stabilize in coming months and safe-haven demands for money market mutual funds and liquid deposits ebb, growth in M2 is projected to moderate. However, from time to time, M2 may be affected by currency demands from abroad, especially if conditions deteriorate further in South America. Over the July-to-December period, M2 is projected to grow at a 5 percent rate, bringing its growth over the four quarters of this year to 6 percent.

# Alternative Growth Rates for Key Monetary and Debt Aggregates

| | M2<br>Lower 25bp | No change | M2<br>Greenbook Forecast* | M3 | Debt |
|---|---|---|---|---|---|
| **Monthly Growth Rates** | | | | | |
| Apr-02 | -3.6 | -3.6 | -3.6 | -2.2 | |
| May-02 | 14.1 | 14.1 | 14.1 | 11.6 | |
| Jun-02 | 7.4 | 7.4 | 7.4 | 6.0 | |
| Jul-02 | 12.3 | 12.3 | 12.3 | 7.0 | |
| Aug-02 | 8.2 | 8.0 | 8.0 | 7.5 | |
| Sep-02 | 5.6 | 5.0 | 5.0 | 7.8 | |
| Oct-02 | 4.8 | 4.0 | 4.0 | 8.0 | |
| Nov-02 | 4.8 | 4.0 | 4.0 | 8.0 | |
| Dec-02 | 4.6 | 4.0 | 4.0 | 8.0 | |
| **Quarterly Growth Rates** | | | | | |
| 2001 Q1 | 9.7 | 9.7 | 9.7 | 12.6 | 5.3 |
| 2001 Q2 | 9.6 | 9.6 | 9.6 | 13.8 | 5.3 |
| 2001 Q3 | 11.0 | 11.0 | 11.0 | 10.1 | 7.1 |
| 2001 Q4 | 9.4 | 9.4 | 9.4 | 12.2 | 5.9 |
| 2002 Q1 | 5.8 | 5.8 | 5.8 | 4.9 | 5.2 |
| 2002 Q2 | 3.4 | 3.4 | 3.4 | 3.2 | 7.0 |
| 2002 Q3 | 9.8 | 9.7 | 9.7 | 7.5 | 5.9 |
| 2002 Q4 | 5.3 | 4.7 | 4.7 | 8.0 | 5.1 |
| **Annual Growth Rates** | | | | | |
| 2000 | 6.1 | 6.1 | 6.1 | 9.3 | 5.0 |
| 2001 | 10.3 | 10.3 | 10.3 | 12.7 | 6.0 |
| 2002 | 6.2 | 6.0 | 6.0 | 6.0 | 5.9 |
| **Growth From — To** | | | | | |
| 2001 Q4 — Jul-02 | 6.3 | 6.3 | 6.3 | 4.9 | |
| Dec-01 — Jul-02 | 5.7 | 5.7 | 5.7 | 4.0 | |
| Jul-02 — Dec-02 | 5.6 | 5.0 | 5.0 | 8.0 | |

* This forecast is consistent with nominal GDP and interest rates in the Greenbook forecast.

## Directive and Balance-of-Risks Language

(15) 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 continue to be balanced with respect to prospects for both goals [ARE WEIGHTED MAINLY TOWARD CONDITIONS THAT MAY GENERATE HEIGHTENED INFLATION PRESSURES] [ARE WEIGHTED MAINLY TOWARD CONDITIONS THAT MAY GENERATE ECONOMIC WEAKNESS] in the foreseeable future.

