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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

December 15, 1995

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The effective federal funds rate, at 5.82 percent, averaged a bit above the FOMC's intended level of 5.75 percent over the intermeeting period. The overage reflected strong demands for reserves at the close of two maintenance periods as well as pressures associated with the bunching of the settlement of several Treasury issues caused by debt ceiling disruptions and with the mid-December corporate tax date.[1] As they did at the time of the last meeting, market participants appear to expect a cumulative easing of about 50 basis points in the federal funds rate between December and next April. As the expected easing drew nearer, shorter-term rates moved down 5 to 15 basis points over the intermeeting period.[2]

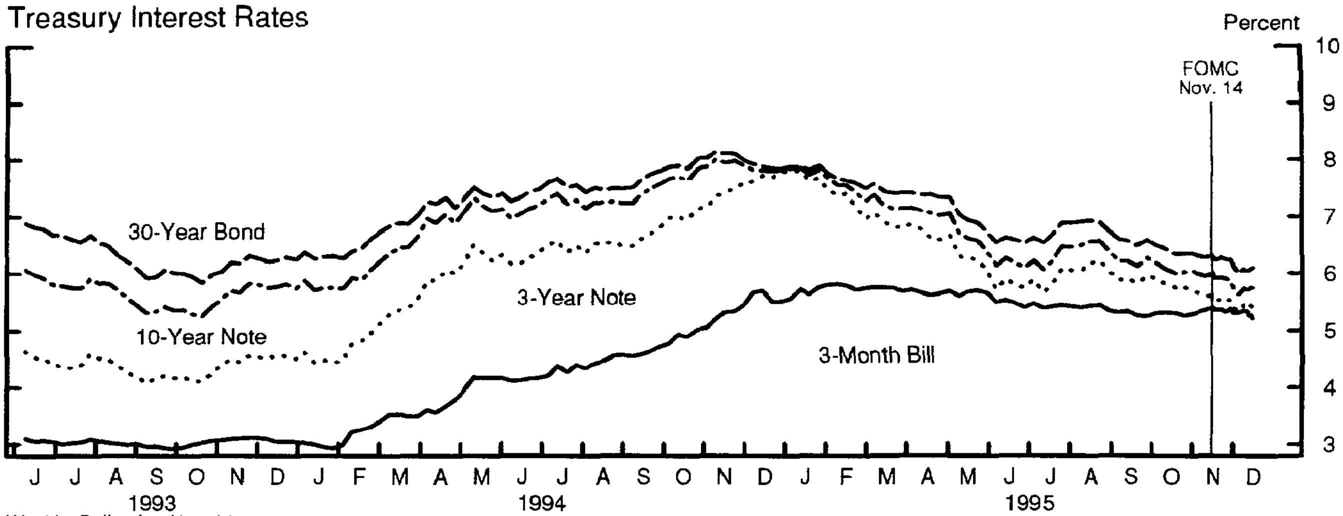
(2) Long-term rates declined about 1/4 percentage point over the intermeeting period, as markets interpreted incoming information as suggesting that spending would be restrained and inflation less likely to pick up. Available survey evidence suggests that inflation expectations have been falling (chart). The rate on the thirty-year Treasury bond has returned to levels last seen in late 1993--before

1. The Treasury's ability to issue marketable debt under the $4.9 trillion debt ceiling was preserved for a time when the Secretary of the Treasury announced he would liquidate up to $61.3 billion of nonmarketable debt by disinvesting the Civil Service Retirement and Disability Fund ($39.8 billion) and the Federal Employees Retirement Fund ($21.5 billion). The Secretary later indicated that by not paying interest on the Civil Service Retirement and Disability Fund the debt-ceiling constraint can be avoided until February of next year.

2. The single exception occurred for one-month instruments, as their maturity dates crossed the year end. However, premiums for year-end funds are lower than those of recent years, in part reflecting reduced demands from Japanese banks, which are reported to have locked in much of their funding needs earlier than usual.

