Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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MARCH 23, 2006

MONETARY POLICY ALTERNATIVES

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

Class I FOMC - Restricted Controlled (FR) **March 23, 2006**

MONETARY POLICY ALTERNATIVES

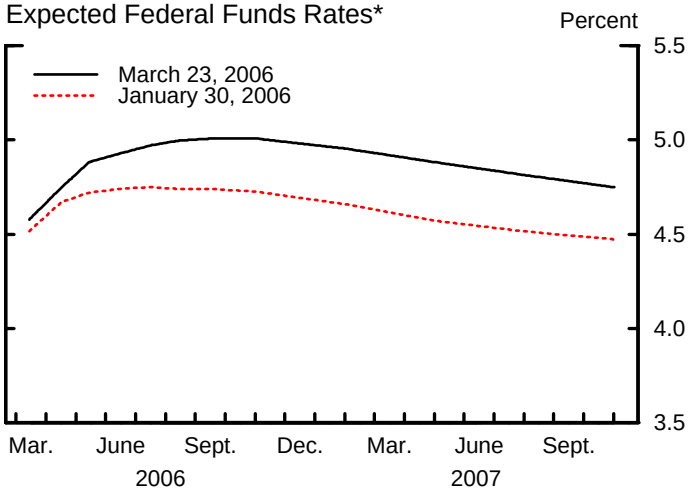
Recent Developments

(1) Investors had largely anticipated the FOMC's decision at the January meeting to raise the federal funds rate target 25 basis points to 4½ percent, to remove the word "measured" from the statement, and to indicate that some further policy firming may be needed.[1] However, the Committee's characterization of the economic outlook was somewhat more upbeat than investors reportedly had expected, and short-term interest rates edged up. The Chairman's semiannual monetary policy testimony in mid-February and the minutes of the January meeting evidently contained no significant surprises, leaving little imprint on financial market prices. With economic data, on net, a touch stronger than market participants had anticipated, the global economic outlook prompting monetary policy tightening abroad, and no indication from Federal Reserve officials of an imminent end to this policy tightening cycle, expectations for the path of policy moved higher. Money market futures rates for the end of this year and beyond increased around 25 to 30 basis points, on balance, over the intermeeting period (Chart 1). Option-implied uncertainty about short-term interest rates edged lower. Futures quotes, as well as responses to the Desk's dealer survey, suggest that market participants now almost fully expect a 25 basis point hike in the funds rate at the upcoming meeting, place significant odds on another such increase in May, and attach some probability to a third move in June. The market-based expected path of the funds rate now plateaus

[1] The Desk purchased $7.0 billion of Treasury coupon securities in the market and $2.5 billion of Treasury bills, $64 million of which were from foreign customers. The volume of outstanding long-term RPs decreased $4 billion, to $14 billion. Late in the intermeeting period, the funds rate traded firm to the target despite the sizable provision of reserves by the Desk, as reserve managers once again shifted their demand to earlier in the maintenance period given the widespread anticipation of policy firming by the Committee.

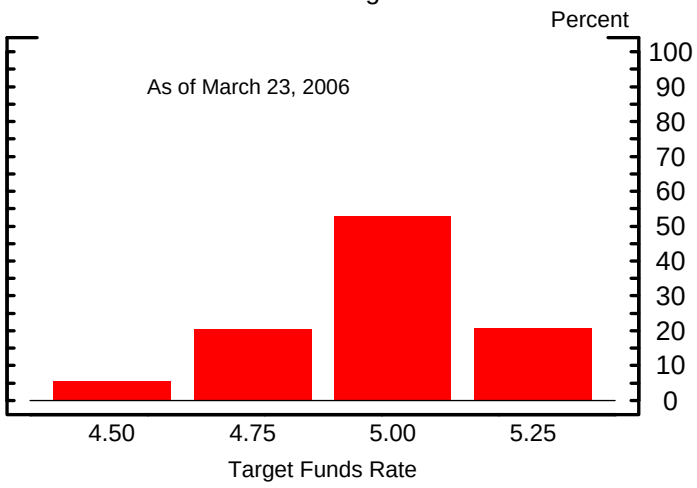
Chart 1
Interest Rate Developments

Expected Federal Funds Rates*



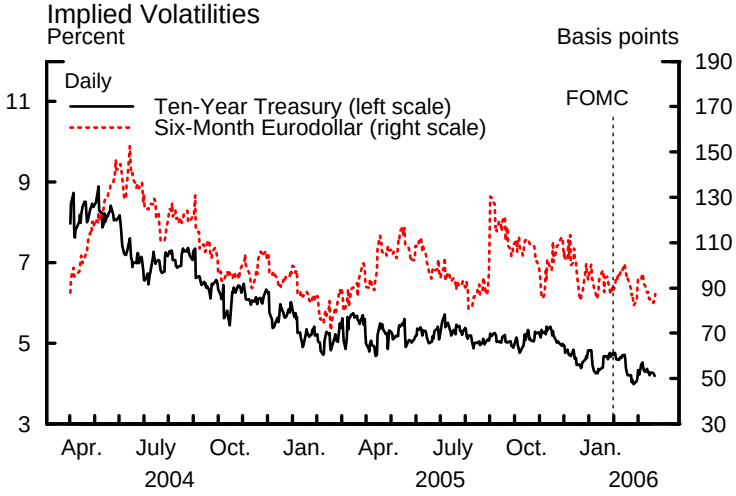
*Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Probability Density for Target Funds Rate after June 2006 FOMC Meeting

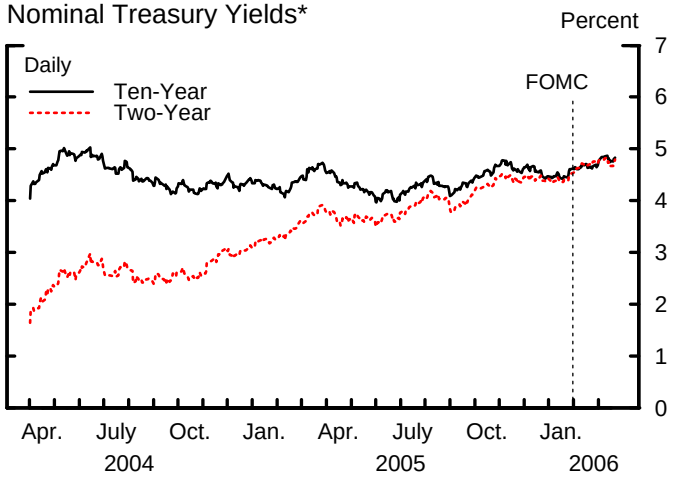


Note. Derived from options on federal funds futures expiring on July 31, 2006.

Implied Volatilities

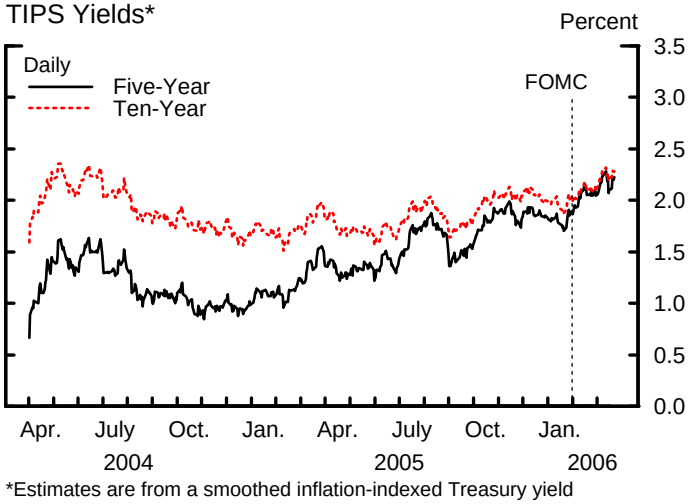


Nominal Treasury Yields*



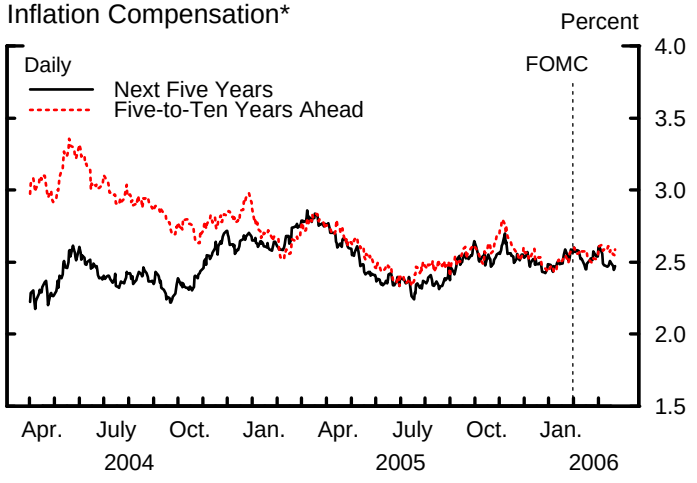
*Par yields from a smoothed nominal off-the-run Treasury yield curve.

TIPS Yields*



*Estimates are from a smoothed inflation-indexed Treasury yield curve, and adjusted for the indexation-lag (carry) effect.

Inflation Compensation*



*Estimates based on smoothed nominal and inflation-indexed Treasury yield curves, and adjusted for the indexation-lag (carry) effect.

Note: Vertical lines indicate January 30, 2006. Last daily observations are for March 23, 2006.

at about 5 percent later this year before sloping down in 2007. Similarly, the survey indicates that the majority of dealers expect a modest policy reversal sometime after the end of this year.

(2) The upward revision to policy expectations was accompanied by increases in the yields on two- and ten-year nominal Treasury coupon securities of 25 and 21 basis points, respectively, thus largely preserving the existing slope of the yield curve. Yields on TIPS increased a bit more than those on comparable nominal Treasury securities. As a result, TIPS-based inflation compensation moved somewhat lower, but survey-based measures of longer-term inflation expectations held steady. Implied volatilities on longer-term interest rates edged down near historical lows. Nominal and real longer-run Treasury yields are now near their levels before the FOMC began this tightening cycle in June 2004, but changes in other financial asset prices and interest rates have generally been mixed (see box entitled "Financial Asset Prices and Borrowing Costs over the Current Tightening Cycle").

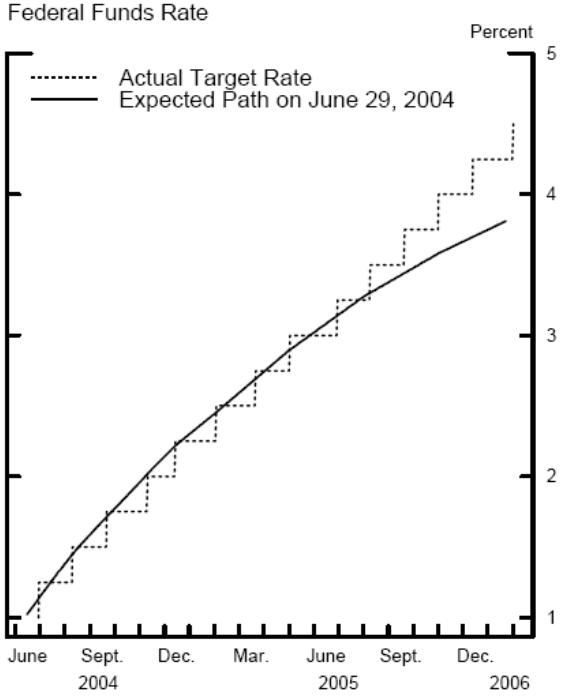
(3) Broad stock price indexes were up slightly, on net, over the intermeeting period (Chart 2). Higher bond yields evidently offset some of the positive effects on equity prices of lower oil prices and favorable macroeconomic news. The last batch of reports on fourth-quarter corporate earnings yielded few surprises and thus played no role, on net, in these market movements. Implied volatilities of equity prices remained near historical lows, and an estimate of the equity premium was about unchanged. Credit quality of nonfinancial firms generally remains robust, and businesses further improved the liquidity of their balance sheets through the end of last year. There were notable downgrades in the auto industry in the first quarter, but forward-looking measures of default risk stayed low. Spreads of yields on investment-grade bonds over those on comparable-maturity Treasury securities were about unchanged, but speculative-grade spreads declined somewhat.

Financial Asset Prices and Borrowing Costs over the Current Tightening Cycle

The FOMC has increased the target funds rate 3½ percentage points since the inception of tightening at the June 2004 meeting, but changes in financial conditions have been mixed. As noted in the lower left panel, policy firming over the first year of the tightening cycle played out about as investors expected just before the June 2004 meeting. Over the past few meetings, however, the FOMC has delivered a firmer stance of policy than had been anticipated. As indicated in the table to the right, yields on two-year nominal Treasury securities have increased almost 2 percentage points since the onset of policy tightening. However, reflecting substantial declines in distant forward rates, ten-year yields are about unchanged on net. Long-term indexed Treasury yields are also unchanged, implying little change in inflation compensation at that horizon.

Yields on investment-grade corporate bonds have moved about in line with those on comparable-maturity Treasury securities, leaving their spreads largely unchanged. Speculative-grade yields have declined 15 basis points, and spreads have fallen almost 1 percentage point. EMBI+ spreads have narrowed almost 3 percentage points, implying a substantial decline in the yields on such instruments. In addition, the Wilshire 5000 has advanced around 18 percent, and the nominal exchange value of the dollar against a broad index of currencies has depreciated 4 percent since the Committee began raising rates. Some measures of borrowing costs for households and businesses have increased notably since the June 2004 FOMC. At the shorter end of the maturity spectrum, average rates on automobile loans have increased about 50 basis points, and those on home equity lines of credit have risen almost 3 percentage points. The rate on thirty-year fixed-rate mortgages, in contrast, has risen about 10 basis points. The reported average rate on commercial and industrial loans has increased almost 3½ percentage points.

Federal Funds Rate

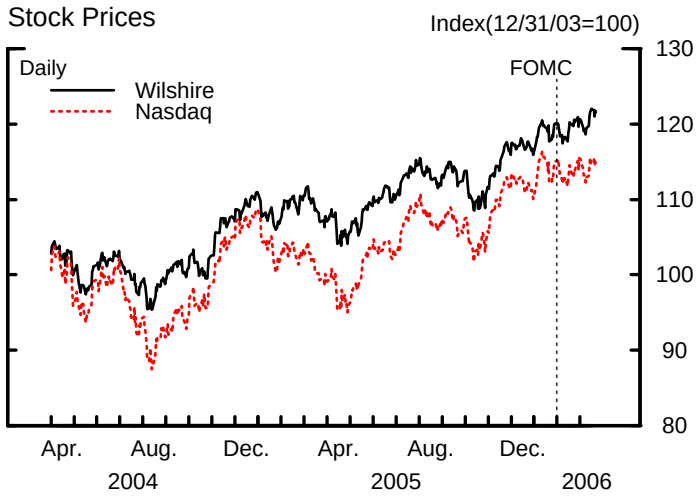


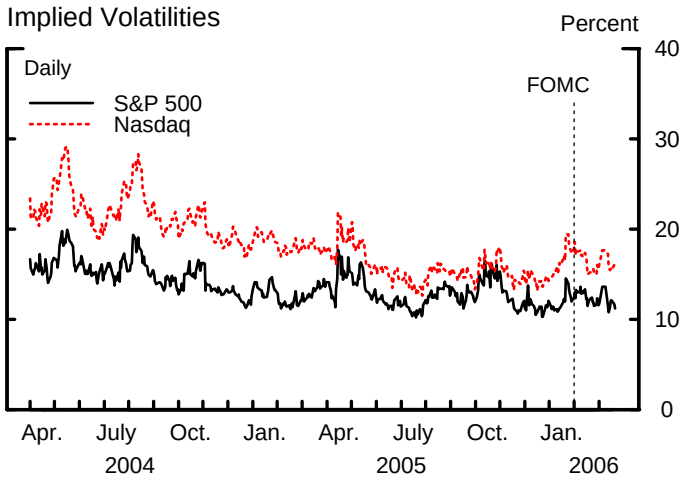
Selected Financial Market Quotes

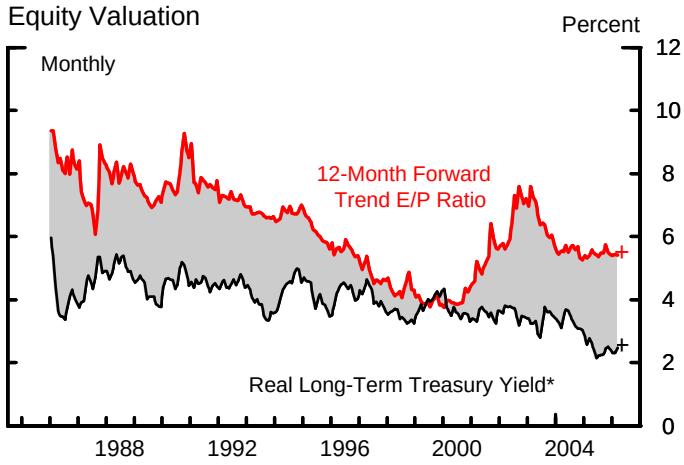
	March 23, 2006	Change from June 29, 2004
U.S. Treasury Yields	-percent-	-basis points-
1. Two-year nominal	4.79	195
2. Ten-year nominal	4.84	-1
3. Ten-year TIPS	2.28	0
Other Yields and Spreads	-percent-	-basis points-
4. Ten-year BBB (yield)	6.13	-1
5. Five-year high-yield (yield)	8.16	-15
6. EMBI+ (spread)	1.98	-295
Stock Indexes	-level-	-percent-
7. Wilshire 5000	13138	18.5
Exchange Rates	-level-	-percent-
8. Broad dollar index	111	-4.0
Other Rates	-percent-	-basis points-
9. Auto*	7.96	53
10. HELOC**	7.69	292
11. Thirty-year mortgage*	6.32	11
12. C&I loan***	6.69	337

*Weekly data from 6/23/04 to 3/22/06.
**Home equity lines of credit. Source: Bank Rate Monitor. Weekly.
***Source: STBL. Quarterly. Change measured from 2004:Q2 - 2006:Q1.