# SELECTED INTEREST RATES
## (percent)

| | Short-term | | | | | | Long-term | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Federal funds | Treasury bills secondary market | | | CDs secondary market | Comm. paper | Off-the-run Treasury yields | | | | Indexed yields | | Moody's Baa | Municipal Bond Buyer | Conventional home mortgages primary market | |
| | | 4-week | 3-month | 6-month | 3-month | 1-month | 2-year | 5-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 |
| 01 -- High | 5.99 | 3.66 | 5.51 | 5.30 | 5.96 | 6.12 | 4.91 | 5.11 | 5.68 | 5.99 | 3.59 | 3.61 | 8.20 | 5.65 | 7.24 | 6.86 |
| -- Low | 1.74 | 1.69 | 1.69 | 1.77 | 1.79 | 1.76 | 2.47 | 3.66 | 4.58 | 5.06 | 2.65 | 2.96 | 7.62 | 5.20 | 6.45 | 5.06 |
| 02 -- High | 1.80 | 1.80 | 1.85 | 2.12 | 1.97 | 1.79 | 3.69 | 4.94 | 5.69 | 6.00 | 3.31 | 3.54 | 8.18 | 5.67 | 7.18 | 5.26 |
| -- Low | 1.62 | 1.61 | 1.61 | 1.58 | 1.65 | 1.62 | 2.02 | 3.36 | 4.62 | 5.38 | 1.87 | 2.62 | 7.78 | 5.31 | 6.31 | 4.31 |
| Monthly | | | | | | | | | | | | | | | | |
| Aug 01 | 3.65 | 3.54 | 3.44 | 3.39 | 3.48 | 3.54 | 3.82 | 4.60 | 5.24 | 5.61 | 3.05 | 3.34 | 7.85 | 5.31 | 6.95 | 5.71 |
| Sep 01 | 3.07 | 2.67 | 2.69 | 2.71 | 2.87 | 2.96 | 3.19 | 4.18 | 5.05 | 5.58 | 2.92 | 3.19 | 8.03 | 5.34 | 6.82 | 5.57 |
| Oct 01 | 2.49 | 2.27 | 2.20 | 2.17 | 2.31 | 2.40 | 2.79 | 3.93 | 4.86 | 5.41 | 2.75 | 3.10 | 7.91 | 5.34 | 6.62 | 5.28 |
| Nov 01 | 2.09 | 1.99 | 1.91 | 1.93 | 2.03 | 2.03 | 2.83 | 4.05 | 4.94 | 5.34 | 2.91 | 3.19 | 7.81 | 5.30 | 6.66 | 5.20 |
| Dec 01 | 1.82 | 1.71 | 1.72 | 1.82 | 1.83 | 1.84 | 3.12 | 4.52 | 5.40 | 5.77 | 3.28 | 3.54 | 8.05 | 5.56 | 7.07 | 5.23 |
| Jan 02 | 1.73 | 1.67 | 1.68 | 1.77 | 1.74 | 1.70 | 3.03 | 4.45 | 5.32 | 5.71 | 3.14 | 3.45 | 7.87 | 5.48 | 7.00 | 5.18 |
| Feb 02 | 1.74 | 1.74 | 1.76 | 1.86 | 1.82 | 1.76 | 3.01 | 4.36 | 5.24 | 5.62 | 2.91 | 3.32 | 7.89 | 5.43 | 6.89 | 5.03 |
| Mar 02 | 1.73 | 1.79 | 1.82 | 2.05 | 1.91 | 1.78 | 3.52 | 4.80 | 5.60 | 5.93 | 2.94 | 3.36 | 8.11 | 5.61 | 7.01 | 5.06 |
| Apr 02 | 1.75 | 1.72 | 1.75 | 1.97 | 1.87 | 1.76 | 3.40 | 4.69 | 5.49 | 5.87 | 2.64 | 3.16 | 8.03 | 5.59 | 6.99 | 4.96 |
| May 02 | 1.75 | 1.74 | 1.76 | 1.91 | 1.82 | 1.75 | 3.24 | 4.54 | 5.40 | 5.82 | 2.50 | 3.10 | 8.09 | 5.54 | 6.81 | 4.79 |
| Jun 02 | 1.75 | 1.71 | 1.73 | 1.83 | 1.81 | 1.74 | 2.97 | 4.24 | 5.16 | 5.71 | 2.46 | 3.08 | 7.95 | 5.44 | 6.65 | 4.65 |
| Jul 02 | 1.73 | 1.72 | 1.71 | 1.74 | 1.79 | 1.74 | 2.52 | 3.86 | 4.90 | 5.60 | 2.23 | 2.92 | 7.90 | 5.34 | 6.49 | 4.51 |
| Weekly | | | | | | | | | | | | | | | | |
| Jun 7 02 | 1.76 | 1.74 | 1.75 | 1.90 | 1.82 | 1.74 | 3.12 | 4.37 | 5.29 | 5.81 | 2.47 | 3.08 | 8.05 | 5.47 | 6.71 | 4.71 |