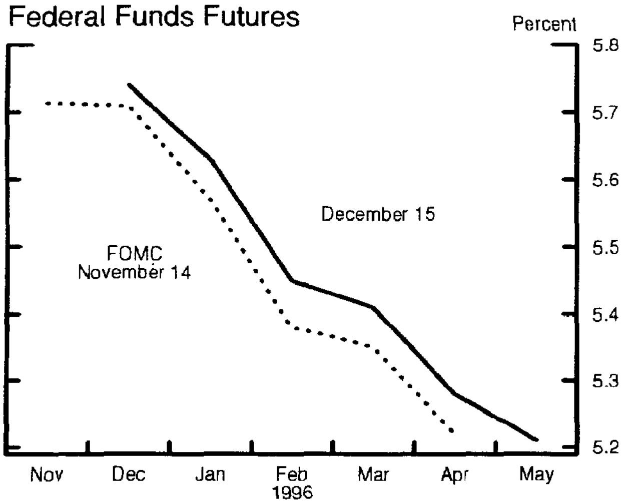
Chart 1

Treasury Interest Rates

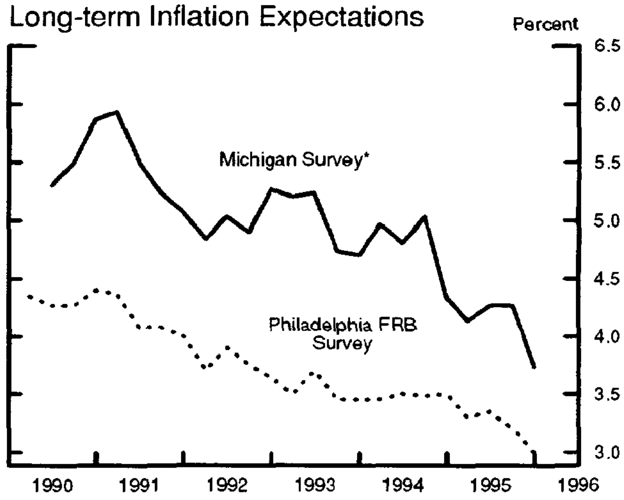


Weekly. Daily after Nov. 14.

Federal Funds Futures

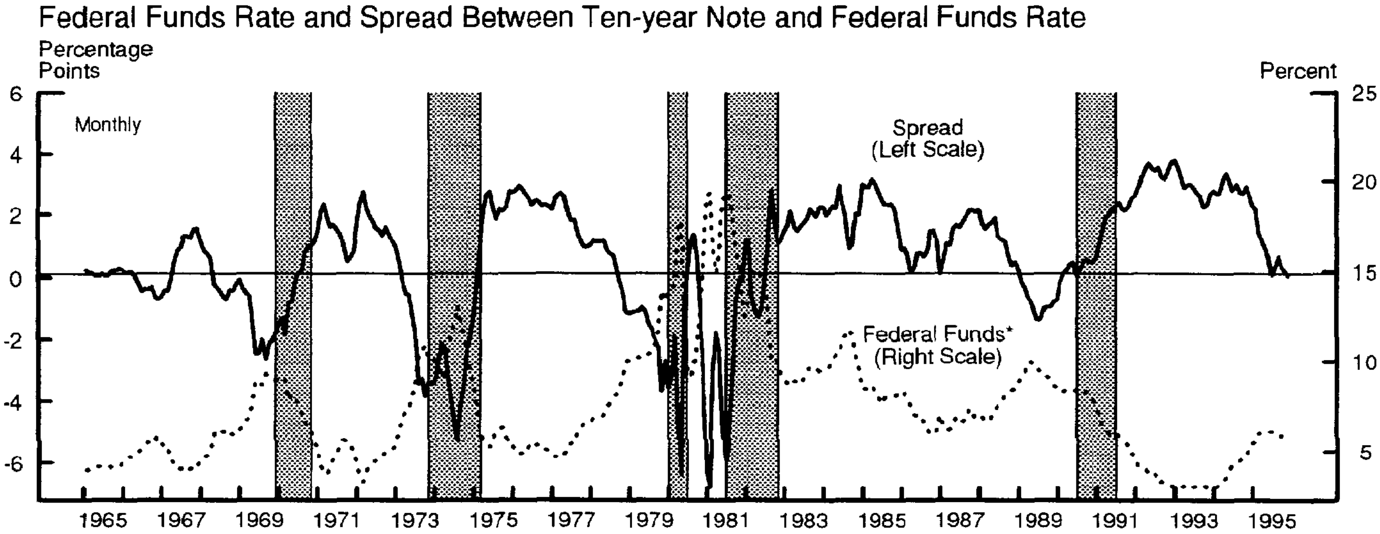


Long-term Inflation Expectations



* Quarterly average.

Federal Funds Rate and Spread Between Ten-year Note and Federal Funds Rate



* On a 365-day basis.

the tightening in monetary policy. The Treasury yield curve out to ten years is now at or below the current federal funds rate, which is a fairly rare occurrence (chart). However, the inversion in the current term structure is slight--much less than before past recessions. Moreover, for the most part, previous flattenings and inversions of the yield curve have occurred when the Federal Reserve was tightening and long-term rates rose by less than short-term rates. An exception occurred in 1986, when, much like now, long-term rates declined more than short-term rates. That episode was followed by a strengthening in the economic expansion. Over the recent intermeeting period, equity prices continued to move upward about in tandem with bond prices; since early this year, bond and equity prices are up about 30 percent.