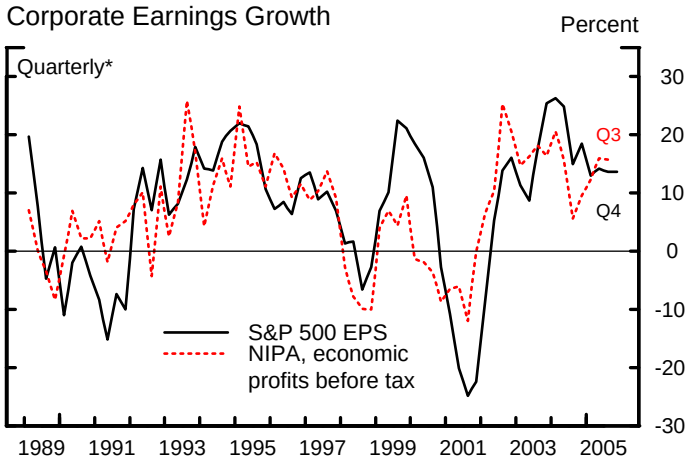
Chart 2
Asset Market Developments



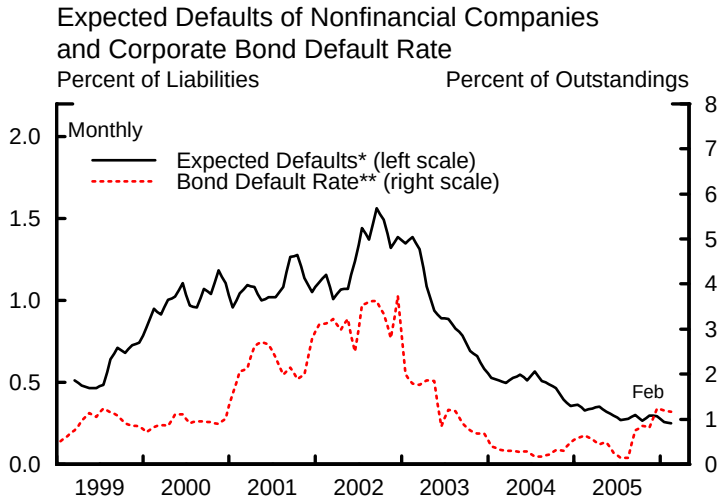




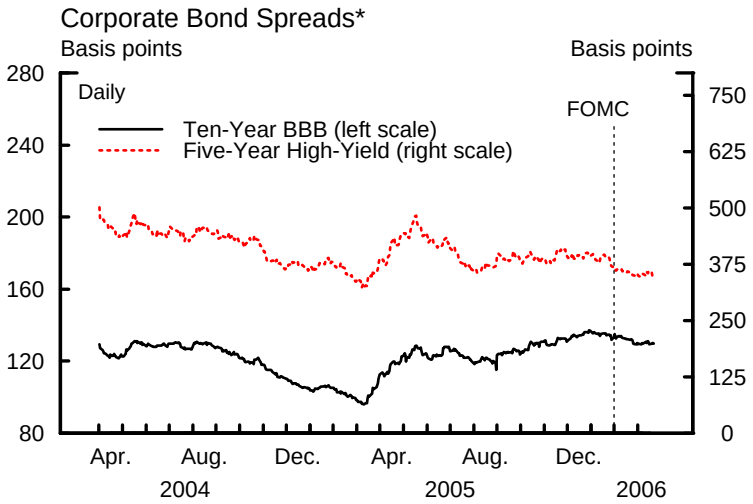
*Perpetuity Treasury yield minus Philadelphia Fed 10-year expected inflation.
Note. + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.



*Change from four quarters earlier.
Source. I/B/E/S for S&P 500 EPS.



*Firm-level estimates of year-ahead defaults from KMV corporation, weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
**Six-month moving average, from Moody's Investors Service



*Measured relative to an estimated off-the-run Treasury yield curve.

Note: Vertical lines indicate January 30, 2006. Last daily observations are for March 23, 2006.

(4) The dollar's value against other leading currencies appreciated about 1¾ percent, on net, over the intermeeting period (Chart 3). Swings in the dollar's exchange value during the period primarily reflected shifting expectations about the timing and extent of monetary policy tightening in the United States and abroad. The ECB raised its policy rate 25 basis points on March 2, and its president made relatively hawkish remarks about the euro area's inflation outlook. The following week, the Bank of Canada raised its policy rate 25 basis points, noting that only modest additional tightening of policy might be needed to keep inflation consistent with its target. After sending increasingly strong signals regarding the likely end of its five-year period of quantitative easing, the Bank of Japan announced on March 9 the transition to operating through the overnight uncollateralized call rate (which is still effectively set at zero). The BOJ also identified price stability in the new policy framework as an "approximate range of zero to two percent" for year-to-year headline CPI inflation but emphasized that the range is not an official target. Yields on long-term government securities rose between 15 and 25 basis points in major industrial countries, about the same as in the United States, except in Canada where long-term yields were about unchanged. On a bilateral basis, the dollar appreciated on net almost 2 percent against the Canadian dollar, about 1½ percent versus the euro, and ½ percent against the yen over the period.[2]

(5) The dollar's value also moved up somewhat against an index of currencies of our other important trading partners. The firming of policy expectations in Japan toward the end of the intermeeting period was said to set back some markets both within and outside Asia that had benefited previously from carry trades involving inexpensive yen financing. Korean stock prices fell more than 6 percent over the

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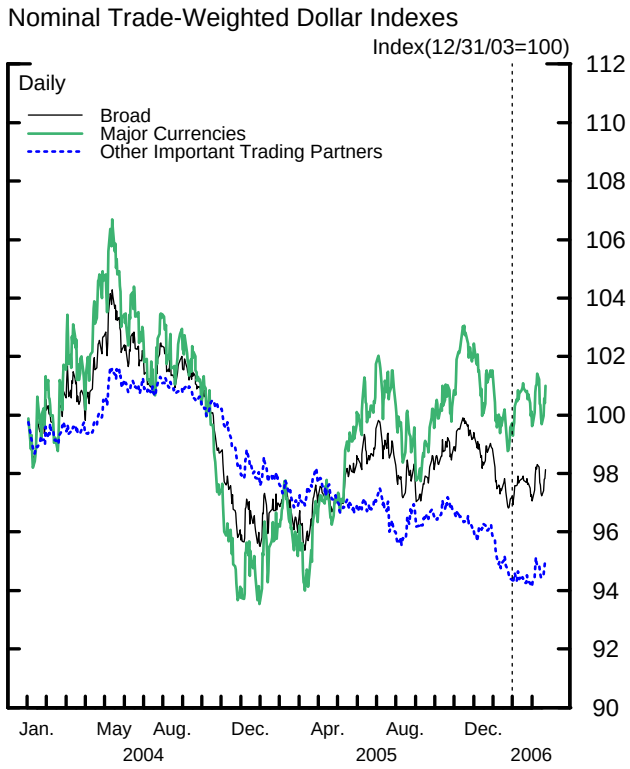
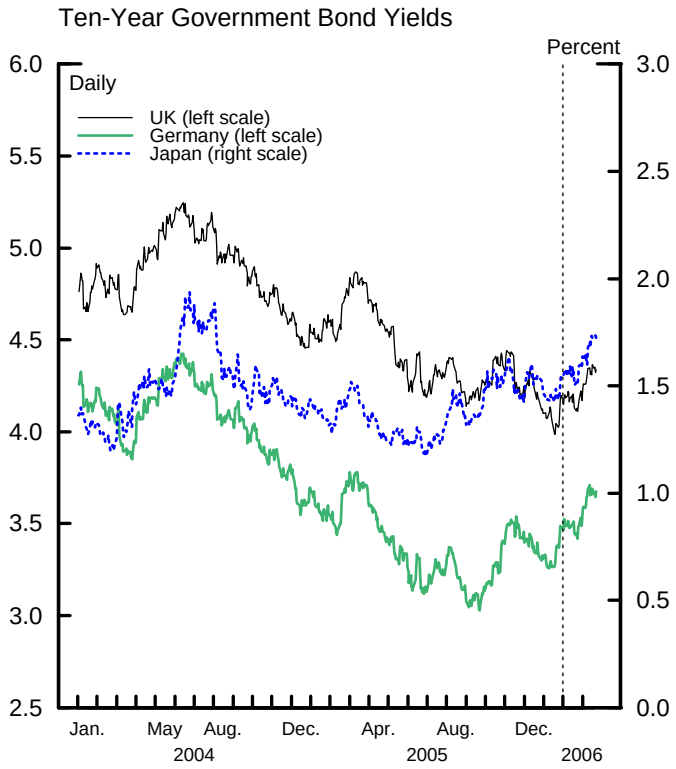
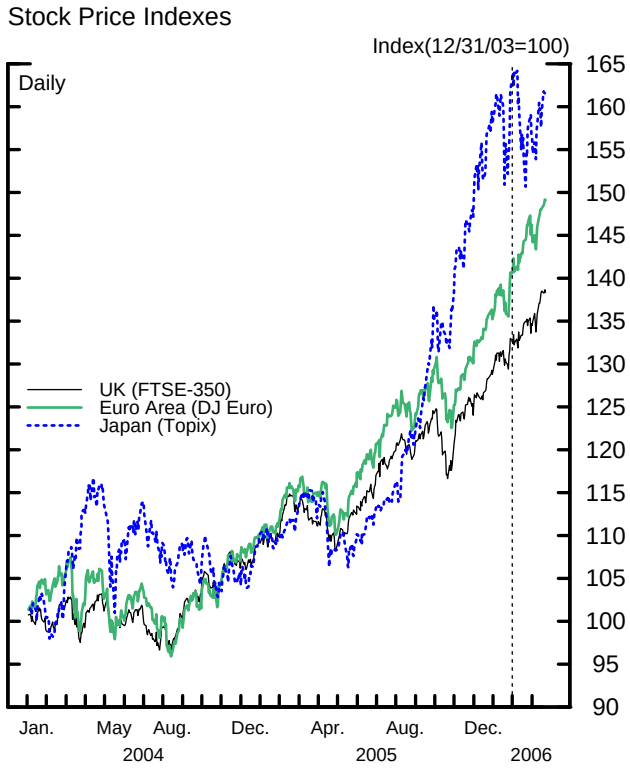
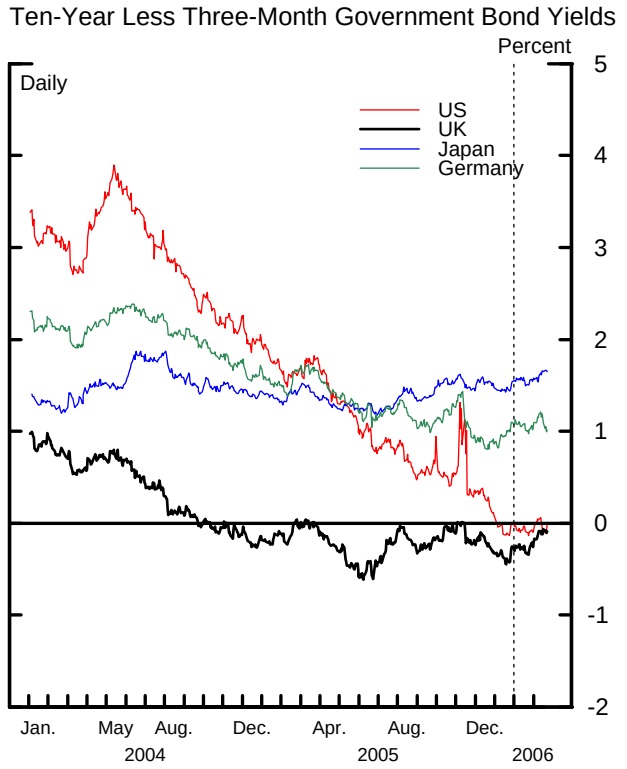
Chart 3
International Financial Indicators









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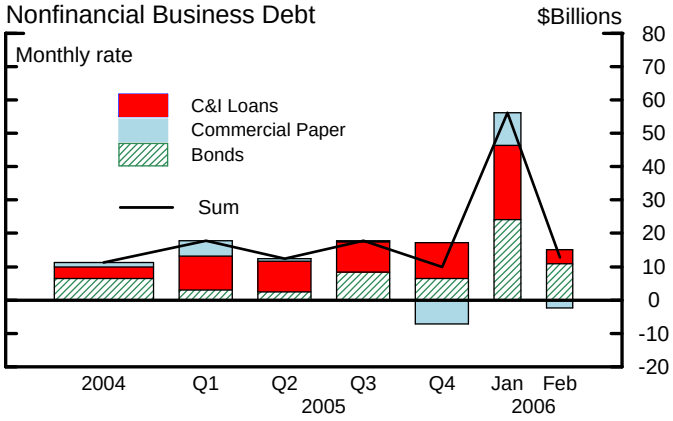
intermeeting period. The dollar gained almost 4 percent against the Mexican peso. On balance, the Brazilian *real* rose 2½ percent against the dollar, and Brazil's EMBI+ spread reached a historical low in late February. With prospects for inflation improving, the Brazilian central bank cut its policy rate 75 basis points in early March.

(6) Gross issuance of U.S. corporate bonds, growth in commercial paper, and expansion of business loans at commercial banks have recently moderated (Chart 4). The Survey of Terms of Business Lending suggests that spreads on commercial and industrial loans remain narrow. Household mortgage borrowing is projected to slow somewhat this quarter in response to increased mortgage interest rates. Consumer credit is expected to rebound some in the current quarter after contracting last fall because of elevated charge-offs related to the spike in bankruptcy filings. Federal debt is projected to accelerate this quarter. Although federal debt hit its statutory limit on February 16, financial market effects appeared minimal, and the Congress voted to raise the ceiling to nearly $9 trillion on March 16. In sum, domestic nonfinancial sector debt is expected to moderate only a bit in the current quarter from its 9½ percent pace in the fourth quarter.

(7) On average, M2 grew briskly in January and February. Liquid deposits expanded moderately, while currency, small time deposits, and retail money funds advanced strongly. Further increases in offering rates supported increases in small time deposits and money funds. Nonetheless, M2 is expected to grow less rapidly than nominal GDP in the current quarter, reflecting the continuing effects of rising opportunity costs on money demand.

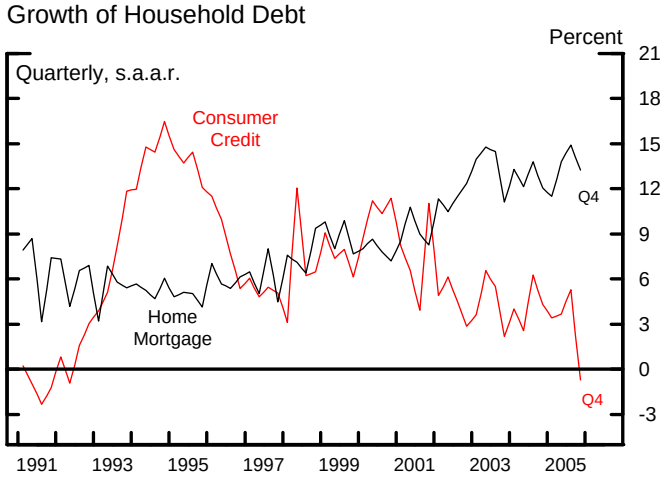
Chart 4
Debt and Money

Changes in Selected Components of Nonfinancial Business Debt

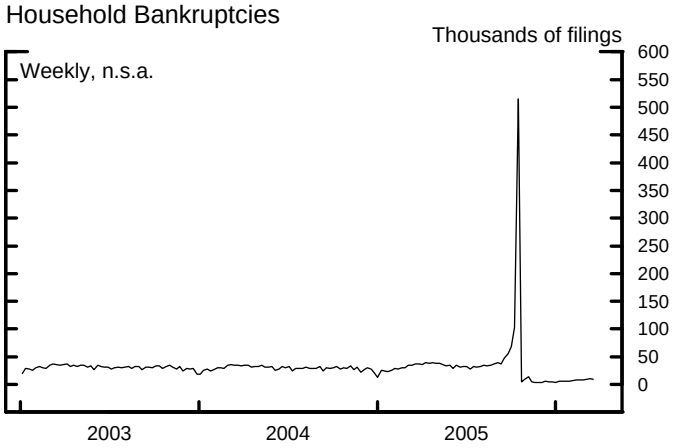


Note. Commercial paper and C&I loans are seasonally adjusted, bonds are not.

