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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).

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Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

Strictly Confidential (FR)
Class I - FOMC

January 29, 1994

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Federal funds generally traded quite close to the intended level of 3 percent during the intermeeting period.[1] In the maintenance period spanning year-end, reserve needs were considerable, reflecting seasonal movements in currency and required reserves as well as an enlarged demand for excess reserves. To meet these needs, the Desk arranged a number of rounds of term System repurchase agreements and, as a result, federal funds continued to trade at around 3 percent over year-end and pressures on other money markets were muted.

(2) Most other market interest rates declined 10 to 20 basis points, and stock price indexes posted new records over the intermeeting period. Market participants were encouraged by generally good news on inflation; this information, along with a sense that the severe weather and earthquake would make it more difficult in early 1994 to gauge the trajectory of the economy, led market participants to postpone when an expected tightening of monetary policy would occur. Still, the economy is seen as reasonably robust, and policy firming is expected to commence within a few months to counteract a potential buildup of inflation pressures.

1. The allowance for adjustment and seasonal borrowing was kept at $50 million. Actual borrowing averaged $107 million over the two complete maintenance periods since the December meeting. Borrowing spiked on the final day of the first maintenance period when market factors drained an unexpectedly large volume of nonborrowed reserves; it also jumped on the second Tuesday of the second maintenance period in association with computer problems at a large clearing organization that delayed its wiring of funds to banks.

(3) The dollar's weighted-average foreign exchange value was about unchanged on balance over the intermeeting period. The dollar appreciated a little more than 1 percent relative to the mark and less relative to other European currencies, against the background of strong U.S. economic data and sluggish economic activity in continental Europe. Although the Bundesbank's stance in money markets was unchanged, three-month rates in Germany declined 20 basis points, while long-term rates were little changed. The dollar depreciated about 1-1/2 percent against the yen in the context of renewed expressions of U.S. concerns over bilateral trade issues with Japan. Japanese short- and long-term interest rates rose 10 and 35 basis points, respectively.

. The Desk did not intervene.

(4) The monetary data in this bluebook reflect annual benchmark adjustments and seasonal factor revisions.[2] These data confirm that M2 rose 1.4 percent from 1992:Q4 to 1993:Q4, within its downward-revised 1 to 5 percent annual range.[3,4] M3 expanded 0.6 percent, also within its reduced 0 to 4 percent range. The increases in both aggregates were not much different than in 1992, and their velocities climbed considerably further, reflecting the evolving pattern of financial intermediation: Investors diverted considerable

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2. Data incorporating the benchmark adjustments and seasonal revisions are scheduled to be published in early February and are strictly confidential until that time. The revisions are discussed in appendix A.

3. M1 increased 10.5 percent last year. With currency and transactions deposits both expanding strongly, the monetary base rose 10.4 percent and total reserves increased 12.3 percent. Mortgage refinancing activity and foreign demands for currency together are estimated to have added around 3 percentage points to M1 growth and 1 percentage point to M2 growth over 1993.

4. M2 plus bond and stock mutual funds is estimated to have increased 5-1/2 percent in 1993.

balances from deposits to long-term mutual funds, prompted by a still-steep yield curve and capital gains in bond and stock markets; borrowers concentrated their funds-raising in long-term markets to take advantage of the low cost of capital, and thus relied relatively little on bank credit. Moreover, thrift institution assets continued to contract. Total domestic nonfinancial debt rose 4.9 percent on a fourth-quarter-to-fourth-quarter basis, inside its 4 to 8 percent monitoring range. Nonfederal debt growth firmed further, especially in the second half of the year, apparently reflecting increased comfort with balance sheets and better prospects for employment and income, but the increase in such debt still fell considerably short of the rise in nominal spending by these sectors.

(5) Growth of the broad monetary aggregates remained relatively slow over December and January, though stronger than over 1993, with expansion of both M2 and M3 around 2 percent at an annual rate.[5] M1 slowed to a 6 percent average rate over the two months. In addition to a drop-off in demand deposit growth, the expansion of M1 was depressed in January--by an estimated 5-1/2 percentage points--as a large regional bank initiated a program to sweep balances from some customers' NOW accounts; because such funds are swept into MMDAs, M2 and M3 are not affected by the program. Recent data on mutual funds are especially difficult to interpret because reported flows in December are distorted by the effects of large year-end distributions. Nonetheless, while flows into stock funds are estimated to have remained quite strong, flows into bond funds over December and early

5. On a pre-benchmark basis, growth of M2 over December and January, at 1-1/4 percent, was below the staff projection of 2-1/2 percent growth made at the time of the December FOMC meeting. M3 growth, at 1 percent, was equal to the staff expectation. Revisions to seasonal factors boosted measured growth of M2 and M3 in January and will continue to increase such growth over the next two months.

January seem to have been below the pace of most of last year in apparent reaction to the backup in rates last fall.[6] At the M3 level, growth was buoyed by large time deposits, which expanded at the most rapid rate since last spring, perhaps in association with a modest acceleration of bank credit, but larger runoffs in its other components served to slow M3 on balance.[7] In January, both aggregates are within their provisional ranges for 1994.

(6) Nonfederal credit growth seems to be maintaining the somewhat brisker pace set this past autumn. The pickup remains most evident among households. Consumer installment credit appears to have expanded at a robust rate in December, and bank data for January suggest continued strong growth. Net home mortgage borrowing likely also continued apace: Although refinancing activity dropped sharply as mortgage rates stabilized above their October lows, the strength in sales of new and existing homes no doubt contributed to demand for mortgage credit. In the business sector, credit demands may have picked up a little. Business loans at banks are estimated to have expanded appreciably on average over December and January, accompanying indications of further easing of loan terms and standards in the latest Senior Loan Officer Opinion Survey. Gross issuance of bonds by nonfinancial corporations over the past two months remained considerably below the 1993 average, but much of the fall-off was probably in refinancing activity. In the tax-exempt sector, securities issuance rebounded strongly in December, but has dropped

6. M2 plus bond and stock mutual funds is estimated to have expanded at an average 4 percent rate in December and January.

7. Bank credit is estimated to have expanded at about a 4 percent rate in January. Part of this growth reflects a change in accounting procedures that inflates growth of "other securities." Beginning in January, banks must report on their balance sheets the cash value of off-balance-sheet items such as swaps and options.

off that pace this month. Reflecting swings in federal debt growth, total domestic nonfinancial sector debt rose at a 7-1/2 percent rate in December, but probably slowed this month and remained within its provisional 4 to 8 percent range for 1994.

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

	Dec.	Jan.	92:Q4 to 93:Q4	93:Q4 to Jan.
Money and credit aggregates[1]				
M1	6.4	5.4	10.5	6.5
M2	2.2	1.9	1.4	2.3
M3	3.1	1.0	0.6	2.2
Domestic nonfinancial debt	7.4	--	4.9	--
Federal	13.3	--	8.4	--
Nonfederal	5.2	--	3.7	--
Bank credit	5.8	3.8	4.7	4.9
Reserve measures[2]				
Nonborrowed reserves[3]	1.8	-2.8	12.3	2.0
Total reserves	1.7	-2.9	12.3	1.2
Monetary base	4.7	9.8	10.4	8.0
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	82	75	--	--
Excess reserves	1070	1355	--	--

1. The monetary data in this bluebook reflect new benchmarks and seasonal adjustments.
2. Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements. Reserve estimates for January incorporate assumptions of $50 million for adjustment and seasonal borrowing and $1 billion for excess reserves in the maintenance period ending February 2.
3. Includes "other extended credit" from the Federal Reserve.

Long-Run Scenarios

(7) The scenarios shown in this section are designed to illustrate several issues related to the conduct of monetary policy over the rest of this decade. The first set examines three alternative strategies for policy, each striking a different balance over the intermediate run between progress toward price stability and progress toward full employment. The baseline begins with the Greenbook projection for 1994 and 1995 and continues with a judgmental extension out through 1999. The baseline strategy maintains a modest degree of slack in resource utilization and thus makes a little further progress against inflation. The tighter strategy makes more progress toward the objective of price stability, while the easier policy moves the economy to full employment fairly promptly and keeps it there. The alternatives to the baseline were derived using staff econometric models of the U.S. and foreign economies. Summary information about these simulations is presented in the table on the next page and in Chart 1.

(8) A number of assumptions play key roles in the scenarios. In the framework underlying these scenarios, the change in the rate of inflation is influenced mainly by the gap between the natural rate of unemployment and the actual rate; roughly speaking, a 1 percentage point gap, maintained for one year, reduces the rate of inflation about 1/2 percentage point. The natural rate itself is expected to edge down slightly from its current level of around 6-1/2 percent (as measured on the new 1994 survey basis), as the dislocations stemming from defense downsizing and corporate restructuring abate. The growth rate of potential GDP is assumed to average close to 2-1/2 percent over the period of the scenarios. Federal fiscal policy is assumed to

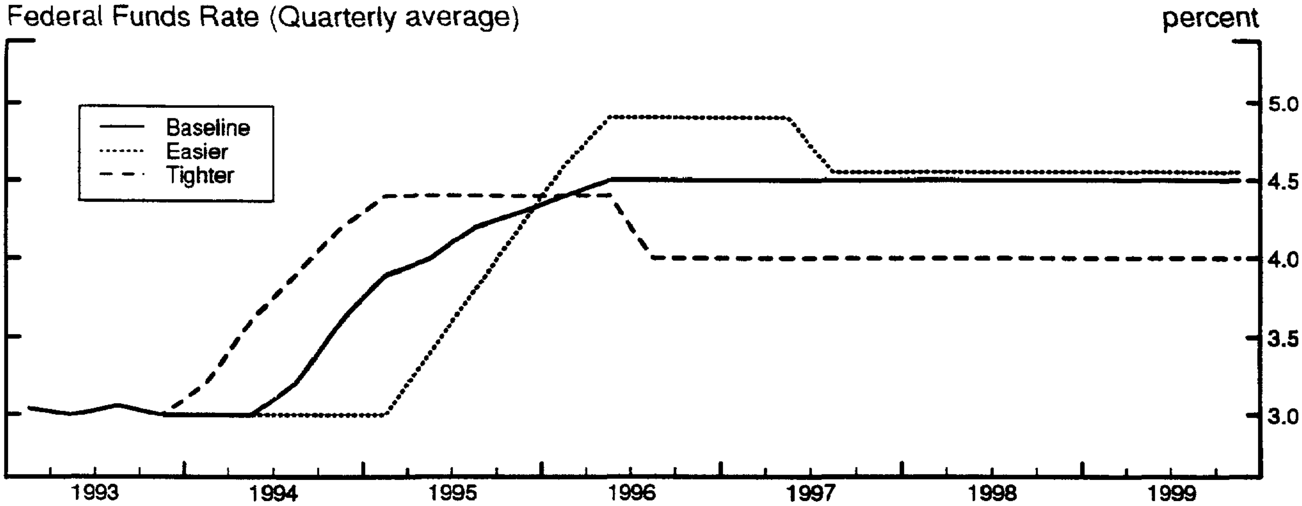
	1993	1994	1995	1996	1997	1998	1999
		(QIV to QIV percent change)					
CPI inflation--excluding food and energy							
baseline	3.1	3.0	2.9	2.8	2.6	2.5	2.3
tighter		3.0	2.7	2.4	2.0	1.7	1.5
easier		3.1	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth							
baseline	5.1	5.5	4.6	4.5	4.3	4.1	4.0
tighter		5.4	4.2	3.9	3.7	3.5	3.5
easier		5.5	4.8	4.9	4.7	4.6	4.6
Real GDP growth							
baseline	2.6	3.0	2.4	2.4	2.4	2.4	2.4
tighter		2.9	2.1	2.1	2.3	2.5	2.7
easier		3.0	2.6	2.7	2.4	2.4	2.4
		(fourth-quarter level, percent)					
Unemployment Rate (1994-survey basis)							
baseline	7.1	6.8	6.8	6.8	6.8	6.8	6.8
tighter		6.9	6.9	7.1	7.2	7.2	7.0
easier		6.8	6.7	6.6	6.5	6.5	6.5
		(QIV to QIV percent change)					
M2							
baseline	1.4	2	2-1/2	2-3/4	3-1/2	4-1/4	4
tighter		1-1/4	2-1/4	3-1/4	3-1/4	3-3/4	3-1/2
easier		2-1/4	3	3	3-3/4	4-3/4	4-1/2
		(fourth-quarter level, percent)					
Federal funds rate							
baseline	3	3-1/2	4-1/4	4-1/2	4-1/2	4-1/2	4-1/2
tighter		4-1/4	4-1/2	4	4	4	4
easier		3	4-1/4	5	4-1/2	4-1/2	4-1/2

remain on a moderately restrictive trajectory over the next few years, with the structural deficit declining from 2-3/4 percent of potential GDP in 1993 to 2 percent in 1994 and then holding at roughly 1-1/2 percent for the remainder of the projection period. Money growth is assumed to return gradually to a more typical alignment with nominal income growth; the forces disrupting this relationship ebb as the

