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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

June 28, 1996

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The Committee's decision at the last FOMC meeting to leave the intended federal funds rate unchanged at 5-1/4 percent was widely expected and prompted little response in market interest rates.¹ Following the release in early June of the strong employment report for May, however, market yields resumed the uptrend that began this past February, increasing as much as 30 basis points during the intermeeting period; in recent days, though, that rise has been largely rolled back, as expectations of System tightening ebbed, and on balance most rates are up only 5 to 10 basis points (chart). Markets still seem to incorporate modest policy firming over the balance of the year, as is evident in the trajectory of quotes on federal funds futures. Stock prices have generally fallen, with notable declines in the high-tech and small-capitalization sectors.

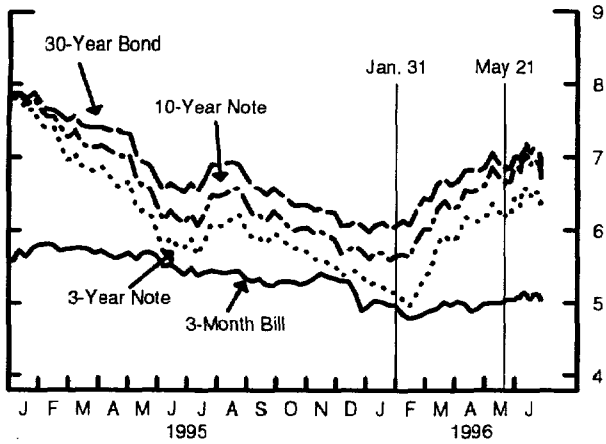
(2) The increases in interest rates since the last meeting bring the upward movement over the period since January 31, the day of

1. Over the intermeeting period, federal funds generally traded close to the Committee's intended rate, and the rate averaged 5.29 percent. Adjustment and seasonal borrowing averaged \$150 million above its allowance in the two complete reserve maintenance periods ending since the last Committee meeting, with the overage primarily reflecting a shortfall in nonborrowed reserves in the period ending June 19. On the last day of that period, an apparent shortage of dealer collateral limited the Desk's ability to inject reserves, leading to a spike in the funds rate and a surge in borrowing. Separately, in order to accommodate the usual springtime upswing in seasonal borrowing, the allowance for borrowing was raised by \$125 million in three steps over the intermeeting period to a level of \$225 million.

Although banks have continued to implement new retail sweep programs, required reserve balances have fallen only slightly over the intermeeting period, owing to a surprising surge in demand deposits, while required clearing balances have edged up. These developments have left the sum of required reserve and required clearing balances about unchanged.

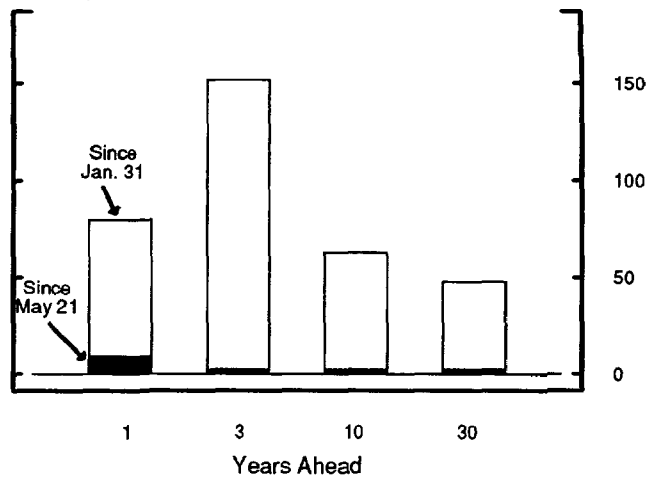
Chart 1

Treasury Interest Rates

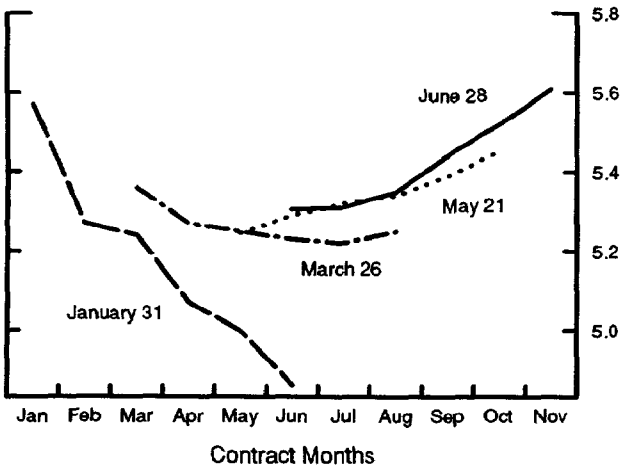


Weekly. Daily after May 21.

Changes in One-year Forward Rates

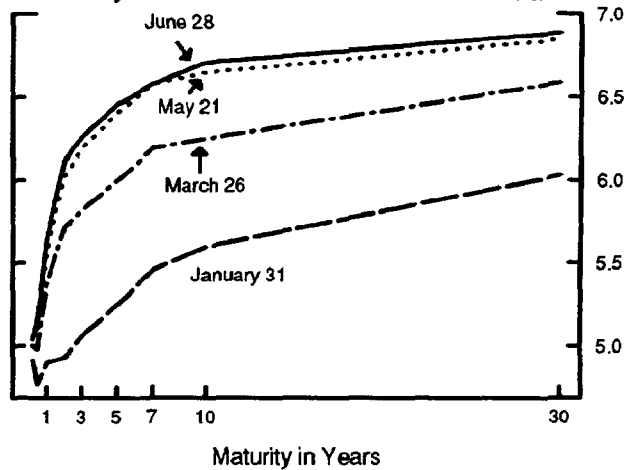


Federal Funds Futures

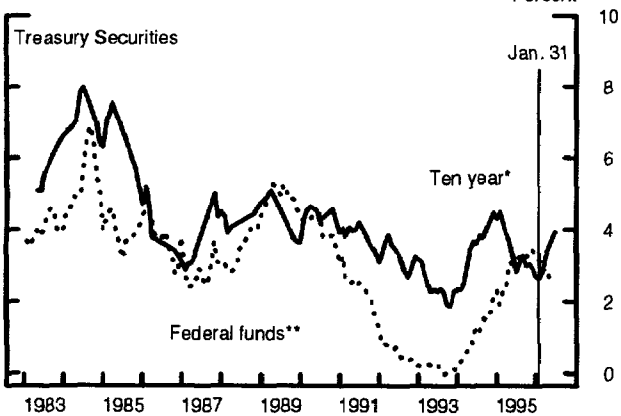


January 31, March 26, and May 21 are dates of FOMC meetings.