(3) The dollar's weighted-average exchange value rose nearly 2 percent over the intermeeting period, appreciating more against European currencies and less against the yen. With growth in many foreign industrial countries disappointing, interest rates abroad fell; over the past several days, monetary policy interest rates were eased 25 to 50 basis points in every major European country except Italy. Mexican financial markets stabilized somewhat during the period, perhaps reflecting signs that the Mexican economy has bottomed out. The peso appreciated 2 percent against the dollar, and Mexican short-term interest rates declined 5 to 15 percentage points.

. U.S. monetary authorities did not intervene.

(4) Recent data suggest that the federal and nonfederal components of the domestic nonfinancial debt aggregate have continued to expand at a slower pace than earlier in the year. Nonfederal debt

is estimated to have risen in October at about a 4 percent pace. Federal borrowing has been held down by restrictive continuing resolutions and the Treasury running down its cash balance in the face of the debt-ceiling constraint. Owing to strength earlier in the year, however, growth of the debt of all nonfinancial sectors from the fourth quarter of 1994 through October was at a rate of 5-1/4 percent, about at the midpoint of its monitoring range. The moderation of borrowing in the second half of the year apparently indicates reduced credit demands, as little evidence has emerged of any significant tightening in credit supply conditions. Yield spreads on investment-grade debt have widened slightly this year but remain narrow by historical standards; for high-yield instruments, the widening has been more marked, but spreads remain appreciably below those prevailing from 1989 to as recently as 1993. As for the household sector, banks have given only scant indication that they have tightened lending conditions despite increases this year in delinquency and charge-off rates on consumer loans; it appears, however, that moves toward greater credit accommodation have ceased.

(5) Bank credit expansion in recent months has been held down by a shift of funding toward capital market instruments as long-term rates have fallen. Partly as a result, M3 growth slowed to a 1-1/2 percent rate in November. Even so, M3 expanded at a 6 percent rate from the fourth quarter of 1994 through November, at the upper bound of its 1995 growth range. Such growth implies a decline in the velocity of M3 this year after eight years of increases. The turnaround in velocity reflects the greater volume of funds supplied

by depository institutions as well as a reduced reliance by banks this year on their foreign offices as a source of funding.[3]

(6) M2 advanced at a 3 percent rate last month, following a slight contraction in October. As a result of its robust growth earlier in the year, however, M2 remains in the upper half of its 1995 growth cone, posting an increase of 4-1/4 percent since the fourth quarter of last year. The velocity of M2 is likely to be about unchanged in 1995, the first year since 1991 in which it has failed to register a significant increase. M2's advance this year has been somewhat stronger than predicted by the staff's standard model. This error may reflect the behavior of long-term rates, a variable not included in that model but whose substantial decline this year may have made M2 assets more attractive.[4]

(7) M1 contracted at a 3-1/2 percent rate last month, as more banks initiated programs to sweep funds out of other checkable deposits. Abstracting from these new sweeps, M1 is estimated to have grown at about a 1 percent rate in November. The other components of M1 also were weak last month: Demand deposits edged down and currency expansion slowed to a 1-1/2 percent rate.[5] The recent sluggishness in currency expansion appears to owe mainly to lackluster demand from

3. Exceptions to this pattern were branches and agencies of Japanese banks, which turned to funding from home offices and affiliates after they encountered resistance in U.S. funding markets.

4. Preliminary data indicate that M2 plus bond and stock mutual funds advanced at a 7-1/2 rate in November and at a 7-1/4 percent rate since the fourth quarter of 1994.

5. In November, the monetary base expanded at a 3/4 percent rate and total reserves dropped at a 12-1/4 percent rate. Adjusted for the estimated effect of sweeps on required reserves, the monetary base expanded last month at a 2 percent rate and total reserves declined at a 2 percent rate. Reflecting the slowing of currency growth and the effects of sweep accounts on reserves, the monetary base has grown about 4 percent this year, down from 8-1/2 percent last year. Adjusted for the effects of sweeps, the monetary base expanded at a 4-3/4 percent annual rate from the fourth quarter of 1994 to November.

abroad, likely reflecting a reluctance to acquire large denomination bills in advance of the scheduled introduction of the new $100 note next year. For 1995, M1 has contracted around 2 percent; the initial effects of sweeps have depressed this aggregate around 3 percentage points this year.[6]

6. On a monthly average basis through November, the cumulative initial effect of sweep arrangements is estimated to have reduced balances in OCDs by about $45 billion ($35 billion in 1995); the associated reduction in required reserves is estimated to be about $4-1/4 billion.

