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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

November 10, 1995

MONETARY POLICY ALTERNATIVES

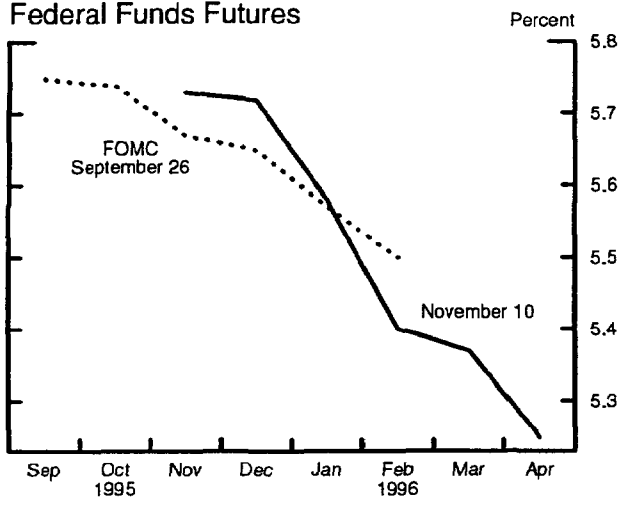
Recent Developments

(1). Over the intermeeting period, federal funds traded close to the FOMC's intended rate of 5-3/4 percent, apart from some temporary elevation around the end of the third quarter. To date, reserve management has not been complicated significantly by the Treasury's efforts to cope with the looming debt-ceiling constraint. However, in order to prevent the supply of bills available to the market from being unduly constricted by the Treasury's decision to slash the auction on October 23, the Desk did elect to run off \$900 million of maturing issues from the System Open Market Account in that week, adding to reserve needs during the intermeeting period.

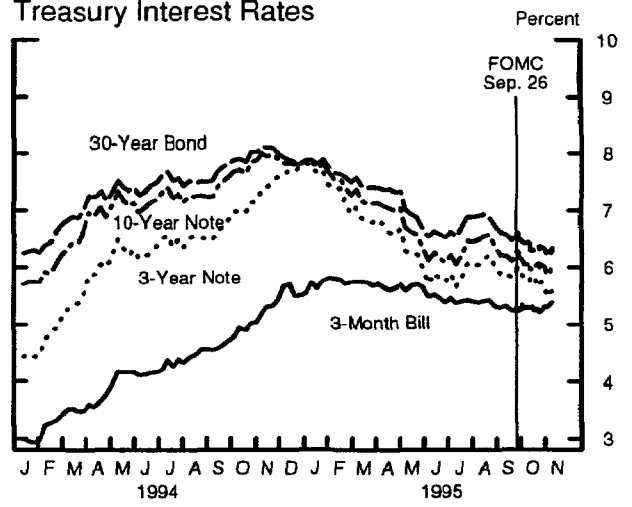
(2) Yields on intermediate- and longer-term Treasuries fell 25 to 30 basis points in the period since the September FOMC meeting, extending the rally that began about a year ago and bringing rates on long bonds to their lowest levels since early 1994. In part, the decline in rates may have reflected further reductions in inflation expectations (chart), spurred by favorable inflation and labor compensation data. In addition, commentary on the basis for ultimate budget compromise between the Congress and the Administration suggested better odds that substantial fiscal restraint over the long run would be forthcoming. In recent days, however, clashes over debt ceiling and interim appropriations measures apparently have begun to concern market participants, heightening volatility in the Treasury market and causing rates to back up slightly. Although economic data were mixed

Chart 1

Federal Funds Futures

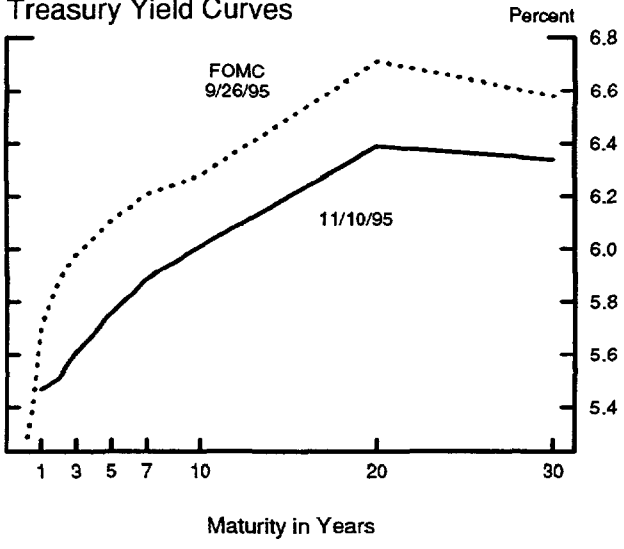


Treasury Interest Rates

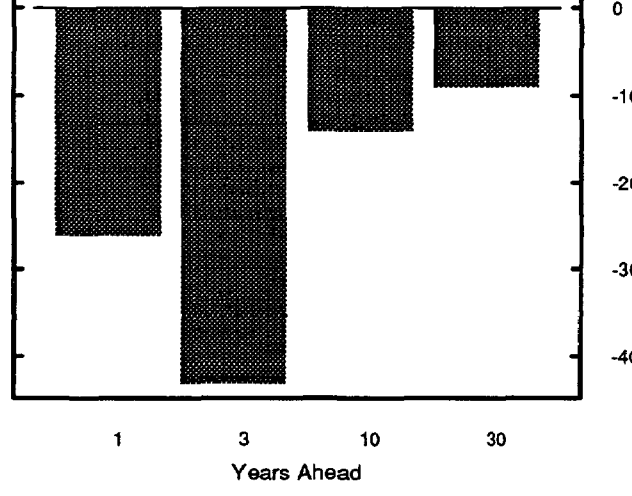


Weekly. Daily after Sep. 26.