| Jun 14 02 | 1.74 | 1.73 | 1.74 | 1.85 | 1.81 | 1.74 | 3.03 | 4.28 | 5.19 | 5.72 | 2.50 | 3.10 | 7.95 | 5.45 | 6.71 | 4.67 |
| Jun 21 02 | 1.74 | 1.69 | 1.73 | 1.81 | 1.81 | 1.74 | 2.88 | 4.15 | 5.07 | 5.63 | 2.44 | 3.06 | 7.86 | 5.42 | 6.63 | 4.60 |
| Jun 28 02 | 1.76 | 1.70 | 1.71 | 1.78 | 1.81 | 1.75 | 2.85 | 4.14 | 5.08 | 5.68 | 2.45 | 3.07 | 7.93 | 5.41 | 6.55 | 4.61 |
| Jul 5 02 | 1.74 | 1.71 | 1.72 | 1.76 | 1.81 | 1.75 | 2.79 | 4.11 | 5.07 | 5.69 | 2.43 | 3.07 | 7.99 | 5.40 | 6.57 | 4.58 |
| Jul 12 02 | 1.73 | 1.72 | 1.72 | 1.75 | 1.80 | 1.74 | 2.63 | 3.97 | 4.96 | 5.61 | 2.36 | 3.04 | 7.92 | 5.32 | 6.54 | 4.66 |
| Jul 19 02 | 1.73 | 1.72 | 1.72 | 1.74 | 1.79 | 1.72 | 2.54 | 3.89 | 4.92 | 5.61 | 2.20 | 2.90 | 7.94 | 5.34 | 6.49 | 4.50 |
| Jul 26 02 | 1.72 | 1.72 | 1.70 | 1.70 | 1.77 | 1.74 | 2.28 | 3.61 | 4.73 | 5.52 | 2.06 | 2.76 | 7.80 | 5.31 | 6.34 | 4.31 |
| Aug 2 02 | 1.73 | 1.71 | 1.69 | 1.69 | 1.77 | 1.75 | 2.24 | 3.59 | 4.76 | 5.53 | 2.06 | 2.76 | 7.78 | 5.34 | 6.43 | 4.45 |
| Aug 9 02 | -- | 1.68 | 1.63 | 1.58 | 1.70 | 1.72 | 2.02 | 3.36 | 4.62 | 5.38 | 1.87 | 2.62 | -- | -- | 6.31 | 4.37 |
| Daily | | | | | | | | | | | | | | | | |
| Jul 23 02 | 1.73 | 1.73 | 1.70 | 1.71 | 1.79 | 1.74 | 2.30 | 3.63 | 4.73 | 5.50 | 2.08 | 2.77 | 7.80 | -- | -- | -- |
| Jul 24 02 | 1.67 | 1.70 | 1.69 | 1.70 | 1.76 | 1.74 | 2.34 | 3.64 | 4.75 | 5.55 | 2.06 | 2.78 | 7.84 | -- | -- | -- |
| Jul 25 02 | 1.75 | 1.71 | 1.70 | 1.69 | 1.77 | 1.77 | 2.23 | 3.55 | 4.70 | 5.51 | 2.05 | 2.74 | 7.78 | -- | -- | -- |
| Jul 26 02 | 1.69 | 1.72 | 1.69 | 1.68 | 1.76 | 1.73 | 2.17 | 3.52 | 4.70 | 5.54 | 2.05 | 2.74 | 7.77 | -- | -- | -- |
| Jul 29 02 | 1.75 | 1.73 | 1.72 | 1.74 | 1.77 | 1.74 | 2.40 | 3.73 | 4.87 | 5.63 | 2.12 | 2.82 | 7.87 | -- | -- | -- |
| Jul 30 02 | 1.71 | 1.73 | 1.72 | 1.75 | 1.78 | 1.72 | 2.42 | 3.77 | 4.89 | 5.61 | 2.14 | 2.83 | 7.86 | -- | -- | -- |
| Jul 31 02 | 1.76 | 1.73 | 1.71 | 1.70 | 1.78 | 1.81 | 2.23 | 3.60 | 4.75 | 5.50 | 2.06 | 2.76 | 7.76 | -- | -- | -- |
| Aug 1 02 | 1.79 | 1.71 | 1.68 | 1.66 | 1.77 | 1.75 | 2.15 | 3.52 | 4.73 | 5.49 | 2.04 | 2.74 | 7.74 | -- | -- | -- |
| Aug 2 02 | 1.72 | 1.66 | 1.63 | 1.59 | 1.75 | 1.72 | 1.98 | 3.35 | 4.59 | 5.39 | 1.92 | 2.65 | 7.67 | -- | -- | -- |
| Aug 5 02 | 1.77 | 1.68 | 1.64 | 1.59 | 1.71 | 1.72 | 1.92 | 3.28 | 4.55 | 5.35 | 1.85 | 2.60 | 7.65 | -- | -- | -- |
| Aug 6 02 | 1.74 | 1.72 | 1.65 | 1.60 | 1.70 | 1.71 | 2.10 | 3.43 | 4.67 | 5.42 | 1.93 | 2.66 | 7.72 | -- | -- | -- |
| Aug 7 02 | 1.71 | 1.66 | 1.59 | 1.55 | 1.70 | 1.72 | 1.97 | 3.32 | 4.61 | 5.38 | 1.83 | 2.59 | 7.70 | -- | -- | -- |
| Aug 8 02 | -- p | 1.67 | 1.62 | 1.59 | 1.69 | -- | 2.08 | 3.41 | 4.66 | 5.39 | 1.88 | 2.61 | -- | -- | -- | -- |