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

	Sept.	Oct.	Nov.	QIV to Nov.[1]
Money and credit aggregates				
M1	-3.9	-10.4	-3.4	-1.9
Adjusted for OCD sweeps	2.3	-2.0	1.0	1.2
M2	4.4	-1.0	2.9	4.2
Revised M2[2]	3.9	0.8	3.4	4.3
M3	4.0	3.1	1.5	6.0
Domestic nonfinancial debt	3.7	3.6	--	5.2
Federal	0.8	2.9	--	4.5
Nonfederal	4.7	3.9	--	5.5
Bank credit	7.1	1.0	1.6	7.7
Reserve measures				
Nonborrowed reserves	-3.0	-10.8	-11.5	-5.2
Total reserves	-3.1	-11.4	-12.3	-5.3
Adjusted for OCD sweeps	10.0	4.0	-2.0	0.7
Monetary base	1.1	3.3	0.7	3.9
Adjusted for OCD sweeps	2.5	5.5	1.9	4.8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	278	245	204	--
Excess reserves	950	1081	913	--

1. QIV to October for debt aggregates.
2. Excludes overnight RPs and overnight Eurodollars from M2. (See memorandum from Mr. Kohn to the Federal Open Market Committee, "A Minor Redefinition of M2," December 6, 1995.)

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

(8) As noted above, credit markets seem to have priced in a drop of about a half percentage point in the federal funds rate over the next few months; their expectations include about even odds on a 25 basis point move at the December meeting. Disentangling expectations about the path of the federal funds rate from the yield curve beyond the next several months is problematic, but judging from the current Treasury term structure, as well as from Eurodollar futures rates, market participants do not appear to have strong convictions as to subsequent policy moves. The flat profile of nominal rates over the longer horizon--after a near-term downward adjustment to the stance of policy is made--would seem to be consistent with stable, moderate inflation over time, which in turn would imply that the economy is anticipated to remain around its potential. This reading from market quotes is broadly in line with the outlook of professional forecasters, as represented by the Blue Chip survey.

(9) In these circumstances, adoption of the unchanged money market conditions of **alternative** B could prompt a small backup in market interest rates. The rise in yields is likely to be damped, as investors would continue to expect monetary policy easing before long. The sense that policy action was merely postponed would be more pronounced if a budget agreement had not been reached by the time of the Committee meeting. Maintenance of the current monetary policy stance over time, however, particularly after a budget agreement has been struck, would lead market participants to reexamine their expectations for monetary policy. If they saw the current 5-3/4 percent funds rate being sustained for a considerable period in the context of a satisfactorily performing macroeconomy, then long-term rates might ultimately rise by no more than the approximately 1/2 percentage point "surprise" in the funds rate. Such an increase would reverse only a

small portion of the drop in rates over the last year, returning nominal long-term rates to about their levels of late summer, while leaving real rates perhaps a bit higher than they were at that time given the downward drift in inflation expectations over recent months.

(10) The Greenbook forecast embodies a backup of longer-term yields of this magnitude with a flat federal funds rate through most of the forecast period. Nonetheless, because the staff assessment is that aggregate demand will be slightly stronger than implicit in financial markets or the Blue Chip survey, the higher trajectory of interest rates is seen as consistent with output remaining close to potential and inflation running around 3 percent over the next two years. Accordingly, in the staff forecast, alternative B keeps policy on a path that produces results for economic growth and inflation over 1996 closely in line with the Committee's expectations for next year that were reported in July.

(11) Although market participants expect monetary policy to be eased over the next few months, a reduction of 50 basis points in the federal funds rate implemented at this meeting, as called for under **alternative A**, would be larger than generally expected. Other short-term rates would fall appreciably, and the value of the dollar would probably decline on foreign exchange markets. The response of long-term yields would depend on the market's interpretation of this action, which in turn could be influenced by the content of the announcement. Bond rates might decline only modestly to the extent that the action were viewed as merely realigning nominal rates to the surprisingly damped inflation of the last half of the year. If markets thought the Committee were anticipating further moderation of inflation, especially as a consequence of underlying weakness in aggregate demand that implied lower real as well as nominal rates going forward, then rate declines would be more pronounced. Such

substantial reductions in bond yields would fuel additional increases in equity prices as investors discounted expected earnings at the lower rates. While there is some risk that market participants would interpret an easing as indicating insufficient regard for the longer-term inflation outlook, this risk would be greater for a 50 basis point cut than for a 25 basis point move. The latter is closer to market expectations and, judging from the yield curve, would be seen as consistent with moderate economic growth. Thus, the smaller cut is less likely to spark major changes in market rates.