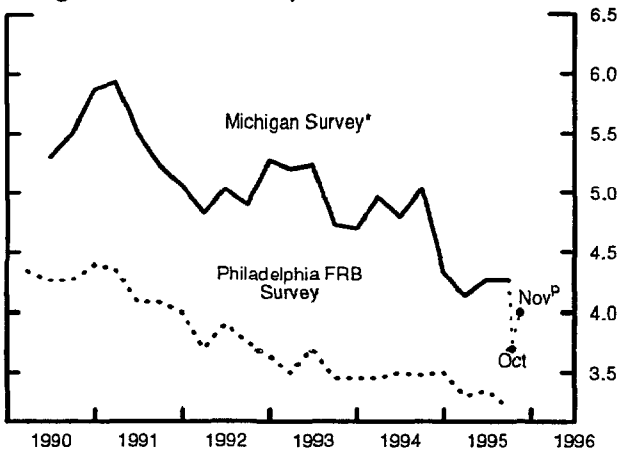
Treasury Yield Curves



Change in Forward Rates Since September 26

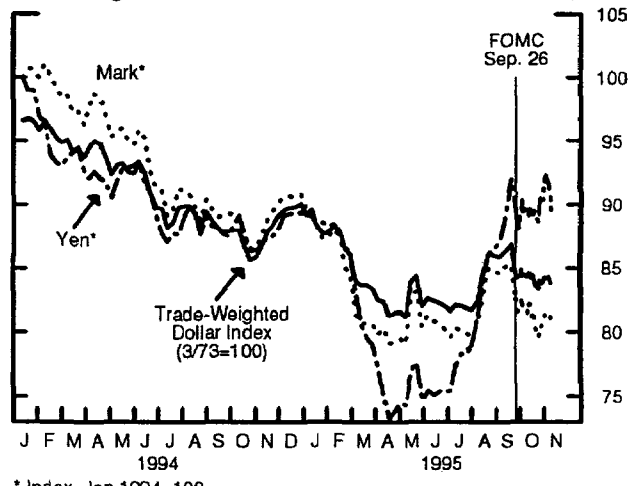


Long-term Inflation Expectations



* Quarterly average.
p Preliminary.

Exchange Rates



* Index, Jan 1994=100
Weekly. Daily after Sep. 26.

over the period, market participants seemed to conclude that private-sector spending in the current expansion was not likely to be so strong as to forestall a future easing in monetary policy. Money market yields and futures quotes indicate that market participants see only slim odds of any near-term monetary policy moves but still look for an easing late this year or early 1996, presumably timed to follow a budget agreement. On balance, money market interest rates were about unchanged over the intermeeting period.¹ Falling longer-term interest rates and continued good news on corporate earnings again lifted stock prices, with major indexes increasing 1/2 to 2 percent to new records over the intermeeting period.

(3) The dollar's weighted-average exchange value moved in a fairly narrow range over most of the intermeeting period, but softened somewhat in recent days, in part on concerns about a U.S. default and about the unsettled Mexican situation. It ended the period about 1-1/4 percent lower, on balance. Interest rates in major foreign countries, on average, moved down somewhat, but by less than in the United States. The Canadian dollar was volatile over the period but strengthened against the U.S. dollar in the wake of the defeat of Quebec's separation referendum, permitting a substantial reduction in short-term rates by the Bank of Canada. The dollar traded firmer against the yen for much of the period, seemingly influenced by market concerns over the financial condition of the Japanese banking system. Short-term interest rates in Mexico rose more than 25 percentage

1. Private short-term rates incorporate premiums of 1 to 2 percentage points for funds over the long weekend at year-end. Premiums were higher on borrowing by Japanese banks, whose financial difficulties attracted mounting concerns over the period. The announcement of regulatory and law-enforcement actions against Daiwa Bank later in the period did not appear to add to funding pressures on Japanese banks, and indeed premiums have narrowed a bit in recent days.

points as the peso came under sharp downward pressure against the dollar, reflecting some apparent loss of confidence in the government's willingness to maintain anti-inflationary policies in the face of continued weakness in the economy. U.S. monetary authorities did not intervene in foreign exchange markets during the period.