Treasury Yield Curves



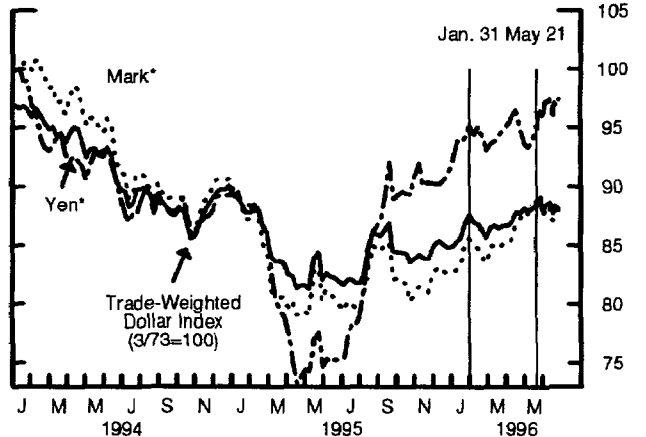
Real Interest Rates



* Long-term inflation expectations measured by Blue Chip until April 1991 and Philadelphia FRB survey thereafter.

** Short-term inflation expectations measured by ASA/NBER until 1990:Q1 and Philadelphia FRB survey thereafter.

Exchange Rates



* Index, Jan 1994=100
Weekly. Daily after May 21.

the Committee's last policy move, to about 7/8 to 1-1/4 percentage points at intermediate and long maturities; short-term rates, anchored by the federal funds rate, rose considerably less. This pattern was reflected in substantial increases in one-year forward rates at all horizons. An especially sharp bulge in forward rates in the three-year area is consistent with the interpretation that the increase in yields was primarily a response to signs of cyclical strength in the economy. Judging from the available survey data, long-term inflation expectations have deteriorated little, if at all, and thus the increase in nominal long-term rates seems to represent primarily higher real interest rates. Shorter-term inflation expectations are flat to up slightly on these survey measures since early in the year, implying that the real federal funds rate since the last easing has held steady or fallen a bit. At its current level, however, the real funds rate is only a little below its level last June, because part of the reduction in the nominal funds rate since then has been offset by declines in short-term inflation expectations over the second half of last year.

(3) The dollar's weighted-average exchange value slipped about 3/4 percent over the intermeeting period. The dollar declined moderately against the German mark and other European currencies as accumulating signs of a pickup in economic growth in Germany prompted a reduction in expectations of any further easing of German monetary policy. Ten-year government bond yields in Germany rose 20 basis points over the intermeeting period. The dollar firmed 2-3/4 percent against the yen, despite the much larger-than-expected gain in first-quarter Japanese GDP. Various statements by Japanese officials indicated that Japanese monetary policy would not be tightened until the recovery proved self-sustaining; as a result, Japanese bond yields

declined slightly, on balance, over the period.

; the Desk did not intervene. Since the end of January the dollar has risen 1/2 percent on balance, placing it in the middle of its range of fluctuations over nearly a decade.

(4) Domestic nonfinancial sector debt has decelerated in the past few months, bringing this measure to just below the middle of its 3 to 7 percent annual range. Federal debt growth has been particularly damped over the second quarter, owing mainly to unexpectedly strong tax receipts. Nonfederal borrowing also is estimated to have edged down. Consumer credit growth appears to be slowing, although it continues to outpace income. Home mortgage borrowing to date, however, has been well maintained and has yet to show any perceptible response to the rise in mortgage interest rates. Business borrowing was slower in the second quarter, as merger activity and associated share retirements dropped substantially. In general, funding for both households and businesses appears to remain readily available. Spreads on junk and investment-grade bonds and mortgage-backed securities have stayed narrow. Terms on bank loans are generally attractive, and banks seem to be tightening standards only selectively, mainly for credit cards. Equity markets also have been highly receptive, at least until very recently, and equity issuance--especially through initial public offerings--has been robust over the quarter, holding down credit needs.

(5) The broad monetary aggregates remained weak in May following relatively slow growth in April, apparently reflecting the

drawdown of balances to meet unusually large individual tax liabilities. Preliminary data, however, suggest that both M2 and M3 have rebounded in June to annual rates of about 5-1/2 and 6 percent, respectively. The pickup was spread widely across the components of these aggregates, including M1. The latter has registered a small upturn following two months of decline, as currency has accelerated and demand deposits have shown surprising strength.² Among the non-M1 components of M2 and M3, money market mutual funds have been particularly robust.

(6) From the fourth quarter of 1995 through June, M2 has grown at a 4-3/4 percent annual rate, leaving it just below the upper end of its 1 to 5 percent annual range.³ M3 has increased at a 6-1/4 percent rate over this period, placing it a bit above its 2 to 6 percent range. M2 growth so far this year has been quite close to the staff forecast prepared in advance of the January meeting. Nominal GDP growth over the first two quarters of the year, however, appears to have been a bit stronger than expected last January. As a consequence, the velocity of M2 has been a little higher than projected, declining only slightly rather than falling at a 3/4 percent annual rate. This firmer velocity has likely reflected the depressing effects on money demand of unusually sluggish upward adjustment of deposit interest rates as well as of higher expected yields on market instruments. Consistent with this interpretation, flows into stock

2. Net shipments abroad of U.S. currency turned positive in May (most recent available data) but stayed weak compared with the average of previous years. Adjusted for sweep accounts, M1 has expanded at a 9-3/4 percent annual rate in June.