(12) Under the staff forecast, alternative A would risk fostering greater inflation pressures, and the move would eventually need to be reversed. Thus, choice by the Committee of this alternative would presumably be based on an assessment that aggregate demand is more likely to flag than under the staff forecast and that inflation and inflation expectations are more likely to decline. Optimism on inflation might be based on the observation that inflation has come in lower than expected at mid-year and inflation expectations have abated significantly. As a consequence, real short-term rates are perhaps higher than the Committee had anticipated when it established the 5-3/4 percent funds rate. The good performance of the economy in the face of these real short-term rates may be seen as reflecting in part the rally in capital markets, which, however, has been based to a degree on expectations of policy ease. In the absence of policy action, real longer-term interest rates and exchange rates would be pushed higher, and an easing could be based on concern that these higher real rates risked an unduly sluggish economy in the future. Indeed, the favorable inflation-output mix of the second half of 1995 might be seen as indicating that the economy is capable of operating on a sustained basis at a higher level of output and hence lower levels of real interest rates than in the staff forecast.

(13) With market participants expecting an easing rather than a tightening of policy, the 50-basis-point increase in the federal funds rate under **alternative** C would lead to a sharp jump in other money market interest rates. Yields on intermediate- and longer-term issues would likely rise as well, as real interest rates expected over coming quarters firmed considerably, and probably by more in the short run than any decline in inflation expectations. The value of the dollar on foreign exchange markets would increase appreciably.

(14) The FOMC might select alternative C if it saw the risks to inflation at current interest rates as reasonably well balanced and wished to gain more assurance of making longer-term progress toward price stability. Despite declines this year, survey-based measures of inflation expectations have only reached levels of recently observed inflation and still do not anticipate further disinflation. Given the demand and inflation relationships incorporated in the staff forecast, the rise in the federal funds rate under alternative C would tilt the inflation rate down slightly in 1997. With the economy already operating in the neighborhood of its potential and aggregate demand possibly bolstered by the sharp declines in interest rates of the past year, an increase in inflationary pressures cannot be ruled out. Although growth of the standard monetary aggregates has been slow recently, the broad aggregates have expanded fairly briskly for 1995 as a whole, and credit through intermediaries and in the securities markets remains readily available.

(15) The table below presents staff forecasts for money and credit growth for the November-to-March period under the unchanged money market conditions of alternative B.[7] Broad measures of money

7. The forecast for M2 is presented in terms of the current definition but would differ little under the revised definition, to be implemented early next year, that excludes overnight RPs and Eurodollars.

and credit are expected to pick up some in coming months, partly in conjunction with stronger growth in nominal GDP. Credit supply conditions should remain favorable under that outlook, especially for firms. Households reduce their borrowing a bit in view of slackening growth of spending on durables and rising debt-service difficulties, but growth of their debt still outpaces that of nominal income. Business borrowing picks up, buoyed by a brisk pace of merger deals. Although firms are drawn to the bond market by attractive long-term rates, borrowing from shorter-term sources, including banks, remains substantial. Total debt growth accelerates to a 5 percent pace over the November-March period, leaving domestic nonfinancial sector debt near the middle of its provisional 3-to-7 percent monitoring range.

	Annualized growth from Nov. 1995 to March 1996
M2	5-1/4
M3	5-3/4
M1	-3-3/4
sweep-adjusted	1-3/4
Debt	5-1/4
Federal	6-1/2
Non-federal	4-3/4

(16) In the staff forecast, bank credit growth edges up in the next few months from its recent depressed rate, as banks stop running off securities. With Japanese branches and agencies already having shifted financing to their home offices or other affiliates, the runoff of CDs at these institutions should wind down, so that going forward depository institutions as a whole rely more on liabilities in M3 to finance credit growth. Expansion of M3 picks up to a 5-3/4 percent annual rate over the November-to-March period under alternative B. M2 growth also firms from its unexpectedly weak pace so far in the fourth quarter. The projected rebound in nominal income growth supports an acceleration of retail deposits, and the lagged

effects of recent declines in short-term rates and associated reductions in opportunity costs also buoy money demand. M2 would be just above the upper end of its provisional 1 to 5 percent annual range in March, and M3 would be at the upper end of its tentative 2 to 6 percent range.