Growth of Household Debt



Household Bankruptcies



*Source. Visa Bankruptcy Notification Service.

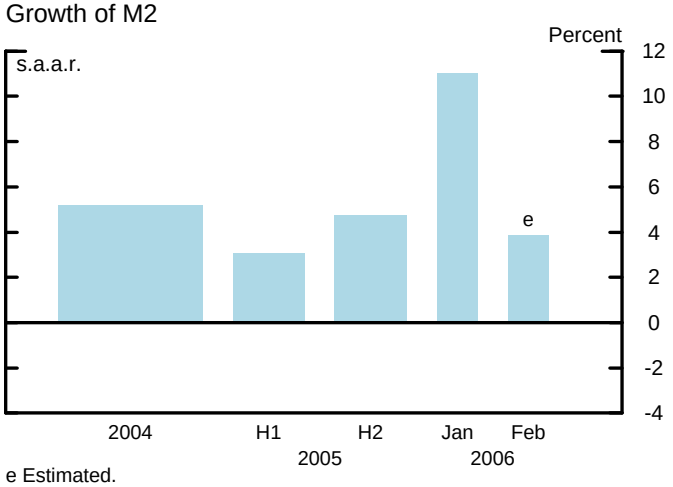
Growth of Nonfinancial Debt

Percent, s.a.a.r.

		Total	Household
2004		8.7	11.1
2005	Q1	9.7	9.7
	Q2	8.1	11.8
	Q3	9.6	12.4
	Q4	9.5	11.0
2006	Q1 p	8.6	8.8

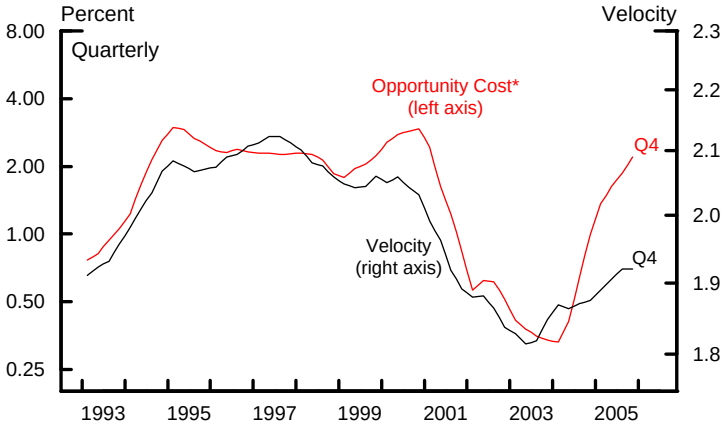
p Projected.

Growth of M2



e Estimated.

M2 Velocity and Opportunity Cost



*Two-quarter moving average.

Economic Outlook

(8) The expansion of real GDP reported in the fourth quarter of 2005 was somewhat below the projection in the January Greenbook, but incoming data on spending indicate that this shortfall has been made up in the current quarter. With a bit more momentum to aggregate demand and a slightly lower path for potential output than in the last Greenbook, the staff now assumes that the federal funds rate will rise to 5 percent later this spring and edge back to 4¾ percent after mid-year 2007—quite close to the trajectory implied by futures quotes. Given the close alignment of the staff policy assumption with market expectations, longer-term interest rates are projected to remain around their current levels. Equity prices are expected to rise at a rate sufficient to generate risk-adjusted returns comparable to those on fixed-income investments, the foreign exchange value of the dollar is assumed to depreciate modestly, and spot oil prices are projected to move somewhat higher. In addition, house price appreciation is expected to slow markedly. Against this backdrop, and taking into account the temporary boost to spending from hurricane-related rebuilding, real GDP is projected to expand 3¾ percent over 2006, but to slow to a 3 percent pace next year. The level of output is now estimated to be close to potential and is anticipated to remain so over the projection period. The unemployment rate is forecast to edge up a bit over coming quarters but to stay just under 5 percent—the staff estimate of the NAIRU. Total and core PCE inflation are both expected to be a little above 2 percent this year and then to drop just below 2 percent next year.

Policy Alternatives

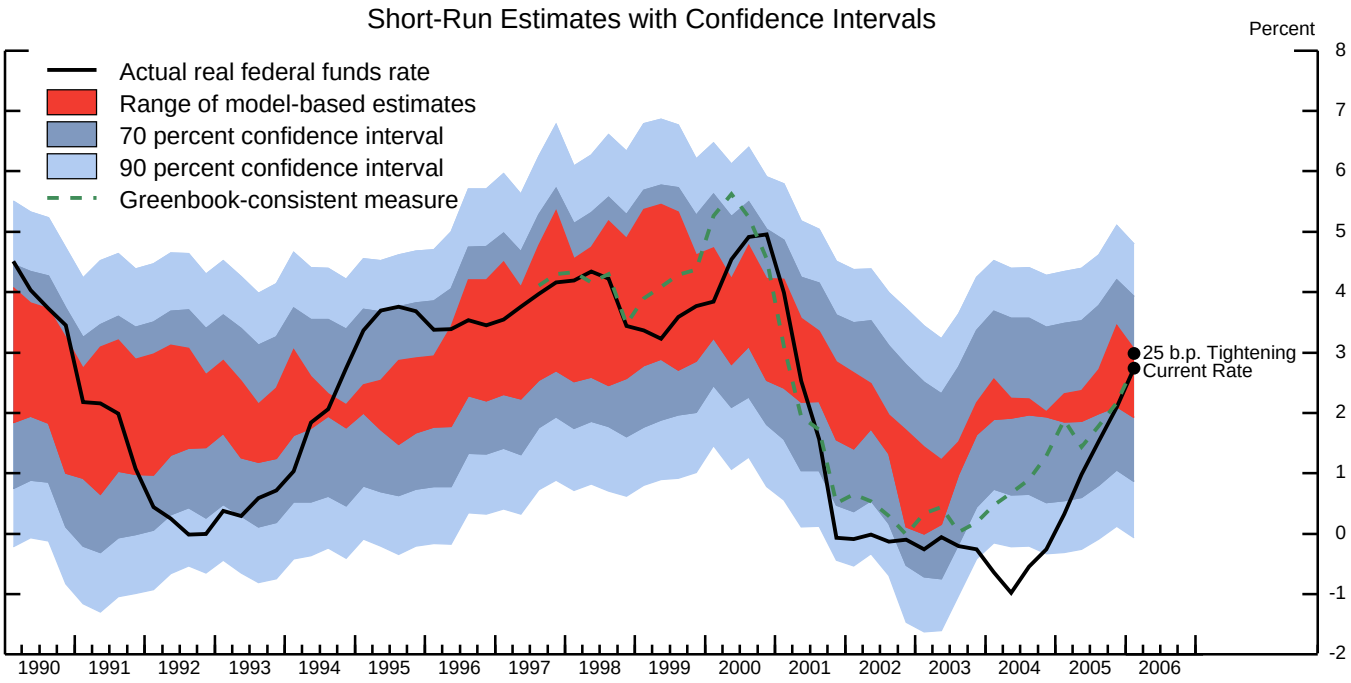
(9) This Bluebook presents three alternatives for the Committee's consideration (see Table 1). Under Alternatives B and C, the federal funds rate target would be raised 25 basis points at this meeting and the risk assessment would remain asymmetric. Alternative A envisions leaving the funds rate target unchanged and switching to an assessment that the risks to the Committee's objectives are balanced at the current level of the funds rate. The statements under all three alternatives would continue to emphasize that future policy action will depend on incoming economic data, although the wording of Alternative A makes that more explicit. As usual, the Committee could consider combining the policy action and draft language from more than one alternative or view some of the language options as possibilities for the future.

(10) If the Committee agrees with the staff forecast and views the outcomes in this projection to be acceptable, then it may wish to raise the target rate a quarter point at this meeting and signal the possibility of some subsequent tightening, as in **Alternative B**. The Committee may believe that it has already brought the real federal funds rate near its equilibrium level, a perception consistent with the range of staff estimates shown in Chart 5. But the Committee may also believe that inflation is running in the upper end of the range consistent with price stability, thereby making a higher real funds rate desirable. If the Committee shared the staff assessment that resource slack had been about eliminated, then it might want to be especially vigilant concerning the risks to inflation from upside surprises in aggregate demand. More generally, if members view the current configuration of market expectations for policy and its consequences for asset prices as appropriate given the economic outlook, then they may wish to confirm these expectations by choosing this alternative.

(11) The rationale paragraph of Alternative B begins by observing that the economy appears to have bounced back from the deceleration in the fourth quarter of

Table 1: Alternative Language for the March FOMC Announcement				
	January FOMC	**Alternative A**	**Alternative B**	**Alternative C**
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 4½ percent.	The Federal Open Market Committee decided today to keep ~~raise~~ its target for the federal funds rate unchanged ~~by 25 basis points to~~ at 4½ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to ~~4¾~~4½ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to ~~4¾~~4½ percent.
Rationale	2. Although recent economic data have been uneven, the expansion in economic activity appears solid.	The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded in the current quarter, and the underlying pace of expansion appears to be solid. Resource utilization has risen further this year. Some recent data and anecdotal information suggest that the housing market is moderating, which the Committee believes will contribute to a slowing in economic growth to a more sustainable pace.	The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded in the current quarter, and the underlying pace of expansion appears to be solid.	Economic growth has rebounded in the current quarter, and the underlying pace of expansion appears to be solid.
	3. Core inflation has stayed relatively low in recent months and longer-term inflation expectations remain contained. Nevertheless, possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures.	In addition to increases in resource utilization, the elevated prices of energy and other commodities have the potential to add to inflation pressures going forward. As yet, however, the run-up in those prices has had only a modest effect on core inflation, ongoing productivity gains have held the growth of unit labor costs in check, and inflation expectations remain contained.	As yet, the run-up in the prices of energy and other commodities has had only a modest effect on core inflation, ongoing productivity gains have held the growth of unit labor costs in check, and inflation expectations remain contained. Still, increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures going forward.	In addition to increases in resource utilization, the elevated prices of energy and other commodities have the potential to add to inflation pressures going forward. As yet, however, inflation expectations remain contained.
Assessment of Risk	4. The Committee judges that some further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	The Committee judges that maintaining the federal funds rate at its current level will likely keep ~~some further policy firming may be needed to keep~~ the risks to the attainment of both sustainable economic growth and price stability roughly in balance.	[Unchanged]	The Committee judges that ~~some~~ further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance.
	5. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.	Nevertheless, future policy action will be determined by the evolution of the economic outlook as implied by incoming information.	[Unchanged]	[Unchanged]

Chart 5
Equilibrium Real Federal Funds Rate



Short-Run and Medium-Run Measures

	Current Estimate	*Previous Bluebook*
Short-Run Measures		
Single-equation model	1.9	*1.9*
Small structural model	2.3	*2.3*
Large model (FRB/US)	3.1	*3.5*
Confidence intervals for three model-based estimates		
70 percent confidence interval	0.9 - 3.9	
90 percent confidence interval	-0.1 - 4.8	
Greenbook-consistent measure	2.8	*2.5*
Medium-Run Measures		
Single-equation model	2.2	*2.1*
Small structural model	2.4	*2.5*
Confidence intervals for two model-based estimates		
70 percent confidence interval	1.4 - 3.2	
90 percent confidence interval	0.7 - 3.7	
TIPS-based factor model	2.1	*2.1*
Memo		
Actual real federal funds rate	2.74	*2.51*

Notes: Confidence intervals reflect uncertainties about model specification, coefficients, and the level of potential output. The final column indicates the values for the current quarter based on the estimation for the previous Bluebook, except that the TIPS-consistent measure and the actual real funds rate are the values published in the previous Bluebook.

Equilibrium Real Rate Chart: Explanatory Notes

The equilibrium real rate is the real federal funds rate that, if maintained, would be projected to return output to its potential level over time. For the first three measures listed below, the short-run equilibrium rate is defined as the rate that would close the output gap in twelve quarters given the corresponding model's projection of the economy. For the first two measures, the medium-run concept is the value of the real federal funds rate projected to keep output at potential in seven years under the assumption that monetary policy acts to bring actual and potential output into line in the short run and then keeps them equal thereafter. The TIPS-based factor model measure provides an estimate of market expectations for the real federal funds rate seven years ahead. The actual real federal funds rate is constructed as the difference between the nominal rate and realized inflation, where the nominal rate is measured as the quarterly average of the observed federal funds rate, and realized inflation is given by the log difference between the staff's estimate of the core PCE price index and its lagged value four quarters earlier. For the current quarter, the nominal rate is specified as the target federal funds rate on the Bluebook publication date.

Measure	Description
Single-equation Model	The measure of the equilibrium real rate in the single-equation model is based on an estimated aggregate-demand relationship between the current value of the output gap and its lagged values as well as the lagged values of the real federal funds rate. In light of this model's simple structure, the short-run measure of the equilibrium real rate depends only on the recent position of output relative to potential, and the medium-run measure is virtually constant.
Small Structural Model	The small-scale model of the economy consists of equations for five variables: the output gap, the equity premium, the federal budget surplus, the trend growth rate of output, and the real bond yield. Unlike the estimates from the single-equation model, values of the equilibrium real rate also depend directly on conditions associated with output growth, fiscal policy, and capital markets.
Large Model (FRB/US)	Estimates of the equilibrium real rate using FRB/US—the staff's large-scale econometric model of the U.S. economy—depend on a very broad array of economic factors, some of which take the form of projected values of the model's exogenous variables. These projections make use of several simple forecasting rules which are appropriate for the three-year horizon relevant for the short-run concept but are less sensible over longer horizons. Thus, we report only the short-run measure for the FRB/US model.
Greenbook-consistent	Measures of the equilibrium real rate cannot be directly obtained from the Greenbook forecast, because the Greenbook is not based on a formal model. Rather, we use the FRB/US model in conjunction with an extended version of the Greenbook forecast to derive a Greenbook-consistent measure. FRB/US is first add-factored so that its simulation matches the extended Greenbook forecast, and then a second simulation is run off this baseline to determine the value of the real federal funds rate that closes the output gap. The medium-run concept of the equilibrium real rate is not computed because it requires a relatively long extension of the Greenbook forecast.
TIPS-based Factor Model	Yields on TIPS (Treasury Inflation-Protected Securities) reflect investors' expectations of the future path of real interest rates, but also include term and liquidity premiums. The TIPS-based measure of the equilibrium real rate is constructed using the seven-year-ahead instantaneous real forward rate derived from TIPS yields as of the Bluebook publication date. This forward rate is adjusted to remove estimates of the term and liquidity premiums based on a three-factor arbitrage-free term-structure model applied to TIPS yields, nominal yields, and inflation. Because TIPS indexation is based on the total CPI, this measure is also adjusted for the medium-term difference—projected at 40 basis points—between total CPI inflation and core PCE inflation.

last year. The discussion of inflation risks in Alternative B is similar to that employed in the last statement, but goes into a little more detail. It is cautiously optimistic in its assessment of inflation pressures: Inflation expectations remain contained, the pass-through of cost pressures has been limited, and productivity gains have kept unit labor costs in check. The statement nonetheless acknowledges that elevated prices of energy and other commodities and increases in resource utilization have the potential to add to inflationary pressures in the future. The reference to "possible increases" in resource utilization employed in the last two announcements is changed to "increases" in resource utilization, in response to the robust spending and labor market data received over the intermeeting period. The retention from the January statement of the indication that "some further policy firming may be needed" to keep the risks to the Committee's objectives balanced provides the Committee with considerable flexibility regarding subsequent policy decisions. However, if members wanted to signal that the end of the tightening cycle was likely very close, then they might prefer to state instead that "some modest additional policy firming may be needed."

(12) Investors are virtually certain of a 25-basis-point rate hike at this meeting and place quite high odds on another such move in May. Selection of Alternative B would probably confirm those expectations, sparking only a limited market reaction. Short-term interest rates would likely change little immediately after the announcement. Market participants of late seem to be looking to policymakers for clues as to when the tightening cycle will end. Expectations of a rate hike at the May meeting will probably increase over the course of the upcoming intermeeting period in the absence of guidance from policymakers.