3. M1 has fallen at a 1-1/2 percent annual rate from the fourth quarter through June while the monetary base has increased at a 2 percent pace. Adjusted for the introduction of sweep accounts, these two measures increased at 7-1/4 and 4-1/2 percent rates, respectively.

mutual funds were very heavy in the first half of the year and noncompetitive tenders at Treasury bill and note auctions have picked up as well.⁴ In contrast to M2 expansion, the growth of M3 has been stronger than expected over the first half. While the increase in bank credit was significantly slower than projected, in part owing to downward revaluations of investment portfolios, banks have substantially reduced their reliance on nondeposit funding this year, probably in response to the elimination of deposit insurance premiums last fall.

4. M2 plus bond and stock mutual funds has expanded at an 7-3/4 percent rate from the fourth quarter of 1995 through June, and its velocity declined at an estimated 3 percent pace over the first two quarters of 1996.

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

	Apr.	May	Jun.	QIV to Jun. ¹
<u>Money and credit aggregates</u>				
M1	-3.1	-6.6	1.3	-1.5
Adjusted for OCD sweeps	4.9	2.3	9.8	7.3
M2	2.0	-1.6	5.6	4.8
M3	1.8	3.5	5.9	6.3
Domestic nonfinancial debt	4.3	3.9	--	4.8
Federal	3.6	1.8	--	3.9
Nonfederal	4.6	4.6	--	5.1
Bank credit	5.3	1.4	1.7	3.1
<u>Reserve measures</u>				
Nonborrowed reserves ²	-13.2	-21.3	-9.8	-7.9
Total reserves	-11.7	-20.5	-5.4	-7.6
Adjusted for OCD sweeps	4.4	-1.9	11.7	9.6
Monetary base	-0.7	1.0	5.3	2.1
Adjusted for OCD sweeps	1.4	3.2	7.6	4.4
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	91	127	327	--
Excess reserves	1120	871	982	--

1. 1995:QIV to May for debt aggregates.

2. Includes "other extended credit" from the Federal Reserve.

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. Reserve figures for June assume adjustment and seasonal borrowing of \$225 million and excess reserves of \$1 billion in the maintenance period ending July 3.

Long-Run Scenarios

(7) This section examines the monetary policies needed to achieve alternative objectives for inflation over the long run. Specifically, the first set of scenarios compares two approaches for maintaining inflation around the rate forecast to prevail at the end of the Greenbook projection period. The second set of scenarios addresses issues related to achieving effective price stability over the next five years or so.

(8) The new staff econometric model of the U.S. economy (FRB/US) was used to extend the baseline forecast beyond the Greenbook horizon and to derive the effects of alternative policies.⁵ One of the distinguishing characteristics of the new model is the process of expectations formations. Participants in labor, product, and financial markets use the information at their disposal to make projections of future events in a much more complex fashion than in the staff's previous large-scale model (the MPS model), in which expectations were adaptive and not distinguished from other sources of sluggish adjustment. For the purposes of the exercises in this section, the manner of forming inflation expectations is especially important: Participants use historical relationships among interest rates, prices and output along with a notion of where inflation will be in the distant future to forecast a path for prices and the economy; long-run inflation expectations in turn can depend on actual inflation, but the model also allows them to be influenced by announced objectives of the monetary authority. Aside from the contributions of expectations,

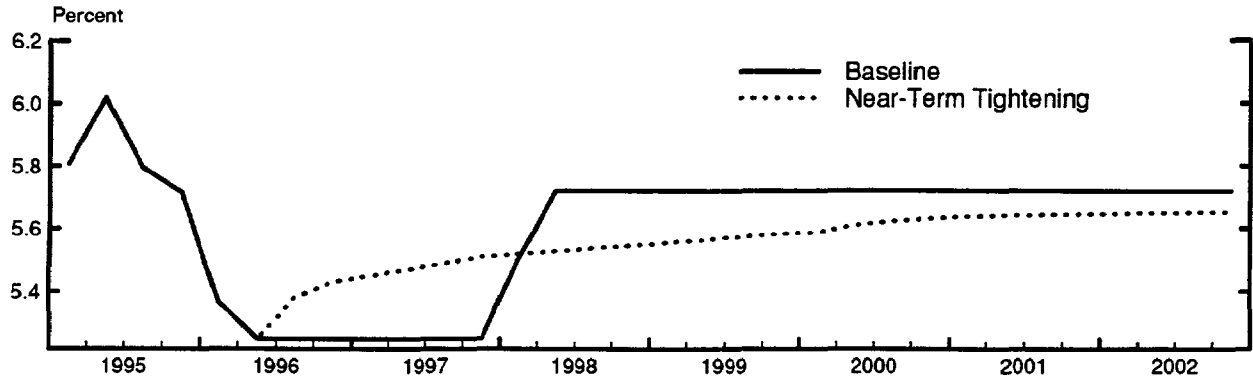
5. The new model still is in the final stages of development. Although the results thus should be considered provisional, the old MPS model is not being maintained. Model simulations in past Bluebooks used the combined MPS and multi-country models. A project linking the new FRB/US model to the newly revised multi-country model is underway, but a combined model was not available for these exercises.

wage and price adjustments are influenced by labor and product market frictions, imparting real effects even to anticipated policy actions.

