Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

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

Strictly Confidential (FR) Class 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

May 19, 1995

MONETARY POLICY ALTERNATIVES

Recent Developments[1]

(1) At the time of the FOMC's March meeting, market participants apparently anticipated that the stance of monetary policy would remain unchanged for a time but that the next policy move would be to tighten. The Committee's decision at that meeting to leave the intended federal funds rate at 6 percent thus had little immediate impact on financial markets. However, data becoming available since the meeting have portrayed a considerably slower economic expansion than had been thought, and market interest rates have fallen on balance. Although the expectation that the federal funds rate would stay at 6 percent over the near term was little affected by this news, the market's assessment of the probable direction of the next policy move has shifted toward ease. This can be seen, for example, in rates on federal funds futures contracts five months ahead, which shifted down almost 40 basis points to just under 6 percent--a level that probably includes some liquidity premium (chart). In association with this revision, most money-market rates edged down over the period; federal funds continued to trade at rates averaging close to 6 percent.[2]

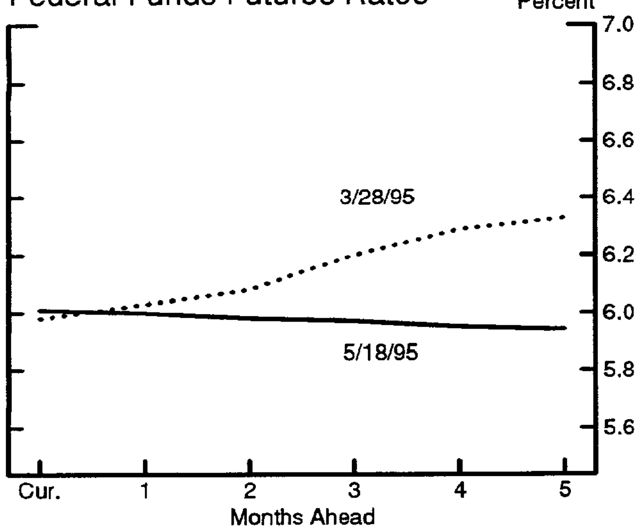
(2) Longer-term rates have dropped more than 1/2 percentage point since the March meeting, with the largest declines at intermediate maturities. Supplementing weaker economic data, signs that

1. Financial market quotations in this bluebook are taken as of noon, Friday, May 19.

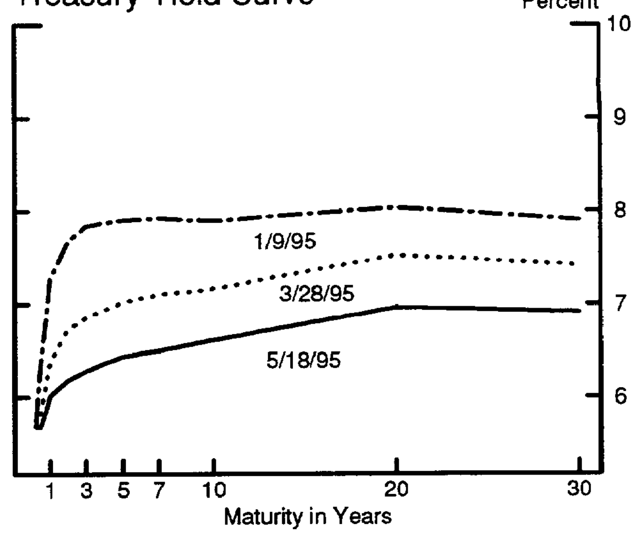
2. The borrowing allowance was raised in three steps during the period, from $75 million to $175 million, to account for seasonal increases. As in the previous intermeeting period, excess reserves ran below levels suggested by historical patterns, a tendency that was taken into account in reserve management decisions.