(13) Although the Committee has raised rates 3½ percentage points since June 2004, the ten-year Treasury yield is almost unchanged on net over this period, as are high-grade corporate yields, while yields on more-speculative issues have fallen. To

the extent that the Committee views the flat yield curve and narrow risk spreads as evidence of an optimistic perception of and greater tolerance for risk on the part of investors, then it may believe that financial conditions remain accommodative. Given the judgment that resource slack is limited, members may want to tighten these conditions somewhat, so as not to risk allowing the economy to overheat. If so, members may not be content with simply validating existing expectations for monetary policy tightening, as in Alternative B, preferring instead to hint at a firmer path of policy by adopting a more hawkish rationale paragraph, as in **Alternative C**. Members may be inclined to this course of action if they are particularly worried about inflation risks, perhaps because of the possibility that increases in labor and intermediate material costs could put additional upward pressure on prices, as discussed in an alternative simulation in the Greenbook, or if they have doubts that the housing market will in fact cool as much as in the staff forecast, given that aggregate house price data have so far shown only a slight slowdown in the pace of appreciation.

(14) The rationale paragraph in Alternative C does not directly refer to the slowing of growth in the fourth quarter of last year, observing only that economic growth has now rebounded to a solid pace. The discussion of inflation risks does not reference the limited pass-through of cost pressures or ongoing productivity gains, as in Alternative B, and instead simply concludes that "As yet, however, inflation expectations remain contained." This might be read as a signal that the Committee is worried that inflation expectations could soon become unmoored. In addition, the modifier "some" limiting the extent of additional tightening in the January statement has been dropped, suggesting that more substantial tightening could be in store.

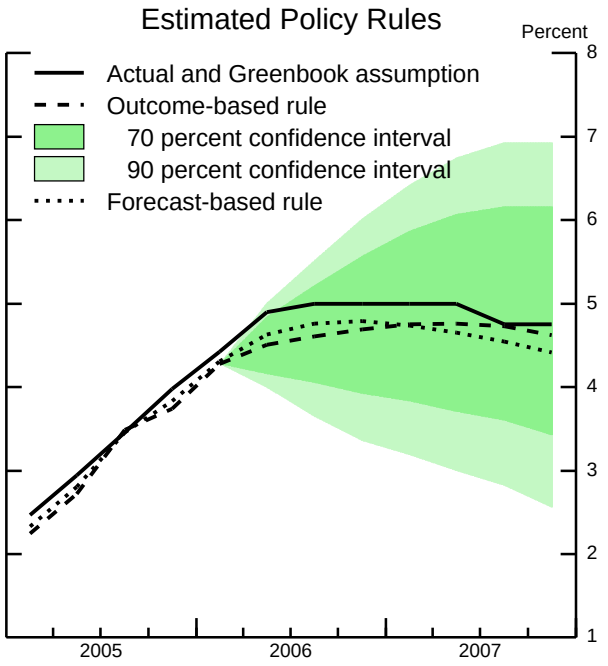
(15) With its more hawkish rationale paragraph and balance of risks language, the adoption of Alternative C would cause short-term interest rates to firm. Longer-term interest rates might increase, especially if investors were to interpret the

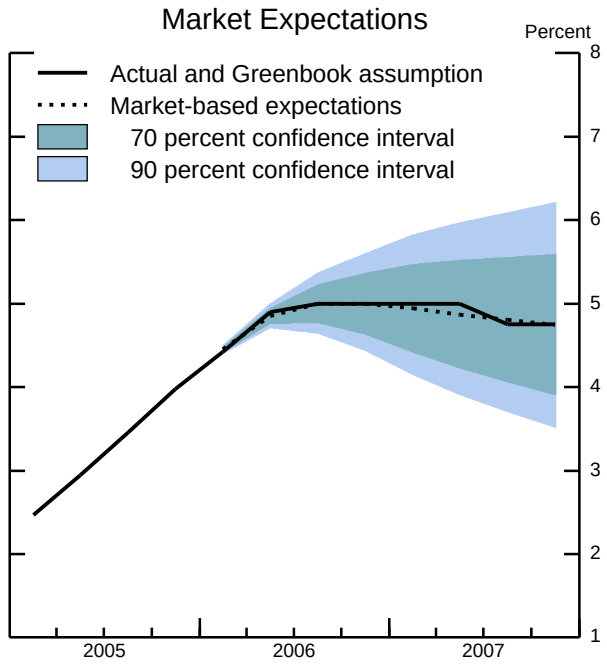
announcement as signaling that inflation is a greater threat than they had previously believed. It seems likely that equity markets would sell off, and the foreign exchange value of the dollar would appreciate.

(16) The nominal federal funds rate already lies at the top end of the range of recommendations from policy rules provided in Charts 6 and 7, and given the substantial cumulative tightening of monetary policy to date and the long lags in the effects of policy on the economy, members may be inclined to signal that the firming cycle has likely drawn to a close, as in **Alternative A**. Committee members may prefer this alternative if they see the current level of core inflation as roughly consistent with price stability or believe that the staff has overestimated the NAIRU or understated the degree to which inflation expectations are anchored, as discussed in alternative simulations in the Greenbook. This alternative may also be favored if members are concerned about downside risks to the economy coming from, for example, a more pronounced cooling in the housing market than anticipated by the staff. In that regard, the market's expectation for the funds rate to decline modestly in 2007 might be interpreted as evidence of investor concern that the Committee may tighten too much.

(17) This alternative employs a rationale paragraph similar to that in Alternative B. However, it points to possible moderation in the housing market as potentially slowing growth to a "more sustainable pace." It also reorders the ideas in the discussion of inflation risks, concluding with the statement that "inflation expectations remain contained," so as to emphasize that the inflation outlook seems benign. Alternative A also switches to an assessment that risks are balanced at the current federal funds rate. As discussed in the box "Time-Varying Sensitivity of Interest Rates to Macroeconomic News," the sensitivity of market interest rates to economic data releases appears to be historically low, notwithstanding Committee communications indicating the importance of data in policy decisions. Alternative A

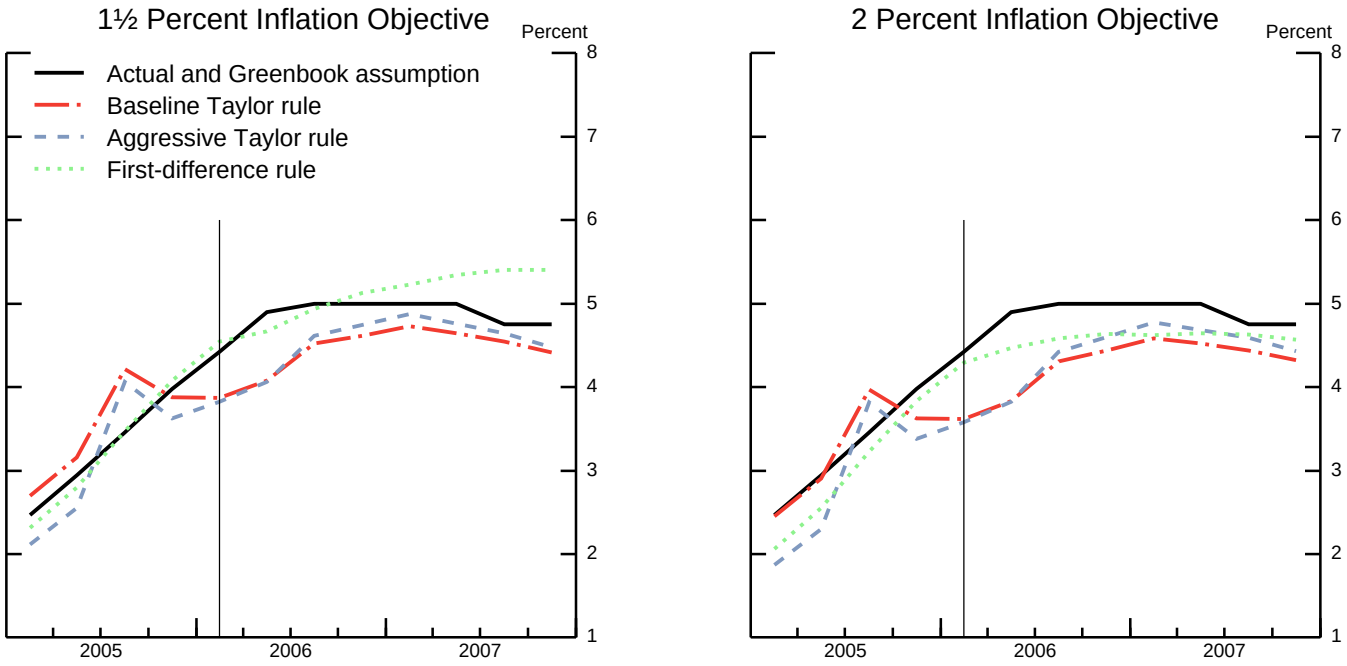
Chart 6
Information from Estimated Policy Rules and Financial Markets





	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Estimated Policy Rules								
Outcome-based policy rule	4.3	4.5	4.6	4.7	4.7	4.8	4.7	4.6
70 percent confidence interval								
Lower bound	4.3	4.2	4.1	3.9	3.8	3.7	3.6	3.4
Upper bound	4.3	4.8	5.2	5.6	5.9	6.1	6.2	6.2
90 percent confidence interval								
Lower bound	4.3	4.0	3.6	3.4	3.2	3.0	2.8	2.6
Upper bound	4.3	5.0	5.5	6.0	6.4	6.7	6.9	6.9
Forecast-based policy rule	4.3	4.6	4.8	4.8	4.7	4.7	4.5	4.4
Market Expectations								
Expected funds rate path	4.5	4.9	5.0	5.0	4.9	4.9	4.8	4.7
70 percent confidence interval								
Lower bound	4.4	4.8	4.8	4.6	4.4	4.2	4.1	3.9
Upper bound	4.5	4.9	5.2	5.4	5.5	5.5	5.6	5.6
90 percent confidence interval								
Lower bound	4.4	4.7	4.6	4.4	4.1	3.9	3.7	3.5
Upper bound	4.5	5.0	5.4	5.6	5.8	6.0	6.1	6.2
Memo								
Greenbook assumption	4.4	4.9	5.0	5.0	5.0	5.0	4.8	4.8

Chart 7
Policy Paths under Alternative Inflation Objectives



	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Simple Policy Rules								
Baseline Taylor rule								
1½ percent inflation objective	3.9	4.1	4.5	4.6	4.7	4.6	4.5	4.4
2 percent inflation objective	3.6	3.8	4.3	4.4	4.6	4.5	4.4	4.3
Aggressive Taylor rule								
1½ percent inflation objective	3.8	4.1	4.6	4.7	4.9	4.8	4.6	4.5
2 percent inflation objective	3.6	3.8	4.4	4.6	4.8	4.7	4.6	4.4
First-difference rule								
1½ percent inflation objective	4.5	4.7	4.9	5.1	5.2	5.3	5.4	5.4
2 percent inflation objective	4.3	4.5	4.6	4.6	4.6	4.6	4.6	4.6
Memo								
Greenbook assumption	4.4	4.9	5.0	5.0	5.0	5.0	4.8	4.8

Policy Rule Charts: Explanatory Notes

For the rules described below, i_t denotes the federal funds rate for quarter *t*, while the explanatory variables include the staff's estimate of trailing four-quarter core PCE inflation (π_t), its forecasts of inflation two and three quarters ahead ($\pi_{t+2|t}$ and $\pi_{t+3|t}$), its assessment of the current output gap ($y_t - y_t^*$), its one-quarter-ahead forecast of the output gap ($y_{t+1|t} - y_{t+1|t}^*$), its three-quarter-ahead forecast of annual average GDP growth relative to potential ($\Delta^4 y_{t+3|t} - \Delta^4 y_{t+3|t}^*$), and the assumed value of policymakers' long-run inflation objective (π^*).

For periods prior to the current quarter, rule prescriptions are computed using the staff's current estimates of the output gap and inflation rate. Prospective prescriptions are computed using dynamic simulations of the FRB/US model, implemented as though the rule will be followed henceforth, starting at this FOMC meeting. To reflect the relative timing of this meeting within the current quarter, this quarter's prescription is a weighted average of the value computed from current staff projections of the output gap and inflation rate and the value obtained from the FRB/US model simulations described above. Finally, for the forecast-based rule and the first-difference rule, it should be noted that prescriptions near the end of the Greenbook horizon also depend on the extended Greenbook baseline.

Estimated Policy Rules: Estimation is performed using real-time quarterly data taken from the Greenbook and staff memoranda closest to the middle of each quarter. The specific lag structure of the outcome-based rule is chosen according to the Bayesian information criterion over the sample period starting from 1988Q1. The forecast-based rule differs from the outcome-based rule in that it also permits staff forecasts of inflation and the output gap to be among the explanatory variables. Confidence intervals, shown only for the outcome-based rule, are based on stochastic simulations of the FRB/US model, where the shocks are randomly drawn from the set of model equations residuals for the period 1986-2004. The following table indicates the specification of each rule and its root mean squared error (RMSE) over the sample 1993:1-2005:4.

Outcome-based Rule	$i_t = 0.27 + 1.14 i_{t-1} - 0.36 i_{t-2} + 0.32\pi_t + 0.60(y_t - y_t^*) - 0.40(y_{t-1} - y_{t-1}^*)$	.19
Forecast-based Rule	$i_t = 0.24 + 1.14 i_{t-1} - 0.35 i_{t-2} + 0.31\pi_{t+2\|t} + 0.42(y_{t+1\|t} - y_{t+1\|t}^*) - 0.23(y_{t-1} - y_{t-1}^*)$	.18

Market Expectations: The expected funds rate path is based on quotes from fed funds and Eurodollar futures, and the confidence intervals are obtained from options on those futures.

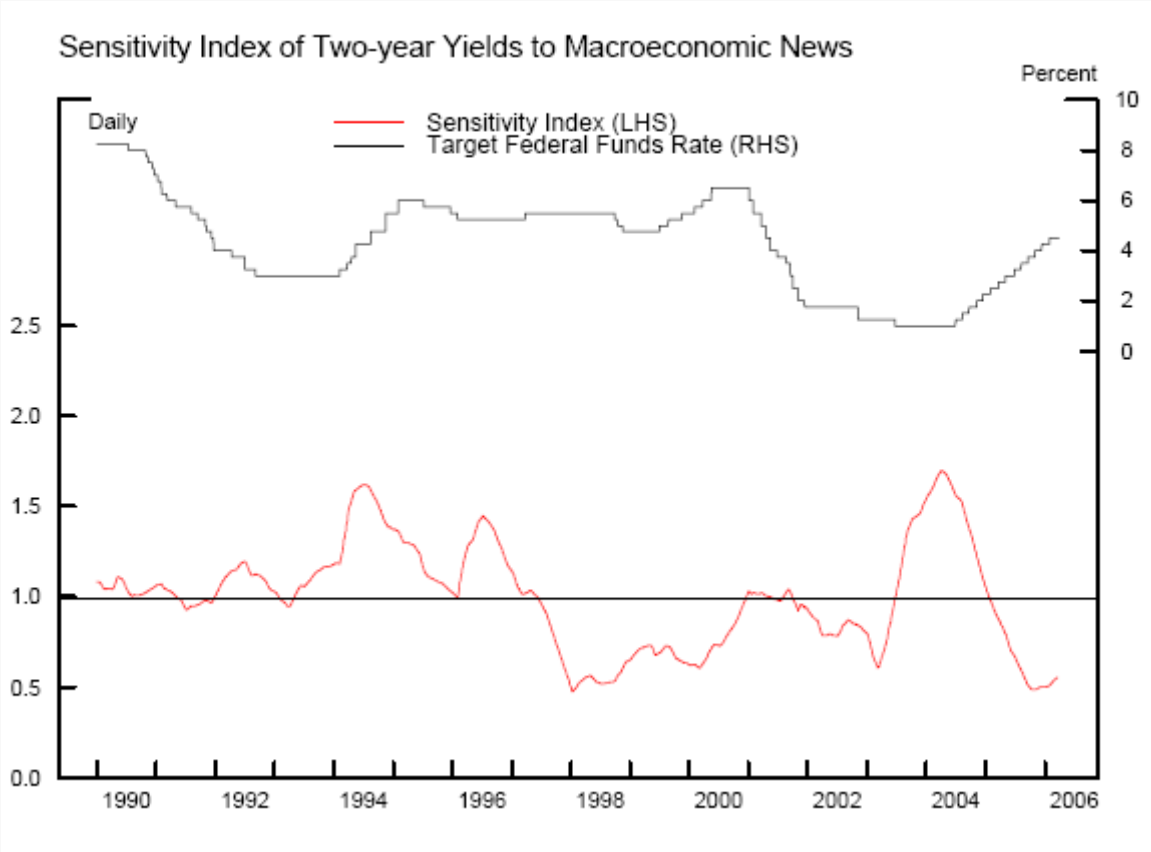
Simple Policy Rules: The following table indicates the specification of each rule and its RMSE over the sample 1993:1-2005:4 for two inflation objectives.