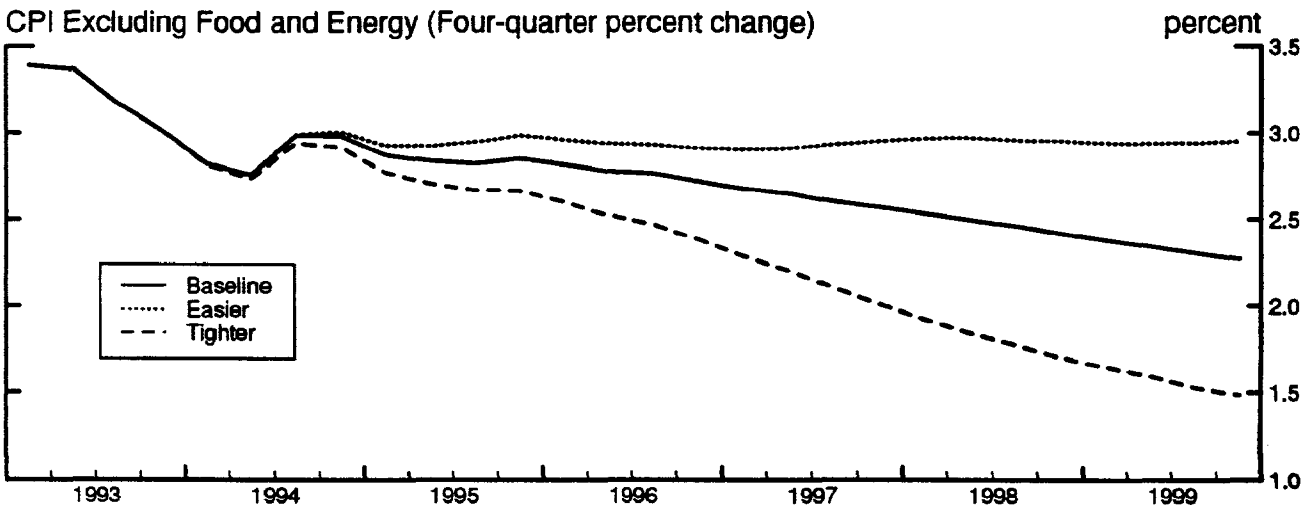
Chart 1

ALTERNATIVE STRATEGIES FOR MONETARY POLICY

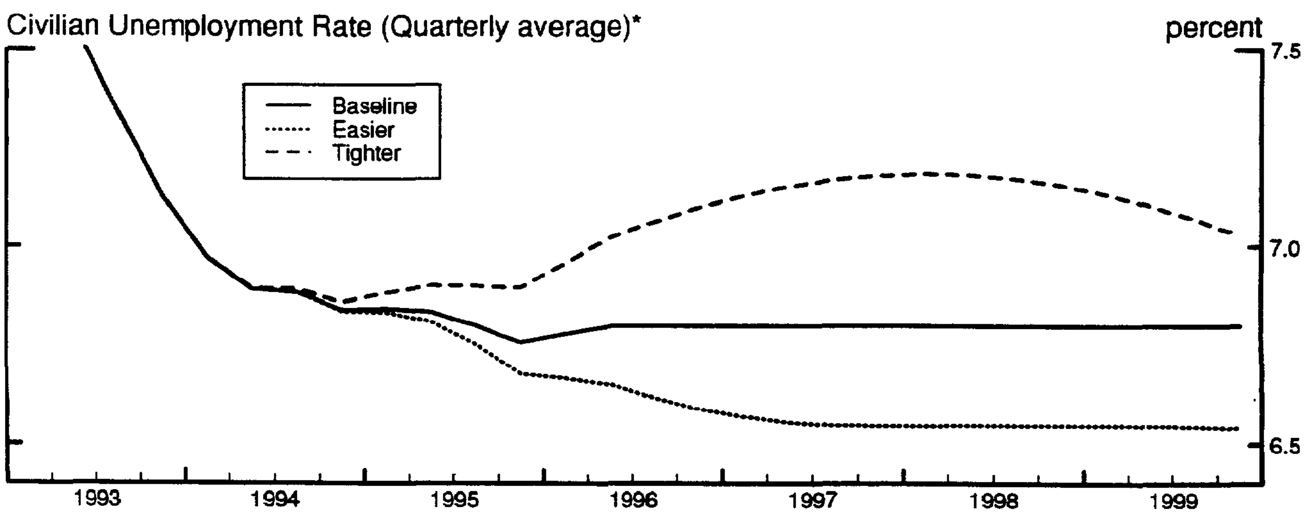
Federal Funds Rate (Quarterly average)



CPI Excluding Food and Energy (Four-quarter percent change)



Civilian Unemployment Rate (Quarterly average)*



* The unemployment rate is shown on the 1994-survey basis. Observations in 1993 were level-adjusted up 0.6 percentage point. Data points are plotted in the midpoint of each time period

yield curve returns to a more normal slope and portfolios become more fully adjusted to the increased availability of mutual funds.[8]

(9) Under the baseline policy, the Committee holds the funds rate at 3 percent into the summer before raising it over the next two years. To maintain some slack in resource utilization, and thus to keep inflation edging lower, short-term real interest rates need to rise from their currently low levels only gradually in light of fiscal consolidation at home and sluggish growth abroad. As foreign economies recover and fiscal consolidation comes to an end, the funds rate rises to about 4-1/2 percent in nominal terms in 1996. Given the inflation rate prevailing at that time, this level of the funds rate translates to about 2 percent in real terms. In turn, this level of the real funds rate and associated levels of long rates in real terms are sufficient to keep inflation tilting down. By the end of the period, inflation in the CPI excluding food and energy falls to about 2-1/4 percent. M2 gradually accelerates over the decade as velocity shifts diminish.

(10) The more rapid progress toward price stability under the tighter policy involves an unemployment rate over the forecast period that averages about 1/4 percentage point above that in the baseline strategy. This additional slack is obtained by moving the funds rate up more promptly than in the baseline--indeed, starting in the current quarter. With real interest rates higher, the interest-sensitive portion of domestic spending is damped; dollar appreciation also checks aggregate demand and puts additional downward pressure on prices. Inflation comes down to 1-1/2 percent by 1999 and is headed

8. The paths for M2 were determined judgmentally, though informed by a variety of models that incorporate the influence on money demand of the slope of the yield curve, as well as short-term interest rates and income.

still lower from there. If the anti-inflation resolve embodied in the tighter policy were to reinforce the credibility of the Committee's commitment to price stability, an even more rapid decline in inflation might result.

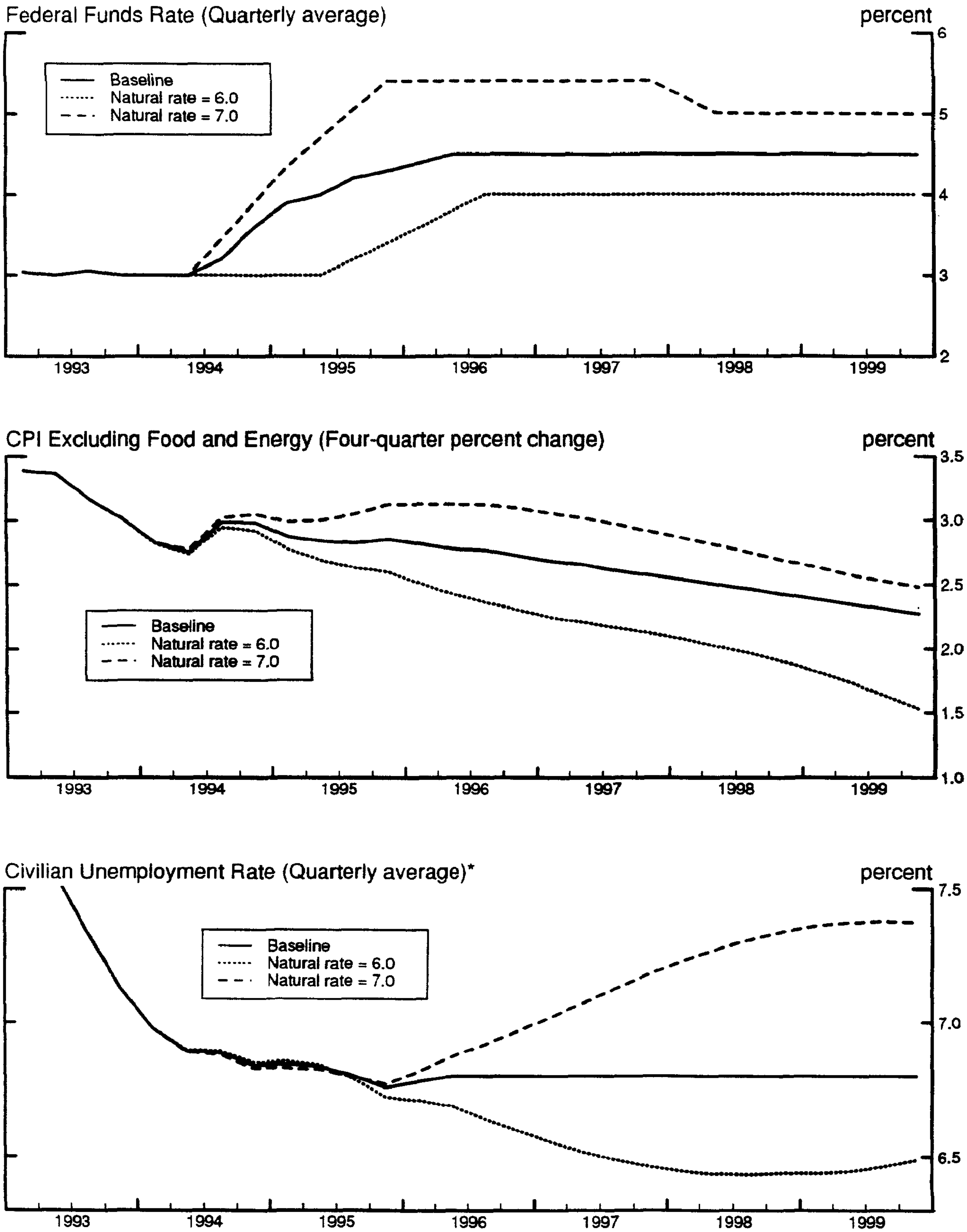
(11) The greater employment gains delivered by the easier policy come at the expense of any further progress in reducing inflation. To implement this strategy, the Committee is assumed to keep the funds rate at 3 percent into early 1995. The dollar is lower than under the baseline strategy, and part of the economic stimulus and of the upward pressure on prices comes from the foreign sector. Given the low level of short-term real interest rates, a 3 percent funds rate probably is not sustainable, and the Committee eventually must shift toward a more restrictive stance in order to prevent a pickup in inflation--indeed, temporarily pushing the nominal funds rate above that in the baseline.

(12) The outcomes under these three strategies depend importantly on underlying judgments about the labor-market threshold for the emergence of faster inflation and about the near-term strength of aggregate demand. Charts 2 and 3 present scenarios based on alternative assumptions about these key elements of the macroeconomy. A critical aspect in the design of each of these scenarios is the specification of the responses of monetary policy to these different macroeconomic circumstances. The responses shown are intended to be illustrative of actions that might be taken by a policymaker who places some weight on both inflation and unemployment in the intermediate run.

(13) Chart 2 focuses on the implications of different levels of the natural rate. As before, the solid lines present the baseline scenario, which embodies a natural rate of around 6-1/2 percent. The dashed lines present a scenario based on an assumed natural rate of

Chart 2

ALTERNATIVE ASSUMPTIONS ABOUT THE NATURAL RATE OF UNEMPLOYMENT



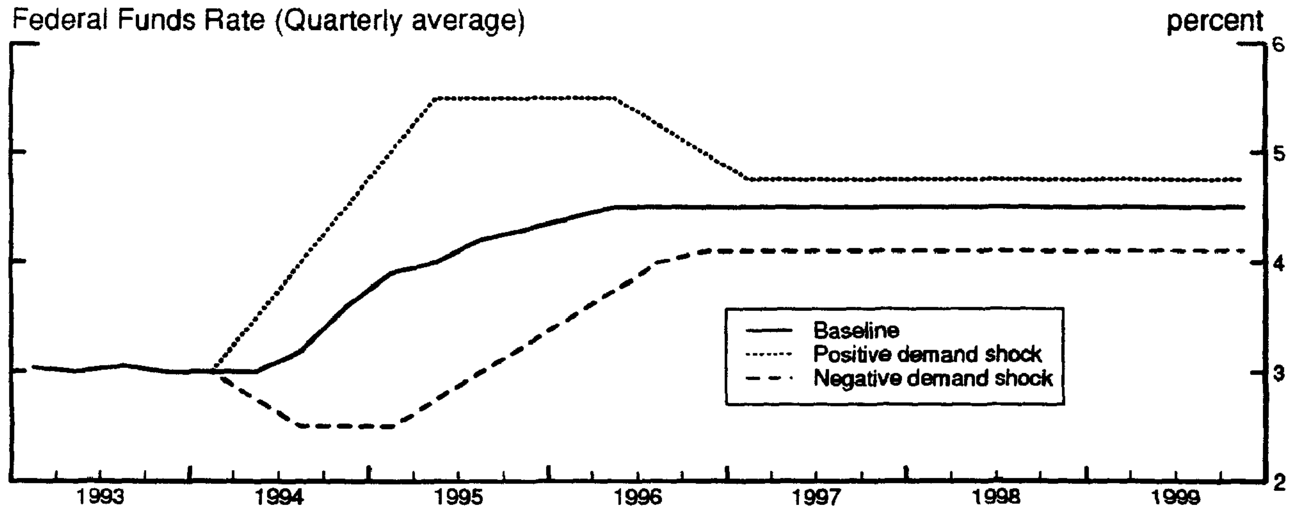
* The unemployment rate is shown on the 1994-survey basis. Observations in 1993 were level-adjusted up 0.6 percentage point. Data points are plotted in the midpoint of each time period.