Chart 1

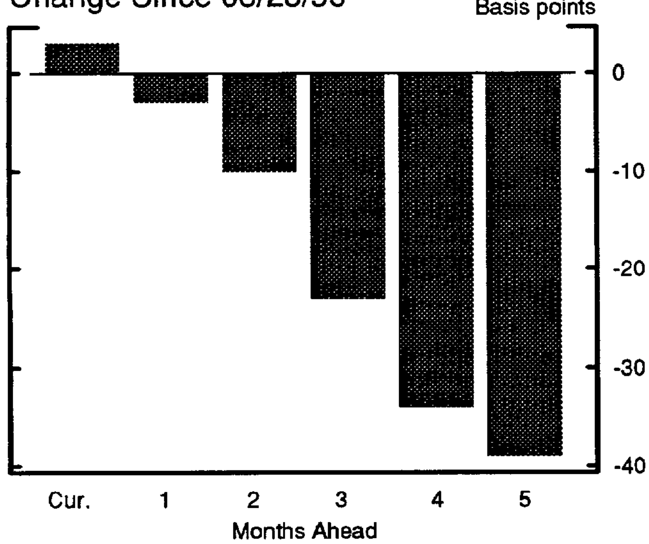
Federal Funds Futures Rates



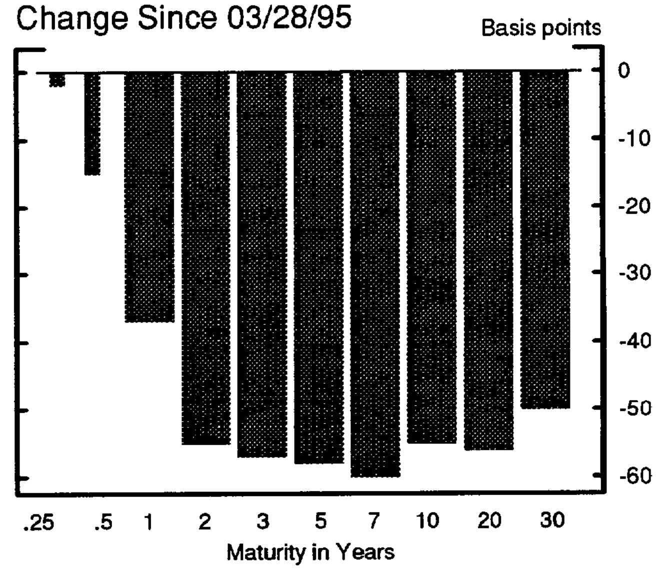
Treasury Yield Curve



Change Since 03/28/95

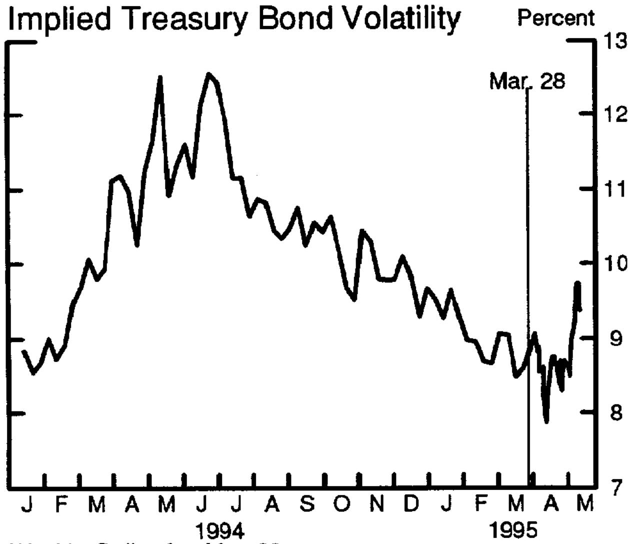


Change Since 03/28/95



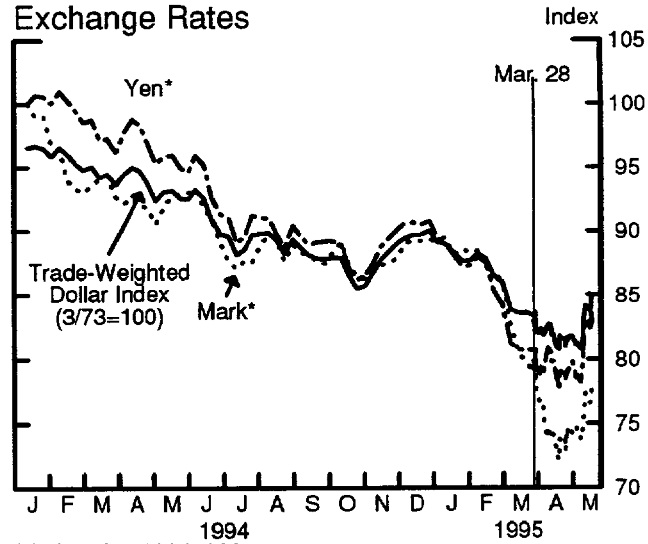
Note. Changes are taken from levels the day of the previous FOMC meeting.

Implied Treasury Bond Volatility



Weekly. Daily after Mar. 28.

Exchange Rates



* Index, Jan 1994=100
Weekly. Daily after Mar. 28.

Congress was more serious about taking difficult steps to make major reductions in budget deficits seemed to contribute to the drop in yields. Among other effects, Congressional actions may have encouraged purchases of dollar assets as suggested by the simultaneous rise in the foreign exchange value of the dollar late in the intermeeting period. Intermediate-term rates now have fallen about 1-1/2 percentage points and long-term rates 1-1/4 percentage points from their peaks in late 1994 and early 1995 (chart), reversing about half their previous rise. The rally in securities markets was set back only temporarily by the release of somewhat disappointing inflation numbers for April. Available information from surveys of price expectations along with relatively flat commodity prices suggest little change or perhaps even a small improvement in the underlying inflation outlook in recent months. Thus, the bulk of recent substantial declines in yields since their peaks likely represents a drop in real rates. Rising odds on sustained growth and low inflation, coupled with recent positive corporate earnings surprises, have kept quality spreads on private debt instruments narrow and have boosted broad indexes of share prices to new records.

(3) The dollar's weighted average exchange value rose 1-1/4 percent, on balance, over the intermeeting period. The dollar appreciated about 3-1/2 percent, net, against the mark, while depreciating by lesser amounts against the yen and the Canadian dollar. The dollar had continued to drop over the first half of the period, however, prompting U.S. intervention purchases of dollars against marks and yen on two days in early April.[3] The dollar moved sharply

3. U.S. purchases of $1.6 billion against marks and $1 billion against yen were equally divided between System and Treasury accounts.

higher in early May. Just as the dollar's weakness in April was not obviously related to fundamentals, neither was the rebound in early May; as noted above, though, markets did seem to be buoyed by the budget actions taken in Congress. Foreign long-term interest rates declined about as much on average as U.S. rates over the period, in part benefiting from some reduction in political uncertainties in France, Italy, and Canada. Foreign three-month rates declined more sharply than those in the United States, about 70 basis points on average; the Bundesbank and the Bank of Japan eased official rates to offset the tightening effects of earlier appreciations in their currencies. The financial situation in Mexico appears to have stabilized a bit: The peso appreciated through April before levelling out; over the period, interest rates have declined substantially and stock prices have risen.[4]

(4) M2 growth picked up in April to a 4 percent rate, close to expectations at the time of the last FOMC meeting. M2 was boosted last month by the need to fund unusually heavy payments of non-withheld taxes resulting from last year's stronger economy and new tax regulations allowing individuals to delay a larger share of federal tax payments until April. In addition, processing delays earlier this tax season caused refunds to run at a stronger-than-average rate in April.[5] Moreover, after a year of increases, M2 opportunity costs have edged down since January; ebbing household demands for securities

4. The Bank of Mexico rolled over its entire outstanding swap drawing of $1 billion on the System on May 3 for an additional three-month period.

5. M1 also strengthened in April, but to only a 2 percent annual rate. Currency growth slowed a little but remained very strong, while demand deposits contracted sharply. By contrast, other checkable deposits edged up, posting the first monthly increase in nine months.

that compete with M2 are suggested by a substantial weakening in noncompetitive tenders at Treasury auctions in recent months. M2 in April was in the lower half of its 1-to-5 percent growth range.[6]

(5) M3 grew more rapidly in April than anticipated at the time of the last FOMC meeting, expanding at around a 6 percent pace for the second consecutive month. The strong performance of M3 again reflected the needs of commercial banks to fund heavy credit demands. Also contributing to the strength in M3 was a rapid expansion of institution-only money funds, whose rates lagged the decline in market rates. M3 rose further above its 0 to 4 percent growth range in April.

(6) The limited evidence available suggests that relatively strong borrowing by households and businesses has continued in recent months. Credit demands in the business sector have been focused mainly at the short end. Large accumulations of inventories have boosted business loans at banks, while commercial paper expansion, importantly to help fund mergers and acquisitions, also has been brisk. Banks report that they have continued to ease terms and conditions for loans and back-up lines of credit over recent months. Although the rally in securities markets has sparked some increased bond offerings in recent weeks, funds raised in longer-term debt markets by nonfinancial firms have been limited overall. Consumer credit growth, though still quite brisk, has edged lower, held down by reduced automobile financing, but there are early signs that mortgage borrowing has begun to respond to declines in rates. State and local bond issuance has picked up a bit of late but remains well below the pace of retirements associated with

6. Strong inflows into stock funds as well as a slight expansion of bond funds, reflecting in part capital gains on these instruments, kept M2+ advancing above an 8 percent rate over March and April, following an extended period of lackluster growth.

advanced refundings. The growth of federal sector debt has slowed most recently as a consequence of strong tax inflows and is running below the pace of 1994. Total nonfinancial debt has expanded at about a 5-1/2 percent pace through March, a bit above the midpoint of its monitoring range.

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

	Feb.	Mar.	Apr.	94:Q4 to Apr.[1]
Money and credit aggregates				
M1	-1.8	0.8	1.9	.4
M2	-1.4	2.6	4.1	2.1
M3	2.2	5.8	6.2	4.8
Domestic nonfinancial debt	6.9	5.3	--	5.6
Federal	10.7	7.3	--	6.1
Nonfederal	5.5	4.6	--	5.4
Bank credit	4.7	8.2	14.0	9.0
Reserve measures[2]				
Nonborrowed reserves[3]	-2.7	-7.7	-13.1	-5.2
Total reserves	-4.2	-7.5	-12.2	-5.9
Monetary base	3.6	8.6	7.8	6.8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	59	69	111	--
Excess reserves	946	794	752	--

1. 94:Q4 to March for debt aggregates.
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.
3. Includes "other extended credit" from the Federal Reserve.