		$\pi^*=1.5$	$\pi^*=2$
Baseline Taylor Rule	$i_t = 2 + \pi_t + 0.5(\pi_t - \pi^*) + 0.5(y_t - y_t^*)$	.99	.99
Aggressive Taylor Rule	$i_t = 2 + \pi_t + 0.5(\pi_t - \pi^*) + (y_t - y_t^*)$	.62	.63
First-difference Rule	$i_t = i_{t-1} + 0.5(\pi_{t+3\|t} - \pi^*) + 0.5(\Delta^4 y_{t+3\|t} - \Delta^4 y_{t+3\|t}^*)$	.51	.44

Time-varying Sensitivity of Interest Rates to Macroeconomic News

The response of U.S. Treasury yields to new information is unlikely to be constant over time. One statistical approach to capture variation is to augment a regression of two-year yields on economic-data surprises with a common time-varying coefficient. This yields a sensitivity index, for which a value of one is neutral and values above one indicate that the market is more sensitive than average to the news contained in economic-data releases. The sensitivity index, plotted in the figure below, has moved in a wide range over the last fifteen years.

The estimated sensitivity was higher on average during the first half of the 1990s than in subsequent years, although one marked exception was the year prior to the start of the current tightening cycle. Sensitivity peaked at nearly twice its average level in the spring of 2005 when market participants awaited the shift in the economic outlook that would trigger the onset of policy tightening. The sensitivity then unwound abruptly when the measured-pace language was introduced and policy tightening began and is now at an historically low level. All this has occurred despite the message in recent FOMC minutes indicating that "the future path for the funds rate would depend increasingly on economic developments."



changes the last sentence of the risk assessments paragraph to state that "future policy action will be determined by the evolution of the economic outlook as implied by incoming information," which might help to remind investors that the future path for policy is uncertain and will depend on macroeconomic data. Indeed, members may be sufficiently concerned about the apparent tendency of financial market participants to await guidance from policy makers rather than respond to the likely policy implications of news on the economy to desire such an emphasis under any of the policy alternatives.

(18) Markets would be very surprised if the Committee decided against a rate hike at this meeting. The adoption of an assessment of balanced risks would probably lead investors to conclude that the tightening cycle is over, and short-term interest rates would surely fall appreciably. The effect on longer-term interest rates is hard to predict, as investors might demand a larger inflation risk premium, boosting longer-term yields, or might interpret the announcement as signaling that the economy is less robust than they had previously thought, driving yields lower. The effects on equity markets and the foreign exchange value of the dollar are likewise ambiguous, depending on how investors updated their forecasts for inflation and growth in light of the surprise decision. Options-implied volatilities would likely rise, as investors would be taken aback, and as their policy expectations might perhaps become more data dependent.

(19) Some members' preferences for the wording of the statement may not lie in a single column in Table 1. Elements of the table could be mixed and matched in different ways, if the Committee wanted to convey a policy position to the public that is somewhat less restrictive than currently built into financial markets but somewhat less accommodative than Alternative A. For one example, the Committee could tighten a quarter-point as under Alternative B, but move its assessment of risks to balanced as in row 4 of Alternative A, thereby signaling the likely end of the process

of tightening. For another, the Committee could leave the funds rate unchanged, as under Alternative A, but keep the risk assessment tilted toward the likelihood of additional firming, as in Alternative B, which market participants would likely interpret as indicating a probable pause in, rather than an end to, the tightening cycle. The choice between these two alternatives rests mainly on the conviction with which the outlook is held. If members are fairly confident that one more firming step at this meeting is sufficient to position the economy on a sustainable growth track with an acceptable inflation rate, then they may want to declare a definitive end to the current cycle of tightening, as in the firming with symmetric risks alternative. If, instead, members want to accumulate more information bearing on the outlook before acting, and they also believe that such information is more likely than not to trigger future policy tightening, then the alternative of no-action with asymmetric risks would find some appeal.

Money and Debt Forecasts

(20) Under the Greenbook forecast, M2 is projected to expand about 5 percent this year, slower than nominal GDP, as a result of the lagged effects of rising opportunity costs. In 2007, M2 is expected to grow about 5½ percent, roughly in line with nominal GDP, as the effects of interest rates on money demand wane. Although profits are high and businesses are flush with cash, greater capital expenditures, robust equity repurchases and merger and acquisition activity are projected to buoy business debt, which is forecast to grow 6¾ percent this year and 6½ percent next year. The projected cooling of the housing market leads to a deceleration in mortgage debt. Largely as a result of this, the growth of overall domestic nonfinancial sector debt is forecast to step down to 7½ percent this year and to 6½ percent in 2007.

Table 2
Alternative Growth Rates for M2
(percent, annual rate)

		No Change	Raise 25 bp*	Greenbook**
Monthly Growth Rates				
	Nov-05	3.9	3.9	3.9
	Dec-05	5.1	5.1	5.1
	Jan-06	11.0	11.0	11.0
	Feb-06	3.8	3.8	3.8
	Mar-06	4.2	4.2	4.2
	Apr-06	5.1	4.7	4.7
	May-06	3.7	2.9	2.5
	Jun-06	7.4	6.6	5.7
Quarterly Growth Rates				
	2005 Q1	3.6	3.6	3.6
	2005 Q2	2.5	2.5	2.5
	2005 Q3	4.4	4.4	4.4
	2005 Q4	5.1	5.1	5.1
	2006 Q1	6.6	6.6	6.6
	2006 Q2	4.7	4.3	4.1
Annual Growth Rates				
	2004	5.2	5.2	5.2
	2005	3.9	3.9	3.9
	2006	6.1	5.7	5.0
	2007	5.5	5.5	5.5
Growth From	To			
Feb-06	Jun-06	5.1	4.6	4.3

* Increase of 25 basis points in the target federal funds rate at this meeting and no change thereafter.

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

Directive and Balance of Risks Statement

(21) Draft language for the directive and draft risk assessments identical to those presented in Table 1 are provided below.

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 _____ ~~4½~~percent.

Risk Assessments

A. The Committee judges that maintaining the federal funds rate at its current level will likely keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. Nevertheless, future policy action will be determined by the evolution of the economic outlook as implied by incoming information.

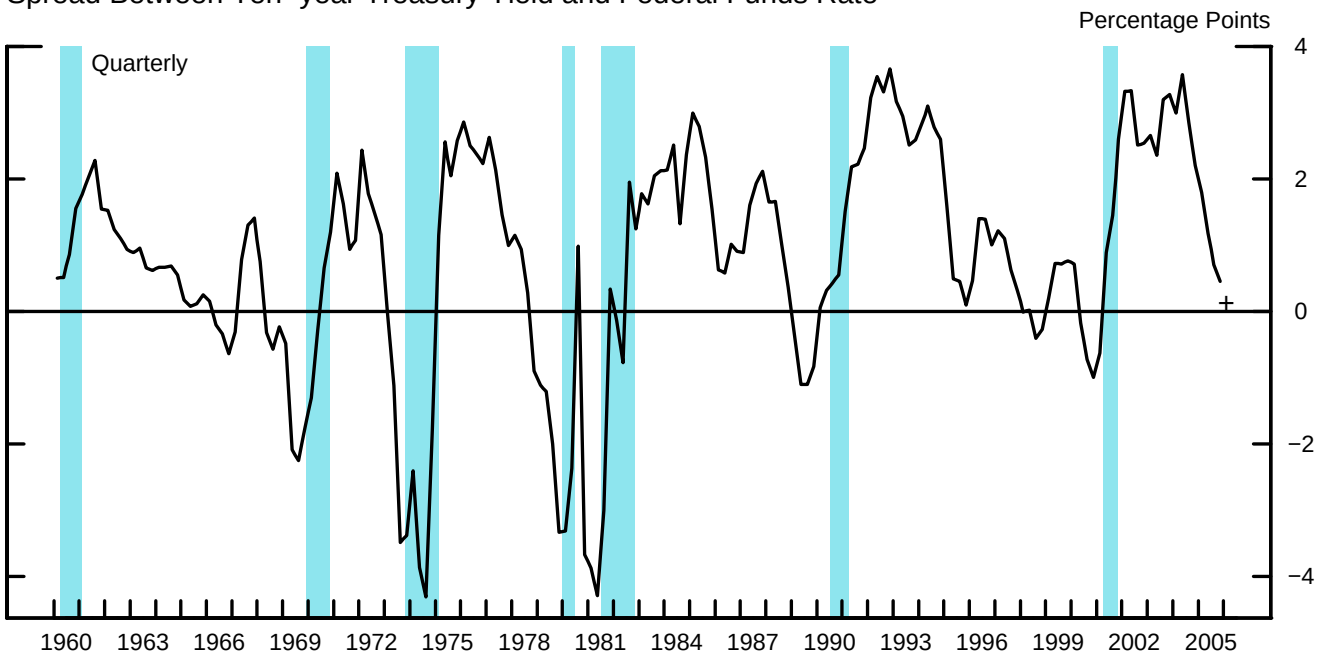
B. The Committee judges that some further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.

C. The Committee judges that further policy firming may be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the

Committee will respond to changes in economic prospects as needed to foster these objectives.

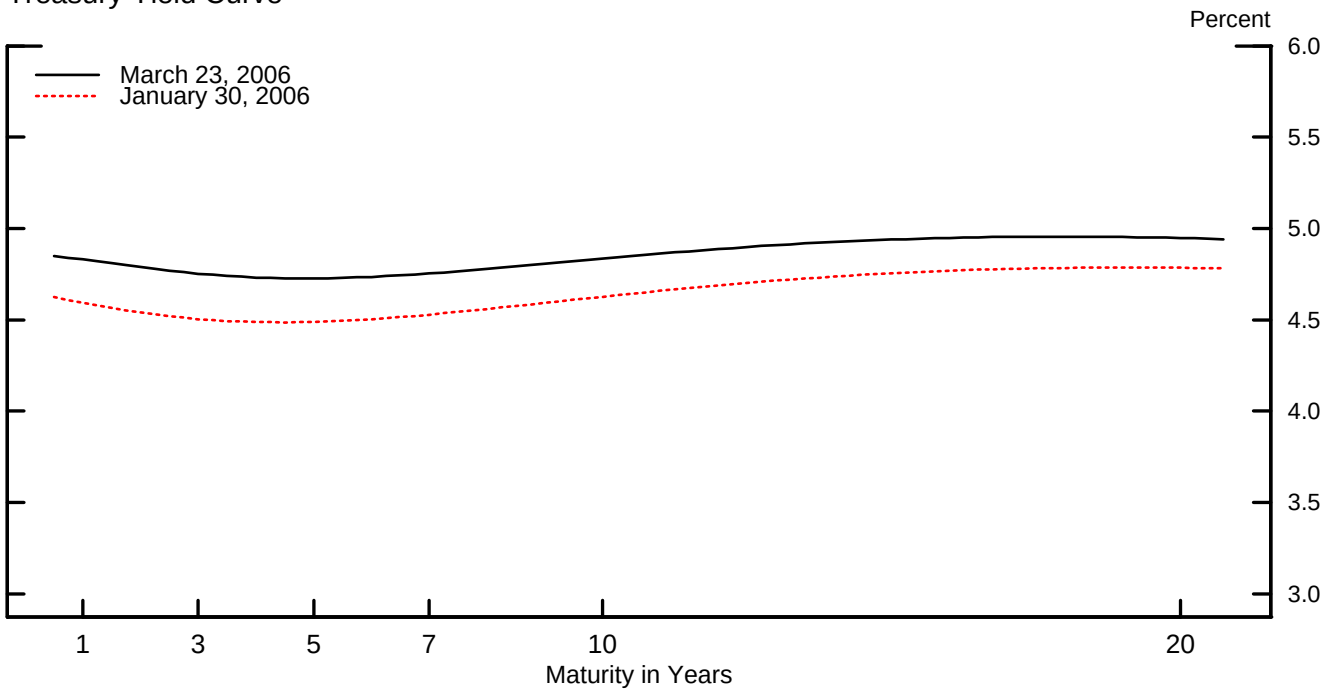
Treasury Yield Curve

Spread Between Ten−year Treasury Yield and Federal Funds Rate



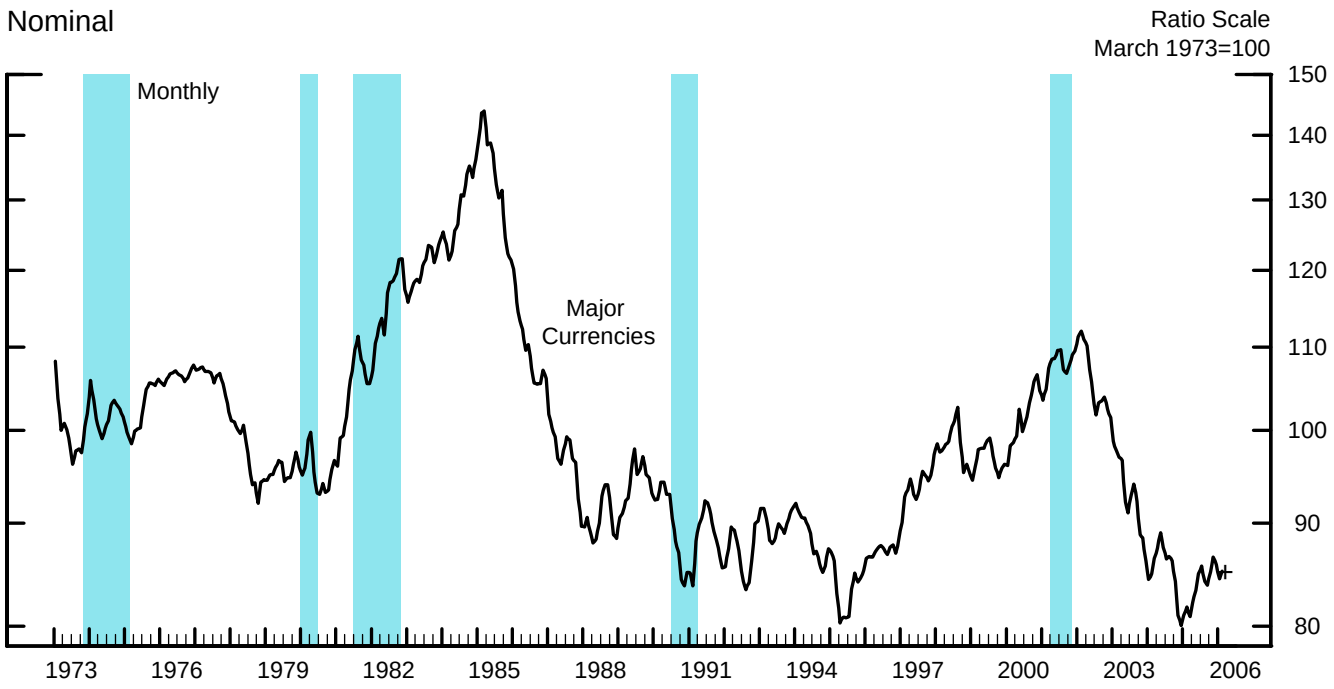
+ Denotes most recent weekly value.
Note. Blue shaded regions denote NBER−dated recessions.