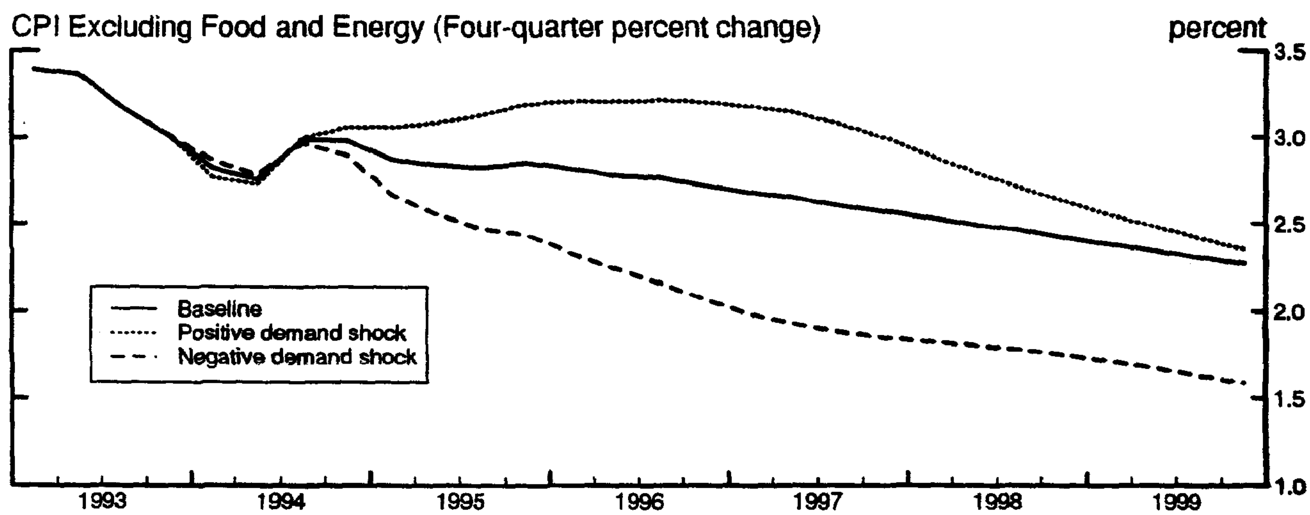
about 7 percent (just under 6-1/2 percent on the old basis). The lack of much deceleration in wage inflation this past year may suggest that the implications of this possibility are worth contemplating. In this circumstance, the inflation rate currently would be under some upward pressure, and the Committee is assumed to adopt a more restrictive stance of policy as that pressure becomes more evident; relative to the baseline, the funds rate is about 50 basis points higher by the end of this year and 100 basis points higher by the end of 1995. Even this tighter stance of policy is not sufficient to prevent a slight pickup in inflation, given both an assumed lag in identification of the higher natural rate and the lag in the response of the economy to the change in policy. Nonetheless, the specified policy eventually restores a downward tilt to inflation, albeit on a higher trajectory than in the baseline. In contrast, if the natural rate is about 6 percent (which is equivalent to the 5-1/2 percent rate, on the current basis that some economists have asserted) then there is considerably more slack in resource utilization than is assumed in the baseline. In these circumstances, the Committee could maintain the funds rate at 3 percent for longer and tighten by less. Even with lower unemployment rates, it would still make more rapid progress toward price stability, as illustrated by the dotted lines in Chart 2.

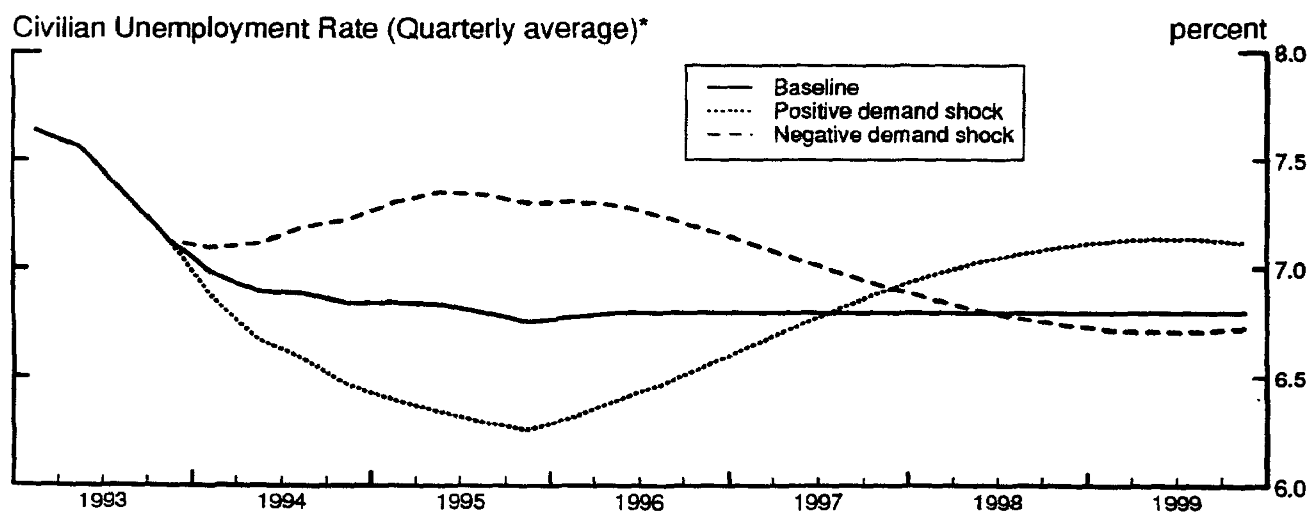
(14) Finally, Chart 3 examines the implications of alternative assumptions about the strength of aggregate demand this year. The dotted lines in Chart 3 depict a scenario in which growth of aggregate demand is about 1 percentage point greater in 1994 than in the baseline, while the dashed lines plot the symmetric case of weaker aggregate demand. In the case of stronger aggregate demand, the Committee is assumed to begin moving the funds rate up sooner and by considerably more this year than in the baseline, as incoming data reveal the demand shift. Still, the unemployment rate falls fairly

Chart 3

ALTERNATIVE AGGREGATE DEMAND ASSUMPTIONS







* The unemployment rate is shown on the 1994-survey basis. Observations in 1993 were level-adjusted up 0.6 percentage point. Data points are plotted in the midpoint of each time period

rapidly--to below the natural rate until the tighter policy takes hold--and inflation edges higher for a time. By contrast, in the case of a shortfall in demand, the Committee is assumed to ease the stance of policy for about a year. Nonetheless, the unemployment rate moves up to about 7-1/4 percent and inflation slows rapidly. Eventually, however, the lower level of interest rates supports sufficient growth to bring the unemployment rate back down.

Long-Run Ranges

(15) To aid the Committee in selecting its money and debt growth ranges for 1994, presented below are the staff's projections and the provisional ranges for 1994 that were selected by the Committee last July.[9]

Growth for Q4 to Q4	Actual 1993	Staff Forecast 1994	Staff Forecast 1995	Provisional 1994 Range
M2	1.4	2	2-1/2	1-5
M3	.6	1-1/2	2	0-4
Debt	4.9	5-1/2	5-1/4	4-8
Nonfederal component	3.7	5-1/4	4-3/4	
M1	10.5	6-1/2	2-1/2	
Nominal GDP	5.1	5-1/2	4-1/2	

(16) The projections of money and credit are consistent with the Greenbook forecast of the economy. In that forecast, growth of nominal GDP in 1994 strengthens a touch from the pace of 1993 before slowing some in 1995 to keep inflation pointed down, albeit modestly, as the economy approaches its potential. As noted in the previous section, real and nominal short-term interest rates rise beginning in the second half of 1994. Long-term rates edge lower over the next few quarters as economic activity decelerates and underlying inflation remains relatively low. Long rates firm a bit subsequently along with the upward movement of short-term rates.

(17) With spending in the staff forecast expected to grow a shade faster than in 1993 and impediments to borrowing and lending considerably diminished, private credit growth over 1994 is projected to remain around the somewhat elevated pace of the second half of 1993. In the business sector, external financing needs rise along with capital outlays, as internal funds expand only sluggishly. While

9. Ranges for previous years and outcomes are shown in appendix B.

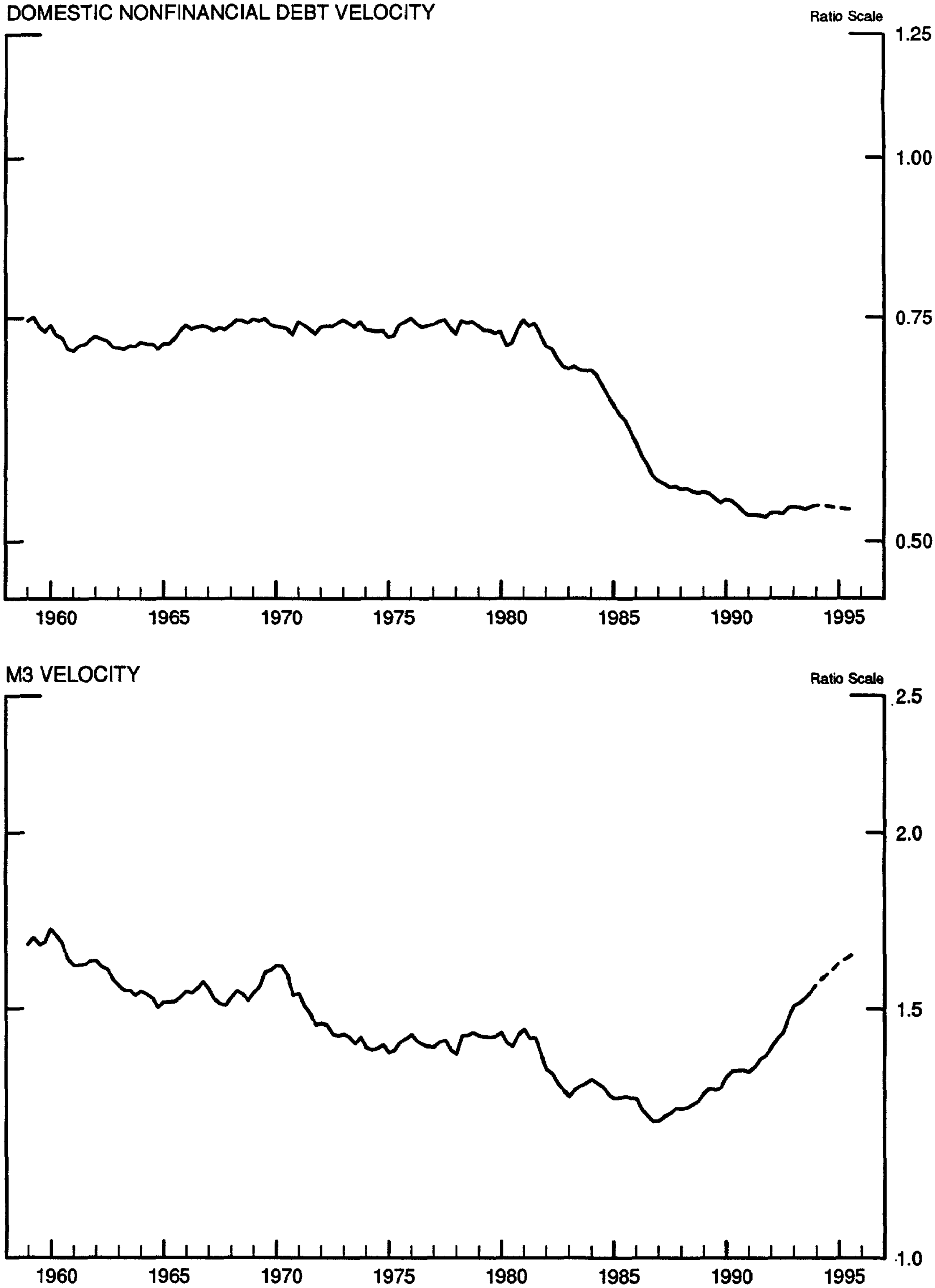
financial conditions will continue to favor raising funds in capital markets, the more willing lending posture of banks and the expanding financing needs of those without access to open markets will boost business loans at banks. Household borrowing should slow a little from the brisk pace of late, in keeping with a cresting of housing activity and less rapid growth in spending on durable goods. Meanwhile, borrowing by governments, both federal and municipal, will moderate with the projected improvement in fiscal positions and sharply curtailed advance refundings of state and local debt. Overall debt of domestic nonfinancial sectors is projected to grow 5-1/2 percent this year, in line with nominal output. (See chart 4.)

(18) M3 in 1994 should be boosted by stronger funding needs of depository institutions. Although bank credit is expected to continue to grow at the moderate 5 percent pace posted in 1993, the contraction in thrift credit should cease. Moreover, banks are expected to rely less on non-M3 sources; with capital at high levels, they are presumed to issue a smaller volume of bonds and equity, more than offsetting further increases in FHLB advances. On balance, M3 is projected to expand 1-1/2 percent in 1994, a percentage point faster than in 1993.