Monetary Policy Alternatives

(7) Three monetary policy alternatives are presented below for consideration by the Committee. Under alternative B, federal funds would continue to trade around 6 percent. Under alternative C, the federal funds rate would be boosted 1/2 percentage point, to 6-1/2 percent. Alternative A would reduce the intended trading level of the funds rate to 5-1/2 percent.[7]

(8) Incoming data show both rising inflation and a weakening of economic activity over recent months. Looking forward, a key issue for monetary policy is whether either of these developments will persist. In the staff forecast, with short-term interest rates maintained at current levels, neither of these risks materializes. In effect, interest and exchange rates close to their prevailing configuration are seen as consistent with the economy producing just above its long-run capacity. A near-term inventory correction limits the expansion of production in the second and third quarters, taking pressure off resources. The unemployment rate ends up close to the natural rate, growth is at its potential, and the core rate of consumer price inflation runs at just over 3 percent in 1996. If the Committee sees the staff forecast as the likely and desired outcome and the risks around it to be reasonably well-balanced, then selection of unchanged reserve market conditions, as under alternative B, would be favored.

7. To accommodate rising demands for seasonal credit, the allowance for adjustment and seasonal borrowings would be raised initially to $225 million under alternative B. Further increases would likely be necessary during the intermeeting period under all of the alternatives. Alternative C could be accomplished through an increase in the borrowing allowance to $275 million, while alternative A could be implemented by leaving the allowance for borrowing unchanged at $175 million in the face of seasonally elevated demand.

(9) Market participants generally anticipate no change in the stance of monetary policy at this meeting. Thus, market rates would not be expected to react to selection of alternative B by the Committee. However, the recent shifts in the yield curve seem to embody expectations of continued underlying softness in aggregate demand sufficient to induce the Federal Reserve to ease policy later in the year. Under the staff forecast, incoming information on spending would suggest a bit more vigor in the economy than would be consistent with the market's outlook, and interest rates may tend to edge higher on balance over the intermeeting period. Market conditions could remain volatile. Expectations about the economic and policy outlook may be especially prone to revision, given the size and recency of the shift in sentiment. In addition, financial asset prices may be sensitive to progress through the Congress of the various fiscal policy initiatives currently under discussion.

(10) The fifty-basis-point firming of alternative C might be favored by the Committee if it wished to provide more assurance that pressures on resources would soon diminish, so as not to perpetuate the recently elevated rate of inflation and, over time, to return the economy toward a disinflationary path. The depreciation of the dollar, the rise in bond and equity prices, and the continued relaxation of terms and conditions on bank loans this year have in effect eased financial conditions substantially. Markets seem to have reacted strongly to what could prove to be only a moderate downshift in underlying demand conditions, and current financial conditions may therefore provide excessive stimulus to an economy already operating around its potential.

(11) With markets apparently having concluded that rates are unlikely to rise significantly further, the response in the financial markets to the 50 basis point increase of alternative C could be substantial. Short-term rates, including the prime rate, would likely rise by the full amount of the increase in the federal funds rate, and intermediate-term rates would climb considerably as well. The boost to nominal yields on long-term Treasuries would be limited by any reductions in premiums for expected inflation, but yield spreads on private paper--including bank funding instruments--could widen if market participants saw a significantly greater risk of a downturn in business activity or if higher interest rates were seen as impairing profit margins. Bond market volatility could be appreciable as market participants attempted to sort out the implications of unanticipated tightening for inflation, the strength of the expansion, and credit risks. The dollar probably would strengthen noticeably, extending the firming evident over the past week or so.

(12) The Committee might consider the easing of monetary policy under alternative A appropriate if it saw substantial risks that the recent sluggish growth of final demand and the associated inventory correction could develop into a prolonged period of growth below potential. In this view, the declines this year in the dollar and market interest rates might not be adequate in themselves to sustain the expansion, given underlying trends in aggregate demand. Real rates could be seen as still too high; for example, the 6 percent funds rate implies short-term real rates above longer-term averages, assuming inflation settles down at 3 percent as in the staff forecast. Committee members might have particular concerns about the level of real rates if they perceived strong odds of a significantly tighter

stance of fiscal policy than is incorporated in the staff forecast. Such a policy shift would lower "equilibrium" real interest rates by directly reducing government spending and, perhaps, by increasing private saving propensities. Markets do not currently appear to have built in a trajectory to a balanced budget and would probably respond to credible measures to reach this target by bidding down longer-term yields. These declines would, by themselves, help to bolster activity in the near term. To cushion the fiscal restraint adequately, however, declines in long-term rates might need to be reinforced through an easing in monetary policy.

(13) Short-term market rates under alternative A would likely drop close to one-half percentage point. Long-term markets could rally further and lower rates would persist, at least until economic data pointed to a vigorous bounceback in economic activity. The foreign exchange value of the dollar would decline.

(14) Growth of the monetary and credit aggregates under the unchanged reserve market conditions of alternative B is presented in the table below. (Additional data, including monetary projections under alternatives A and C, are shown on the table and charts on the following pages.)

(15) Credit flows to private sectors are expected to moderate a little in coming months in the staff projection, and be more concentrated in long-term markets and less at depository institutions. With the financial position of most intermediaries solid, borrowers showing few signs of being overextended, and macroeconomic conditions still favorable, lenders should remain quite willing to extend credit, although further easing of terms and conditions is less likely as the economy settles into a pattern of sustainable growth. Credit demands

	Alt. B
Growth from April to September	
M2	2-1/2
M3	3-3/4
M1	-3/4
Domestic nonfinancial sector debt	4-3/4
Growth from 94:Q4 to September	
M2	2-1/4
M3	4-1/4
M1	-1/4
Domestic nonfinancial sector debt	5

from the household sector should slow a little in association with the diminished growth of spending on durables and housing. In the business sector, the financing gap, while remaining wide, may narrow slightly as inventory investment drops and growth of fixed investment expenditures is trimmed, but merger activity will contribute to a still-brisk (though diminishing) pace of borrowing. Lower market interest rates and continued narrow quality spreads should encourage a rebound in issuance of longer-term instruments, especially corporate bonds, implying somewhat reduced reliance on bank loans and commercial paper. Debt of state and local governments should continue to contract, as bonds that had previously been refunded mature. In the federal sector, strong tax receipts are leading to relatively light borrowing in the second and third quarters. From the fourth quarter of 1994 through September, the growth of domestic nonfinancial sector debt is projected to edge down to about 5 percent under all of the alternatives, leaving this aggregate in the middle of its 3-to-7 percent monitoring range.