Treasury Yield Curve*

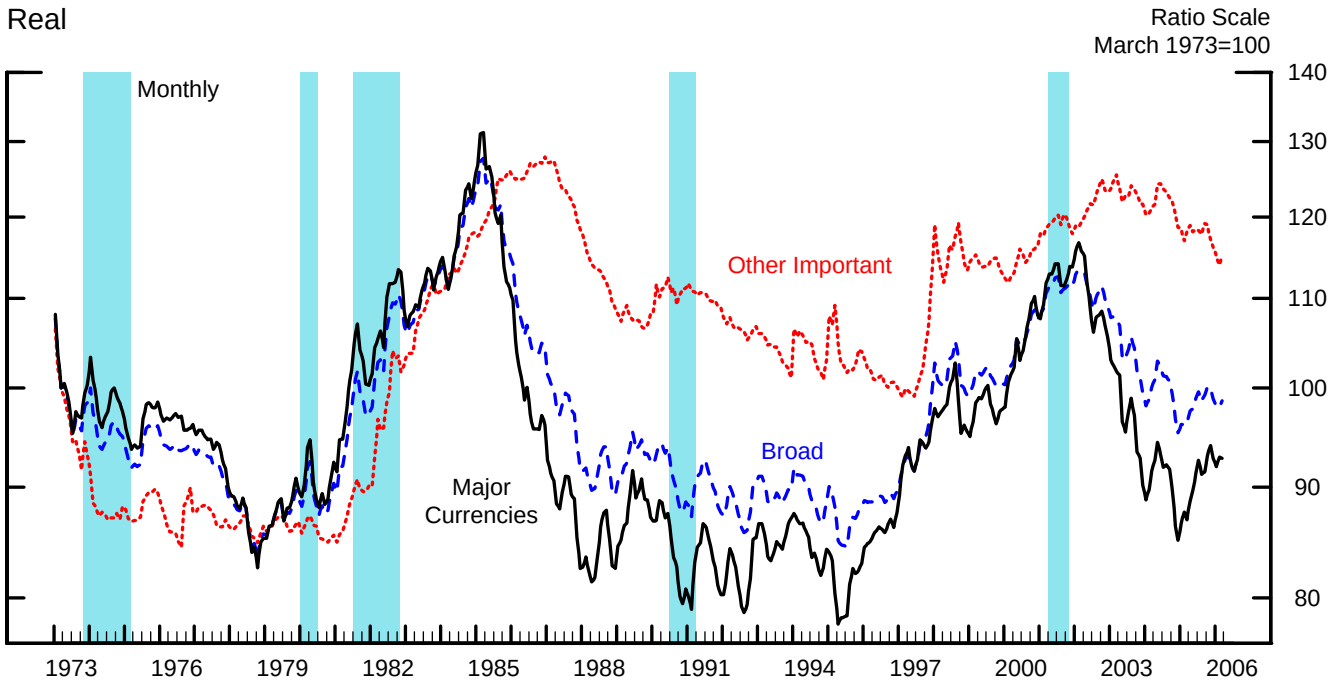


*Smoothed yield curve estimated from off−the−run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi−annual coupons.

Dollar Exchange Rate Indexes

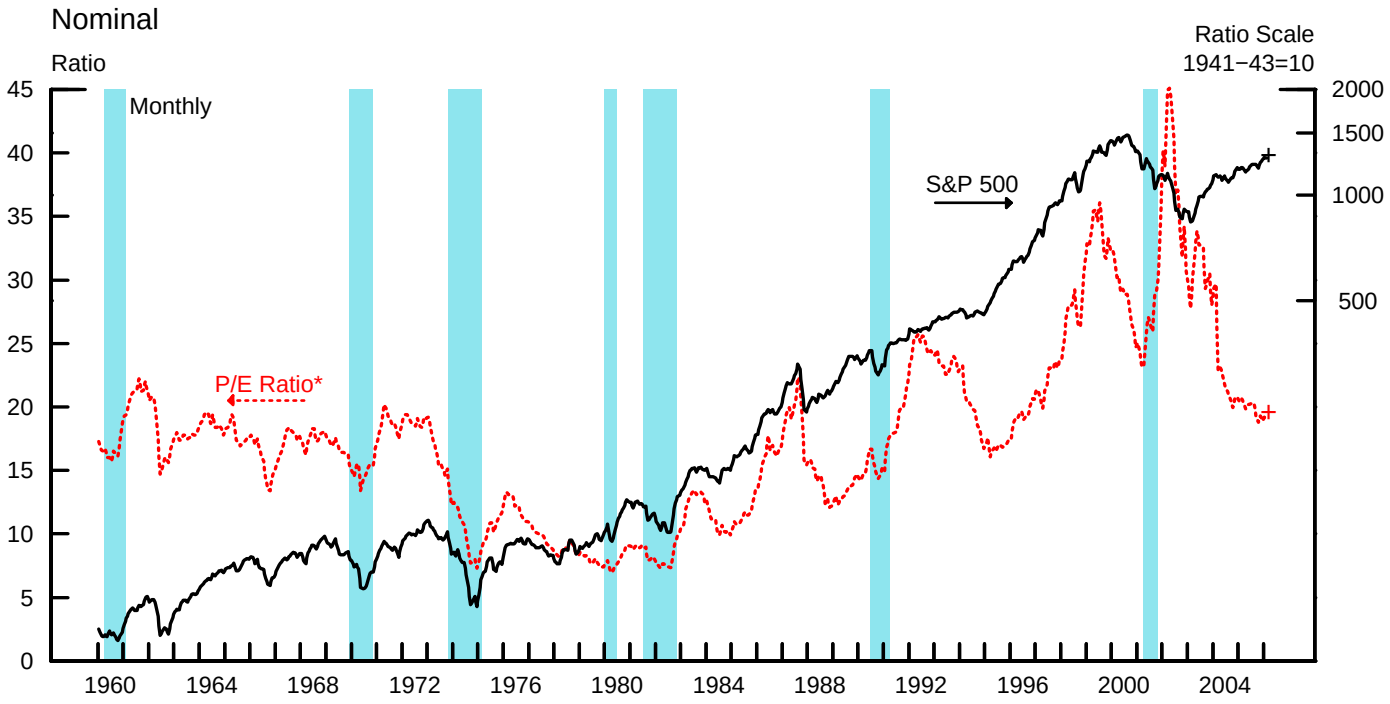


+ Denotes most recent weekly value.

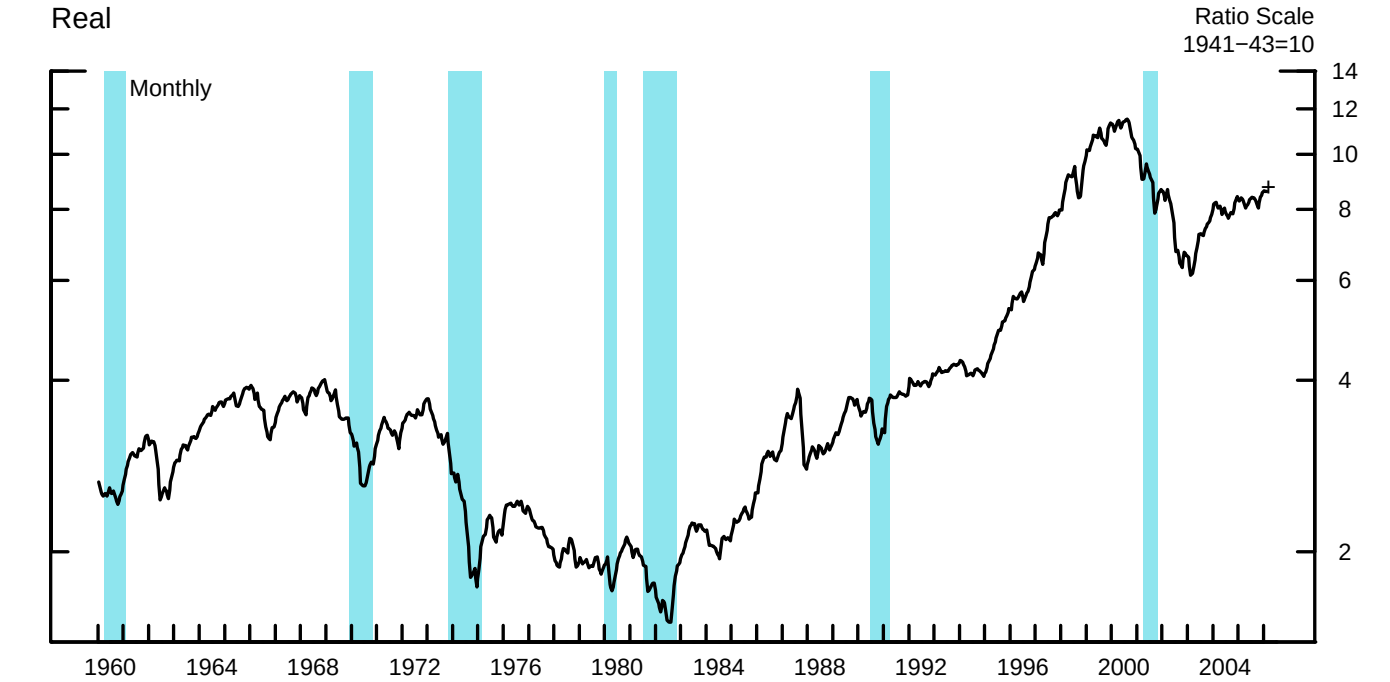


Note. The major currencies index is the trade−weighted average of currencies of the Euro area, Canada, Japan, the U.K., Switzerland, Australia, and Sweden. The other important trading partners index is the trade−weighted average of currencies of 19 other important trading partners. The Broad index is the trade−weighted average of currencies of all important trading partners. Real indexes have been adjusted for relative changes in U.S. and foreign consumer prices. Blue shaded regions denote NBER−dated recessions.

Stock Indexes



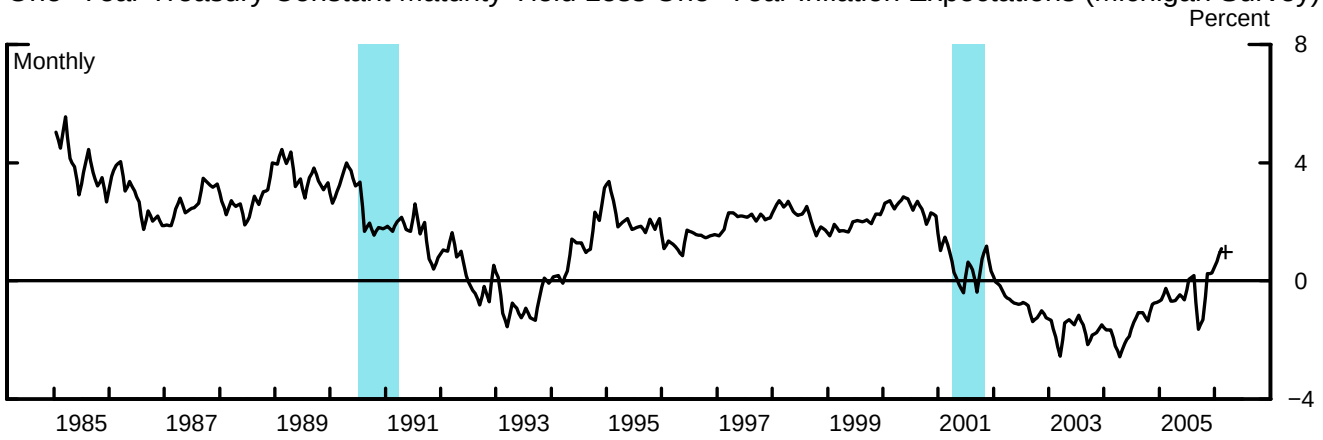
* Based on trailing four−quarter earnings.
\+ Denotes most recent weekly value.



* Deflated by the CPI.
\+ Denotes most recent weekly value.
Note. Blue shaded regions denote NBER−dated recessions.

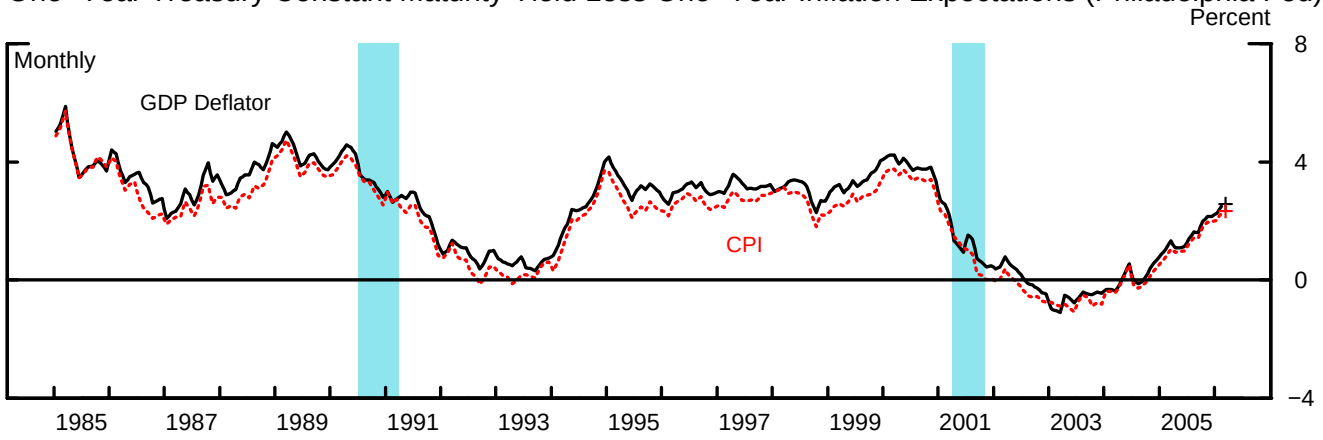
One−Year Real Interest Rates

One−Year Treasury Constant Maturity Yield Less One−Year Inflation Expectations (Michigan Survey)*



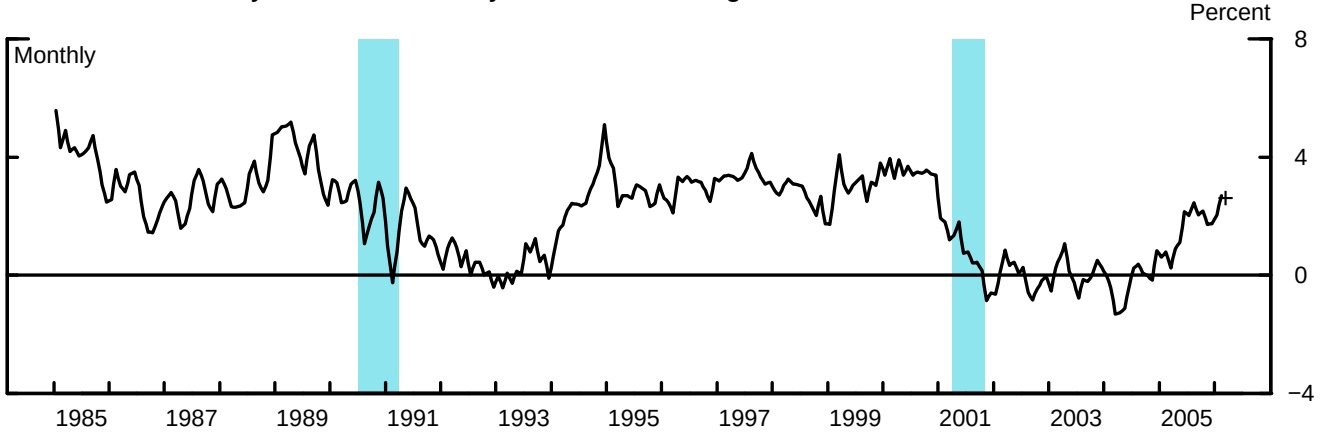
* Mean value of respondents.

One−Year Treasury Constant Maturity Yield Less One−Year Inflation Expectations (Philadelphia Fed)*



* ASA/NBER quarterly survey until 1990:Q1; Philadelphia Federal Reserve Bank Survey of Professional Forecasters thereafter. Median value of respondents.