NOTE: Weekly data for columns 1 through 13 are week-ending averages. Columns 2 through 4 are on a coupon equivalent basis. Data in column 6 are interpolated from data on certain commercial paper trades settled by the Depository Trust Company. Column 14 is the Bond Buyer revenue index, which is a 1-day quote for Thursday. 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

Strictly Confidential (FR)-
Class II FOMC

August 12, 2002

# Money Aggregates

Seasonally adjusted

| Period | M1 | M2 | nontransactions components: In M2 | nontransactions components: In M3 only | M3 |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **Annual growth rates(%):** | | | | | |
| Annually (Q4 to Q4) | | | | | |
| 1999 | 1.9 | 6.3 | 7.8 | 11.2 | 7.7 |
| 2000 | -1.7 | 6.1 | 8.6 | 17.4 | 9.3 |
| 2001 | 6.8 | 10.3 | 11.3 | 18.3 | 12.7 |
| Quarterly(average) | | | | | |
| 2001-Q3 | 16.0 | 11.0 | 9.6 | 8.1 | 10.1 |
| Q4 | 2.1 | 9.4 | 11.5 | 18.1 | 12.2 |
| 2002-Q1 | 5.8 | 5.8 | 5.8 | 3.1 | 4.9 |
| Q2 | -0.6 | 3.4 | 4.5 | 2.7 | 3.2 |
| Monthly | | | | | |
| 2001-July | 13.9 | 9.2 | 7.9 | 1.2 | 6.6 |
| Aug. | 9.1 | 8.6 | 8.5 | -13.1 | 1.7 |
| Sep. | 55.1 | 25.2 | 16.8 | 21.0 | 23.9 |
| Oct. | -39.1 | -1.5 | 9.3 | 26.0 | 7.1 |
| Nov. | 3.0 | 10.3 | 12.3 | 20.9 | 13.7 |
| Dec. | 16.1 | 9.8 | 8.1 | 12.5 | 10.6 |
| 2002-Jan. | 3.3 | 2.6 | 2.4 | -8.7 | -1.0 |
| Feb. | 1.9 | 7.5 | 9.0 | 3.9 | 6.3 |
| Mar. | 3.0 | -0.7 | -1.8 | 1.2 | -0.1 |
| Apr. | -11.2 | -3.6 | -1.5 | 0.7 | -2.2 |
| May | 6.5 | 14.1 | 16.1 | 6.4 | 11.6 |
| June | 7.1 | 7.4 | 7.5 | 2.9 | 6.0 |
| July e | 5.5 | 12.3 | 14.1 | -4.5 | 7.0 |
| **Levels ($billions):** | | | | | |
| Monthly | | | | | |
| 2002-Feb. | 1184.4 | 5500.7 | 4316.3 | 2562.1 | 8062.8 |
| Mar. | 1187.4 | 5497.4 | 4310.0 | 2564.6 | 8061.9 |
| Apr. | 1176.3 | 5480.8 | 4304.6 | 2566.0 | 8046.8 |
| May | 1182.7 | 5545.1 | 4362.4 | 2579.6 | 8124.7 |
| June | 1189.7 | 5579.3 | 4389.6 | 2585.9 | 8165.2 |
| Weekly | | | | | |
| 2002-June 3 | 1197.5 | 5548.1 | 4350.6 | 2582.9 | 8130.9 |
| 10 | 1177.7 | 5556.4 | 4378.7 | 2574.2 | 8130.6 |
| 17 | 1181.7 | 5583.9 | 4402.2 | 2585.0 | 8168.9 |
| 24 | 1198.6 | 5595.0 | 4396.4 | 2614.4 | 8209.4 |
| July 1 | 1201.9 | 5609.8 | 4407.9 | 2570.0 | 8179.8 |
| 8 | 1184.5 | 5605.9 | 4421.4 | 2565.7 | 8171.6 |
| 15 | 1188.3 | 5623.4 | 4435.1 | 2561.8 | 8185.2 |
| 22p | 1200.6 | 5638.7 | 4438.2 | 2580.3 | 8219.1 |
| 29p | 1213.4 | 5667.1 | 4453.7 | 2596.3 | 8263.4 |