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in Billions									
Mar-95	3630.1	3630.1	3630.1	4356.2	4356.2	4356.2	1147.9	1147.9	1147.9
Apr-95	3642.6	3642.6	3642.6	4378.6	4378.6	4378.6	1149.7	1149.7	1149.7
May-95	3648.6	3648.6	3648.6	4391.7	4391.7	4391.7	1142.5	1142.5	1142.5
Jun-95	3656.8	3655.6	3654.4	4406.3	4405.6	4404.9	1143.9	1143.3	1142.7
Jul-95	3667.4	3663.8	3660.2	4421.8	4419.6	4417.4	1145.6	1144.0	1142.4
Aug-95	3678.2	3672.1	3666.0	4437.3	4433.6	4429.9	1147.5	1144.8	1142.1
Sep-95	3688.5	3680.3	3672.1	4452.6	4447.6	4442.6	1150.0	1145.8	1141.6
Monthly Growth Rates									
Mar-95	2.6	2.6	2.6	5.8	5.8	5.8	0.8	0.8	0.8
Apr-95	4.1	4.1	4.1	6.2	6.2	6.2	1.9	1.9	1.9
May-95	2.0	2.0	2.0	3.6	3.6	3.6	-7.5	-7.5	-7.5
Jun-95	2.7	2.3	1.9	4.0	3.8	3.6	1.5	0.9	0.3
Jul-95	3.5	2.7	1.9	4.2	3.8	3.4	1.8	0.7	-0.4
Aug-95	3.5	2.7	1.9	4.2	3.8	3.4	2.1	0.9	-0.3
Sep-95	3.4	2.7	2.0	4.1	3.8	3.5	2.5	1.0	-0.5
Quarterly Averages									
94 Q4	-0.4	-0.4	-0.4	1.7	1.7	1.7	-1.2	-1.2	-1.2
95 Q1	1.7	1.7	1.7	4.3	4.3	4.3	0.0	0.0	0.0
95 Q2	2.5	2.5	2.4	4.8	4.8	4.8	-0.9	-1.0	-1.0
95 Q3	3.1	2.5	1.9	4.1	3.8	3.5	0.8	-0.1	-1.0
Growth Rate									
From / To									
Dec-94 / Apr-95	2.3	2.3	2.3	5.2	5.2	5.2	0.5	0.5	0.5
Apr-95 / Sep-95	3.0	2.5	1.9	4.1	3.8	3.5	0.1	-0.8	-1.7
Dec-94 / Sep-95	2.7	2.4	2.1	4.6	4.4	4.3	0.3	-0.2	-0.7
94 Q4 / Apr-95	2.1	2.1	2.1	4.8	4.8	4.8	0.4	0.4	0.4
94 Q4 / Jun-95	2.2	2.1	2.0	4.5	4.5	4.4	-0.6	-0.7	-0.8
94 Q4 / Sep-95	2.6	2.3	2.0	4.4	4.3	4.2	0.2	-0.2	-0.6
93 Q4 / 94 Q4	1.0	1.0	1.0	1.4	1.4	1.4	2.3	2.3	2.3
94 Q4 / 95 Q2	2.1	2.1	2.1	4.6	4.6	4.6	-0.4	-0.5	-0.5
94 Q4 / 95 Q3	2.5	2.2	2.0	4.5	4.3	4.2	-0.0	-0.3	-0.7
1994 Target Ranges:		1.0 to 5.0			0.0 to 4.0				