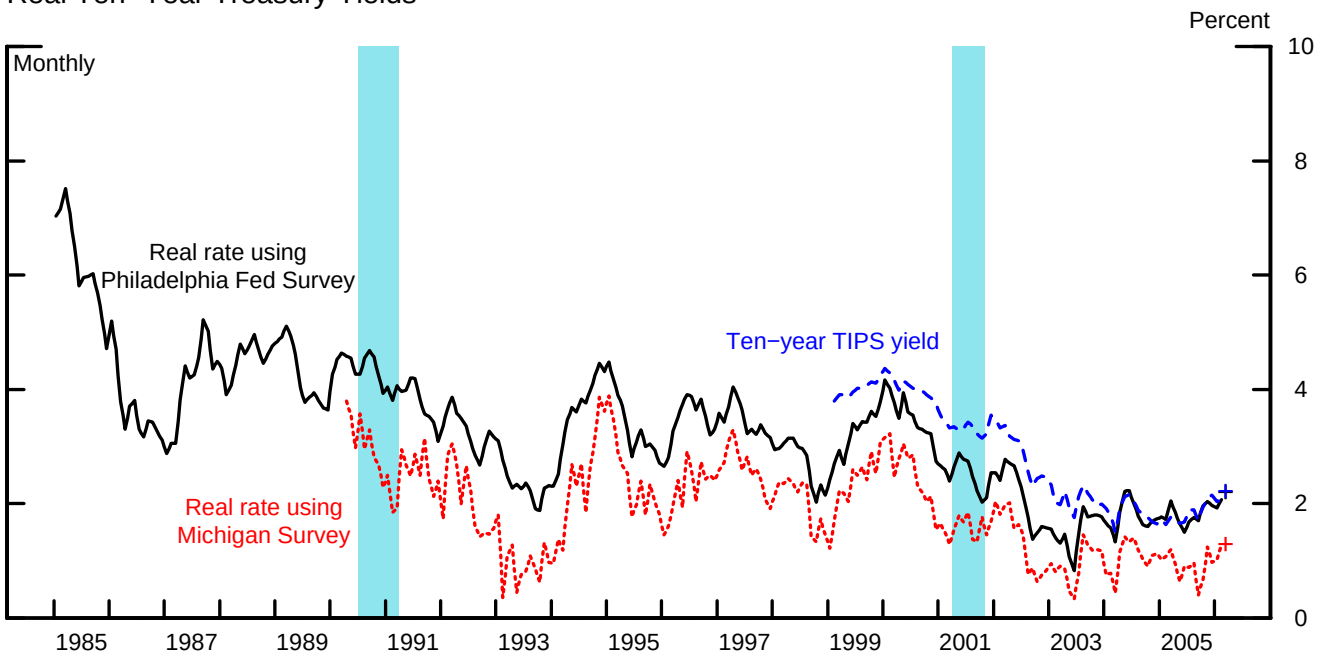
One−Year Treasury Constant Maturity Yield Less Change in the Core CPI from Three Months Prior



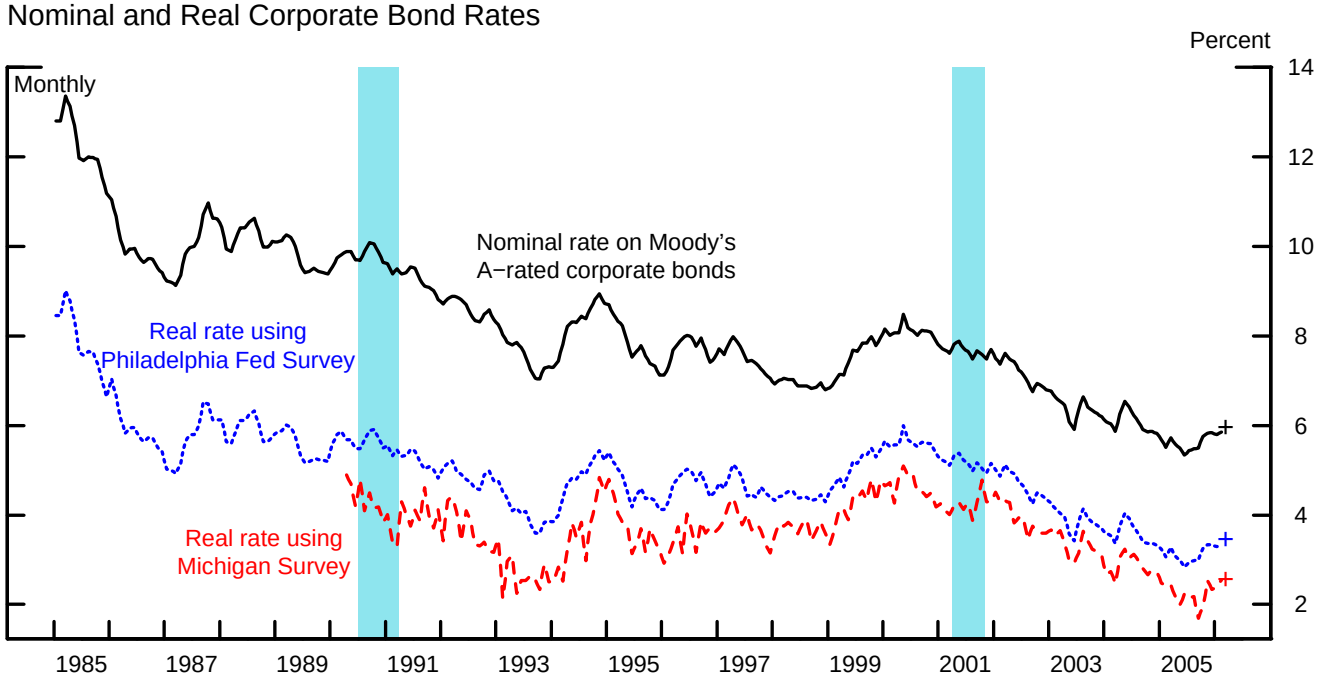
+ Denotes most recent weekly Treasury constant maturity yield less most recent inflation expectation.
Note. Blue shaded regions denote NBER−dated recessions.

Long−Term Real Interest Rates*

Real Ten−Year Treasury Yields



Nominal and Real Corporate Bond Rates

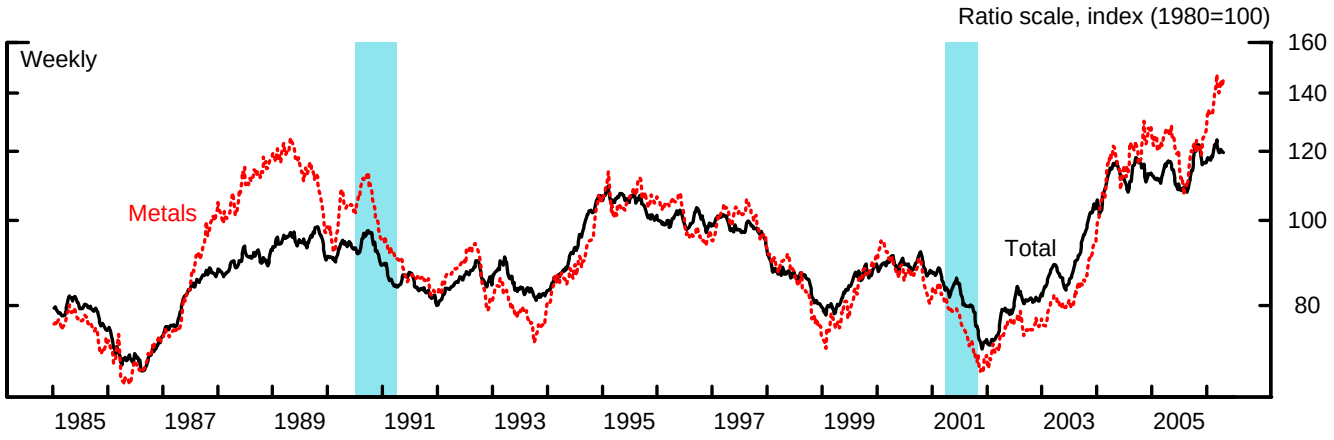


* For real rates, measures using the Philadelphia Fed Survey employ the ten−year inflation expectations from the Blue Chip Survey until April 1991 and the Philadelphia Federal Reserve Bank Survey of Professional Forecasters thereafter (median value of respondents). Measures using the Michigan Survey employ the five− to ten−year inflation expectations from that survey (mean value of respondents).

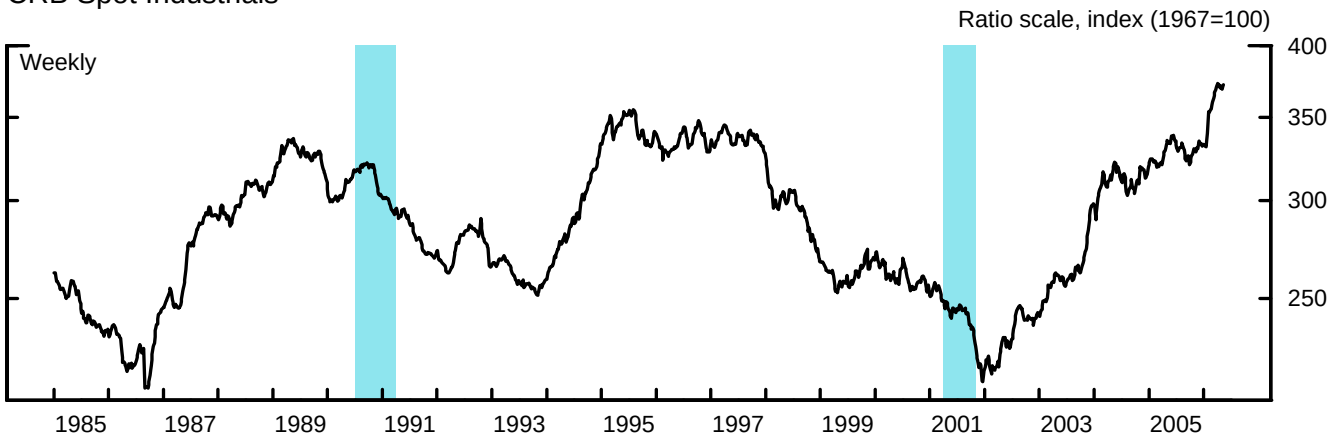
+ For TIPS and nominal corporate rate, denotes the most recent weekly value. For other real rate series, denotes the most recent weekly nominal yield less the most recent inflation expectation.
Note. Blue shaded regions denote NBER−dated recessions.

Commodity Price Measures

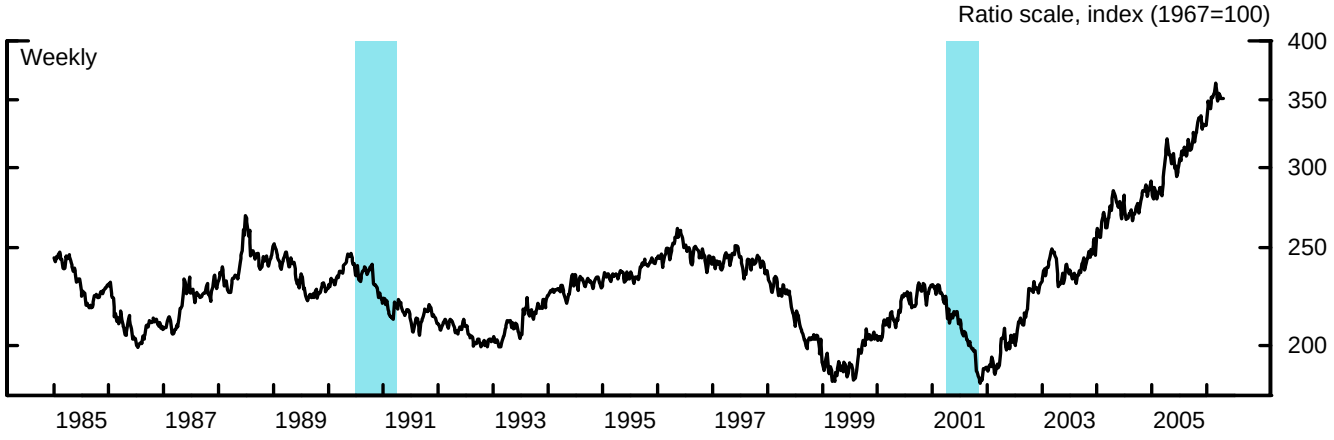
Journal of Commerce Index



CRB Spot Industrials



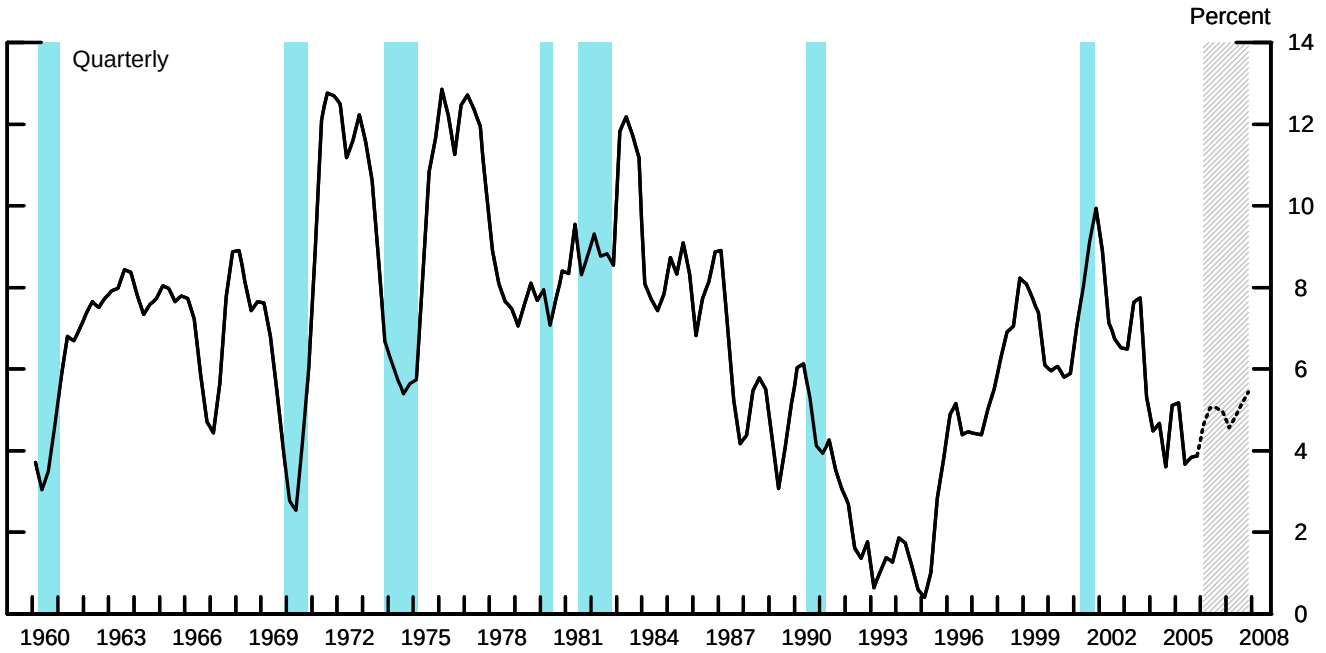
CRB Futures



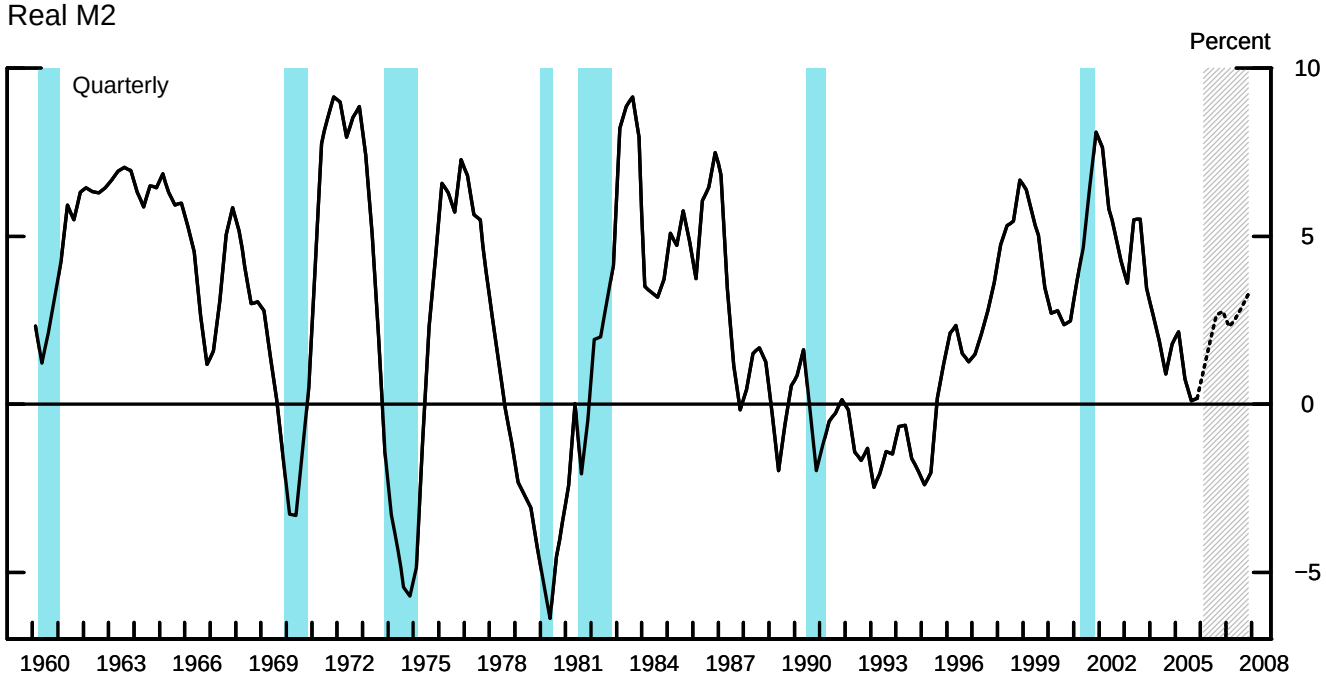
Note. Blue shaded regions denote NBER−dated recessions.