(19) The staff projects that M2 will grow 2 percent in 1994, a bit faster than in 1993. M2 velocity is projected to rise by about 3-1/2 percent in 1994 as households continue to redirect savings into mutual funds, whose yields would remain well above those on deposits and whose availability will be further enhanced by increased offerings through banks. However, this rise in velocity would be the smallest since 1991. Acting to boost M2 growth and slow velocity increases is the expectation that households will show a little less appetite for longer-term investments, especially bond and stock mutual funds. The flattening of the yield curve and smaller capital gains may reduce

Chart 4

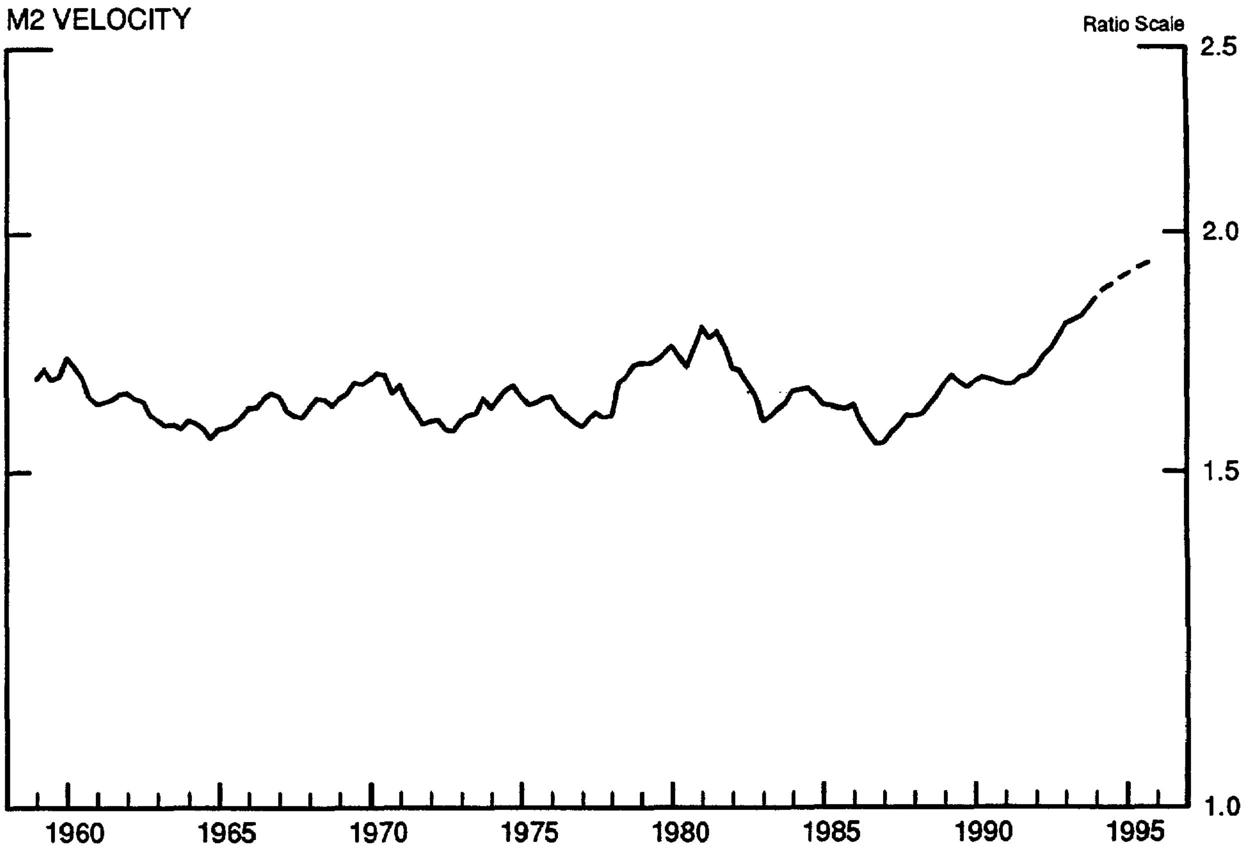
ACTUAL AND PROJECTED VELOCITY OF DEBT AND M3*

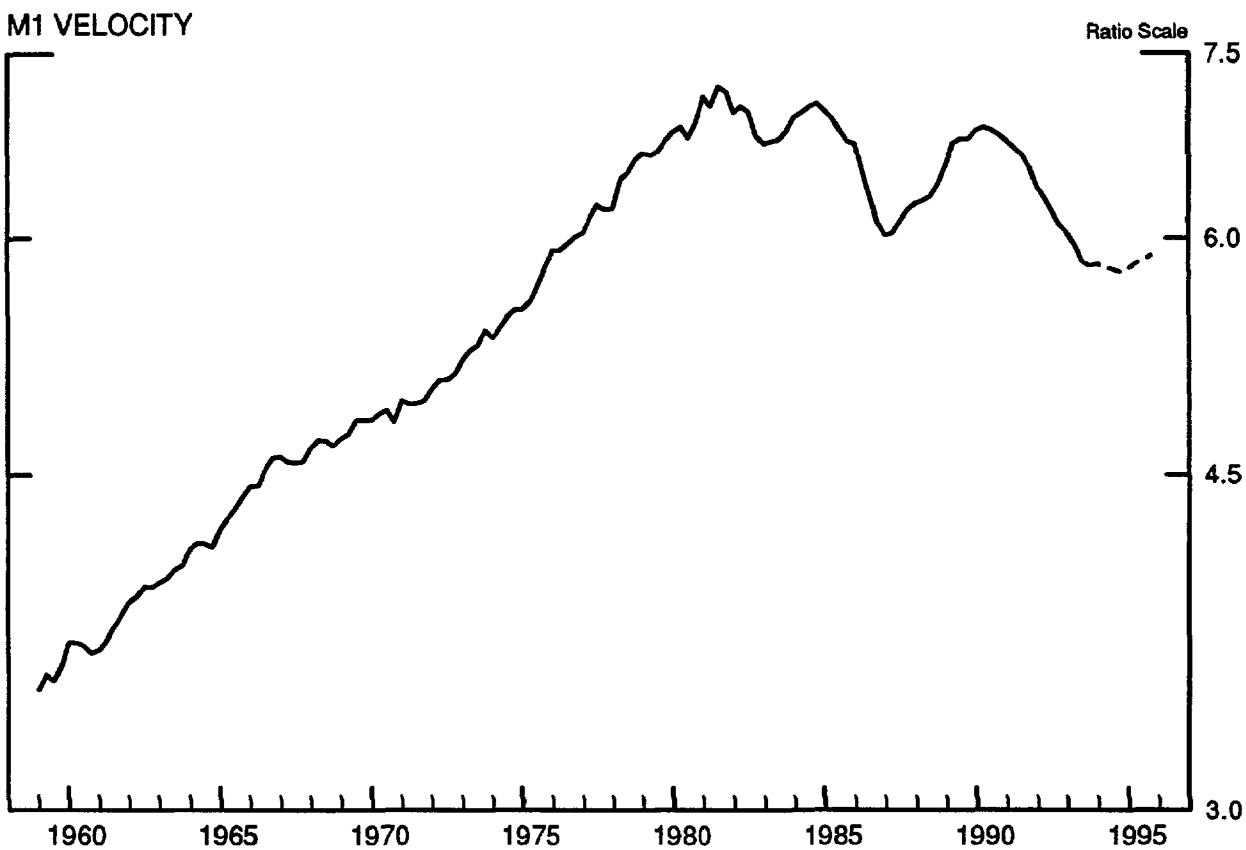


* Projections are based on staff forecasts of GDP, money, and debt.

Chart 5

ACTUAL AND PROJECTED VELOCITY OF M2 AND M1*





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

incentives to shift portfolios; greater emphasis by bank and securities regulators on disclosure of risks inherent in such instruments might also be a factor.[10] On the other hand, the drop-off in mortgage refinancing from the torrid pace of late 1993 will depress the demand deposit component of M2 and limit the pickup in M2 growth this year. In addition, the rise in short-term interest rates later this year will restrain M2 growth, mainly through its effects on M1. M1 is projected to slow appreciably, to 6-1/2 percent in 1994. The new program to sweep balances from NOW accounts to MMDAs at a regional bank will shave M1 growth by about 3/4 of a percentage point, but will have no effect on M2.[11] The velocity of M1 is projected to fall only marginally in 1994, after three years of very large declines.

(20) In 1995, debt growth is projected to grow at a pace near that of 1994, exceeding somewhat the growth of income. The broad money aggregates, however, strengthen a little further as intermediation patterns move closer to historic norms. Thus, despite the moderation in nominal GDP in the staff forecast, M2 growth is projected to pick up to 2-1/2 percent next year. Contributing to this pickup is the expectation of a further reduction in the pace of household investment in competing instruments--especially bond and stock funds--as the yield curve continues to flatten and portfolio allocations move closer to desired alignments. Moreover, the drag on M2 in 1994 from the slowdown in mortgage refinancing activity should not persist into 1995. The firming in short-term interest rates is likely to exert a small degree of restraint on M2 but much more on its M1 component, which is projected to grow only 2-1/2 percent in 1995. Faster growth

10. M2 plus is projected to grow on the order of 4 to 5 percent over 1994, implying a small rise in its velocity.

11. We are not assuming any significant spread of this program to other depositories in the current year; the complexity of the software is said to require long development times.

in M2 in 1995 is expected to show through to M3, which is projected to pick up to 2 percent next year.

(21) Two alternatives are shown below for ranges for the broad monetary aggregates and debt for 1994. Even though the Committee has reduced the importance of these financial aggregates in its conduct of policy and market participants accordingly attach less significance to them, the selection of ranges still can convey useful information to the public about the Committee's expectations for growth in money and credit consistent with its outlook and intentions for the economy and inflation. Alternative I consists of the provisional ranges set by the Committee in July for 1994, which were identical to those put in effect last summer for 1993. Alternative II lowers the ranges for M2 and debt, centering them on the staff's projections.

Alternative Money and Debt Ranges for 1994
(Percent)

	1993 ranges	Alt. I (Provisional ranges)	Alt. II	Memo: Staff projection
M2	1-5	1-5	0-4	2
M3	0-4	0-4	0-4	1-1/2
Debt	4-8	4-8	3-1/2 - 7-1/2	5-1/2

(22) In addition to being about centered on the staff's projections for money and credit, alternative II might be selected as a means of underscoring the Committee's commitment to containing and reducing inflation. If, for example, a pickup in money growth were to accompany a continued strong and potentially overheating economy, the Committee might be better positioned to take and explain prompt actions under this alternative than under the higher provisional ranges. Moreover, if the Committee tightened reserve conditions to forestall a potential strengthening of inflation pressures or to bring inflation down more rapidly--as in the tighter scenario above--the alternative

II ranges would allow more scope for the lower money growth that might accompany moderate nominal GDP expansion with higher interest rates than in the staff forecast. This alternative might also be favored if it were thought that further large downward shifts in M2 demand are still in prospect, posing a significant risk that M2 in 1994 could come in below the lower end of its provisional range, even under the staff economic forecast.

(23) The staff's M2 forecast is in the lower half of the alternative I range. This range allows for a greater move toward more normal velocity behavior than the staff has assumed, should, for example, public appetites for mutual funds fall off more rapidly than expected. Even absent such a shift, the alternative I ranges would not necessarily present problems should the Committee substantially firm reserve conditions. The responsiveness of M2 to movements in short-term rates has been muted in recent years, and growth of this aggregate could still exceed 1 percent if short-term rates rose significantly. In part this is because rising short-term rates are likely to be accompanied by some declines in bond and possibly stock prices, damping shifts to mutual funds from M2 and supporting the aggregate's growth. Moreover, the M2 ranges in alternative I would be consistent with the attainment of price stability in the context of a return over time to a flat trend in M2 velocity, as the staff assumed in constructing the money growth rates for the long-run strategies. With flat velocity, M2 growth of about 3 percent--the midpoint of alternative I--would accompany nominal income growth of the same magnitude consistent with the staff's estimate of growth in potential output, given the upward bias in measured inflation rates.

Short-Run Policy Alternatives

(24) Three policy alternatives are presented below for Committee consideration. Alternative B involves a continuation of federal funds trading around 3 percent and of adjustment plus seasonal borrowing averaging initially about $50 million.[12] Under alternative C, the federal funds rate would increase to around 3-1/2 percent in association with a rise in the borrowing allowance to $75 million. Alternative A embodies a downward adjustment of the federal funds rate to 2-1/2 percent and of the borrowing allowance to $25 million.

(25) Market participants now anticipate continuation of the money market conditions implied by alternative B over the near term, and FOMC choice of this alternative would not engender any immediate reaction in security markets. Investors generally expect the Federal Reserve to put off any policy tightening for a time, given uncertainties about the extent of moderation in economic activity and about developing price trends in early 1994--uncertainties that have been heightened by the earthquake and severe weather. Nevertheless, most anticipate a tightening within a few months as incoming data suggest only a limited slowing in economic growth and a cessation of disinflation. As the intermeeting period progresses, economic data along the lines of the staff forecast might put modest upward pressure on short-term interest rates as the time of expected tightening approaches, but would induce little systematic movement in longer-term rates. The exchange value of the dollar also is likely to trade in a relatively narrow range around current levels.

(26) The firming in the stance of policy under alternative C would come sooner than now built into market quotes and would be reflected in increases in short-term rates nearly equal to the 50 basis

12. The borrowing allowance may need to be raised toward the end of this intermeeting period to take account of the usual rise in seasonal borrowing.

point hike in the federal funds rate. The action might help to resolve any questions about whether the Federal Reserve would take steps to contain price pressures in advance of actual increases in inflation. If so, forward interest rates further out the yield curve might eventually even adjust down slightly, tempering the ultimate rise in longer-term rates. The exchange value of the dollar would tend to move higher with the more attractive real returns on U.S. versus foreign financial assets.