Chart 2

ACTUAL AND TARGETED M2

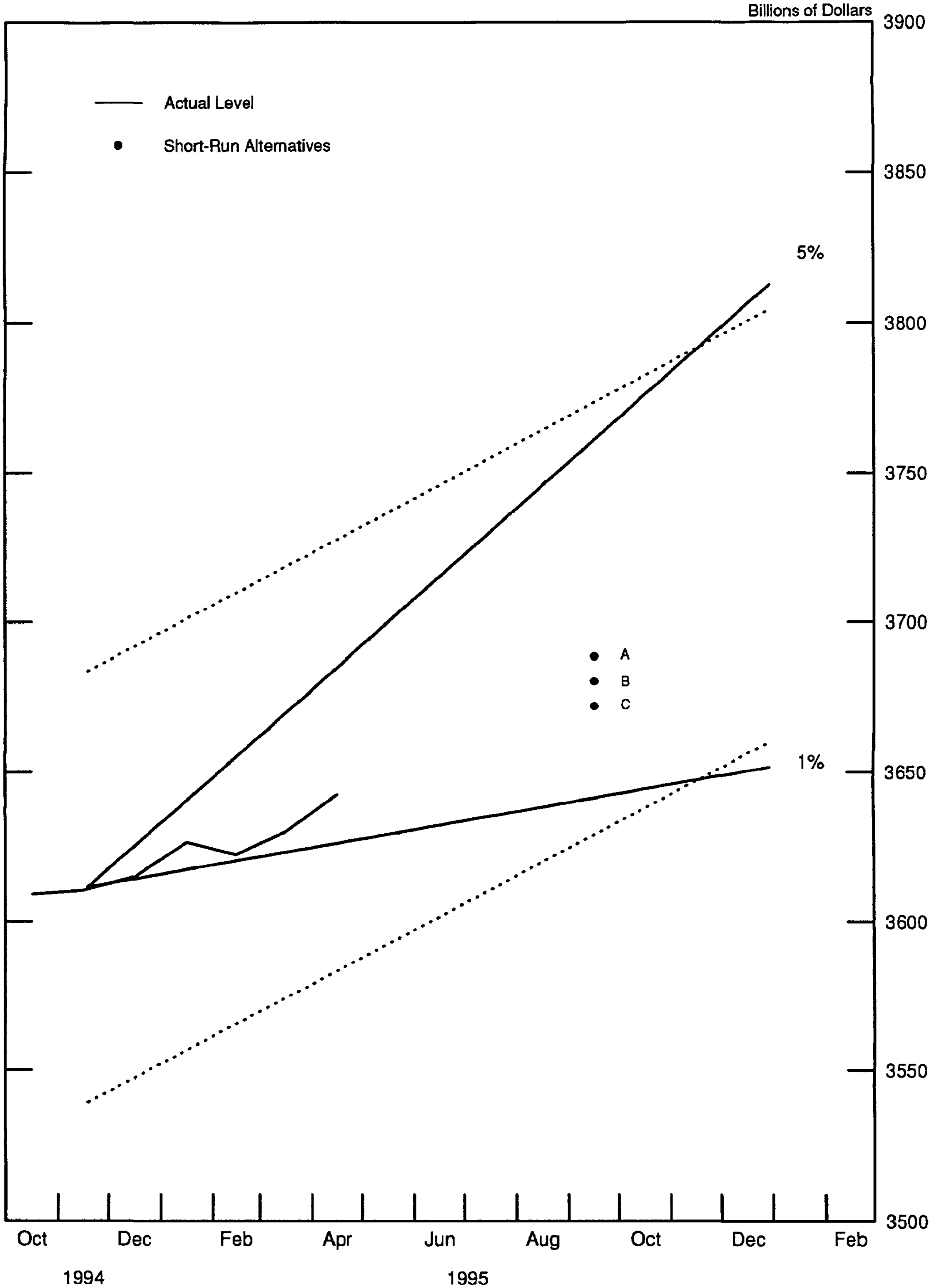


Chart 3

ACTUAL AND TARGETED M3

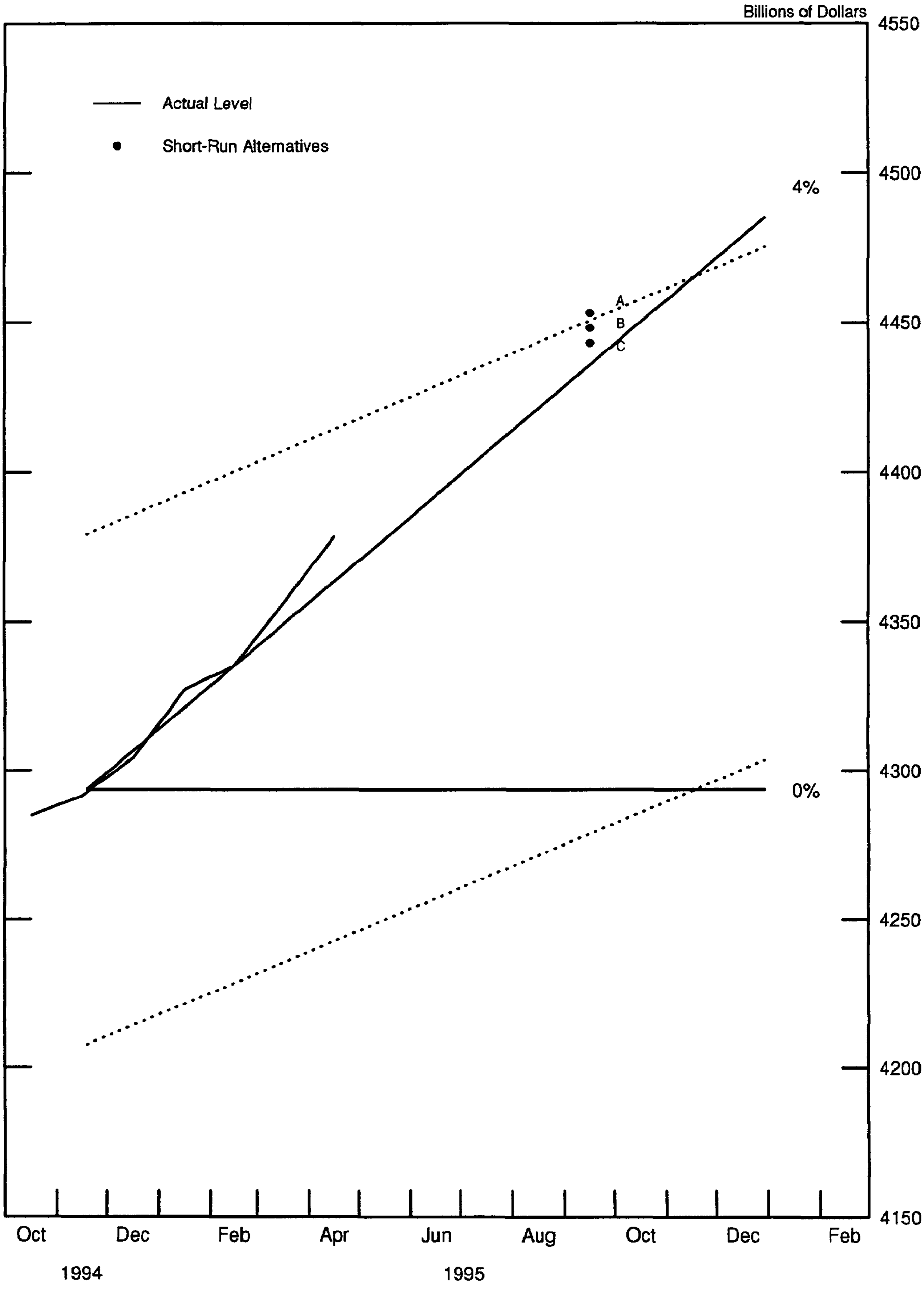
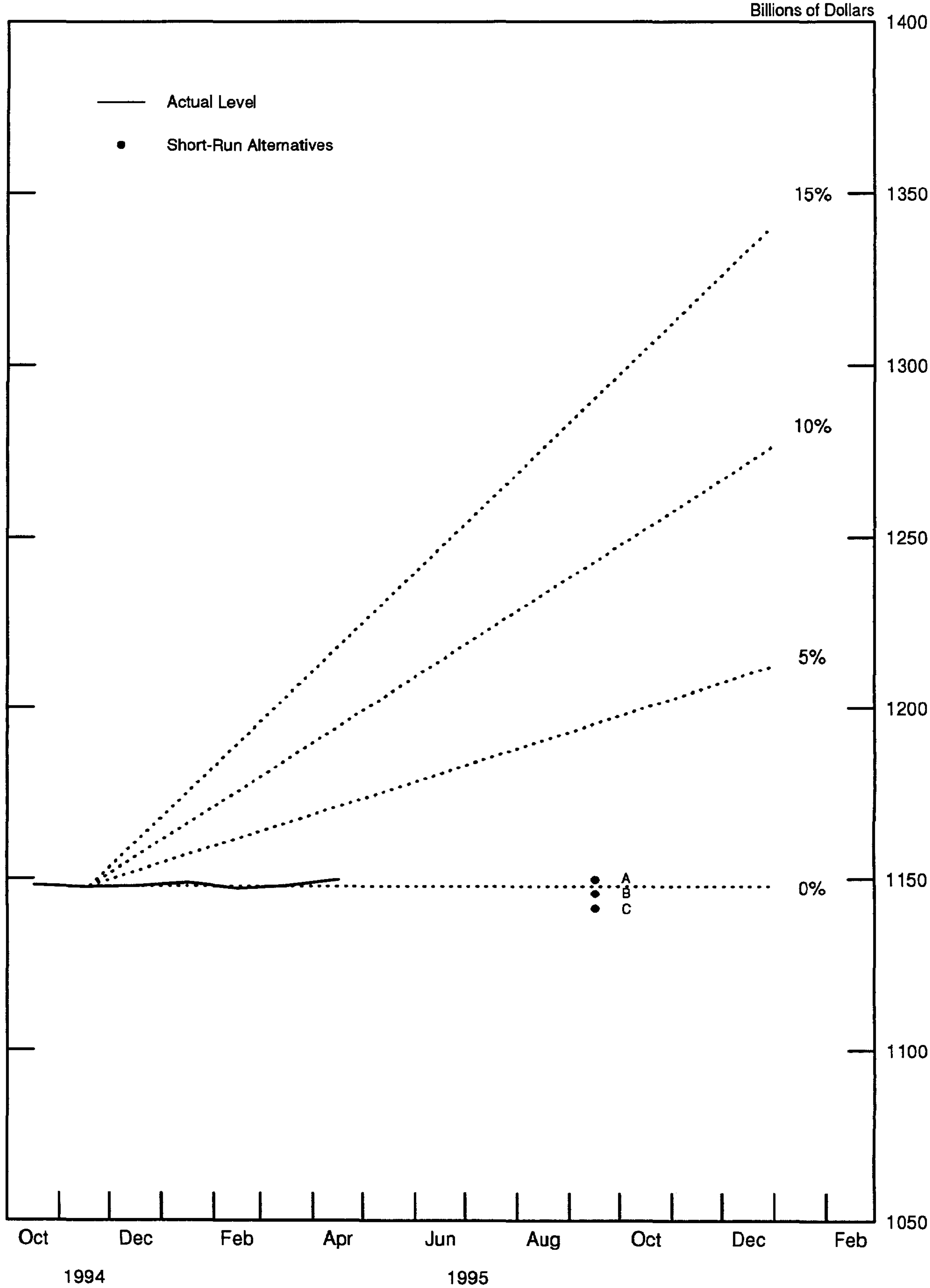