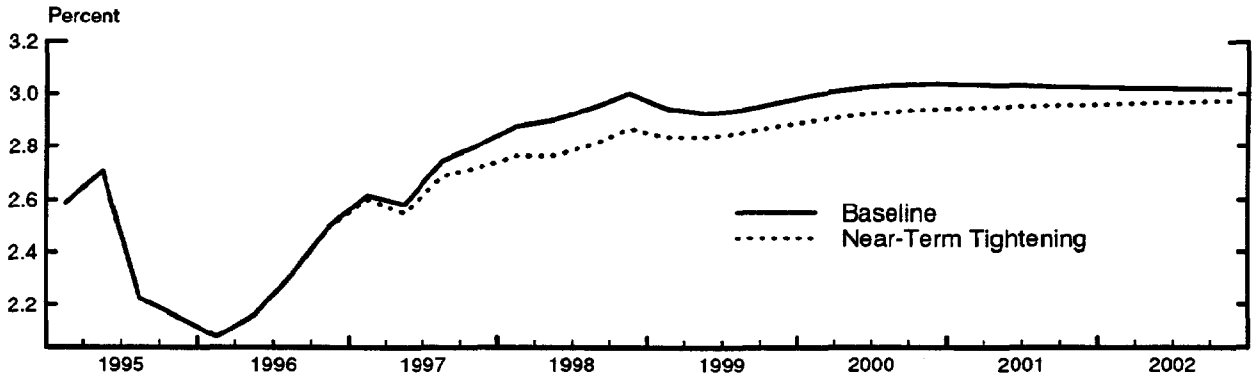
(9) The simulations share a common NAIRU of around 5-3/4 percent. The sacrifice ratio varies, however, depending on the elements influencing long-term inflation expectations. For the model relationships embodied in Chart 2, which do not have monetary policy credibility effects, the sacrifice ratio is 2-1/2--that is, reducing inflation by 1 percentage point would require unemployment to exceed the NAIRU by 1 percentage point for 2-1/2 years. By assumption, fiscal policy in all the scenarios moves slightly in a stimulative direction over the extended forecast period, as indexed by a rise in the NIPA Federal government current account deficit in the steady inflation cases to 2-1/2 percent of GDP from 1-3/4 percent in 1997. The model's implied equilibrium real funds rate stays close to 2-3/4 percent, with the effects of mild fiscal stimulus offset by the influence of an assumed steady real dollar on the foreign side, which, with the relatively high income elasticities for U.S. imports, tends to induce faster growth of imports than exports.

(10) The baseline strategy, shown by the solid line in Chart 2, follows the Greenbook through 1997, by which time inflation, as measured by the chain-weight PCE price index, is expected to have edged up to nearly a 3 percent rate (from 2.2 percent in 1995). With the nominal federal funds rate fixed and inflation rising, real short-term interest rates fall over 1997 and would continue that downward course absent a tightening of monetary policy. But the disequilibrium is not large, and a 50 basis point increase in the federal funds rate in early 1998 raises real short- and long-term rates by enough to induce an increase in the unemployment rate to its natural level in 1999, flattening out the path of inflation. Under the alternative

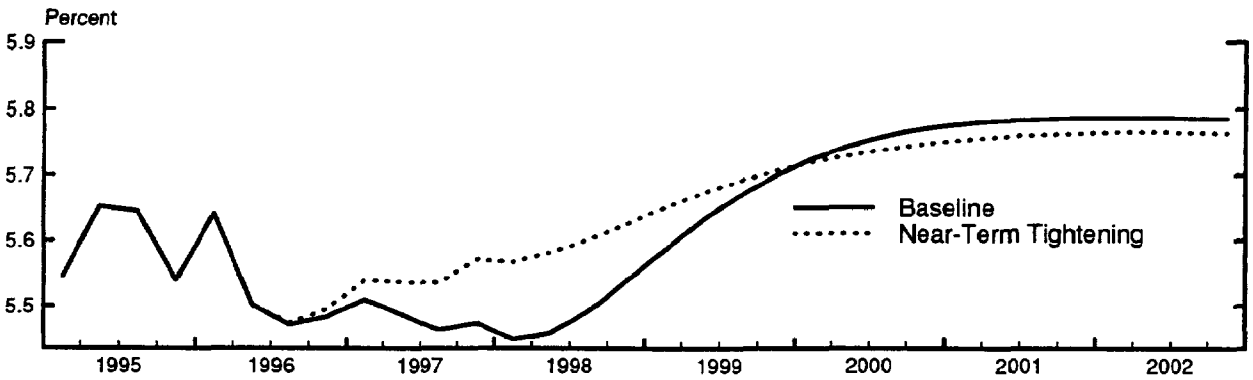
Chart 2
 Implications of Alternative Monetary Policy Choices
 Nominal Fed Funds Rate (Quarterly average)



PCE Inflation (Four-quarter percent change)



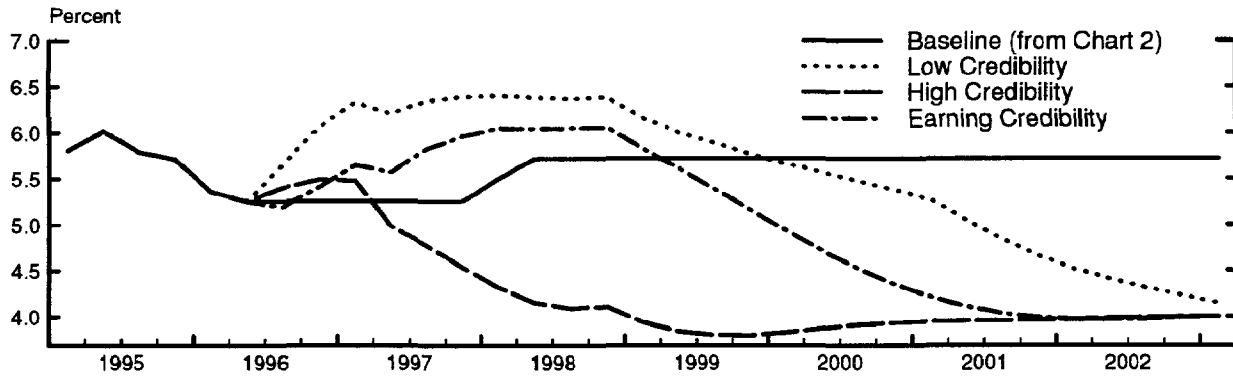
Civilian Unemployment Rate (Quarterly average)