(4) The expansion of debt and broad money seems to have moderated somewhat in recent months. With a slowing in both private and federal borrowing, growth in the debt of all domestic nonfinancial sectors fell to a 3 percent annual rate in September, leaving this aggregate around the middle of its 3 to 7 percent monitoring range. Data for October, while still sparse, point to another month of modest borrowing. Bank credit growth came to a near-standstill last month. Business loans were flat, and growth in consumer and real estate loans slowed. Some of this weakness owed to a shifting of borrowing to securities markets (corporations tapped capital markets in size, and securitization of consumer and real estate loans rose), but it appears that credit demands also were sluggish. On the supply side, senior loan officers reported continued easing of terms on business loans, especially for large firms, but had tightened slightly the terms and standards for consumer lending in response to increased delinquencies. In the open markets, spreads on investment-grade paper have stayed narrow, but junk bond spreads have widened somewhat, adding to significant increases already experienced earlier in the year.

(5) Owing to reduced funding needs of banks, M3 expanded at only a 3-1/2 percent pace in October, its slowest growth in eight months. This moderation brought the growth rate of this aggregate from the fourth quarter of 1994 to 6-1/2 percent, leaving it only a

little above the upper end of its 2 to 6 percent annual range. Continuing the sharp deceleration from its rapid summer pace, M2 was about unchanged last month, and its growth from the fourth quarter was 4-1/2 percent, in the upper half of its 1 to 5 percent range. The expansion of instruments in M2 held primarily by households (NOW accounts, MMDAs, money funds, and small time deposits) has fallen off sharply over the past two months. Although total flows into bond and stock mutual funds have been substantial, they do not appear to have strengthened significantly of late, and net noncompetitive tenders for Treasury securities have remained anemic.² Thus, the recent weakness in M2 is not easily explained.

(6) The contraction in M1 steepened in October to a 10-1/2 percent annual rate. Much of the decline in this measure was again accounted for by the implementation of additional retail sweep arrangements.³ Even after adjusting for the initial effects of such programs, however, M1 dropped at a 2-1/2 percent rate. Demand deposits fell, and currency growth, at a 4-1/2 percent pace, remained weak compared with its average of the past few years. After moderating last spring, net foreign shipments of U.S. currency have continued to run at a markedly lower rate in recent months.⁴ Anecdotal information points to some developing reluctance in foreign countries to hold the current series \$100 bills in advance of the introduction of the

2. Based on preliminary data, M2 plus stock and bond mutual funds is estimated to have expanded at a 5-3/4 percent rate in October, bringing its increase from the fourth quarter to 7-1/2 percent.

3. On a monthly average basis through October, banks are estimated to have implemented about \$41 billion of retail sweeps. Such sweeps have reduced required reserve balances by an estimated \$3-3/4 billion.

4. The monetary base expanded at a 2 percent rate in October, while total reserves fell at nearly a 12 percent rate. Adjusted for the initial effects of sweep accounts on required reserves, the monetary base expanded at a 4-1/2 percent rate and total reserves grew at a 4 percent pace in October.

new bill next year, apparently reflecting concern about the future acceptability of the current series.

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

	Aug.	Sept.	Oct.	QIV to Oct. ¹
<u>Money and credit aggregates</u>				
M1	-1.6	-3.9	-10.6	-1.7
Adjusted for OCD sweeps	3.1	2.3	-2.4	1.2
M2	8.3	4.7	-0.3	4.4
M3	7.6	4.4	3.5	6.5
Domestic nonfinancial debt	3.8	3.1	--	5.4
Federal	1.9	0.7	--	4.7
Nonfederal	4.4	4.0	--	5.7
Bank credit	5.2	7.1	0.9	8.2
<u>Reserve measures</u>				
Nonborrowed reserves	-1.1	-3.0	-11.2	-4.8
Total reserves	-2.9	-3.1	-11.8	-4.8
Adjusted for OCD sweeps	6.0	10.0	4.0	0.9
Monetary base	3.3	1.1	2.1	4.1
Adjusted for OCD sweeps	4.7	2.5	4.4	4.9
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	282	278	245	--
Excess reserves	988	950	1059	--

1. QIV to September for debt aggregates.

NOTE: 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.

Policy Alternatives

(7) Recent GDP and labor market data have been stronger than anticipated by the staff at the time of the September FOMC meeting, and output is now projected to grow about 1 percentage point faster over the second half of 1995 than expected in September. In effect, the levels of interest rates over the past year seem to have been less restrictive than thought before, and greater strength in aggregate demand is seen as persisting in 1996 and 1997; with a sustained 5-3/4 percent federal funds rate, output is projected to expand at close to the growth rate of potential GDP. Thus, the unemployment rate holds in the 5-1/2 to 5-3/4 percent range through the forecast period, appreciably below the path in the previous Greenbook. However, the staff also has interpreted recent data on prices and compensation as suggesting that the economy can operate at unemployment rates around those levels without an acceleration of inflation. As a consequence, core inflation is seen as holding fairly steady at around 3 percent, even at the relatively low unemployment rates projected. The staff forecast thus has the economy operating in 1996 with higher output and lower unemployment than the Committee members' midyear expectations, though with inflation in the central tendency range for the CPI.