(17) In contrast to the rebound projected for the broader aggregates, M1 is forecast to continue to decline, at a 3-3/4 percent annual rate, from November to March. The expected weakness in this aggregate mainly reflects anticipation that retail sweep accounts will continue to spread.[8] Supporting money growth, the expansion of currency, particularly its foreign-held component, should rebound beginning in February, when the new series $100 bill becomes available.[9]

(18) The spread of retail sweep accounts will be reflected in a further decline in required and total reserves.[10] The drop in required reserve balances poses the possibility that required operating balances (required reserve balances plus required clearing balances) may not satisfy demands for such balances at all times and could on occasion prompt increased and unpredictable demands for excess reserves. In early 1991, following a reduction in reserve requirements by the Federal Reserve, required operating balances fell to a low of around $18 billion--apparently lower than the level banks

8. The staff forecast assumes that about $9 billion of new sweep arrangements are implemented in December and $4 billion in each of the first three months of 1996. Abstracting from sweep accounts, M1 would grow at a 1-3/4 percent annual rate through March in the staff projection.

9. With currency growth projected to increase, the monetary base is expected to accelerate late in the first quarter, although from November to March its expansion is projected at only a 1-1/2 percent annual rate.

10. From November through March, total reserves are forecast to fall $2 billion, or 11 percent at an annual rate, in seasonally adjusted terms.

needed at that time for clearing purposes. As a result, excess reserve demands temporarily increased on average and fluctuated appreciably, and money market conditions became quite volatile. Absent an unexpected explosion of sweep activity in the next few weeks, the staff projects that required operating balances generally will remain above $20 billion through the first quarter, though they could fall below this level temporarily, reflecting seasonal declines in transaction deposits. How low operating balances would need to fall before presenting problems is an open question; banks have made improvements in their reserve management over the past few years, and the banks introducing sweep programs evidently believe they can manage their reserve position with balances lower than current requirements. Nonetheless, the prospects for further erosion of reserves caused by sweeps suggest that increased volatility could be encountered at some point.

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										
Sep-95		3757.3	3757.3	3757.3	4534.4	4534.4	4534.4	1139.7	1139.7	1139.7
Oct-95		3754.3	3754.3	3754.3	4546.1	4546.1	4546.1	1129.8	1129.8	1129.8
Nov-95		3763.5	3763.5	3763.5	4551.8	4551.8	4551.8	1126.6	1126.6	1126.6
Dec-95		3780.5	3779.8	3779.2	4571.5	4571.1	4570.7	1119.7	1119.4	1119.1
Jan-96		3798.1	3795.6	3793.1	4595.5	4594.0	4592.4	1117.2	1116.1	1115.1
Feb-96		3816.5	3811.4	3806.3	4620.0	4616.9	4613.9	1116.0	1113.9	1111.8
Mar-96		3835.9	3828.2	3820.6	4643.5	4638.9	4634.2	1116.2	1112.8	1109.4
Monthly Growth Rates										
Sep-95		4.4	4.4	4.4	4.0	4.0	4.0	-3.9	-3.9	-3.9
Oct-95		-1.0	-1.0	-1.0	3.1	3.1	3.1	-10.4	-10.4	-10.4
Nov-95		2.9	2.9	2.9	1.5	1.5	1.5	-3.4	-3.4	-3.4
Dec-95		5.4	5.2	5.0	5.2	5.1	5.0	-7.4	-7.7	-8.0
Jan-96		5.6	5.0	4.4	6.3	6.0	5.7	-2.7	-3.5	-4.3
Feb-96		5.8	5.0	4.2	6.4	6.0	5.6	-1.2	-2.4	-3.6
Mar-96		6.1	5.3	4.5	6.1	5.7	5.3	0.2	-1.2	-2.6
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	8.7	8.7	8.7	-1.0	-1.0	-1.0
95 Q4		2.8	2.8	2.8	3.7	3.7	3.7	-6.1	-6.1	-6.1
96 Q1		5.4	4.9	4.4	5.5	5.3	5.0	-3.2	-3.9	-4.7
Growth Rate										
From	To									
Nov-95	Mar-96	5.8	5.2	4.6	6.0	5.7	5.4	-2.8	-3.7	-4.6
95 Q4	Mar-96	5.6	5.0	4.4	5.7	5.4	5.1	-2.5	-3.3	-4.2
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	4.2	4.2	4.2	6.1	6.1	6.1	-2.0	-2.0	-2.0
1995 Target Ranges:			1.0 to 5.0			2.0 to 6.0				

Directive Language

(19) 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 months.