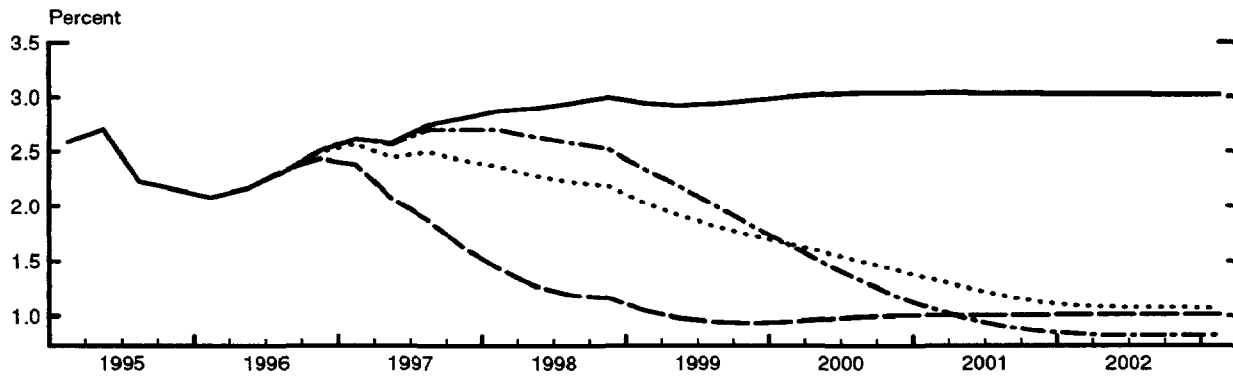
near-term tightening strategy, the Committee begins to tighten sooner, following a Taylor rule adjusted to embody the 2-3/4 percent equilibrium real interest rate implied by the simulations and a 3 percent target for the increases in the PCE chain-weight index. Nominal and real rates begin to rise immediately, so that the unemployment rate is higher in the near term than in the Greenbook and inflation levels are a little lower. Starting sooner also implies that both nominal and real interest rates do not have to climb as high in the middle years of the simulation.

(11) Chart 3 considers policies aimed at achieving effective price stability by reducing measured inflation to around 1 percent early in the next decade. The three scenarios illustrate the effects of different processes by which the public's expectations of inflation adjust to this policy goal. In the circumstances illustrated by the dotted line (low credibility), perceptions of the eventual inflation rate are formed by observing actual inflation, as they were for Chart 2: Inflation expectations adjust down to 1 percent, but they do so slowly, and the central bank's target plays no role in this process except to discipline its actions and hence inflation outcomes. In this case, the funds rate needs to rise more than a percentage point, and the unemployment rate increases about a percentage point, running at about 6-1/2 percent for a while. The dashed line shows a high credibility case in which the public's expectation of where inflation will be in the long term is quickly lowered to the 1 percent objective established and presumably announced by the Federal Reserve. Owing primarily to frictions in labor and product markets, even with high credibility it takes several years for inflation to move to 1 percent, and unemployment rises slightly above the natural rate. The sacrifice ratio is only about 1 and it would be even lower

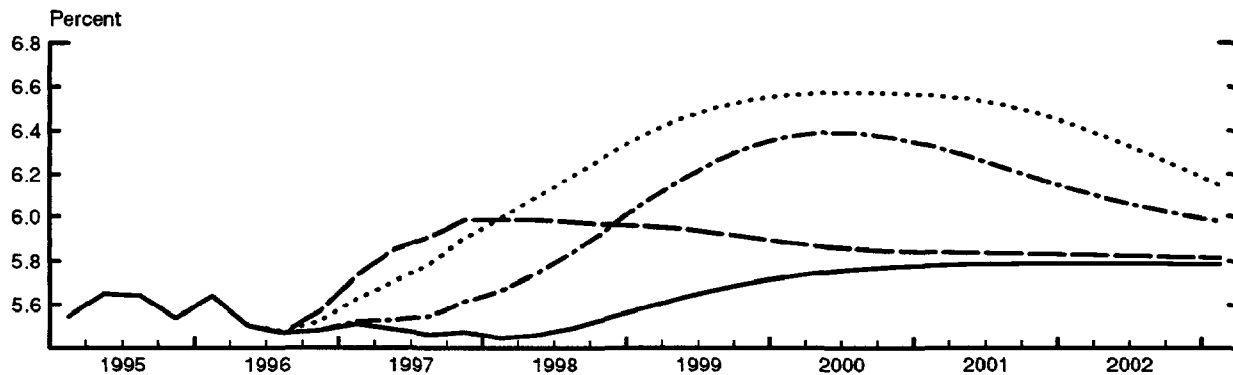
Chart 3
 Strategies for Achieving 1 Percent Inflation
 Nominal Fed Funds Rate (Quarterly average)



PCE Inflation (Four-quarter percent change)



Civilian Unemployment Rate (Quarterly average)



if the disinflation process were stretched out further. The dot-dash line (earning credibility) gives an intermediate case. Initially, the public forms expectations much as in the scenario shown with the solid line. But the Federal Reserve earns increasing credibility for its 1 percent inflation target as actual inflation is reduced. As might be expected, cumulative output losses are below the two other cases.