Chart 4

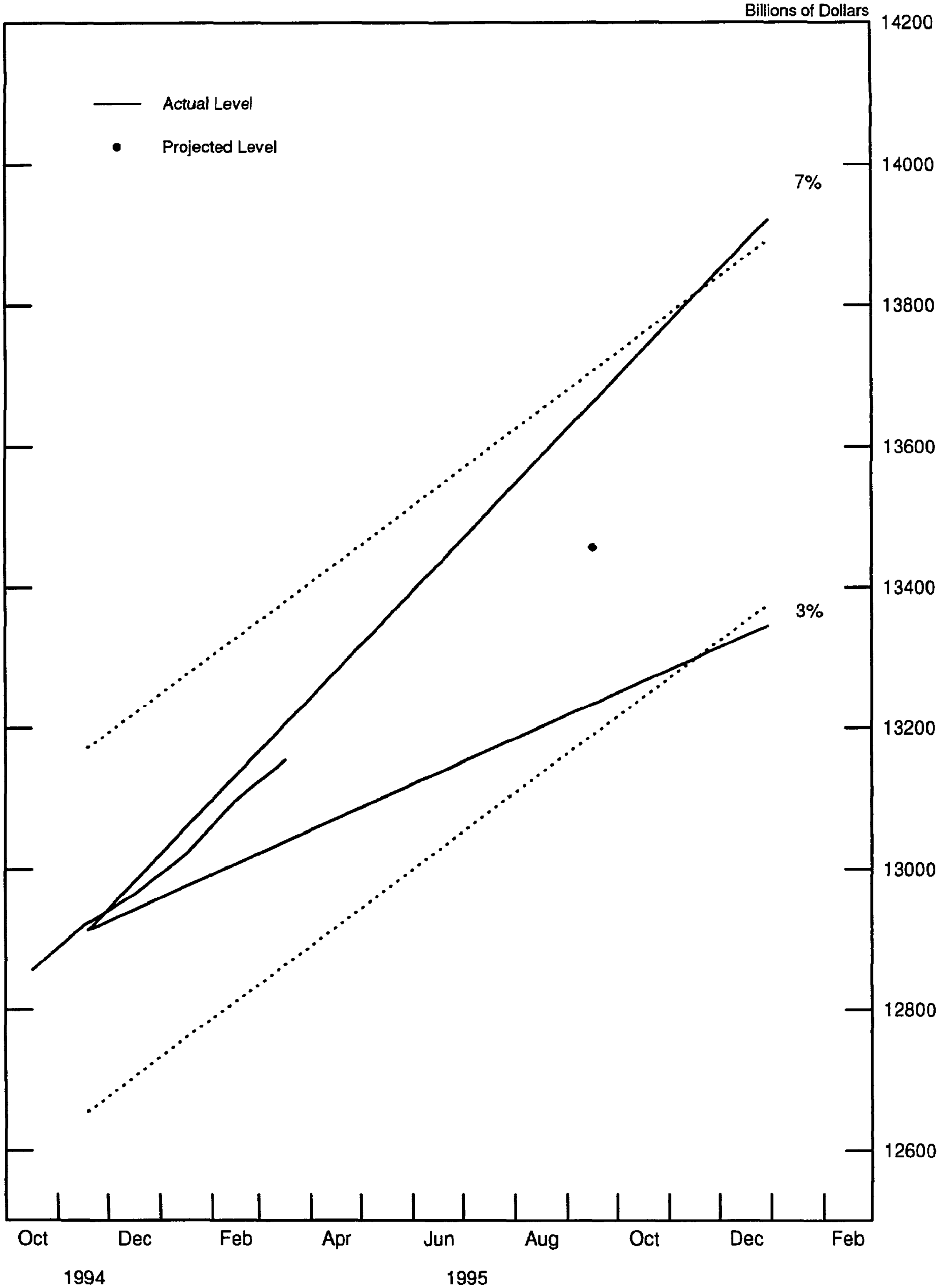
M1



Billions of Dollars
Actual Level
Short-Run Alternatives
15%
10%
5%
0%
A
B
C
1400
1350
1300
1250
1200
1150
1100
1050
Oct
Dec
Feb
Apr
Jun
Aug
Oct
Dec
Feb
1994
1995

Chart 5

DEBT


Billions of Dollars
Actual Level
Projected Level
7%
3%
14200
14000
13800
13600
13400
13200
13000
12800
12600
Oct
Dec
Feb
Apr
Jun
Aug
Oct
Dec
Feb
1994
1995

(16) M3 is projected to decelerate appreciably to a 3-3/4 percent pace over the April-September period. With business and household credit growth running a bit slower than over the first few months of the year and shifting toward longer-term markets, the growth of bank loans should fall off some.[8] Reduced funding needs will likely prompt a slackened pace of issuance of managed liabilities, including large time deposits, repurchase agreements, and borrowings from foreign offices. Nonetheless, M3 is projected to remain above the upper end of its current 0-to-4 percent annual range through September under alternative B, and even the tighter reserve market conditions of alternative C would not likely be adequate to bring M3 within its range by September.

(17) M2 growth, by contrast, is projected to edge up slightly from that of the previous four months, to a 2-1/2 percent pace over April through September; this aggregate would remain in the lower half of its 1-to-5 percent annual range under alternative B. Although slower growth of nominal income over the second and third quarters will damp the demand for money, opportunity costs of holding M2 assets have leveled off and begun to fall; as the depressing effects of earlier increases in opportunity costs diminish, M2 should grow more closely in line with income.[9] M2 velocity is projected to continue

8. The effect of the reduction in loan growth on bank credit is expected to be buffered by slower runoffs of securities from bank portfolios.

9. Despite reduced opportunity costs, M1 is projected to contract at a 3/4 percent annual rate over the April-to-September period, reflecting a reversal of the tax-related buildup in April and the implementation of a new sweep program in early May. (The sweeps are estimated to be lowering M1 growth by a little over 3 percentage points in May; because funds are swept into MMDAs, M2 is not affected.) The M1 projection assumes that no further sweep programs will be instituted. With required reserves contracting in association with the decline in M1 deposits, total reserves are

(Footnote continues on next page)

to rise over the second and third quarters, but at only a 1-1/2 percent average annual rate--far more slowly than the 5 percent increase over the previous four quarters. The projected growth rate of M2 averages just a bit below predictions of the standard staff model over the second and third quarters--consistent with the recent small prediction errors of the model and the staff's judgment that deposit rates will run below what historical patterns would suggest. Flows into stock and bond mutual funds are expected to continue at around the modest pace experienced over the first four months of the year, and M2+ is forecast to expand at about a 4 percent rate over the April-September period, bringing its growth from the fourth quarter of 1994 to 3-1/2 percent.

(Footnote continued from previous page)
projected to fall somewhat over the April-to-September period; the monetary base is nevertheless expected to expand at about a 7-1/4 percent annual rate, supported by continued strong net shipments of currency abroad.

Directive Language

(18) Presented below is draft wording for the operational paragraph that includes the usual options for Committee consideration.

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, somewhat (SLIGHTLY) greater reserve restraint would (MIGHT) or (SOMEWHAT) slightly lesser reserve restraint (WOULD) might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over coming months.