SELECTED INTEREST RATES
(percent)

	Short-Term: federal funds	Short-Term: Treasury bills secondary market 3-month	Treasury bills secondary market 6-month	Treasury bills secondary market 1-year	CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	Long-Term: U.S. government constant maturity yields 3-year	U.S. government constant maturity yields 10-year	U.S. government constant maturity yields 30-year	corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages secondary market fixed-rate	conventional home mortgages primary market fixed-rate	conventional home mortgages primary market 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	6.21	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	5.20	5.06	5.67	5.73	5.16	8.50	5.37	5.68	6.06	7.10	5.65	7.54	7.15	5.53
Monthly																
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
Nov 95	5.80	5.36	5.27	5.14	5.74	5.80	5.26	8.75	5.57	5.93	6.26	7.30	5.89	7.79	7.38	5.64
Weekly																
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
Nov 8 95	5.71	5.34	5.27	5.15	5.75	5.81	5.20	8.75	5.60	5.95	6.28	7.38	5.94	7.84	7.37	5.64
Nov 15 95	5.74	5.40	5.30	5.16	5.74	5.81	5.21	8.75	5.61	5.98	6.30	7.27	5.89	7.77	7.35	5.65
Nov 22 95	5.81	5.36	5.27	5.13	5.73	5.80	5.23	8.75	5.55	5.93	6.25	7.29	5.89	7.83	7.35	5.61
Nov 29 95	5.91	5.34	5.26	5.14	5.74	5.79	5.26	8.75	5.53	5.88	6.24	7.14	5.78	7.61	7.33	5.60
Dec 6 95	5.75	5.31	5.21	5.06	5.68	5.83	5.21	8.75	5.37	5.68	6.06	7.10	5.65	7.56	7.18	5.53
Dec 13 95	5.73	5.30	5.20	5.08	5.67	5.85	5.21	8.75	5.43	5.72	6.06	7.13	5.79	7.54	7.15	5.55
Daily																
Dec 8 95	5.73	5.34	5.22	5.10	5.66	5.84	--	8.75	5.45	5.73	6.06	--	--	--	--	--
Dec 14 95	5.82	5.26	5.19	5.06	5.66	5.88	--	8.75	5.42	5.74	6.08	--	--	--	--	--
Dec 15 95	5.91 p	5.20	5.14	5.03	5.67	5.92	--	8.75	5.41	5.75	6.09	--	--	--	--	--

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

Money and Credit Aggregate Measures

Seasonally adjusted

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	4.7
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.4	4.1	5.2
1994	2.4	1.1	0.5	3.5	1.4	2.4	6.9	5.7	5.0	5.2
Quarterly(average)										
1994-Q4	-1.2	-0.3	0.2	12.4	1.7	2.2	4.1	5.8	5.3	5.4
1995-Q1	0.1	1.7	2.5	18.5	4.4	6.4	7.6	5.1	5.3	5.3
1995-Q2	-0.9	4.4	6.9	20.7	7.1	7.5	13.3	5.4	7.5	7.0
1995-Q3	-1.0	7.7	11.7	13.8	8.7	9.2	6.2	4.6	4.1	4.2
Monthly										
1994-NOV.	-0.6	0.6	1.1	6.7	1.6	2.5	1.7	8.3	6.3	6.8
DEC.	0.4	1.7	2.2	12.5	3.4	4.8	6.9	1.0	4.9	3.8
1995-JAN.	1.0	4.0	5.3	19.2	6.4	5.8	11.6	2.4	5.1	4.4
FEB.	-1.8	-1.4	-1.2	24.1	2.7	9.0	4.5	10.5	5.7	7.0
MAR.	0.6	2.5	3.4	26.1	6.4	9.7	8.8	7.2	4.9	5.5
APR.	1.9	4.4	5.5	16.0	6.3	6.1	24.0	0.7	9.2	6.9
MAY	-7.0	5.5	11.3	20.7	8.0	6.3	9.5	6.2	10.1	9.1
JUNE	0.9	11.9	16.9	17.4	12.8	8.3	5.4	8.6	4.1	5.3
JULY	1.0	6.2	8.5	18.8	8.4	11.6	5.9	4.3	1.8	2.4
AUG.	-1.6	8.3	12.8	4.7	7.7	7.8	5.1	2.0	4.1	3.5
SEP.	-3.9	4.4	8.0	2.3	4.0	8.8	7.1	0.8	4.7	3.7
OCT.	-10.4	-1.0	3.2	22.4	3.1		1.0	2.9	3.9	3.6
NOV. p	-3.4	2.9	5.7	-5.2	1.5		1.6			
Levels ($billions):										
Monthly										
1995-JULY	1144.9	3717.8	2572.8	772.7	4490.5	5524.1	3516.2	3615.5	9987.0	13602.6
AUG.	1143.4	3743.5	2600.2	775.7	4519.2	5560.1	3531.1	3621.4	10021.4	13642.8
SEP.	1139.7	3757.3	2617.6	777.2	4534.4	5600.7	3551.9	3623.8	10060.6	13684.4
OCT.	1129.8	3754.3	2624.5	791.7	4546.1		3555.0	3632.6	10093.0	13725.6
NOV. p	1126.6	3763.5	2636.9	788.3	4551.8		3559.7			
Weekly										
1995-NOV. 6	1129.4	3756.5	2627.1	790.1	4546.6					
13	1122.7	3754.9	2632.2	791.5	4546.4					
20	1127.5	3764.5	2637.0	787.8	4552.3					
27 p	1128.3	3773.1	2644.8	784.3	4557.4					
DEC. 4 p	1123.0	3772.2	2649.2	787.3	4559.4					