While these simulations illustrate the potentially powerful effects of inducing the public to reduce inflation expectations faster than they would by observing actual inflation outcomes, they provide no guidance on how to accomplish this. As noted in the report to the FOMC on "The Price Objective for Monetary Policy", empirical evidence of credibility effects of announced inflation targets is difficult to find.

Long-Run Ranges

(12) The table below provides background for the Committee's discussion of growth rate ranges for the monetary and debt aggregates for 1996 and 1997. The staff baseline projections for money and debt are based on the Greenbook forecast of the economy. In terms of the outlook for money growth, the key elements in that forecast are the federal funds rate remaining at 5-1/4 percent through next year, long-term interest rates staying around current levels, and nominal GDP growing at a rate close to 4-1/2 percent over each of the next six quarters.

Growth of Money and Credit and Alternative Ranges
(percent)

	<u>Staff Projections</u>		<u>Ranges</u>		Memo: 1995:QIV to June
	<u>Baseline (Greenbook)</u>	<u>Tighter</u>	<u>Alt. I (current ranges)</u>	<u>Alt. II</u>	
	<u>1996</u>				
M2	5	4-1/2	1 to 5	2 to 6	4.8
M3	6	5-3/4	2 to 6	3 to 7	6.3
Debt	4-1/2	4-1/2	3 to 7	3 to 7	4.8*
Memo:					
M1	-1-1/2	-2-1/2			-1.5
Adjusted for sweeps	7	6			7.3
Nominal GDP	4-1/2	4-1/2			4.9**
	<u>1997</u>				
	<u>Baseline (Greenbook)</u>	<u>Tighter</u>	<u>Alt. I (current 1996 ranges)</u>	<u>Alt. II</u>	
M2	5	3	1 to 5	2 to 6	
M3	6	4-1/2	2 to 6	3 to 7	
Debt	4-1/2	3-1/2	3 to 7	3 to 7	
Memo:					
M1	0	-3			
Adjusted for sweeps	5	2			
Nominal GDP	4-1/2	3-1/2			

* - 1995:QIV to May.

** - 1995:QIV to 1996:QII (Greenbook projection).

(13) M2 is projected to outrun nominal GDP slightly over the forecast period, leaving growth for 1996 at about 5 percent and at around that same pace next year.⁶ Interest rates on small time deposits, which have been rising, are still unusually low relative to market interest rates and should continue to move higher.⁷ If the historical money demand relationship prevails, this edging lower of the opportunity cost of M2 relative to short-term interest rates should work to reduce the velocity of M2 a little. In fact, the historical relationship between movements in M2's opportunity cost and in its velocity appears to have reasserted itself in recent years after having gone off track in the early part of this decade (chart 4).⁸ The staff's working assumption is that this relationship will continue to hold, though the increased availability of alternative financial instruments and the changes in household balance sheets over the last decade suggest that considerable uncertainty remains about the characteristics of M2 demand.

(14) Unlike M2, M3 is seen as moderating over the second half of this year to a little more than a 5 percent rate, bringing its growth over the four quarters of the year down to 6 percent. Shifts of funding from Eurodollar borrowing to large time deposits, which apparently had been encouraged in part by the removal of the deposit insurance premiums for commercial banks last year, are expected to

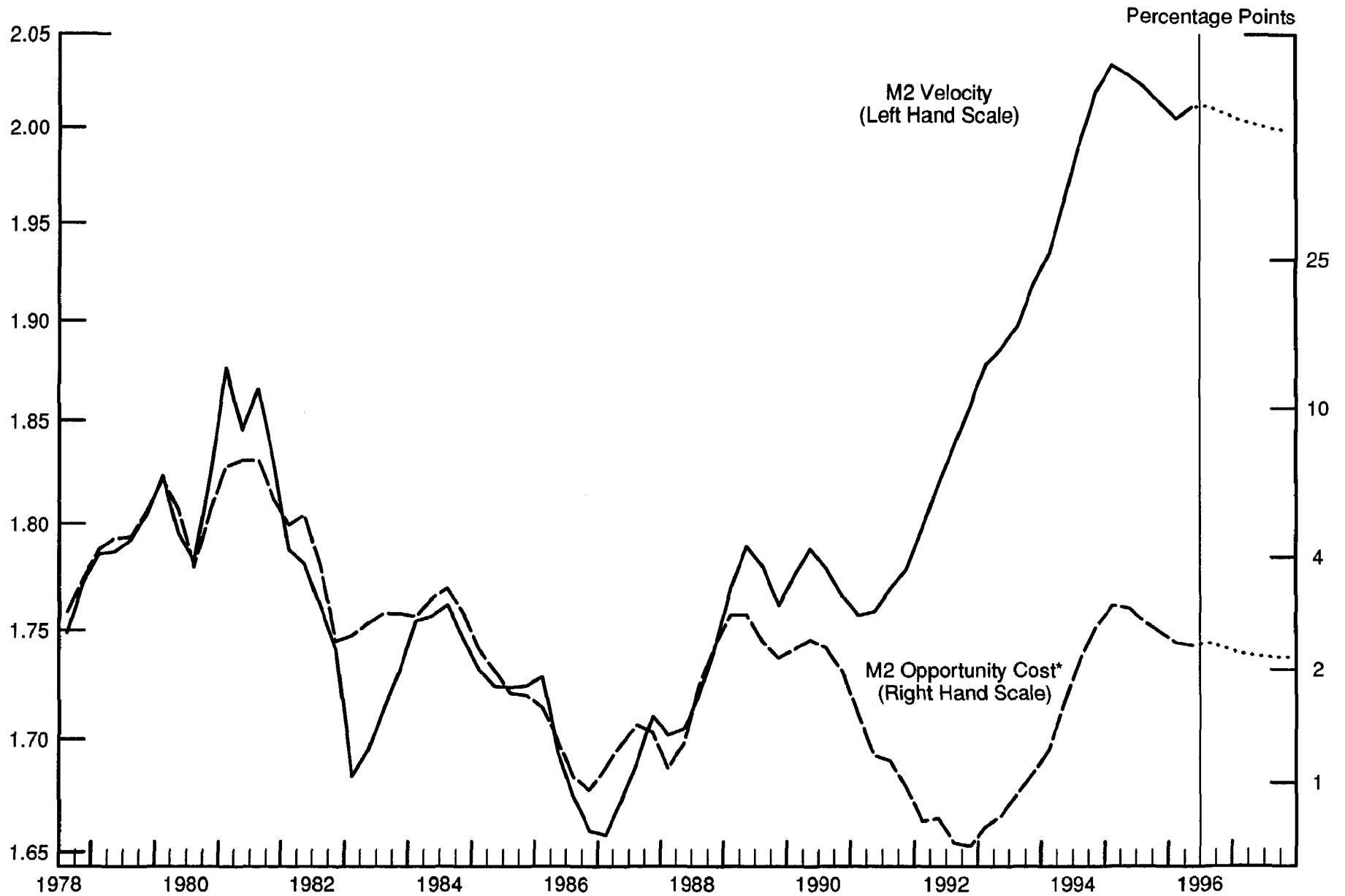
6. M1 is expected to fall over the rest of the year at a 1-1/2 percent rate, comparable to its decline over the first half, before leveling out next year. Adjusted for the effects of sweeps of OCDs into MMDAs, M1 is projected to expand at a 6-3/4 percent rate in the second half of this year and by 5 percent next year. The initial effects on M1 of new retail sweep programs are projected to cumulate to \$215 billion by the end of next year.