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
94 -- High	5.85	5.70	6.26	6.73	6.31	6.11	5.12	8.50	7.79	8.00	8.13	9.05	7.37	9.57	9.25	6.79
-- Low	2.97	2.94	3.12	3.35	3.11	3.11	2.68	6.00	4.44	5.70	6.25	7.16	5.49	7.02	6.97	4.12
95 -- High	6.20	5.81	6.31	6.75	6.39	6.10	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
-- Low	5.40	5.57	5.63	5.64	6.02	5.73	5.16	8.50	6.26	6.61	6.93	7.95	6.15	8.32	7.83	6.10
Monthly																
May 94	4.01	4.14	4.60	5.03	4.51	4.28	3.29	6.99	6.34	7.18	7.41	8.37	6.46	8.78	8.60	5.46
Jun 94	4.25	4.14	4.55	4.98	4.52	4.36	3.61	7.25	6.27	7.10	7.40	8.30	6.38	8.62	8.40	5.45
Jul 94	4.26	4.33	4.75	5.17	4.73	4.49	3.75	7.25	6.48	7.30	7.58	8.45	6.48	8.82	8.61	5.52
Aug 94	4.47	4.48	4.88	5.25	4.81	4.65	3.95	7.51	6.50	7.24	7.49	8.36	6.44	8.82	8.51	5.53
Sep 94	4.73	4.62	5.04	5.43	5.03	4.90	4.15	7.75	6.69	7.46	7.71	8.62	6.55	8.93	8.64	5.54
Oct 94	4.76	4.95	5.39	5.75	5.51	5.02	4.30	7.75	7.04	7.74	7.94	8.80	6.83	9.25	8.93	5.79
Nov 94	5.29	5.29	5.72	6.13	5.79	5.40	4.62	8.15	7.44	7.96	8.08	8.95	7.27	9.43	9.17	6.10
Dec 94	5.45	5.60	6.21	6.67	6.29	6.08	5.00	8.50	7.71	7.81	7.87	8.78	7.07	9.51	9.20	6.66
Jan 95	5.53	5.71	6.21	6.59	6.24	5.86	5.17	8.50	7.66	7.78	7.85	8.75	6.84	9.41	9.15	6.82
Feb 95	5.92	5.77	6.03	6.28	6.16	6.05	5.36	9.00	7.25	7.47	7.61	8.55	6.45	9.13	8.83	6.68
Mar 95	5.98	5.73	5.89	6.03	6.15	6.07	5.51	9.00	6.89	7.20	7.45	8.40	6.32	8.90	8.46	6.45
Apr 95	6.05	5.65	5.77	5.88	6.11	6.06	5.54	9.00	6.68	7.06	7.36	8.31	6.22	8.71	8.32	6.35
Weekly																
Feb 1 95	5.63	5.80	6.15	6.43	6.22	6.03	5.23	8.57	7.45	7.67	7.76	8.54	6.63	9.18	8.94	6.75
Feb 8 95	5.95	5.81	6.10	6.39	6.18	6.05	5.37	9.00	7.38	7.55	7.66	8.62	6.44	9.26	8.80	6.69
Feb 15 95	5.93	5.79	6.09	6.37	6.17	6.06	5.43	9.00	7.39	7.55	7.64	8.55	6.40	9.12	8.84	6.66
Feb 22 95	5.94	5.71	5.97	6.19	6.14	6.06	5.48	9.00	7.16	7.40	7.58	8.49	6.34	8.96	8.73	6.60
Mar 1 95	5.88	5.74	5.91	6.07	6.11	6.03	5.49	9.00	6.95	7.27	7.50	8.52	6.31	9.04	8.53	6.51
Mar 8 95	5.93	5.75	5.96	6.15	6.18	6.07	5.61	9.00	7.06	7.37	7.57	8.43	6.40	8.91	8.62	6.50
Mar 15 95	5.94	5.75	5.91	6.04	6.17	6.08	5.50	9.00	6.88	7.18	7.43	8.32	6.25	8.81	8.38	6.44
Mar 22 95	5.97	5.74	5.88	5.98	6.13	6.05	5.52	9.00	6.82	7.13	7.40	8.35	6.34	8.77	8.40	6.41
Mar 29 95	6.06	5.68	5.81	5.94	6.13	6.06	5.53	9.00	6.80	7.13	7.40	8.40	6.29	8.96	8.38	6.37
Apr 5 95	6.20	5.71	5.84	6.03	6.16	6.10	5.58	9.00	6.86	7.15	7.40	8.34	6.22	8.79	8.41	6.41
Apr 12 95	5.98	5.66	5.80	5.93	6.12	6.07	5.53	9.00	6.76	7.09	7.37	8.29	6.19	8.72	8.37	6.38
Apr 19 95	6.07	5.61	5.71	5.82	6.10	6.06	5.54	9.00	6.61	7.04	7.38	8.29	6.17	8.62	8.24	6.32
Apr 26 95	5.99	5.64	5.73	5.80	6.09	6.04	5.51	9.00	6.58	7.01	7.33	8.29	6.29	8.70	8.26	6.30
May 3 95	6.05	5.69	5.78	5.89	6.09	6.07	5.53	9.00	6.67	7.04	7.32	7.97	6.30	8.36	8.27	6.26
May 10 95	6.00	5.60	5.63	5.65	6.02	6.03	5.51	9.00	6.29	6.70	7.02	7.95	6.18	8.45	7.87	6.12
May 17 95	6.02	5.68	5.67	5.64	6.03	6.05	5.52	9.00	6.26	6.61	6.93	--	6.15	8.32	7.83	6.10
Daily																
May 12 95	5.99	5.69	5.70	5.68	6.05	6.05	--	9.00	6.31	6.67	7.00	--	--	--	--	--
May 17 95	5.97	5.68	5.65	5.61	6.02	6.05	--	9.00	6.21	6.53	6.86	--	--	--	--	--
May 18 95	5.98	5.69	5.68	5.66	6.04	6.05	--	9.00	6.28	6.61	6.91	--	--	--	--	--

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.

Strictly Confidential (FR)-
Class II FOMC

MAY 22, 1995

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)										
1992	14.3	2.0	-2.3	-6.3	0.5	1.5	3.7	10.7	2.8	4.7
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.5	4.1	5.2
1994	2.3	1.0	0.4	3.6	1.4	2.4	6.7	5.7	5.0	5.2
Quarterly(average)										
1994-Q2	2.6	1.7	1.3	-1.2	1.3	1.6	6.5	5.4	4.5	4.8
1994-Q3	2.4	0.9	0.2	8.5	2.1	1.9	7.2	3.9	4.9	4.7
1994-Q4	-1.2	-0.4	0.1	13.2	1.7	3.6	4.0	5.9	5.3	5.5
1995-Q1	0.0	1.7	2.4	18.2	4.3	9.0	7.8	5.2	5.6	5.5
Monthly										
1994-APR.	1.8	2.6	3.1	4.3	2.9	3.6	10.3	3.9	4.9	4.6
MAY	0.7	1.0	1.1	-4.6	0.2	1.7	2.2	4.2	4.4	4.3
JUNE	3.7	-1.1	-3.3	15.5	1.4	-0.8	4.3	4.9	4.7	4.7
JULY	5.4	3.7	2.8	11.4	4.8	5.4	13.0	1.1	4.8	3.8
AUG.	-1.5	-0.7	-0.3	1.6	-0.3	-0.1	4.9	6.1	5.2	5.4
SEP.	0.2	-0.3	-0.5	12.0	1.6	0.9	4.6	6.0	5.7	5.8
OCT.	-3.0	-1.4	-0.7	19.5	1.8	4.5	2.9	5.4	5.3	5.3
NOV.	-0.6	0.4	0.9	9.2	1.8	3.1	3.0	8.5	4.9	5.9
DEC.	0.3	1.6	2.1	14.8	3.6	11.2	6.7	1.1	5.4	4.3
1995-JAN.	1.0	3.8	5.2	19.8	6.4	7.4	11.9	2.5	6.3	5.3
FEB.	-1.8	-1.4	-1.2	20.4	2.2	10.9	4.7	10.6	5.5	6.9
MAR.	0.8	2.6	3.4	22.4	5.8	11.3	8.2	7.4	4.6	5.3
APR. p	1.9	4.1	5.1	16.4	6.2		14.0			
Levels ($billions):										
Monthly										
1994-DEC.	1147.8	3615.0	2467.1	689.5	4304.4	5293.9	3316.1	3497.4	9467.6	12965.0
1995-JAN.	1148.8	3626.5	2477.7	700.9	4327.4	5326.6	3349.1	3504.7	9517.2	13021.9
FEB.	1147.1	3622.3	2475.2	712.8	4335.2	5375.1	3362.2	3535.8	9561.0	13096.8
MAR.	1147.9	3630.1	2482.3	726.1	4356.2	5425.5	3385.1	3557.5	9597.4	13154.9
APR. p	1149.7	3642.6	2492.9	736.0	4378.6		3424.5			
Weekly										
1995-APR. 3	1144.7	3633.2	2488.4	722.5	4355.7					
10	1150.2	3640.5	2490.3	727.4	4367.9					
17	1150.0	3635.7	2485.7	741.6	4377.3					
24	1149.7	3646.9	2497.2	740.0	4386.9					
MAY 1 p	1149.4	3650.9	2501.5	741.5	4392.4					
8 p	1142.9	3648.4	2505.5	745.9	4394.3					