(27) The easing of policy under alternative A would come as more of a surprise to market participants. Some could interpret the action as a response by Federal Reserve policymakers to weaker internal economic forecasts than the market consensus, perhaps owing to concerns about upcoming fiscal drag. But others would be led to question the Federal Reserve's anti-inflationary resolve. In those circumstances, an adverse impact on inflation expectations could well result, preventing much of a decline in bond yields. Even the fall in short-term rates could be muted by the view that the policy ease would soon have to be reversed to forestall excessive price pressures. The dollar's exchange value could be lowered by both the reduced U.S. short-term rates and heightened concerns about U.S. inflation.

(28) Growth of the monetary aggregates projected under all three policy alternatives from January to June is shown in the table below. (More detailed data are presented in the table and charts on the following pages.) Under all the alternatives, M2 growth is expected to be in the neighborhood of 2 percent and M3 growth a little over 1 percent. Consequently, these aggregates would be positioned at midyear well within their provisional ranges, with M2 in its lower portion and M3 somewhat below its midpoint. As usual, only modest growth differentials are envisioned across the three alternatives,

mirroring the low sensitivity to short-term rates of M2 and M3 so far in the 1990s.

	Alt. A	Alt. B	Alt. C
Growth from January to June			
M2	2-1/4	2	1-3/4
M3	1-1/2	1-1/4	1
M1	7-1/2	6-3/4	6
Growth from 1993:Q4 to June			
M2	2-1/4	2	1-3/4
M3	1-3/4	1-1/2	1-1/4
M1	7-1/4	6-3/4	6-1/4

(29) M2 growth likely will be held down under alternative B by a reversal of the previous bulge attributable to mortgage refinancing activity, which had boosted average M2 growth by an estimated 1 percentage point during the October through December months, before becoming a minor drag in January. Over the February-to-June period, falling prepayments of mortgage-backed securities are projected to deduct 1 to 2 percentage points from M2 growth.[13] Nevertheless, the underlying trend of M2 is anticipated to strengthen enough to leave actual M2 growth at a 2 percent rate from January to June. Inflows to bond and stock mutual funds through June should be somewhat weaker than the pace of last year, as a result of the flatter yield curve and likely smaller capital gains.[14] In addition, previous declines in offering rates on liquid deposits evidently have brought them into full alignment with money market rates, so this drag on M2 expansion

13. With demand deposits most affected by mortgage refinancing activity, M1 growth from January to June will be depressed by around 4 percentage points by this special factor under alternative B. Growth of M1 is projected at 6-3/4 percent over this period, implying growth of total reserves and the monetary base of 4-3/4 and 9-1/2 percent, respectively.

14. The staff projects that M2 plus bond and stock mutual funds will grow at about a 4 percent rate from January to June.

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in Billions									
Nov-93	3558.8	3558.8	3558.8	4218.0	4218.0	4218.0	1122.4	1122.4	1122.4
Dec-93	3565.3	3565.3	3565.3	4229.0	4229.0	4229.0	1128.4	1128.4	1128.4
Jan-94	3570.9	3570.9	3570.9	4232.7	4232.7	4232.7	1133.5	1133.5	1133.5
Feb-94	3578.3	3576.6	3574.8	4239.0	4238.0	4236.9	1141.4	1140.2	1139.1
Mar-94	3584.9	3582.2	3579.5	4243.3	4241.2	4239.0	1147.4	1145.4	1143.5
Apr-94	3591.3	3588.0	3584.8	4248.8	4246.1	4243.2	1154.7	1152.1	1149.6
May-94	3597.8	3593.9	3590.0	4253.5	4250.4	4246.6	1162.6	1159.3	1156.3
Jun-94	3603.9	3599.7	3595.5	4258.5	4254.6	4250.2	1168.8	1165.1	1161.7
Monthly Growth Rates									
Nov-93	3.6	3.6	3.6	3.6	3.6	3.6	9.7	9.7	9.7
Dec-93	2.2	2.2	2.2	3.1	3.1	3.1	6.4	6.4	6.4
Jan-94	1.9	1.9	1.9	1.0	1.0	1.0	5.4	5.4	5.4
Feb-94	2.5	1.9	1.3	1.8	1.5	1.2	8.3	7.1	5.9
Mar-94	2.2	1.9	1.6	1.2	0.9	0.6	6.3	5.5	4.7
Apr-94	2.2	2.0	1.8	1.6	1.4	1.2	7.6	7.0	6.4
May-94	2.2	2.0	1.8	1.4	1.2	1.0	8.1	7.5	6.9
Jun-94	2.1	2.0	1.9	1.4	1.2	1.0	6.4	6.0	5.6
Quarterly Averages									
93 Q3	2.7	2.7	2.7	1.3	1.3	1.3	12.0	12.0	12.0
93 Q4	2.0	2.0	2.0	2.4	2.4	2.4	9.4	9.4	9.4
94 Q1	2.3	2.2	2.0	2.0	1.9	1.8	6.9	6.5	6.2
94 Q2	2.2	1.9	1.7	1.4	1.2	1.0	7.4	6.7	6.0
Growth Rate									
From — To									
Jun-93 — Dec-93	2.1	2.1	2.1	1.9	1.9	1.9	9.6	9.6	9.6
Nov-93 — Mar-94	2.2	2.0	1.7	1.8	1.7	1.5	6.7	6.1	5.6
Dec-93 — Mar-94	2.2	1.9	1.6	1.4	1.2	0.9	6.7	6.0	5.4
Mar-94 — Jun-94	2.1	2.0	1.8	1.4	1.3	1.1	7.5	6.9	6.3
Jan-94 — Jun-94	2.2	1.9	1.7	1.5	1.2	1.0	7.5	6.7	6.0
92 Q4 — Dec-93	1.5	1.5	1.5	0.8	0.8	0.8	10.3	10.3	10.3
93 Q4 — Jan-94	2.3	2.3	2.3	2.2	2.2	2.2	6.5	6.5	6.5
93 Q4 — Mar-94	2.3	2.1	1.9	1.8	1.7	1.5	7.0	6.4	5.9
93 Q4 — Jun-94	2.2	2.0	1.8	1.7	1.5	1.3	7.2	6.7	6.2
90 Q4 — 91 Q4	2.9	2.9	2.9	1.2	1.2	1.2	7.9	7.9	7.9
91 Q4 — 92 Q4	1.9	1.9	1.9	0.5	0.5	0.5	14.3	14.3	14.3
92 Q4 — 93 Q4	1.4	1.4	1.4	0.6	0.6	0.6	10.5	10.5	10.5