p preliminary
e estimated

**Changes in System Holdings of Securities[1]**
**(Millions of dollars, not seasonally adjusted)**

Strictly Confidential
Class II FOMC

August 8, 2002

| | Treasury Bills | | | Treasury Coupons | | | | | | Federal Agency | Net change total | Net RPs[5] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Purchases[2] | Redemptions (-) | Net Change | Net Purchases[3] < 1 | Net Purchases[3] 1-5 | Net Purchases[3] 5-10 | Net Purchases[3] 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 |
| 2001 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 |
| 2002 QI | 6,827 | --- | 6,827 | 4,349 | 6,153 | 971 | 1,927 | --- | 13,401 | --- | 20,228 | -1,961 | -2,191 | -4,152 |
| QII | 8,227 | --- | 8,227 | 5,535 | 2,580 | 2,471 | 210 | --- | 10,796 | --- | 19,023 | -2,644 | -4,563 | -7,207 |
| 2001 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 |
| Mar | 3,013 | --- | 3,013 | 1,455 | 2,181 | 637 | 291 | --- | 4,564 | --- | 7,577 | -1,866 | -276 | -2,142 |
| Apr | 1,047 | --- | 1,047 | 2,709 | 1,142 | 1,670 | 210 | --- | 5,730 | --- | 6,777 | 1,211 | -3,714 | -2,503 |
| May | 3,524 | --- | 3,524 | 2,826 | 1,439 | 259 | --- | --- | 4,524 | --- | 8,048 | -2,091 | 133 | -1,958 |
| Jun | 3,656 | --- | 3,656 | --- | --- | 542 | --- | --- | 542 | --- | 4,198 | 79 | -833 | -754 |
| Jul | 4,838 | --- | 4,838 | 1,104 | 1,755 | 467 | 173 | --- | 3,499 | --- | 8,336 | -2,434 | -1,296 | -3,730 |
| 2002 May 15 | 3,046 | --- | 3,046 | 1,515 | --- | --- | --- | --- | 1,515 | --- | 4,561 | 1,443 | --- | 1,443 |
| May 22 | 12 | --- | 12 | --- | 977 | --- | --- | --- | 977 | --- | 989 | -376 | --- | -376 |
| May 29 | 52 | --- | 52 | 1,312 | --- | 25 | --- | --- | 1,337 | --- | 1,388 | 8,618 | --- | 8,618 |
| Jun 5 | 100 | --- | 100 | --- | 462 | 776 | --- | --- | 1,238 | --- | 1,337 | -5,336 | --- | -5,336 |
| Jun 12 | 510 | --- | 510 | --- | --- | --- | --- | --- | --- | --- | 510 | -1,177 | -1,000 | -2,177 |
| Jun 19 | 3,016 | --- | 3,016 | --- | --- | --- | --- | --- | --- | --- | 3,016 | -2,620 | --- | -2,620 |
| Jun 26 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 3,832 | --- | 3,832 |
| Jul 3 | 421 | --- | 421 | --- | 1,039 | --- | --- | --- | 1,039 | --- | 1,460 | 2,985 | --- | 2,985 |
| Jul 10 | 608 | --- | 608 | --- | 716 | --- | --- | --- | 716 | --- | 1,324 | -3,895 | --- | -3,895 |
| Jul 17 | 367 | --- | 367 | --- | --- | --- | 110 | --- | 110 | --- | 477 | -2,565 | --- | -2,565 |
| Jul 24 | 3,572 | --- | 3,572 | 1,104 | --- | 467 | 63 | --- | 1,634 | --- | 5,206 | -154 | -1,000 | -1,154 |
| Jul 31 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -2,731 | -3,000 | -5,731 |
| Aug 7 | --- | --- | --- | 445 | 475 | --- | --- | --- | 920 | --- | 920 | 2,667 | -1,000 | 1,667 |
| 2002 Aug 8 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -7,867 | -1,000 | -8,867 |
| Intermeeting Period Jun 26-Aug 8 | 4,968 | --- | 4,968 | 1,549 | 2,230 | 467 | 173 | --- | 4,419 | --- | 9,387 | -7,786 | -6,000 | -13,786 |
| Memo: LEVEL (bil. $) Aug 8 | | | 225.2 | 90.7 | 172.1 | 54.0 | 81.6 | | 398.4 | 0.0 | 623.6 | -17.1 | 12.0 | -5.1 |

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 and does not include the change in inflation compensation of $-50.64 million.
5. RPs outstanding less matched sale-purchases.
6. Original maturity of 15 days or less.
7. Original maturity of 16 to 90 days.

MRA:HRM