(8) On the federal budgetary front, the eventual outcome remains uncertain, and a sustained lapse in annual appropriations or a default on Treasury debt cannot be ruled out as a by-product of the negotiating process. As to appropriations, it may be difficult for the President and the Congress to agree on a continuing resolution to authorize spending past November 13. At this writing, a real possibility exists that nonessential operations of the government will

have to shut down beginning November 14 and that any eventual continuing resolution would involve more fiscal restraint in the near term than incorporated in the greenbook forecast.⁵ However, because many government operations would be deemed essential and allowed to continue, and because others are funded by multi-year appropriations, the quantitative effect on activity would be small, even if a spending lapse were to persist. As to default, market prices so far have been affected only a little by such a possibility, presumably because investors anticipate some political compromise or a resort to unusual financing devices by the Treasury to enable it to make timely payments. The possible implications for markets and for monetary policy of a default are discussed in paragraphs (17) to (19) below.

(9) The Greenbook forecast assumes no significant macroeconomic effects from any temporary disruptions incurred in the process of determining the longer-run stance of fiscal policy. As noted above, the current funds rate is judged to be consistent with core consumer inflation staying at about 3 percent. Despite the lack of a downward tilt to the inflation projection, the Committee still might favor the unchanged stance of policy in alternative B if it viewed the benefits of further disinflation as insufficient to justify a more restrictive policy stance that pushed the economy below its potential. The case for alternative B would be even stronger if the Committee viewed the staff inflation forecast as too pessimistic-- either because spending would be weaker or because the price-output relationship would be more favorable than the staff assessment.

5. A government shutdown would disrupt the normal flow of economic data. Retail sales for October would be released on November 14, but consumer prices would not be available on the next day.

Moreover, uncertainties about the economic outlook might seem particularly large, both because of the fiscal situation and because of conflicting signals about spending and production. Such circumstances could reinforce the desire to stand pat, awaiting clarification of the outlook.

(10) Earlier expectations of the possibility of easing at the November FOMC meeting have largely been erased and, thus, the choice of alternative B should have little impact on market interest rates. The dollar would trade on foreign exchange markets around its current level. Although market attention over the intermeeting period is likely to remain focused on the budget deliberations, evidence of persistent strength in private final demands along the lines of the staff forecast might cause markets to begin to question their expectations about the path of interest rates going forward, and intermediate- and long-term rates could edge higher.

(11) The choice of easing under alternative A might be favored if it were thought that some information about spending--for example, soft industrial commodity prices and a sluggish manufacturing sector or slowing growth of broad money and credit--was suggesting a weakening in aggregate demand not yet evident in more general statistics. These indicators might be signalling that real interest rates already have been on the high side, and these rates could be rising further, especially at the short end of the maturity spectrum, in light of the recent decline in inflation and, most likely, inflation expectations. In effect, the downward slope to the near-term yield curve and narrow spread of the entire curve could be signalling that real short-term rates are above those consistent with moderate growth, especially in the face of impending fiscal restraint.

(12) The cut in the federal funds rate of 50 basis points under alternative A would come sooner and be larger than now expected in the market. Consequently, it would show through to other money market interest rates, and banks would trim 1/2 percentage point off the prime rate. The dollar would be expected to weaken on foreign exchange markets as interest rates on dollar-denominated assets fell in relation to those on other major currencies. The sustainability of any decline in bond rates would depend on whether market participants similarly saw the easing to be called for or rather viewed it to be premature and unsustainable, as might become the case if indicators in the period just ahead were broadly in line with the staff forecast.

(13) The choice of alternative C might be favored to the extent that the Committee wished to have greater assurance that inflation would continue to edge down. A more restrictive policy to accomplish this objective might be seen as all the more needed in light of recent strength in broad measures of output and labor input. Furthermore, intermediate- and long-term interest rates have declined substantially in recent months, potentially providing considerable further impetus to spending.

(14) A move to tighten policy by 50 basis points as under alternative C would especially surprise market participants, who continue to hold the view, supported by statements from some Committee members, that the next policy move will be to ease. Money market rates would rise by at least the 50 basis point increase in the federal funds rate. The dollar would tend to strengthen on foreign exchange markets, and intermediate- and long-term interest rates would retrace some of their recent declines as a higher path for real short-term rates came to be built into market expectations.

(15) The table below presents expected growth of money and debt under the unchanged reserve conditions of alternative B. In credit markets, supply conditions are expected to remain generally favorable. However, the likely cutback in business lending by Japanese banks and possible tendency for consumer lenders to become more selective suggest that credit may become less freely available for some borrowers. Nonetheless, borrowing by nonfederal sectors is expected to firm a little from the subdued pace of recent months. For businesses, strong cash flow and some slowing in the pace of inventory accumulation will act to hold down financing needs, although this effect will be offset by the scheduled completion of some large mergers and associated share retirements in coming months. In the household sector, debt growth will be sustained in the near term in financing further healthy advances in durable goods outlays and fairly robust housing activity. Total nonfederal debt is projected to expand at below a 5 percent annual rate over late 1995 and early 1996. Federal borrowing will be light in the months immediately ahead, even absent a spending lapse or debt-ceiling crisis, before strengthening late in the winter. Taken together, total nonfinancial sector debt is projected to grow 5-1/4 percent in 1995, around the middle of its monitoring range, and to maintain that pace early in 1996.