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

Strictly Confidential (FR)-
Class II FOMC

DECEMBER 18, 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: 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
<u>Levels ($billions):</u>															
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	114.9	1157.7	810.5	383.9	180.7	357.5	103.5	53.0	179.9	363.5	400.9	13.5
Monthly															
1994-NOV.	353.0	382.5	403.8	113.5	1157.8	810.8	383.3	180.5	357.4	103.1	54.3	179.9	361.9	401.4	13.5
DEC.	354.5	382.2	402.9	117.2	1144.2	820.9	389.0	180.8	361.4	105.6	52.2	180.3	370.2	401.3	14.0
1995-JAN.	357.7	383.6	399.3	124.0	1129.8	836.5	392.1	186.3	361.9	109.4	52.9	180.5	371.4	402.8	13.4
FEB.	358.8	384.1	395.9	118.4	1111.9	856.5	391.5	180.4	371.2	113.4	56.1	180.4	389.9	414.7	13.4
MAR.	362.5	383.3	393.3	118.3	1094.9	879.5	390.9	189.0	378.6	113.4	58.2	180.5	401.9	421.7	14.1
APR.	365.7	381.2	393.6	115.9	1082.4	898.5	396.0	192.9	380.2	116.5	59.7	180.9	396.9	430.8	13.9
MAY	368.1	380.6	385.0	116.8	1081.4	912.7	405.4	194.8	385.5	121.7	60.8	181.6	383.9	443.8	12.3
JUNE	367.4	386.8	380.7	117.6	1091.1	919.7	426.2	205.6	389.3	119.9	62.0	182.3	390.9	427.5	11.3
JULY	367.1	389.5	379.4	114.5	1091.4	924.5	442.0	212.4	396.3	115.5	62.8	183.0	410.8	428.0	11.8
AUG.	368.3	390.0	376.2	118.2	1098.1	927.7	455.9	210.8	398.4	118.3	61.6	183.7	410.1	435.0	12.2
SEP.	369.1	389.7	372.0	120.9	1105.2	929.3	462.6	213.5	401.1	116.4	60.0	184.1	431.4	437.8	12.9
OCT.	370.5	387.2	363.4	118.6	1112.2	930.8	466.4	215.8	413.2	116.3	59.0				
NOV. p	371.0	386.9	359.8	116.1	1117.7	933.9	471.3	214.8	418.5	111.5	58.2				

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

December 15, 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	-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 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	---	---	---	---	485	-485	83	-118	-427
November	4,271	---	4,271	---	---	400	---	---	400	120	4,551	2,404
Weekly												
September 6	733	---	733	---	---	---	---	---	---	---	733	1,556
13	---	---	---	---	100	---	100	---	200	---	200	5,466
20	---	---	---	---	---	---	---	---	---	---	---	2,526
27	---	---	---	---	---	---	---	---	---	46	-46	-7,724
October 4	109	---	109	---	---	---	---	---	---	---	109	-2,054
11	---	---	---	---	---	---	---	---	---	---	---	2,916
18	---	---	---	---	---	---	---	485	-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
15	3,768	---	3,768	---	---	---	---	---	---	---	3,768	-3,731
22	70	---	70	---	---	---	---	---	---	---	70	1,953
29	193	---	193	---	---	---	---	---	---	120	73	-542
December 6	---	---	---	390	2,317	---	800	---	3,507	---	3,507	1,402
13	---	---	---	---	---	---	1,084	---	1,084	55	1,029	-4,827
Memo: LEVEL (bil. $)[6]												
December 13			195.5	225.2	85.3	31.5	35.9		377.9		393.2	-11.7

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
December 13	1.2	0.8	0.5	0.0	2.5