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

Strictly Confidential (FR)-
Class II FOMC

MAY 22, 1995

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		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
							general purpose and broker/dealer[4]	Institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels ($billions):															
Annual (Q4)															
1992	290.1	336.5	380.0	83.0	1177.5	882.2	359.2	205.8	358.4	81.8	46.7	154.5	331.0	365.5	20.6
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.9	46.5	170.8	330.2	383.8	15.5
1994	352.5	382.9	404.0	114.5	1157.7	809.5	383.9	180.7	357.8	103.3	54.0	179.9	360.8	411.6	11.0
Monthly															
1994-APR.	334.5	388.1	412.0	98.9	1220.0	770.1	370.5	183.1	329.8	98.9	46.5	174.8	354.6	387.1	14.0
MAY	337.3	385.6	412.4	102.5	1214.8	770.8	373.5	177.5	332.4	98.0	47.7	175.7	357.1	392.6	11.6
JUNE	340.0	386.3	412.5	106.8	1206.8	772.9	370.7	177.9	335.0	102.5	50.3	176.7	348.4	392.7	10.8
JULY	342.8	388.0	413.1	109.5	1201.2	776.0	376.1	178.7	338.2	103.0	51.0	177.7	353.2	392.8	10.9
AUG.	345.1	386.6	410.8	110.9	1192.6	782.2	377.0	177.4	341.5	101.2	51.2	178.5	357.7	387.7	11.4
SEP.	347.2	386.5	408.9	111.8	1183.7	789.0	377.4	176.3	347.3	101.9	52.1	179.1	350.7	391.7	11.9
OCT.	350.0	384.4	405.4	113.7	1171.0	799.0	379.5	180.8	353.0	101.9	53.0	179.5	351.1	404.2	11.8
NOV.	353.0	382.3	403.8	113.0	1157.8	809.8	383.3	180.5	357.7	102.9	55.3	179.9	358.6	404.0	11.0
DEC.	354.5	382.0	402.9	116.7	1144.2	819.7	389.0	180.8	362.7	105.2	53.8	180.3	372.6	426.5	10.2
1995-JAN.	357.7	383.4	399.3	123.2	1129.8	835.0	392.2	186.3	363.0	109.1	54.9	180.5	380.3	428.6	9.8
FEB.	358.8	384.0	395.9	117.7	1111.9	854.7	391.8	180.4	371.1	112.8	57.7	180.4	404.0	445.7	9.9
MAR.	362.5	383.2	393.3	117.6	1094.9	877.5	391.4	189.0	377.4	112.5	58.8	180.5	424.5	453.9	10.4
APR. p	365.7	381.2	393.6	114.9	1082.4	895.9	396.6	192.9	379.9	115.7	60.5				

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

May 19, 1995

NET CHANGES IN SYSTEM HOLDINGS OF SECURITES[1]
Millions of dollars, not seasonally adjusted

Period	Treasury bills: Net purchases[2]	Treasury bills: Redemptions (-)	Treasury bills: Net change	Treasury coupons: Net purchases[3]: within 1 year	Treasury coupons: Net purchases[3]: 1-5	Treasury coupons: Net purchases[3]: 5-10	Treasury coupons: Net purchases[3]: over 10	Treasury coupons: Redemptions (-)	Treasury coupons: Net Change	Federal agencies redemptions (-)	Net change outright holdings total[4]	Net RPs[5]
1992	13,086	1,600	11,486	1,096	13,118	2,818	2,333	---	19,365	632	30,219	-13,215
1993	17,717	---	17,717	1,223	10,350	4,168	3,457	767	18,431	774	35,374	5,974
1994	17,484	---	17,484	1,238	9,168	3,818	3,606	2,337	15,493	1,002	31,975	-7,412
1994 ---Q1	2,164	---	2,164	147	1,413	1,103	618	616	2,665	411	4,418	-11,663
---Q2	6,639	---	6,639	364	2,817	1,117	896	440	4,754	307	11,086	4,179
---Q3	1,610	---	1,610	151	2,530	938	840	302	4,157	114	5,654	-8,530
---Q4	7,071	---	7,071	575	2,408	660	1,252	979	3,916	169	10,818	8,602
1995 ---Q1	---	---	---	---	---	---	---	621	-621	229	-850	-10,383
1994 May	1,395	---	1,395	155	---	---	---	---	155	70	1,480	5,441
June	4,143	---	4,143	---	---	---	---	---	---	58	4,085	4,070
July	---	---	---	---	---	---	---	302	-302	20	-322	-5,023
August	1,610	---	1,610	---	---	---	---	---	---	63	1,547	2,793
September	---	---	---	151	2,530	938	840	---	4,459	31	4,428	-6,301
October	518	---	518	450	---	---	---	979	-529	62	-72	819
November	6,109	---	6,109	---	200	---	---	---	200	70	6,239	4,718
December	444	---	444	125	2,208	660	1,252	---	4,245	37	4,652	3,066
1995 January	---	---	---	---	---	---	---	621	-621	91	-712	-14,471
February	---	---	---	---	---	---	---	---	---	55	-55	-686
March	---	---	---	---	---	---	---	---	---	83	-83	4,774
April	---	---	---	---	2,549	839	1,138	370	4,156	20	4,136	-2,758
Weekly												
January 25	---	---	---	---	---	---	---	---	---	64	-64	-10,071
February 1	---	---	---	---	---	---	---	---	---	---	---	-2,855
8	---	---	---	---	---	---	---	---	---	---	---	-4,452
15	---	---	---	---	---	---	---	---	---	---	---	5,932
22	---	---	---	---	---	---	---	---	---	---	---	-1,122
March 1	---	---	---	---	---	---	---	---	---	55	-55	-620
8	---	---	---	---	---	---	---	---	---	---	---	-2,663
15	---	---	---	---	---	---	---	---	---	---	---	10,858
22	---	---	---	---	---	---	---	---	---	---	---	-5,732
29	---	---	---	---	---	---	---	---	---	83	-83	3,566
April 5	---	---	---	---	---	---	---	---	---	---	---	-1,170
12	---	---	---	---	2,549	839	1,138	---	4,526	---	4,526	-224
19	---	---	---	---	---	---	---	370	-370	---	-370	504
26	---	---	---	---	---	---	---	---	---	20	-20	6,168
May 3	---	---	---	---	---	---	---	---	---	---	---	-7,413
10	---	---	---	---	---	---	---	---	---	30	-30	112
17	---	---	---	---	---	---	---	---	---	---	---	1,102
Memo: LEVEL (bil. $)[6]												
May 17			185.4	218.9	86.4	28.3	35.0		368.6		379.5	-13.5

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
May 17	1.6	1.3	0.4	0.0	3.3