7. Along with short-term interest rates in general, rates on liquid retail deposits are likely to continue about unchanged.

8. Historical velocity behavior, as well as projected values, for all the key monetary and credit aggregates is shown in Appendix A.

Chart 4

M2 Velocity and Opportunity Cost
(Ratio Scales)



*The M2 opportunity cost is a two quarter moving average of the difference between the 3 month T-Bill rate and the average M2 rate. For the projection period, liquid deposit rates are assumed to remain constant along with the 3-month T-Bill rate, while money fund and small time rates adjust up somewhat in lagged response to previous increases in market interest rates.

ebb. In addition, inflows to money market mutual funds, which had been boosted by the drop in short-term market rates resulting from policy easings in late 1995 and early 1996, should be moderate with short-term market rates about unchanged. Next year, M3 expansion is projected to strengthen from its second-half pace to a 6 percent rate, as bank credit growth picks up.

(15) The growth of the debt of domestic nonfinancial sectors is projected to be 4-1/2 percent over both this year and next. The expansion of the debt of nonfederal sectors over the next six quarters slows relative to the first half of 1996, along with nominal income. While equity is anticipated to be retired at a hefty pace, the corporate financing gap over the balance of 1996 and 1997 is expected to remain relatively low owing to restrained inventory investment and rising internal funds. The staff does not foresee any pullback in credit supplies to businesses, whose outlook for earnings and debt servicing seems favorable. In contrast, in light of rising delinquency rates on consumer credit--especially the revolving component--households may well face a further tightening of the availability of certain types of consumer credit. This contributes to slowing growth of such credit in coming quarters, but only a little--most of the deceleration reflects spending trends and rising repayments from debt assumed earlier. Home mortgage debt expansion later this year and in 1997 should fall below the first-half pace as the increases to date in mortgage rates exert more noticeable restraint. Debt of the state and local government sector will continue to contract over the remainder of this year and next owing to the large volume of advance refunded bonds still scheduled to be retired. Federal debt should grow more

slowly this year than last, but it is likely to be picking up by 1997 because of projected increases in the federal budget deficit.

(16) The money and credit projections for the "tighter" strategy are consistent with the alternative scenario presented in the Greenbook Part I in which the federal funds rate is raised gradually, by a total of 100 basis points by year-end, and maintained at that level through next year. The more restrictive policy damps nominal GDP growth by about a percentage point over the next six quarters. The slower spending growth, together with the higher opportunity costs of holding liquid money balances generated by sluggish upward adjustment of rates on retail deposits, should hold M2 growth to 4-1/2 and 3 percent over this year and next, respectively. Much, but not all, of the slowdown in M2 would show through to M3; bank credit and associated funding needs would moderate only a bit, leading banks to rely more heavily on managed liabilities in M3 to make up for some of the shortfall in funding from M2 sources. The expansion in the debt of domestic nonfinancial sectors would likely be retarded next year to about the same extent as growth in nominal spending, posting a projected rate of growth of 3-1/2 percent.

(17) The table on page 11 presents two alternatives for money and credit ranges for 1996 and 1997. The Committee first selected the alternative I growth rate ranges for 1996 of 1 to 5 percent for M2, 2 to 6 percent for M3, and 3 to 7 percent for debt on a provisional basis at its meeting a year ago, and it reaffirmed these ranges at its meeting in late January of this year.⁹ The debt range was reasonably well centered on the likely outcomes for growth in this measure under staff or Committee members' economic forecasts, and it remains

9. Appendix B shows the Committee's announced annual ranges for money and credit since 1979.

so unless policy tightens very substantially. When the Committee chose its 1996 M2 and M3 ranges in July and January, however, it recognized that staff baseline projections of these aggregates were in the neighborhood of the upper ends of these ranges. The Committee's rationale was to provide a benchmark for secular growth of the broader monetary aggregates that, in the words of the Federal Reserve Act, would be "commensurate with the economy's long run potential to increase production so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates" under the assumption of historically typical velocity behavior. The Monetary Policy Reports to the Congress after those meetings indicated that growth of the broader aggregates might run near the upper ends of their ranges. A very similar situation confronts the Committee at this meeting, with the baseline staff forecast for M2 and M3 for both this year and next at the 5 and 6 percent upper bounds of their respective alternative I ranges. The Committee may wish to reaffirm the alternative I ranges for 1996 under this rationale of providing longer-run benchmarks, and extend them to 1997. As another rationale for the alternative I ranges, the Committee may foresee slower growth of M2 and M3 than the staff projects, moving these aggregates comfortably within their ranges: For example, a hike in short-term interest rates, to better ensure that inflation remains contained, such as in the tighter scenario, would tend to depress the growth of the broader aggregates, particularly next year given the usual lags.