Growth of M2

Nominal M2

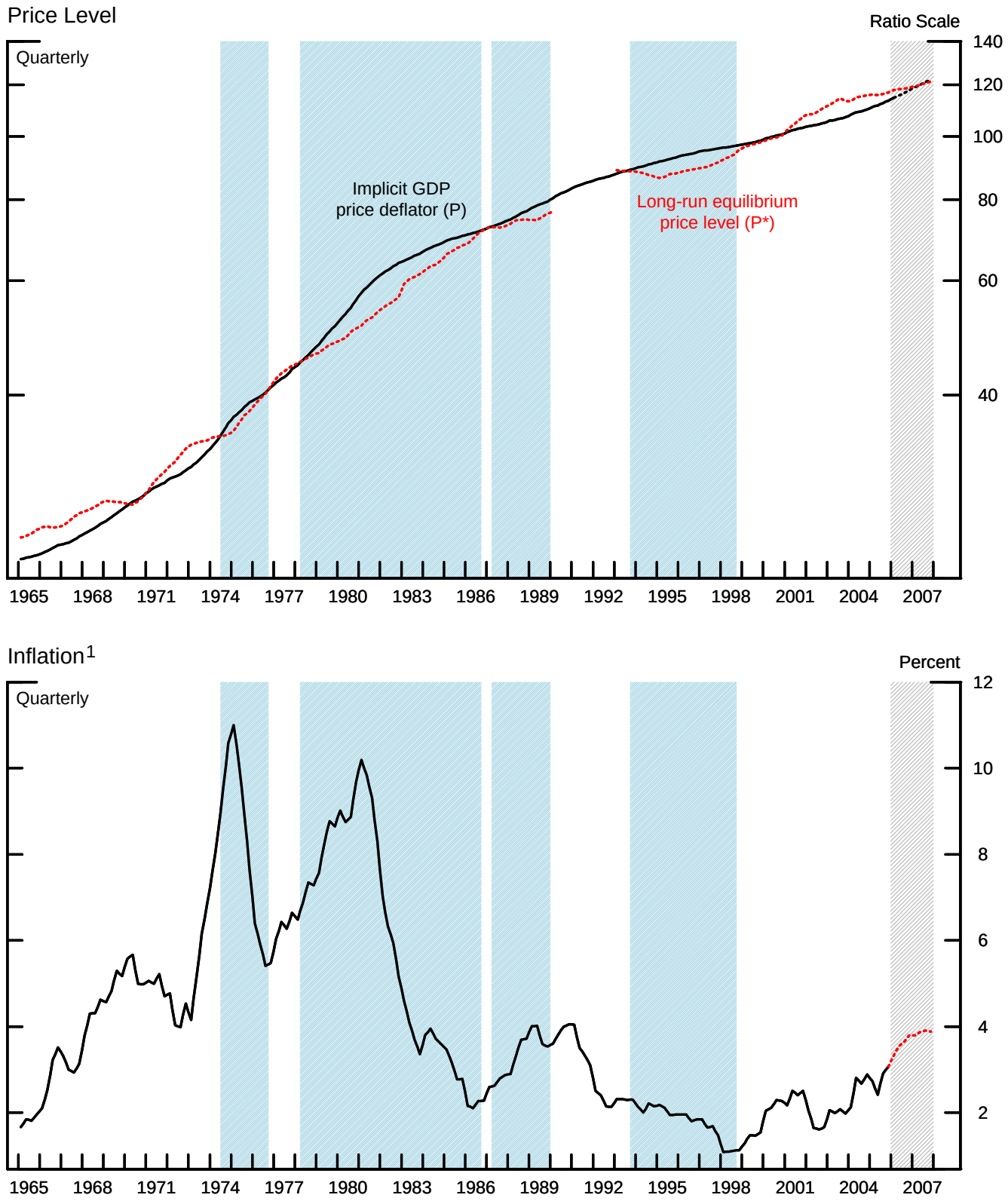


Real M2



Note. Four−quarter moving average. Blue shaded regions denote NBER−dated recessions. Gray areas denote projection period. Real M2 is deflated by the CPI.

Inflation Indicator Based on M2



1. Change in the implicit GDP price deflator over the previous four quarters.

Note: P* is defined to equal M2 times V* divided by potential GDP. V*, or long-run velocity, is estimated using average velocity over the 1959:Q1-to-1989:Q4 period and then, after a break, over the interval from 1993:Q1 to the present. For the forecast period, P* is based on the staff M2 forecast and P is simulated using a short-run dynamic model relating P to P*. Blue areas indicate periods in which P* is notably less than P. Gray areas denote the projection period.

Appendix Table 1

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	20-year	5-year	10-year			Fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
05 -- High	4.30	4.01	4.08	4.37	4.49	4.30	4.52	4.59	4.79	5.04	2.11	2.22	6.48	5.24	6.37	5.22
-- Low	2.19	1.86	2.31	2.63	2.50	2.24	3.11	3.58	3.97	4.28	0.98	1.50	5.64	4.72	5.53	4.10
06 -- High	4.62	4.67	4.69	4.83	4.91	4.71	4.83	4.78	4.87	4.97	2.14	2.25	6.46	5.17	6.37	5.45
-- Low	4.22	3.91	4.17	4.37	4.50	4.22	4.34	4.28	4.42	4.59	1.82	1.94	6.17	5.04	6.10	5.15
Monthly																
Mar 05	2.63	2.64	2.80	3.09	2.97	2.67	3.74	4.15	4.59	4.92	1.27	1.77	6.06	5.01	5.93	4.23
Apr 05	2.79	2.63	2.84	3.14	3.09	2.84	3.67	3.99	4.42	4.78	1.21	1.69	6.05	4.93	5.86	4.25
May 05	3.00	2.62	2.90	3.17	3.22	2.97	3.65	3.84	4.22	4.59	1.25	1.65	6.01	4.83	5.72	4.23
Jun 05	3.04	2.82	3.03	3.22	3.38	3.11	3.65	3.76	4.07	4.38	1.37	1.67	5.86	4.77	5.58	4.24
Jul 05	3.26	3.09	3.29	3.53	3.57	3.27	3.90	3.98	4.25	4.50	1.64	1.88	5.95	4.85	5.70	4.40
Aug 05	3.50	3.33	3.52	3.78	3.77	3.47	4.06	4.12	4.34	4.56	1.69	1.89	5.96	4.90	5.82	4.55
Sep 05	3.62	3.21	3.50	3.80	3.87	3.64	3.96	4.01	4.28	4.55	1.40	1.70	6.03	4.94	5.77	4.51
Oct 05	3.78	3.49	3.79	4.13	4.13	3.84	4.31	4.34	4.56	4.77	1.69	1.94	6.30	5.13	6.07	4.86
Nov 05	4.00	3.91	3.97	4.30	4.31	4.01	4.44	4.46	4.66	4.85	1.96	2.09	6.39	5.22	6.33	5.14
Dec 05	4.16	3.67	3.98	4.33	4.45	4.23	4.43	4.39	4.57	4.76	2.07	2.15	6.32	5.18	6.27	5.17
Jan 06	4.29	4.10	4.34	4.47	4.56	4.36	4.42	4.35	4.50	4.67	1.92	2.03	6.24	5.11	6.15	5.17
Feb 06	4.49	4.38	4.54	4.69	4.72	4.47	4.69	4.60	4.66	4.75	1.97	2.06	6.27	5.12	6.25	5.34
Weekly																
Jan 20 06	4.28	3.99	4.37	4.47	4.57	4.36	4.38	4.30	4.44	4.61	1.85	1.96	6.19	5.08	6.10	5.18
Jan 27 06	4.31	4.13	4.43	4.53	4.60	4.44	4.46	4.40	4.55	4.71	1.91	2.03	6.26	5.15	6.12	5.20
Feb 3 06	4.46	4.30	4.46	4.61	4.65	4.46	4.59	4.52	4.63	4.76	1.93	2.03	6.31	5.17	6.23	5.33
Feb 10 06	4.50	4.33	4.51	4.68	4.69	4.46	4.67	4.58	4.65	4.74	1.98	2.06	6.28	5.14	6.24	5.34
Feb 17 06	4.48	4.39	4.55	4.70	4.72	4.46	4.71	4.62	4.69	4.78	2.03	2.10	6.30	5.14	6.28	5.36
Feb 24 06	4.49	4.43	4.58	4.72	4.76	4.50	4.73	4.62	4.65	4.72	1.94	2.04	6.23	5.04	6.26	5.32
Mar 3 06	4.50	4.45	4.62	4.75	4.80	4.47	4.74	4.66	4.71	4.78	1.92	2.05	6.27	5.07	6.24	5.34
Mar 10 06	4.51	4.44	4.60	4.77	4.84	4.53	4.80	4.76	4.85	4.93	2.08	2.20	6.41	5.11	6.37	5.45
Mar 17 06	4.52	4.48	4.61	4.80	4.89	4.62	4.73	4.68	4.80	4.92	2.05	2.18	6.41	5.08	6.34	5.37
Mar 24 06	--	4.64	4.68	4.81	4.91	4.68	4.74	4.68	4.80	4.92	2.09	2.22	--	--	6.32	5.41
Daily																
Mar 7 06	4.51	4.47	4.60	4.77	4.84	4.50	4.81	4.76	4.85	4.92	2.04	2.17	6.41	--	--	--
Mar 8 06	4.51	4.45	4.58	4.77	4.85	4.56	4.79	4.75	4.84	4.92	2.10	2.22	6.41	--	--	--
Mar 9 06	4.51	4.44	4.59	4.77	4.85	4.52	4.80	4.75	4.84	4.92	2.11	2.22	6.41	--	--	--
Mar 10 06	4.51	4.44	4.61	4.78	4.87	--	4.81	4.77	4.86	4.95	2.13	2.24	6.43	--	--	--
Mar 13 06	4.52	4.43	4.61	4.83	4.87	4.61	4.83	4.78	4.87	4.97	2.14	2.25	6.46	--	--	--
Mar 14 06	4.51	4.49	4.59	4.80	4.88	4.63	4.74	4.69	4.80	4.91	2.05	2.17	6.39	--	--	--
Mar 15 06	4.47	4.50	4.63	4.81	4.88	4.59	4.75	4.70	4.83	4.95	2.06	2.20	6.43	--	--	--
Mar 16 06	4.55	4.49	4.61	4.77	4.90	4.63	4.66	4.60	4.75	4.88	1.97	2.14	6.37	--	--	--
Mar 17 06	4.60	4.49	4.63	4.78	4.90	4.63	4.68	4.63	4.78	4.91	2.01	2.17	6.38	--	--	--
Mar 20 06	4.55	4.55	4.67	4.79	4.90	4.63	4.68	4.62	4.76	4.89	2.03	2.18	6.36	--	--	--
Mar 21 06	4.54	4.67	4.69	4.82	4.90	4.70	4.75	4.69	4.81	4.93	2.12	2.25	6.41	--	--	--
Mar 22 06	4.58	4.67	4.69	4.81	4.91	4.71	4.76	4.69	4.80	4.92	2.12	2.24	6.39	--	--	--
Mar 23 06	4.62 p	4.66	4.67	4.81	4.91	--	4.79	4.73	4.84	4.95	2.14	2.24	--	--	--	--

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

Appendix Table 2

Money Aggregates

Seasonally Adjusted

Period	M1	M2	Nontransactions Components in M2
	1	2	3
Annual growth rates (%):			
Annually (Q4 to Q4)			
2003	7.4	5.5	5.0
2004	5.4	5.2	5.2
2005	0.0	3.9	5.0
Quarterly (average)			
2005-Q1	0.2	3.6	4.5
Q2	-0.3	2.5	3.2
Q3	-0.6	4.4	5.7
Q4	0.8	5.1	6.2
Monthly			
2005-Feb.	2.2	3.6	4.0
Mar.	3.1	3.6	3.8
Apr.	-6.3	1.1	3.1
May	4.4	1.6	0.8
June	-1.1	4.9	6.5
July	-6.2	3.7	6.3
Aug.	7.0	5.5	5.2
Sep.	-2.5	5.5	7.7
Oct.	1.6	5.3	6.2
Nov.	0.7	3.9	4.8
Dec.	-1.2	5.1	6.7
2006-Jan.	12.1	11.0	10.7
Feb. p	-6.6	3.8	6.5
Levels ($billions):			
Monthly			
2005-Oct.	1369.4	6625.7	5256.2
Nov.	1370.2	6647.5	5277.3
Dec.	1368.8	6675.5	5306.8
2006-Jan.	1382.6	6736.8	5354.3
Feb. p	1375.0	6758.4	5383.4
Weekly			
2006-Feb. 6	1382.2	6732.2	5350.0
13	1355.2	6735.3	5380.1
20	1376.0	6775.4	5399.4
27	1387.9	6782.8	5394.8
Mar. 6p	1374.7	6779.9	5405.2
13p	1357.4	6753.1	5395.7

p preliminary

Appendix Table 3

Changes in System Holdings of Securities [1]

(Millions of dollars, not seasonally adjusted)

March 23, 2006

	Treasury Bills			Treasury Coupons						Federal Agency	Net change total	Net RPs [5]		
	Net Purchases [2]	Redemptions (-)	Net Change	Net Purchases [3] < 1	1-5	5-10	Over 10	Redemptions (-)	Net Change	Redemptions (-)	outright holdings [4]	Short-Term [6]	Long-Term [7]	Net Change
2003	18,150	---	18,150	6,565	7,814	4,107	220	---	18,706	10	36,846	2,223	1,036	3,259
2004	18,138	---	18,138	7,994	17,249	5,763	1,364	---	32,370	---	50,507	-2,522	-331	-2,853
2005	8,300	---	8,300	2,894	11,309	3,626	2,007	2,795	17,041	---	25,341	-2,415	-192	-2,607
2004 QIV	4,167	---	4,167	3,092	7,453	2,018	571	---	13,134	---	17,301	-5,956	1,728	-4,227
2005 QI	35	---	35	---	---	---	---	544	-544	---	-509	1,653	-3,454	-1,801
QII	2,010	---	2,010	---	3,495	1,708	1,015	1,305	4,914	---	6,923	1,082	1,361	2,443
QIII	4,743	---	4,743	1,298	5,025	1,118	90	757	6,774	---	11,517	964	1,538	2,502
QIV	1,512	---	1,512	1,596	2,789	800	902	189	5,897	---	7,410	-1,202	-1,293	-2,496
2005 Jul	---	---	---	---	---	---	---	---	---	---	---	671	2,413	3,084
Aug	2,751	---	2,751	1,298	1,390	988	---	757	2,919	---	5,670	136	-581	-445
Sep	1,992	---	1,992	---	3,635	130	90	---	3,855	---	5,847	283	-599	-316
Oct	1,023	---	1,023	500	1,693	---	902	---	3,095	---	4,118	-1,468	-5,369	-6,837
Nov	489	---	489	1,096	1,096	800	---	189	2,802	---	3,292	-627	3,635	3,008
Dec	---	---	---	---	---	---	---	---	---	---	---	1,322	6,719	8,042
2006 Jan	1,563	---	1,563	---	2,809	1,505	205	1,321	3,198	---	4,761	252	-1,355	-1,103
Feb	1,308	---	1,308	1,200	2,498	25	924	---	4,647	---	5,955	-396	-3,672	-4,068
2005 Dec 28	---	---	---	---	---	---	---	---	---	---	---	1,474	7,000	8,474
2006 Jan 4	---	---	---	---	---	---	---	1,321	-1,321	---	-1,321	717	4,000	4,717
Jan 11	314	---	314	---	606	606	80	---	1,292	---	1,606	-6,074	-7,000	-13,074
Jan 18	1,249	---	1,249	---	---	---	---	---	---	---	1,249	3,757	-4,000	-243
Jan 25	---	---	---	---	---	822	125	---	947	---	947	64	-3,000	-2,936
Feb 1	20	---	20	---	2,203	77	---	---	2,280	---	2,300	-485	---	-485
Feb 8	14	---	14	---	---	---	---	---	---	---	14	-2,824	-2,000	-4,824
Feb 15	1,274	---	1,274	---	1,250	---	---	---	1,250	---	2,524	4,204	1,000	5,204
Feb 22	---	---	---	---	1,248	---	---	---	1,248	---	1,248	-1,211	3,000	1,789
Mar 1	---	---	---	1,200	---	25	924	---	2,149	---	2,149	-362	1,000	638
Mar 8	---	---	---	---	676	174	---	---	850	---	850	-1,927	-1,000	-2,927
Mar 15	---	---	---	---	1,460	---	90	---	1,550	---	1,550	2,475	---	2,475
Mar 22	---	---	---	---	---	---	---	---	---	---	---	-56	---	-56
2006 Mar 23	1,228	---	1,228	---	---	---	---	---	---	---	1,228	4,966	-6,000	-1,034
Intermeeting Period														
Jan 31-Mar 23	2,536	---	2,536	1,200	4,634	199	1,014	---	7,047	---	9,583	704	-4,000	-3,296
Memo: LEVEL (bil. $)														
Mar 23			275.4	132.3	215.5	55.4	80.0		483.2	---	758.5	-13.4	14.0	0.6

1. Change from end-of-period to end-of-period. Excludes changes in compensation for the effects of inflation on the principal of inflation-indexed securities.
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, except the rollover of inflation compensation.
4. Includes redemptions (-) of Treasury and agency securities.
5. RPs outstanding less reverse RPs.
6. Original maturity of 13 days or less.
7. Original maturity of 14 to 90 days.