Annualized growth from
Oct. 1995 to March 1996

M2	4-1/2
M3	5-1/2
M1	-1-1/2
Debt	5-1/4
Federal	7
Nonfederal	4-1/2

(16) The broad monetary aggregates, especially M2, are expected to strengthen after October. Moderate nominal income growth and fairly narrow opportunity costs will tend to buoy expansion in household demand for M2, helping to return growth in this aggregate to the 4-1/2 percent area over the October-to-March period under alternative B. The rebound in M2 growth, combined with still-brisk issuance of large time deposits to fund bank credit, would result in about 5-1/2 percent M3 growth under alternative B. As a consequence, M3 velocity would continue to decline over the fourth quarter of this year and the first quarter of next year, albeit at a slower pace. The velocity of M2, in contrast, should edge up over these two quarters, reversing part of its unexpectedly large third-quarter decline. Meanwhile, M1 is projected to remain on a downward trajectory, owing to the further spread of retail sweeps. For the year 1995, the staff projects M2 to rise 4-1/4 percent, in the upper portion of its 1-to-5 percent range, and M3 to advance 6-1/2 percent, a little above its 2-to-6 percent range. In March of 1996, both aggregates would be near the upper ends of their tentative ranges for next year.

Contingencies Regarding a Treasury Default

(17) While a Treasury default on November 15 seems extremely unlikely, given the financing flexibility apparently available to the Secretary of the Treasury, the threat of default may linger for some time. Considerable uncertainty surrounds the financial market consequences of the inability of the U.S. Treasury to meet its obligations. Payments on principal, interest, and a variety of other obligations would be delayed for an unknown length of time, creating liquidity strains for many banks and their customers. Strains could be compounded by frictions in pricing, trading, and financing of matured

securities and overdue interest coupons. If trading conventions were established to minimize those frictions, and if the Treasury could clarify that interest would continue to accrue after maturity, liquidity in the market for these instruments could be maintained to some extent, likely mitigating price changes. Nonetheless, with no experience to guide judgments about these effects, sizable price movements are conceivable--and, in any case, markets are likely to be quite skittish. Treasury securities are the benchmark for pricing many financial instruments and widely used as collateral, and, consequently, the potential exists for spillover effects to other markets.

(18) Some of the uncertainties and skittishness could be ameliorated by System and Treasury actions. In the payments area, allowing matured securities to be transferred on the book-entry system should foster secondary market trading, as would an announcement about the procedures to be followed for delayed interest payments. Moreover, an announcement of the Desk's willingness to take defaulted obligations as collateral in repurchase agreements should serve to encourage that practice more generally. As to potential liquidity problems, accepting defaulted Treasury obligations as good collateral for discount window borrowing should aid those depositories, and indirectly their customers, experiencing delays in receipt of payments. If liquidity problems seem to have the potential of becoming severe or widespread, it may be necessary to consider steps to encourage greater use of the discount window. Unpredictable demands for adjustment credit, along with uncertainty about the total demand for excess reserves in volatile markets, would complicate the implementation of policy over this period, requiring considerable flexibility in daily open market operations. If, despite these steps,

serious market disruptions threatened the health of the economy, the FOMC might want to address the question of whether the System Open Market Account should be used to purchase defaulted Treasury obligations from the public, taking account of the Federal Reserve Act's limitation that securities only be purchased in the open market. Such a step, presumably, would be considered in the context of the overall stance of policy in the circumstances.