1993 Target Ranges: M2 1.0 to 5.0; M3 0.0 to 4.0

1994 Target Ranges: M2 1.0 to 5.0; M3 0.0 to 4.0
(Tentative)

Chart 6

ACTUAL AND TARGETED M2

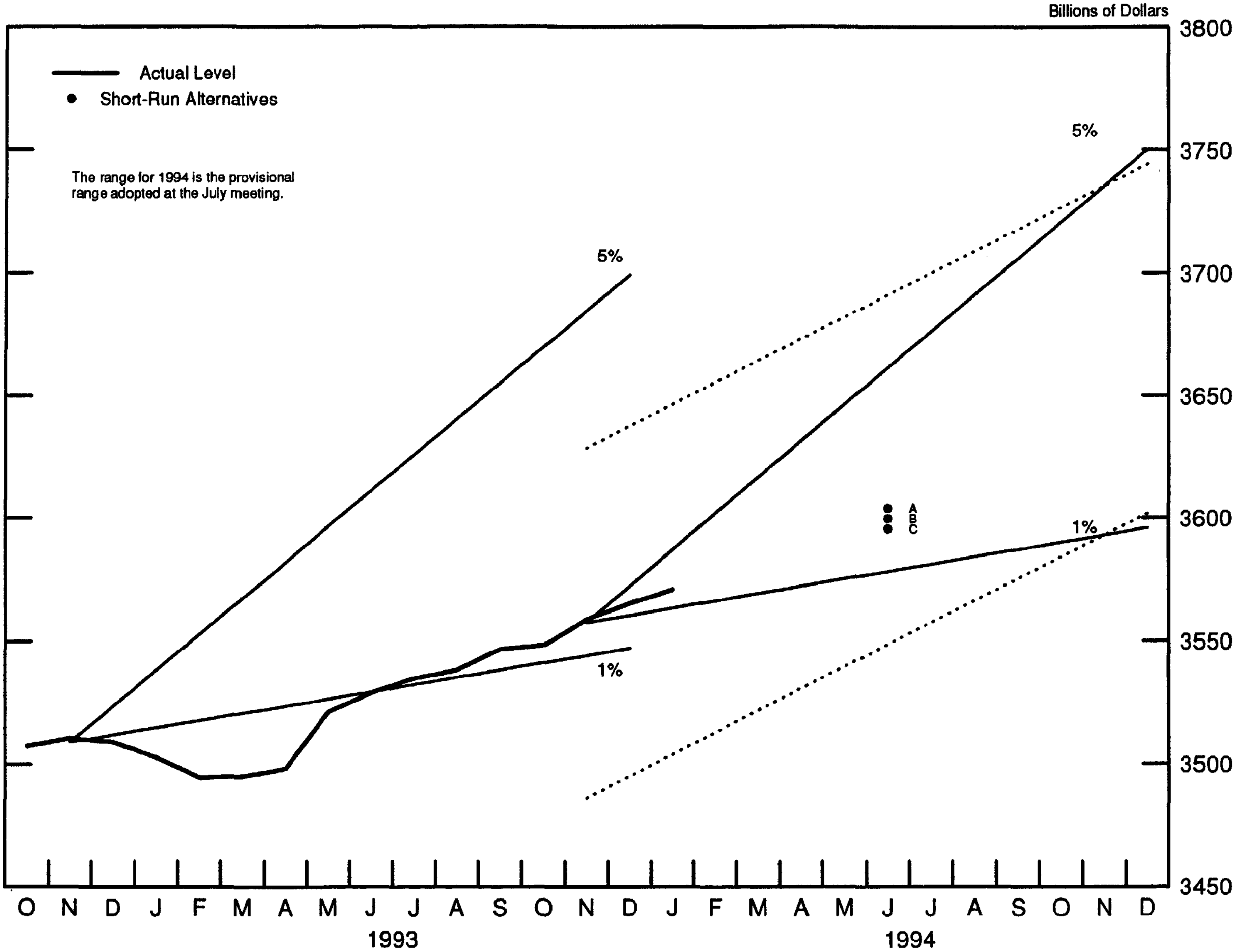


Chart 7

ACTUAL AND TARGETED M3

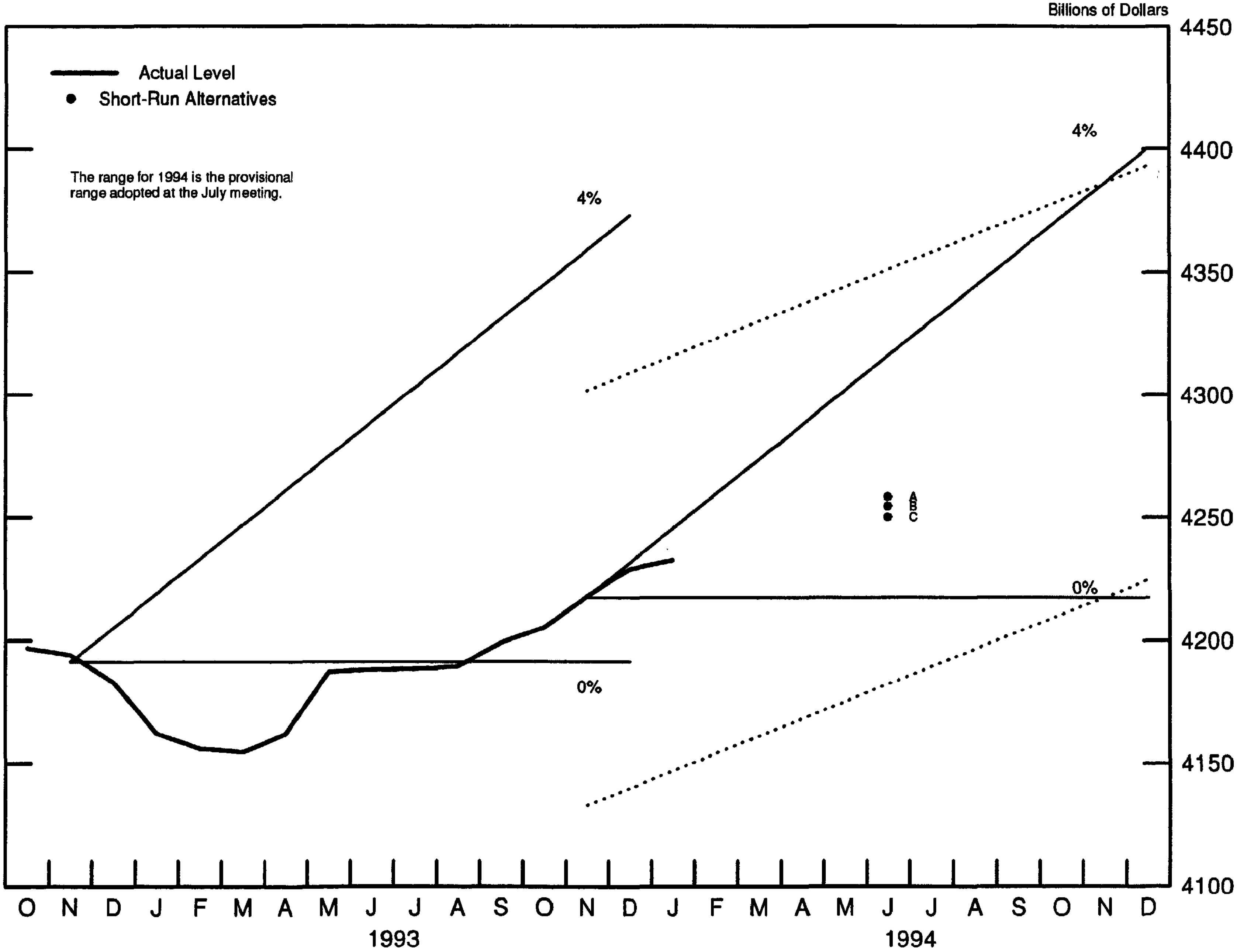


Chart 8

M1

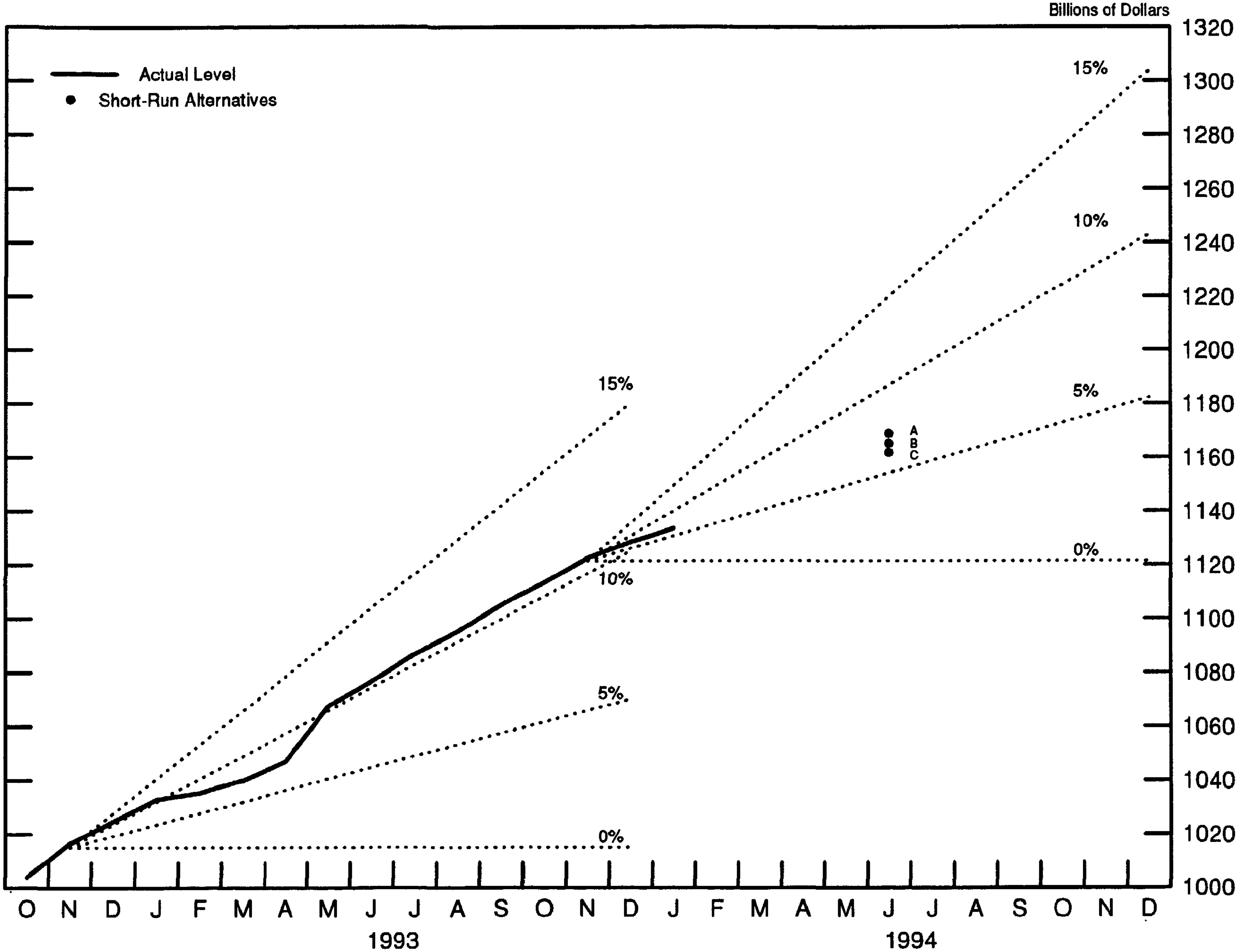
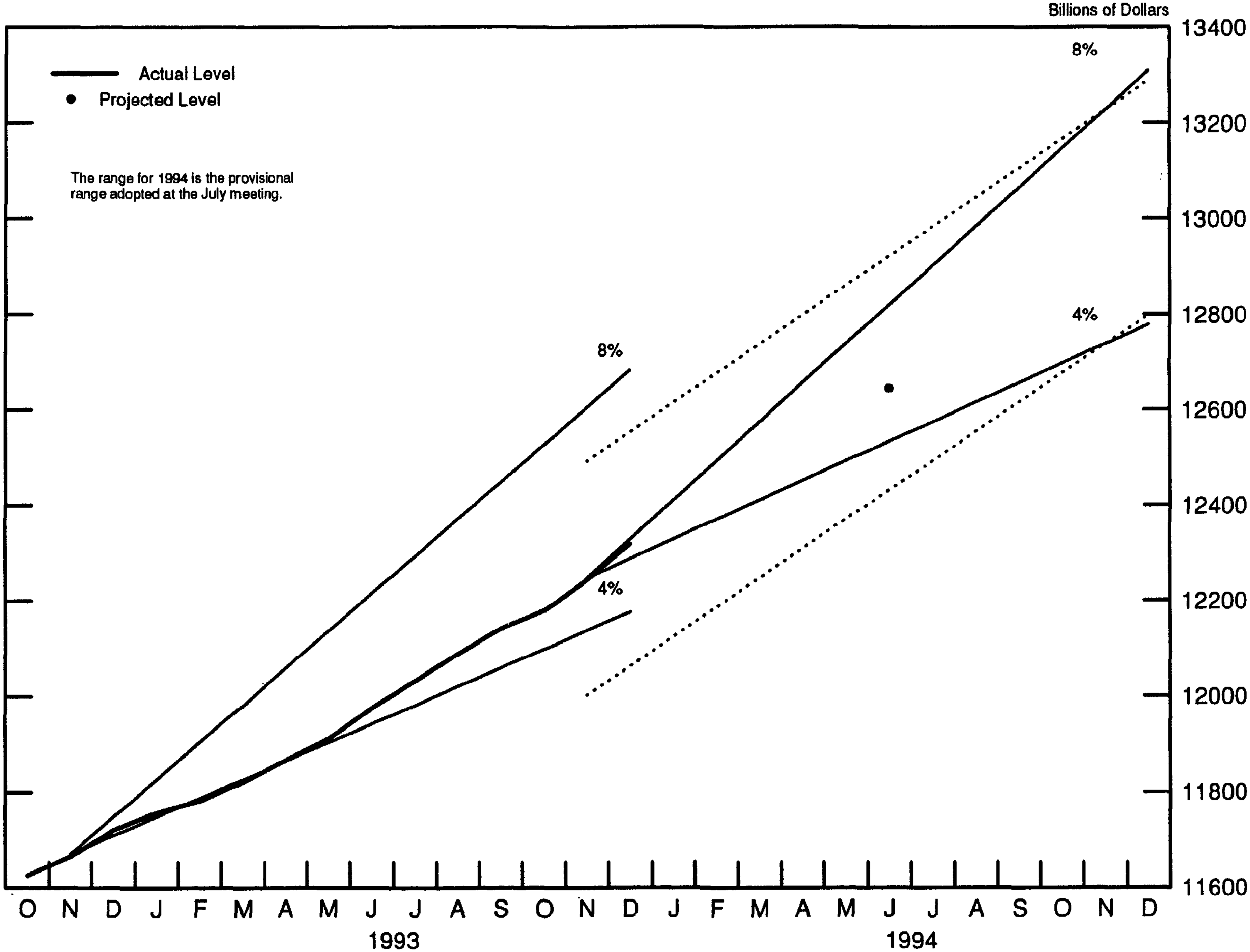

Billions of Dollars
Actual Level
Short-Run Alternatives
15%
10%
5%
0%
15%
10%
5%
0%
A
B
C
1320
1300
1280
1260
1240
1220
1200
1180
1160
1140
1120
1100
1080
1060
1040
1020
1000
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1993
1994

Chart 9

Debt



Billions of Dollars
Actual Level
Projected Level
The range for 1994 is the provisional range adopted at the July meeting.
8%
4%
8%
4%
13400
13200
13000
12800
12600
12400
12200
12000
11800
11600
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1993
1994

may well have finally played itself out. Even so, the underlying trend of M2 growth is likely to remain below that of nominal spending, as some of the anomalous weakness relative to historical patterns that surfaced in the 1990s is assumed to persist.

(30) M3 is projected to expand at a 1-1/4 percent rate from January to June under alternative B. The growth of debt of domestic nonfederal sectors from December to June is projected at a 5-1/4 percent rate, sustaining the faster growth rate recorded during the fourth quarter of last year. The overall debt aggregate is foreseen as expanding at a 5-1/2 percent rate through midyear, leaving this measure somewhat below the midpoint of its provisional monitoring range.

<u>Directive Language</u>

(31) Presented below for Committee consideration is draft language relating to the Humphrey-Hawkins ranges for 1994 and the operating paragraph for the intermeeting period.

<u>1994 Ranges</u>

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at THIS ~~its~~ meeting ~~in July lowered the~~ ESTABLISHED ranges ~~it had established in February~~ for growth of M2 and M3 OF ___ TO ___ ~~ranges of 1 to 5~~ percent and ___ TO ___ ~~0 to 4~~ percent respectively, measured from the fourth quarter of 1993 ~~1992~~ to the fourth quarter of 1994 ~~1993~~. The Committee anticipated that developments contributing to unusual velocity increases COULD ~~would~~ persist ~~over the balance of~~ DURING the year and that money growth within these ~~lower~~ ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt ~~also~~ was SET AT ___ TO ___ ~~lowered to 4 to 8~~ percent for the year. ~~For 1994, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1993 to the fourth quarter of 1994, of 1 to 5 percent for M2 and 0 to 4 percent for M3. The Committee provisionally set the monitoring range for growth of total domestic nonfinancial debt at 4 to 8 percent for 1994.~~ The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/maintain/INCREASE SOMEWHAT the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly (SOMEWHAT) greater reserve restraint (WOULD/MIGHT) or slightly (SOMEWHAT) lesser reserve restraint (WOULD) might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate (MODEST) growth in M2 and M3 over THE FIRST HALF OF 1994 ~~coming months~~.

APPENDIX A

MONEY STOCK REVISIONS

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

Benchmark Revisions

Data for the monetary aggregates have been benchmarked using call reports through September 1993 and other sources. The benchmark revisions did not affect the annual growth rates of M1, M2, or M3 over 1993, and for earlier years annual growth rates were revised by no more than .2 percentage point.

The benchmark folded in historical data for several money market mutual funds that began reporting for the first time during 1993, and, based on new information from the Investment Company Institute, also reclassified some institutional money funds as retail money funds, moving them from non-M2 M3 into M2. These revisions were distributed over a number of years; by the fourth quarter of 1993, they raised the level of M2 by $14 billion and the level of M3 by $11 billion. The benchmark also incorporated new estimates of money funds' holdings of overnight RPs, which are netted out of the aggregates at both the M2 and M3 levels. These revisions, which extend back to 1975, shifted up the level of M2 by as much as $5 billion and the level of M3 by as much as $8 billion over the last decade. Numerous other, smaller revisions were also made to the aggregates.

The scope of the annual benchmark was somewhat smaller this year than in past years. Beginning in 1993, we have begun to incorporate certain data series from Call reports into the aggregates as soon as these series become available. In previous years, these data were folded in only at the time of the annual benchmark.

Seasonal Factor Revisions

Seasonal factors for the monetary aggregates have been revised using the X-11 ARIMA procedure applied to the benchmarked data through December 1993. The seasonal adjustment procedure used this year is identical to that employed for the past few years.

Overall, the revisions to seasonal factors shifted the growth of the major monetary aggregates from the second half to the first half of the year 1993. The growth rates for the first half of 1993 were raised 1.0 percentage point for M1, and 0.3 percentage point for M2 and for M3, with corresponding downward revisions in the second half of the year.