(19) If market disruptions were limited, the effects on economic activity of a Treasury default should be fairly small, with little implication for the underlying stance of monetary policy. If it looked as if significant reductions in the deficit would be forthcoming, a run-up in Treasury yields might not be large and might not be matched by increases in private rates. The Treasury would continue to purchase goods and services and to take in tax receipts in accordance with existing authority. A strong market reaction could present policymakers with difficult choices. A generalized loss of confidence and flight from dollar assets would tend to raise interest rates and discourage spending, but it could also cause the dollar to drop sharply.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1				
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C		
Levels in Billions											
Aug-95	3743.1	3743.1	3743.1	4519.1	4519.1	4519.1	1143.4	1143.4	1143.4		
Sep-95	3757.9	3757.9	3757.9	4535.5	4535.5	4535.5	1139.7	1139.7	1139.7		
Oct-95	3757.0	3757.0	3757.0	4548.6	4548.6	4548.6	1129.6	1129.6	1129.6		
Nov-95	3770.8	3770.1	3769.5	4568.3	4568.0	4567.6	1128.4	1128.1	1127.8		
Dec-95	3785.2	3782.7	3780.2	4588.5	4587.0	4585.5	1127.2	1126.2	1125.2		
Jan-96	3801.0	3795.9	3790.9	4611.1	4608.0	4605.0	1126.6	1124.4	1122.3		
Feb-96	3818.4	3810.8	3803.2	4634.1	4629.5	4624.9	1126.6	1123.1	1119.7		
Mar-96	3835.6	3826.0	3816.5	4656.5	4650.8	4645.0	1127.2	1122.3	1117.3		
Monthly Growth Rates											
Aug-95	8.3	8.3	8.3	7.6	7.6	7.6	-1.6	-1.6	-1.6		
Sep-95	4.7	4.7	4.7	4.4	4.4	4.4	-3.9	-3.9	-3.9		
Oct-95	-0.3	-0.3	-0.3	3.5	3.5	3.5	-10.6	-10.6	-10.6		
Nov-95	4.4	4.2	4.0	5.2	5.1	5.0	-1.3	-1.6	-1.9		
Dec-95	4.6	4.0	3.4	5.3	5.0	4.7	-1.2	-2.0	-2.8		
Jan-96	5.0	4.2	3.4	5.9	5.5	5.1	-0.7	-1.9	-3.1		
Feb-96	5.5	4.7	3.9	6.0	5.6	5.2	0.0	-1.4	-2.8		
Mar-96	5.4	4.8	4.2	5.8	5.5	5.2	0.7	-0.9	-2.5		
Quarterly Averages											
95 Q1	1.7	1.7	1.7	4.4	4.4	4.4	0.0	0.0	0.0		
95 Q2	4.4	4.4	4.4	7.1	7.1	7.1	-0.9	-0.9	-0.9		
95 Q3	7.7	7.7	7.7	8.8	8.8	8.8	-1.0	-1.0	-1.0		
95 Q4	3.4	3.3	3.1	4.7	4.7	4.6	-5.0	-5.1	-5.3		
96 Q1	5.0	4.4	3.7	5.7	5.4	5.1	-0.6	-1.7	-2.7		
Growth Rate											
From	To										
Oct-95	Mar-96		5.0	4.4	3.8	5.7	5.4	5.1	-0.5	-1.6	-2.6
95 Q4	Mar-96		5.1	4.5	3.8	5.8	5.4	5.1	-0.3	-1.5	-2.7
93 Q4	94 Q4		1.1	1.1	1.1	1.4	1.4	1.4	2.4	2.4	2.4
94 Q4	95 Q4		4.4	4.3	4.3	6.4	6.4	6.4	-1.7	-1.7	-1.8
1995 Target Ranges:			1.0 to 5.0			2.0 to 6.0					

Directive Language

(20) 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/ SLIGHTLY)/ maintain/INCREASE (SOMEWHAT/SLIGHTLY) 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 growth in M2 and M3 over COMING the balance of the year near the pace of recent 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		
		3-month	6-month	1-year	3-month	1-month	3-year	10-year	30-year	secondary market	primary market	fixed-rate	fixed-rate	ARM		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1111-- 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	6.21	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	5.24	5.24	5.15	5.69	5.73	5.16	8.50	5.60	5.95	6.28	7.27	5.93	7.73	7.37	5.64
Monthly																
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
May 95	6.01	5.67	5.67	5.65	6.02	6.05	5.51	9.00	6.27	6.63	6.95	7.89	6.16	8.32	7.96	6.14
Jun 95	6.00	5.47	5.42	5.33	5.90	6.05	5.46	9.00	5.80	6.17	6.57	7.60	6.07	7.96	7.57	5.87
Jul 95	5.85	5.42	5.37	5.28	5.77	5.87	5.39	8.80	5.89	6.28	6.72	7.72	6.21	8.03	7.61	5.83
Aug 95	5.74	5.40	5.41	5.43	5.77	5.85	5.27	8.75	6.10	6.49	6.86	7.84	6.37	8.24	7.86	5.93
Sep 95	5.80	5.28	5.30	5.31	5.73	5.82	5.24	8.75	5.89	6.20	6.55	7.55	6.18	8.01	7.64	5.81
Oct 95	5.76	5.28	5.32	5.28	5.79	5.81	5.20	8.75	5.77	6.04	6.37	7.36	6.05	7.88	7.48	5.74
Weekly																
Jul 26 95	5.75	5.44	5.43	5.40	5.77	5.83	5.32	8.75	6.08	6.47	6.89	7.88	6.27	8.16	7.79	5.86
Aug 2 95	5.83	5.42	5.38	5.36	5.75	5.85	5.31	8.75	6.05	6.46	6.88	7.88	6.35	8.24	7.82	5.89
Aug 9 95	5.73	5.40	5.40	5.36	5.75	5.85	5.29	8.75	6.05	6.49	6.91	7.96	6.40	8.25	7.80	5.91
Aug 16 95	5.74	5.43	5.45	5.47	5.78	5.86	5.27	8.75	6.17	6.56	6.93	7.89	6.44	8.29	7.94	5.95
Aug 23 95	5.70	5.44	5.46	5.53	5.78	5.85	5.27	8.75	6.22	6.57	6.90	7.70	6.40	8.17	7.88	5.96
Aug 23 95	5.70	5.44	5.46	5.53	5.78	5.85	5.27	8.75	6.22	6.57	6.90	7.70	6.40	8.17	7.88	5.96
Aug 30 95	5.71	5.33	5.35	5.38	5.76	5.84	5.25	8.75	6.02	6.38	6.74	7.60	6.26	8.09	7.76	5.86
Sep 6 95	5.77	5.30	5.30	5.30	5.76	5.83	5.25	8.75	5.88	6.21	6.60	7.58	6.16	7.92	7.63	5.86
Sep 13 95	5.73	5.33	5.32	5.33	5.73	5.82	5.24	8.75	5.90	6.21	6.57	7.48	6.09	7.90	7.60	5.80
Sep 20 95	5.78	5.25	5.24	5.24	5.69	5.81	5.25	8.75	5.81	6.12	6.48	7.58	6.18	8.10	7.57	5.77
Sep 27 95	5.80	5.24	5.32	5.34	5.73	5.81	5.21	8.75	5.96	6.26	6.58	7.49	6.27	8.05	7.62	5.77
Oct 4 95	6.00	5.29	5.35	5.34	5.80	5.87	5.29	8.75	5.90	6.17	6.49	7.41	6.14	7.92	7.57	5.76
Oct 11 95	5.72	5.30	5.34	5.29	5.79	5.82	5.20	8.75	5.81	6.07	6.43	7.27	6.08	7.81	7.50	5.75
Oct 18 95	5.71	5.29	5.32	5.27	5.78	5.80	5.21	8.75	5.74	5.99	6.33	7.32	5.97	7.86	7.38	5.72
Oct 25 95	5.76	5.25	5.32	5.29	5.79	5.81	5.20	8.75	5.76	6.02	6.34	7.40	6.02	7.93	7.45	5.73
Nov 1 95	5.76	5.28	5.29	5.23	5.78	5.80	5.22	8.75	5.70	6.03	6.34	7.33	5.93	7.73	7.44	5.67
Daily																
Nov 3 95	5.66	5.31	5.26	5.14	5.75	5.80	--	8.75	5.58	5.94	6.28	--	--	--	--	--
Nov 7 95	5.65	5.37	5.30	5.19	5.74	5.81	--	8.75	5.65	5.99	6.31	--	--	--	--	--
Nov 8 95	5.93	5.36	5.26	5.13	5.74	5.82	--	8.75	5.58	5.92	6.25	--	--	--	--	--

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.

Money and Credit Aggregate Measures

Seasonally adjusted

NOVEMBER 14, 1995

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt ¹		
	M1	M2	nontransactions components		M3	L	total loans and investments ¹	U. S. government ²	other ²	total ²
			In M2	In M3 only						
	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	4.8
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.4	4.0	5.2
1994	2.4	1.1	0.5	3.5	1.4	2.4	6.8	5.7	4.9	5.1
Quarterly (average)										
1994-Q4	-1.2	-0.3	0.2	12.3	1.7	2.2	4.1	5.9	5.0	5.2
1995-Q1	0.1	1.7	2.5	18.5	4.4	6.4	7.6	5.3	5.7	5.5
1995-Q2	-0.9	4.4	6.9	20.7	7.1	7.6	13.3	5.3	7.2	6.7
1995-Q3	-1.0	7.7	11.7	13.8	8.8		6.2			
Monthly										
1994-OCT.	-2.9	-1.3	-0.5	18.7	1.8	3.0	3.7	5.4	4.0	4.4
NOV.	-0.6	0.6	1.1	6.7	1.5	2.5	1.7	8.5	5.4	6.3
DEC.	0.4	1.7	2.2	12.5	3.4	4.8	6.8	1.2	4.9	3.9
1995-JAN.	1.0	4.0	5.3	19.2	6.4	5.8	11.6	2.5	6.1	5.1
FEB.	-1.8	-1.4	-1.2	24.1	2.7	9.0	4.5	10.6	6.2	7.4
MAR.	0.6	2.5	3.4	26.1	6.4	9.7	8.8	7.4	5.0	5.6
APR.	1.9	4.4	5.6	16.0	6.3	6.1	24.0	0.7	8.8	6.6
MAY	-7.0	5.5	11.2	20.8	8.0	6.3	9.4	5.9	9.1	8.3
JUNE	0.9	11.9	16.8	17.6	12.8	8.3	5.4	8.4	3.8	5.0
JULY	1.0	6.2	8.5	18.6	8.4	11.5	5.8	4.1	3.0	3.3
AUG.	-1.6	8.3	12.7	4.7	7.6	7.6	5.2	1.9	4.2	3.5
SEP.	-3.9	4.7	8.5	2.5	4.4		7.1			
OCT. pe	-11	0	4	22	4		0			
Levels (\$billions)										
Monthly										
1995-MAY	1143.0	3662.1	2519.1	750.2	4412.3	5433.9	3483.1	3577.0	9742.2	13319.2
JUNE	1143.9	3698.3	2554.4	761.2	4459.4	5471.6	3498.7	3602.0	9772.9	13374.8
JULY	1144.9	3717.5	2572.6	773.0	4490.5	5524.2	3515.7	3614.4	9797.0	13411.4
AUG.	1143.4	3743.1	2599.8	776.0	4519.1	5559.0	3530.8	3620.0	9830.9	13450.9
SEP.	1139.7	3757.9	2618.2	777.6	4535.5		3551.8			
Weekly										
1995-SEP.										
4	1142.0	3753.6	2611.6	777.7	4531.3					
11	1142.3	3754.2	2611.9	776.8	4531.0					
18	1139.7	3759.3	2619.6	776.2	4535.5					
25	1140.5	3760.4	2619.8	775.5	4535.8					
OCT.										
2	1132.2	3759.4	2627.2	783.8	4543.1					
9	1128.4	3753.6	2625.2	790.0	4543.6					
16	1130.8	3758.1	2627.3	792.2	4550.3					
23 p	1129.1	3755.6	2626.5	795.0	4550.6					
30 p	1128.9	3758.3	2629.4	791.1	4549.4					