Appendix Table A.1

Comparison of Revised and Old M1 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference (1) - (2)	Difference due to Benchmark	Difference due to Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1992--Oct.	18.2	19.3	-1.1	0.2	-1.3
Nov.	14.8	15.6	-0.8	0.0	-0.8
Dec.	9.7	8.8	0.9	0.1	0.8
1993--Jan.	9.6	7.7	1.9	-0.2	2.1
Feb.	2.8	-0.2	3.0	0.1	2.9
Mar.	5.6	2.6	3.0	0.1	2.9
Apr.	8.0	9.0	-1.0	-0.5	-0.5
May	23.6	27.5	-3.9	0.0	-3.9
June	10.0	7.2	2.8	0.0	2.8
July	11.4	13.4	-2.0	0.1	-2.1
Aug.	9.4	10.1	-0.7	0.2	-0.9
Sept.	10.7	13.6	-2.9	-0.2	-2.7
Oct.	9.0	10.4	-1.4	0.1	-1.5
Nov.	9.7	10.2	-0.5	0.3	-0.8
Dec.	6.4	5.6	0.8	-0.1	0.9
1994--Jan.	5.4	3.1	2.3	0.2	2.1
Quarterly					
1992--QIV	15.9	16.8	-0.9	0.1	-1.0
1993--QI	8.3	6.5	1.8	0.0	1.8
QII	10.7	10.6	0.1	-0.1	0.2
QIII	12.0	13.0	-1.0	0.0	-1.0
QIV	9.4	10.6	-1.2	0.1	-1.3
Semi-Annual					
1993--QIV '92 to QII '93	9.6	8.6	1.0	0.0	1.0
QII '93 to QIV '93	10.8	11.9	-1.1	0.1	-1.2
Annual (QIV TO QIV)					
1992	14.3	14.3	0.0	0.1	-0.1
1993	10.5	10.5	0.0	0.0	0.0

Appendix Table A.2

Comparison of Revised and Old M2 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference (1) - (2)	Difference due to Benchmark	Difference due to Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1992--Oct.	3.7	3.6	0.1	0.3	-0.2
Nov.	1.0	1.6	-0.6	-0.2	-0.4
Dec.	-0.5	-0.5	0.0	0.1	-0.1
1993--Jan.	-2.1	-3.1	1.0	-0.5	1.5
Feb.	-2.9	-4.0	1.1	-0.2	1.3
Mar.	0.2	-0.9	1.1	0.4	0.7
Apr.	1.1	0.8	0.3	0.1	0.2
May	8.0	10.1	-2.1	0.5	-2.6
June	2.6	2.3	0.3	0.0	0.3
July	2.0	2.1	-0.1	-0.2	0.1
Aug.	1.1	1.1	0.0	0.1	-0.1
Sept.	2.8	4.1	-1.3	-0.2	-1.1
Oct.	0.5	0.7	-0.2	0.1	-0.3
Nov.	3.6	4.0	-0.4	0.0	-0.4
Dec.	2.2	2.3	-0.1	0.0	-0.1
1994--Jan.	1.9	0.1	1.8	0.1	1.7
Quarterly					
1992--QIV	2.3	2.4	-0.1	0.2	-0.3
1993--QI	-1.3	-2.0	0.7	-0.2	0.9
QII	2.2	2.1	0.1	0.2	-0.1
QIII	2.7	3.0	-0.3	0.0	-0.3
QIV	2.0	2.4	-0.4	0.0	-0.4
Semi-Annual					
1993--QIV '92 to QII '93	0.4	0.1	0.3	0.1	0.2
QII '93 to QIV '93	2.3	2.7	-0.4	0.0	-0.4
Annual (QIV TO QIV)					
1992	1.9	1.7	0.2	0.2	0.0
1993	1.4	1.4	0.0	0.0	0.0

Appendix Table A.3

Comparison of Revised and Old M3 Growth Rates
(percent changes at annual rates)

	Revised	Old	Difference (1) - (2)	Difference due to Benchmark	Difference due to Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1992--Oct.	-1.0	-1.1	0.1	0.8	-0.7
Nov.	-0.8	-1.1	0.3	0.5	-0.2
Dec.	-3.2	-3.8	0.6	0.3	0.3
1993--Jan.	-5.9	-7.3	1.4	-0.1	1.5
Feb.	-1.8	-1.8	0.0	-0.6	0.6
Mar.	-0.4	-1.3	0.9	0.0	0.9
Apr.	2.1	3.1	-1.0	0.0	-1.0
May	7.2	8.0	-0.8	1.6	-2.4
June	0.3	-0.4	0.7	-0.2	0.9
July	0.1	-0.5	0.6	0.1	0.5
Aug.	0.3	0.6	-0.3	-0.5	0.2
Sept.	2.7	3.9	-1.2	-0.2	-1.0
Oct.	1.7	2.0	-0.3	0.4	-0.7
Nov.	3.6	3.7	-0.1	0.2	-0.3
Dec.	3.1	2.8	0.3	-0.1	0.4
1994--Jan.	1.0	-0.8	1.8	0.0	1.8
Quarterly					
1992--QIV	-0.3	-0.5	0.2	0.5	-0.3
1993--QI	-3.2	-3.9	0.7	0.0	0.7
QII	2.1	2.3	-0.2	0.3	-0.5
QIII	1.3	1.2	0.1	0.0	0.1
QIV	2.4	2.8	-0.4	0.1	-0.5
Semi-Annual					
1993--QIV '92 to QII '93	-0.6	-0.9	0.3	0.2	0.1
QII '93 to QIV '93	1.8	2.0	-0.2	0.1	-0.3
Annual (QIV TO QIV)					
1992	0.5	0.3	0.2	0.2	0.0
1993	0.6	0.6	0.0	0.1	-0.1

Appendix Table A.4

Revisions to the Monetary Aggregates
(4th quarter-to-4th quarter growth rates)
(in percent)

	M1 seasonally adjusted			M2 seasonally adjusted			M3 seasonally adjusted		
	Old	Revised	Diff	Old	Revised	Diff	Old	Revised	Diff
1980	7.4	7.4	-	8.9	8.9	-	9.5	9.6	+.1
1981	5.4	5.4	-	9.3	9.3	-	12.3	12.4	+.1
1982	8.8	8.8	-	9.1	9.2	+.1	9.9	9.9	-
1983	10.4	10.4	-	12.2	12.2	-	9.9	9.9	-
1984	5.5	5.5	-	8.1	8.1	-	10.8	10.9	+.1
1985	12.0	12.0	-	8.7	8.7	-	7.6	7.6	-
1986	15.5	15.5	-	9.3	9.3	-	8.9	8.9	-
1987	6.3	6.3	-	4.3	4.3	-	5.8	5.7	-.1
1988	4.3	4.3	-	5.3	5.3	-	6.4	6.3	-.1
1989	.6	.6	-	4.7	4.8	+.1	3.7	3.8	+.1
1990	4.3	4.2	-.1	4.0	4.0	-	1.8	1.7	-.1
1991	8.0	7.9	-.1	2.8	2.9	+.1	1.1	1.2	+.1
1992	14.3	14.3	-	1.7	1.9	+.2	.3	.5	+.2
1993	10.5	10.5	-	1.4	1.4	-	.6	.6	-

Appendix B

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

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

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

n.s.--not specified.

Footnotes on following page

1. Targets are for bank credit until 1983; from 1983 onward targets are for domestic nonfinancial sector debt.

2. The figures shown reflect target and actual growth of M1-B in 1980 and shift-adjusted M1-B in 1981. M1-B was relabelled M1 in January 1982. The targeted growth for M1-A was 3-1/2 to 6 percent in 1980 (actual growth was 5.0 percent); in 1981 targeted growth for shift-adjusted M1-A was 3 to 5-1/2 percent (actual growth was 1.3 percent).

3. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.

4. Adjusted for the effects of shifts out of demand deposits and savings deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -4-1/2 to -2 and 6 to 8-1/2 percent, respectively. Actual M1-B growth (not shift adjusted) was 5.0 percent.

5. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.

6. Range for bank credit is annualized growth from the December 1981-January 1982 average level through the fourth quarter of 1982.

7. Base period, adopted at the July 1983 FOMC meeting, is QII'83. At the February 1983 meeting, the FOMC had adopted a QIV'82 to QIV'83 target range for M1 of 4 to 8 percent.

8. Base period is the February-March 1983 average.

9. Base period, adopted at the July 1985 FOMC meeting, is QII'85. At the February 1985 meeting, the FOMC had adopted a QIV'84 to QIV'85 target range for M1 of 4 to 7 percent.

10. No range for M1 has been specified since the February 1987 FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.

11. At the February 1990 meeting, the FOMC specified a range of 2-1/2 to 6-1/2 percent. This range was lowered to 1 to 5 percent at the July 1990 meeting.

12. At the February 1993 meeting, the FOMC specified a range of 2 to 6 percent for M2, 1/2 to 4-1/2 percent for M3, and 4-1/2 to 8-1/2 percent for domestic nonfinancial debt. These ranges were lowered to 1 to 5 percent for M2, 0 to 4 percent for M3, and 4 to 8 percent for domestic nonfinancial debt at the July 1993 meeting.

1/27/94 (MARP)

Table 1

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year	3-month	1-month			3-year	10-year	30-year			fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
92 -- High	4.20	4.05	4.22	4.51	4.32	5.02	4.51	6.50	6.32	7.65	8.07	8.99	6.87	9.09	9.03	6.22
-- Low	2.86	2.69	2.82	2.91	3.07	3.17	2.74	6.00	4.24	6.30	7.29	8.06	6.12	7.73	7.84	4.97
93 -- High	3.24	3.12	3.27	3.48	3.36	3.44	2.92	6.00	5.06	6.73	7.46	8.28	6.44	8.17	8.14	5.36
-- Low	2.87	2.82	2.94	3.07	3.06	3.07	2.59	6.00	4.07	5.24	5.83	6.79	5.41	6.72	6.74	4.14
Monthly																
Jan 93	3.02	3.00	3.14	3.35	3.19	3.21	2.83	6.00	4.93	6.60	7.34	8.13	6.40	8.03	8.02	5.23
Feb 93	3.03	2.93	3.07	3.25	3.12	3.14	2.72	6.00	4.58	6.26	7.09	7.80	6.12	7.65	7.68	4.98
Mar 93	3.07	2.95	3.05	3.20	3.11	3.15	2.66	6.00	4.40	5.98	6.82	7.61	5.85	7.57	7.50	4.79
Apr 93	2.96	2.87	2.97	3.11	3.09	3.13	2.65	6.00	4.30	5.97	6.85	7.66	5.99	7.46	7.47	4.71
May 93	3.00	2.96	3.07	3.23	3.10	3.11	2.62	6.00	4.40	6.04	6.92	7.75	5.92	7.48	7.47	4.65
Jun 93	3.04	3.07	3.20	3.39	3.21	3.19	2.62	6.00	4.53	5.96	6.81	7.59	5.87	7.41	7.42	4.64
Jul 93	3.06	3.04	3.16	3.33	3.16	3.15	2.64	6.00	4.43	5.81	6.63	7.43	5.80	7.19	7.21	4.56
Aug 93	3.03	3.02	3.14	3.30	3.14	3.14	2.64	6.00	4.36	5.68	6.32	7.16	5.67	7.05	7.11	4.48
Sep 93	3.09	2.95	3.06	3.22	3.12	3.14	2.65	6.00	4.17	5.36	6.00	6.94	5.50	6.89	6.92	4.36
Oct 93	2.99	3.02	3.12	3.25	3.24	3.14	2.65	6.00	4.18	5.33	5.94	6.91	5.48	6.85	6.83	4.25
Nov 93	3.02	3.10	3.26	3.42	3.35	3.15	2.66	6.00	4.50	5.72	6.21	7.25	5.71	7.32	7.16	4.24
Dec 93	2.96	3.06	3.23	3.45	3.26	3.35	2.70	6.00	4.54	5.77	6.25	7.28	5.59	7.27	7.17	4.23
Weekly																
Oct 13 93	2.91	3.00	3.09	3.21	3.22	3.15	2.64	6.00	4.12	5.28	5.94	6.79	5.41	6.72	6.81	4.33
Oct 20 93	2.97	3.03	3.11	3.24	3.22	3.13	2.65	6.00	4.11	5.24	5.83	6.97	5.44	6.87	6.74	4.14
Oct 27 93	2.97	3.06	3.17	3.30	3.26	3.14	2.64	6.00	4.24	5.42	5.98	6.97	5.56	6.94	6.86	4.19
Nov 3 93	3.04	3.07	3.22	3.37	3.34	3.15	2.66	6.00	4.39	5.54	6.03	7.25	5.72	7.26	7.11	4.17
Nov 10 93	2.96	3.09	3.25	3.40	3.36	3.15	2.65	6.00	4.49	5.70	6.20	7.23	5.69	7.24	7.12	4.28
Nov 17 93	3.03	3.10	3.24	3.39	3.34	3.15	2.67	6.00	4.45	5.67	6.17	7.37	5.70	7.38	7.08	4.20
Nov 24 93	2.98	3.12	3.27	3.47	3.35	3.14	2.67	6.00	4.55	5.82	6.31	7.27	5.74	7.38	7.31	4.30
Dec 1 93	3.09	3.12	3.27	3.46	3.35	3.15	2.69	6.00	4.53	5.80	6.27	7.24	5.71	7.37	7.25	4.31
Dec 8 93	2.92	3.10	3.26	3.44	3.35	3.44	2.69	6.00	4.53	5.75	6.21	7.24	5.53	7.17	7.14	4.25
Dec 15 93	2.94	3.05	3.24	3.47	3.26	3.36	2.69	6.00	4.55	5.77	6.23	7.33	5.62	7.27	7.17	4.20
Dec 22 93	2.99	3.05	3.22	3.45	3.20	3.32	2.71	6.00	4.56	5.81	6.29	7.26	5.58	7.25	7.17	4.21
Dec 29 93	2.99	3.05	3.21	3.44	3.24	3.34	2.72	6.00	4.50	5.73	6.24	7.34	5.52	7.28	7.13	4.20
Jan 5 94	3.00	3.03	3.24	3.48	3.24	3.28	2.75	6.00	4.62	5.87	6.37	7.21	5.56	7.17	7.23	4.23
Jan 12 94	2.98	3.00	3.16	3.39	3.16	3.14	2.71	6.00	4.44	5.70	6.25	7.28	5.54	7.22	6.99	4.20
Jan 19 94	3.13	2.96	3.13	3.39	3.13	3.12	2.69	6.00	4.48	5.75	6.29	7.25	5.54	7.06	7.05	4.24
Jan 26 94	2.97	2.94	3.12	3.35	3.11	3.12	2.68	6.00	4.44	5.75	6.31	7.16	5.50	7.02	6.97	4.16
Daily																
Jan 21 94	2.91	2.95	3.12	3.35	3.11	3.12	--	6.00	4.44	5.73	6.29	--	--	--	--	--
Jan 27 94	3.00	2.92	3.13	3.36	3.12	3.10	--	6.00	4.45	5.73	6.27	--	--	--	--	--
Jan 28 94	2.97p	2.93	3.11	3.33	3.12	3.10	--	6.00	4.40	5.68	6.21	--	--	--	--	--

NOTE: Weekly data for columns 1 through 11 are statement week averages. Data in column 7 are taken from Donoghue's Money Fund Report. Columns 12, 13 and 14 are 1-day quotes for Friday, Thursday or Friday, respectively, following the end of the statement week. Column 13 is the Bond Buyer revenue index. Column 14 is the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments. Column 15 is the average contract rate on new commitments for fixed-rate mortgages (FRMs) with 80 percent loan-to-value ratios at major institutional lenders. Column 16 is the average initial contract rate on new commitments for 1-year, adjustable-rate mortgages (ARMs) at major institutional lenders offering both FRMs and ARMs with the same number of discount points.

p - preliminary data

Strictly Confidential (FR)-
Class II FOMC

JANUARY 31, 1994

Table 1

Money and Credit Aggregate Measures

Seasonally adjusted

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components: In M2	nontransactions components: In M3 only	M3	L	total loans and investments[1]	U. S. government[2]	other[2]	total[2]
	1	2	3	4	5	6	7	8	9	10
Annual growth rates(%):										
Annually (Q4 to Q4)										
1991	8.0	2.8	1.1	-6.2	1.1	0.3	3.4	11.3	2.6	4.6
1992	14.3	1.7	-2.7	-6.6	0.3	1.3	3.8	10.7	3.1	5.0
1993	10.5	1.4	-2.3	-3.8	0.6		4.7			
Quarterly Average										
1993-1st QTR.	6.5	-2.0	-5.4	-14.2	-3.9	-2.4	1.8	7.6	2.7	4.0
1993-2nd QTR.	10.6	2.1	-1.5	3.1	2.3	3.2	6.1	10.4	2.4	4.5
1993-3rd QTR.	13.0	3.0	-1.3	-8.5	1.2	1.2	7.3	9.1	4.4	5.7
1993-4th QTR.	10.6	2.4	-1.3	4.5	2.8		3.3			
Monthly										
1993-JAN.	7.7	-3.1	-7.6	-29.1	-7.3	-5.9	-1.2	4.0	3.7	3.8
FEB.	-0.2	-4.0	-5.6	9.7	-1.8	-1.0	3.4	4.7	1.6	2.4
MAR.	2.6	-0.9	-2.3	-3.8	-1.3	-0.2	6.3	11.8	1.3	4.0
APR.	9.0	0.8	-2.8	15.2	3.1	3.8	4.2	10.7	2.5	4.7
MAY	27.5	10.1	2.6	-2.7	8.0	9.1	8.2	10.2	2.5	4.6
JUNE	7.2	2.3	0.0	-14.3	-0.4	0.4	9.3	12.2	4.3	6.4
JULY	13.4	2.1	-2.9	-14.7	-0.5	-0.6	9.0	7.3	5.2	5.7
AUG.	10.1	1.1	-2.9	-2.0	0.6	2.7	3.6	8.7	4.3	5.5
SEP.	13.6	4.1	-0.1	2.4	3.9	-2.2	3.9	7.1	4.6	5.3
OCT.	10.4	0.7	-3.7	9.1	2.0	2.4	-0.0	-1.5	5.6	3.7
NOV.	10.2	4.0	1.1	2.0	3.7	4.0	6.4	9.1	5.3	6.3
DEC.	5.6	2.3	0.7	6.1	2.8		5.8			
1994-JAN. pe	3	0	-1	-6	-1					
Levels ($Billions):										
Monthly										
1993-AUG.	1094.4	3518.9	2424.5	645.4	4164.3	5075.5	3046.3	3251.1	8837.3	12088.3
SEP.	1106.8	3531.0	2424.2	646.7	4177.7	5066.2	3056.2	3270.4	8871.5	12141.9
OCT.	1116.4	3533.2	2416.8	651.6	4184.8	5076.5	3056.1	3266.3	8912.6	12178.9
NOV.	1125.9	3545.0	2419.1	652.7	4197.8	5093.4	3072.3	3291.2	8952.0	12243.2
DEC.	1131.2	3551.7	2420.5	656.0	4207.7		3087.2			
Weekly										
1993-DEC. 6	1128.1	3553.0	2424.9	650.0	4203.0					
13	1126.0	3551.9	2425.9	659.4	4211.3					
20	1132.9	3552.6	2419.7	657.4	4210.1					
27	1134.0	3546.2	2412.1	656.9	4203.1					
1994-JAN. 3	1132.4	3553.2	2420.8	654.2	4207.4					
10 p	1130.5	3549.9	2419.4	650.5	4200.5					
17 p	1135.0	3557.4	2422.3	653.5	4210.9					

1. Adjusted for breaks caused by reclassifications.
2. Debt data are on a monthly average basis, derived by averaging end-of-month levels of adjacent months, and have been adjusted to remove discontinuities.

p preliminary
pe preliminary estimate

Note: The monetary data in this table do not reflect the 1994 benchmark and revision of seasonal factors.

Appendix Table 2

Strictly Confidential (FR)-
Class II FOMC

JANUARY 31, 1994

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA[1]	Savings deposits[2]	Small denomination time deposits[3]	Money market mutual funds: general purpose and broker/dealer[4]	Money market mutual funds: Institutions only	Large denomination time deposits[5]	Term RP's NSA[1]	Term Euro-dollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels ($Billions):															
Annually (4th Qtr.)															
1991	265.8	287.0	329.6	73.4	1028.8	1081.0	362.9	175.6	432.3	74.7	60.7	137.0	319.4	336.3	24.4
1992	290.0	338.8	380.2	75.9	1179.0	880.3	344.1	207.5	361.4	80.9	47.0	154.5	325.6	369.6	20.4
1993	319.9	383.9	412.8	84.7	1214.2	789.5	333.3	197.4	333.4	95.0	47.7				
Monthly															
1992-DEC.	292.3	340.8	385.2	74.7	1186.0	867.3	342.3	202.3	356.1	81.1	45.6	156.8	331.4	368.4	20.4
1993-JAN.	294.8	341.9	388.6	73.3	1184.4	858.3	340.0	197.7	348.8	80.1	43.5	158.9	337.5	360.7	20.6
FEB.	296.9	341.8	386.4	74.0	1182.4	853.1	333.2	201.9	344.3	82.3	46.7	161.1	342.9	355.9	20.1
MAR.	299.0	341.9	386.3	74.5	1178.8	848.1	332.7	200.9	338.4	86.0	49.8	162.7	341.6	360.3	19.2
APR.	301.4	347.3	386.2	72.8	1181.6	841.2	331.7	200.4	343.5	88.9	48.7	163.9	340.7	365.5	19.2
MAY	304.0	359.2	395.5	70.0	1193.7	834.4	335.5	202.8	343.4	89.8	48.7	164.8	347.1	368.4	19.4
JUNE	306.8	360.7	397.8	73.6	1198.8	826.9	334.3	198.1	340.0	92.8	45.5	165.7	349.1	369.1	18.7
JULY	309.6	365.9	401.9	77.2	1200.1	817.8	333.2	195.0	335.6	96.5	41.9	166.8	348.5	369.1	17.5
AUG.	312.6	370.9	403.1	78.4	1205.1	810.3	331.5	193.3	336.1	96.5	44.1	167.8	345.7	381.3	16.4
SEP.	316.4	376.6	406.0	81.9	1208.7	803.7	329.4	194.1	334.8	96.4	45.2	168.8	323.8	379.6	16.3
OCT.	318.2	380.2	410.1	84.4	1209.6	796.1	330.0	196.6	335.6	95.1	45.4	169.8	317.6	388.0	16.3
NOV.	320.0	385.5	412.5	84.9	1214.5	788.8	333.5	196.7	333.0	94.5	50.0	170.9	322.3	386.2	16.2
DEC.	321.5	386.1	415.7	84.7	1218.6	783.5	336.4	198.8	331.5	95.3	47.8				

1. Net of money market mutual fund holdings of these items.
2. Includes money market deposit accounts.
3. Includes retail repurchase agreements. All IRA and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.
4. Excludes IRA and Keogh accounts.
5. Net of large denomination time deposits held by money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.

p preliminary

Note: The monetary data in this table do not reflect the 1994 benchmark and revision of seasonal factors.

January 28, 1994

NET CHANGES IN SYSTEM HOLDINGS OF SECURITES[1]

Millions of dollars, not seasonally adjusted

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total [4]	Net RPs [5]
	Net purchases [2]	Redemptions (-)	Net change	Net purchases [3]				Redemptions (-)	Net Change			
				within 1 year	1-5	5-10	over 10					
1991	20,038	1,000	19,038	3,043	6,583	1,280	375	---	11,282	292	27,726	-1,614
1992	13,086	1,600	11,486	1,096	13,118	2,818	2,333	---	19,365	632	30,219	-13,215
1993	17,737	468	17,269	1,223	10,350	4,168	3,457	---	19,198	1,072	35,394	5,974
1992 ---Q1	-1,000	1,600	-2,600	---	2,452	---	---	---	2,452	85	-233	-14,636
---Q2	4,415	---	4,415	285	2,193	597	655	---	3,730	250	7,896	1,137
---Q3	867	---	867	350	3,900	945	731	---	5,927	176	6,617	14,195
---Q4	8,805	---	8,805	461	4,572	1,276	947	---	7,256	121	15,939	-13,912
1993 ---Q1	---	---	---	279	1,441	716	705	---	3,141	289	2,851	-461
---Q2	7,749	---	7,749	244	2,490	1,147	1,110	---	4,990	91	12,648	10,624
---Q3	1,268	---	1,268	511	3,700	1,297	817	---	6,326	526	7,067	-8,644
---Q4	8,720	468	8,252	189	2,719	1,008	826	---	4,742	166	12,827	4,455
1993 January	---	---	---	---	---	---	---	---	---	103	-103	-6,128
February	---	---	---	---	---	---	---	---	---	85	-85	4,788
March	---	---	---	279	1,441	716	705	---	3,141	101	3,039	879
April	121	---	121	244	2,490	1,147	1,110	---	4,990	28	5,083	-5,514
May	349	---	349	---	---	---	---	---	---	41	308	4,112
June	7,280	---	7,280	---	---	---	---	---	---	22	7,258	12,027
July	---	---	---	---	200	---	---	---	200	366	-166	-14,435
August	902	---	902	100	1,100	500	100	---	1,800	125	2,577	4,528
September	366	---	366	411	2,400	797	717	---	4,326	35	4,656	1,262
October	1,396	468	927	---	---	---	---	---	---	70	857	-6,723
November	5,931	---	5,931	---	100	---	---	---	100	15	6,016	7,232
December	1,394	---	1,394	189	2,619	1,008	826	---	4,642	81	5,954	3,947
Weekly												
October 27	361	---	361	---	---	---	---	---	---	35	326	-1,910
November 3	1,235	---	1,235	---	100	---	---	---	100	---	1,335	-2,301
10	3,859	---	3,859	---	---	---	---	---	---	---	3,859	3,738
17	273	---	273	---	---	---	---	---	---	---	273	89
24	496	---	496	---	---	---	---	---	---	---	496	3,880
December 1	665	---	665	---	---	---	---	---	---	15	650	-4,174
8	174	---	174	189	2,619	1,008	826	---	4,642	---	4,816	-8,794
15	413	---	413	---	---	---	---	---	---	---	413	7,336
22	673	---	673	---	---	---	---	---	---	---	673	8,075
29	133	---	133	---	---	---	---	---	---	81	52	1,802
January 5	---	---	---	---	---	---	---	---	---	117	-117	-6,952
12	---	---	---	---	---	---	---	---	---	---	---	-5,341
19	---	---	---	---	---	---	---	616	-616	---	-616	4,336
26	---	---	---	---	---	---	---	---	---	85	-85	-6,244
Memo: LEVEL (bil. $) [6]												
January 26			167.9	199.0	80.1	23.9	31.7		334.7		343.4	-4.3

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.
4. Reflects net change in redemptions (-) of Treasury and agency securities.
5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).
6. The levels of agency issues were as follows:

	within 1 year	1-5	5-10	over 10	total
January 26	1.8	2.0	0.6	0.0	4.4