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

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

NOVEMBER 14, 1995

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 ⁴	Term RP's NSA ⁵	Term Euro-dollars NSA ⁵	Savings bonds	Short-term Treasury securities	Commercial paper ¹	Bankers acceptances
							general purpose and broker/dealer ¹	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	329.2	365.5	20.6
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.7	46.5	170.8	328.9	381.8	15.5
1994	352.5	383.1	404.0	114.8	1157.7	810.5	383.9	180.7	357.5	103.5	53.2	179.9	363.6	400.9	13.5
Monthly															
1994-SEP.	347.2	386.5	408.9	112.0	1183.7	789.6	377.4	176.3	348.2	101.7	52.1	179.1	360.5	390.2	14.8
OCT.	350.0	384.5	405.4	114.0	1171.0	799.7	379.5	180.8	353.6	101.9	52.7	179.5	358.6	399.9	13.1
NOV.	353.0	382.5	403.8	113.4	1157.8	810.8	383.3	180.5	357.4	103.1	54.5	179.9	361.9	401.4	13.5
DEC.	354.5	382.2	402.9	117.1	1144.2	820.9	389.0	180.8	361.4	105.6	52.4	180.3	370.2	401.3	14.0
1995-JAN.	357.7	383.6	399.3	123.9	1129.8	836.5	392.1	186.3	361.9	109.4	53.1	180.5	371.4	402.8	13.4
FEB.	358.8	384.1	395.9	118.3	1111.9	856.5	391.5	180.4	371.2	113.4	56.3	180.4	389.9	414.7	13.4
MAR.	362.5	383.3	393.3	118.2	1094.9	879.5	390.9	189.0	378.6	113.4	58.3	180.5	402.0	421.7	14.1
APR.	365.7	381.2	393.6	115.7	1082.4	898.5	396.0	192.9	380.2	116.5	59.9	180.9	396.9	430.8	13.9
MAY	368.1	380.6	385.0	116.5	1081.4	912.7	405.4	194.8	385.5	121.7	61.1	181.6	383.9	443.8	12.3
JUNE	367.4	386.8	380.7	117.3	1091.1	919.7	426.2	205.6	389.3	119.8	62.4	182.3	391.0	427.5	11.3
JULY	367.1	389.5	379.4	114.3	1091.4	924.3	442.0	212.4	396.3	115.3	63.3	183.0	410.9	428.0	11.7
AUG.	368.3	390.0	376.2	118.4	1098.1	927.2	455.9	210.8	398.4	117.6	62.6	183.7	408.8	435.3	12.2
SEP.	369.1	389.7	372.0	121.4	1105.2	929.5	462.6	213.5	401.1	115.4	61.4				

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

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES¹
Millions of dollars, not seasonally adjusted

November 10, 1995

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					
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	-4,083
--Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,395
--Q3	842	---	842	---	100	---	100	---	200	501	541	-15,979
1994 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	-8,171
February	---	---	---	---	---	---	---	---	---	55	-55	-686
March	---	---	---	---	---	---	---	---	---	83	-83	4,774
April	---	---	---	---	2,549	839	1,138	370	4,156	20	4,136	-2,758
May	---	---	---	---	---	---	---	---	---	30	-30	2,474
June	4,470	---	4,470	---	---	---	---	---	---	262	4,208	10,678
July	---	---	---	---	---	---	---	---	---	333	-333	-13,602
August	433	---	433	---	---	---	---	---	---	122	311	-2,984
September	409	---	409	---	100	---	100	---	200	46	563	608
October	1,350	900	450	---	---	---	---	---	---	568	-118	-427
Weekly												
August 2	---	---	---	---	---	---	---	---	---	---	---	4,411
9	---	---	---	---	---	---	---	---	---	---	---	-161
16	---	---	---	---	---	---	---	---	---	35	-35	1,827
23	---	---	---	---	---	---	---	---	---	---	---	-2,512
30	---	---	---	---	---	---	---	---	---	87	-87	1,445
September 6	733	---	733	---	100	---	100	---	200	---	733	1,556
13	---	---	---	---	---	---	---	---	---	---	200	5,466
20	---	---	---	---	---	---	---	---	---	---	---	2,526
27	---	---	---	---	---	---	---	---	---	46	-46	-7,724
October 4	109	---	109	---	---	---	---	---	---	---	109	-2,054
11	---	---	---	---	---	---	---	---	---	---	---	2,916
18	---	---	---	---	---	---	---	485	---	---	-485	-1,282
25	---	---	---	---	---	---	---	---	---	83	-83	3,436
November 1	1,350	900	450	---	---	---	---	---	---	---	450	-4,808
8	241	---	241	---	---	400	---	---	400	---	641	2,783
Memo: LEVEL (bil. \$) ⁶												
November 8			191.4	220.9	85.1	30.0	35.6		371.6		384.7	-10.3

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
1.4	0.9	0.4	0.0	2.7

November 8