(18) Alternative II raises the M2 and M3 ranges by 1 percentage point to align them better with the money growth likely to prevail under the staff forecast and, judging by the central tendency of the members' nominal GDP projections, the Committee's as well. Even if

the Committee has no intention of placing greater weight on the aggregates, this alternative might be seen as closer to the spirit of the Federal Reserve Act's requirement to report the "objectives and plans" for money and credit for the current and, in July, the following calendar year, taking account of past and prospective developments in employment, prices, and other factors. One option might be to center the ranges around expected monetary growth. To be sure the alternative II ranges are not high enough to accomplish this, but the Committee may find this feature acceptable if it intends to pursue an opportunistic strategy in approaching its long-run objective of price stability. In this case, monetary policy would respond aggressively to upside surprises to nominal GDP or inflation in order to hold the line against sustained increases in inflation, but would be more tentative in resisting downward shocks to spending. Because increases in short-term interest rates or shortfalls in nominal GDP would therefore be more likely to be sizable than movements in the opposite direction, shortfalls of money growth from the staff forecast would tend to be larger than overshoots.

Short-run Policy Alternatives

(19) Two policy alternatives are discussed below for consideration by the Committee. Under alternative B, federal funds would continue to trade around 5-1/4 percent. The tighter option, alternative C, would boost the funds rate to 5-1/2 percent, through either a 1/4 percentage point hike in the discount rate or a slightly more restrictive provision of nonborrowed reserves using open market operations.

(20) The unchanged reserves market conditions of alternative B are assumed in the staff economic forecast. In that forecast, growth in output and employment slows in the months ahead to a pace that is in line with the rate of increase in the economy's potential. However, because the staff sees the economy as operating in level terms a bit beyond its potential currently and over the forecast period, an upward drift in inflation develops. Even so, the overshoot of output is quite small and the rise in inflation consequently mild and gradual, suggesting that major policy adjustments would not be necessary to keep inflation from rising. Real bond yields have increased substantially in recent months and are now more in line with levels that in the past appeared to have been consistent with holding inflation in check. The yield curve at present embodies only small odds of a modest policy tightening over coming months, and further decreases in rates are likely to be quite minimal in the near term if the Committee chose to keep policy unchanged at this meeting. In these circumstances, even if the Committee wished to lean against the sorts of incipient inflation pressures inherent in the staff forecast, it might be able to afford to wait for more information to gauge whether those pressures were likely to develop and their extent.

(21) A 1/4 percentage point increase in the federal funds rate, as under alternative C, might be favored if the Committee wished to impose greater restraint on spending to reduce the odds of a gradual increase of inflation pressures. Prompt action would help to counter the possibility of an impression developing, should data come in on the strong side, that the Federal Reserve had become less willing to act anticipatively to forestall a buildup of inflationary pressures. A single 1/4 point tightening, however, would likely not be adequate to contain inflation pressures if aggregate demand were stronger than in the Greenbook or if the recent favorable behavior of prices and costs were not to persist. Even in the staff forecast, a single 1/4 point move probably is not sufficient to induce a downward tilt to inflation. For example, the tighter alternative in the Greenbook, in which policy is sufficiently restrictive to make noticeable progress toward price stability in 1997 and beyond, assumes that a quarter point tightening at this meeting would be followed by considerable further firming later in the year.

(22) A 25 basis point rise in the federal funds rate at this meeting as under alternative C would exceed the small amount currently built into money market yields. As a consequence, interest rates probably would rise across the maturity spectrum, and the exchange rate would tend to firm. The extent of the rise in intermediate- and longer-term interest rates would depend on whether the market saw this as the first in a series of firming actions. Some such extrapolation seems quite probable; market participants would reason that the new direction for policy was unlikely to be limited to only a 1/4 percentage point increase, and might read the action as suggesting that the Federal Reserve saw inflation pressures as relatively strong. The interest rate increase might be more circumscribed if the tightening

were implemented through open market operations rather than by raising the discount rate, and if the announcement emphasized that the Federal Reserve itself saw the action as a limited adjustment reflecting, for example, a view that the easing undertaken at the end of January to gain greater assurance of satisfactory economic growth was no longer needed. In any case, the large backup in intermediate- and long-term yields that was associated with the initial firming in 1994 is unlikely to be repeated: Nominal and real federal funds rates were much lower then, and the Federal Reserve's public posture at that time was that a substantial policy adjustment was to be expected. If the Committee were to tighten more aggressively, by 50 basis points, real rates would ratchet significantly higher, but the rise in nominal longer-term rates might be limited by the perception of timely and decisive action to counter a buildup in inflationary pressures. There is some risk that market participants would read the action as signalling that the Federal Reserve was quite concerned that the economy had excessive momentum and was prepared to tighten considerably further, prompting a very substantial upward movement in interest rates, especially in short and intermediate maturities, and in the dollar.

(23) The money and credit flows associated with a flat federal funds rate under alternative B were discussed in the previous sections of this document under the baseline case. In sum, the staff would expect money and credit growth at or below their rates in the first half, keeping M2 and M3 near the upper ends of their ranges and debt in the middle of its range. Money growth would be expected to slow somewhat more under alternative C, putting the broad aggregates on paths more likely to leave them below the upper ends of their longer-term ranges.

Directive Language

(24) Presented below for Committee consideration is draft directive wording relating to the Humphrey-Hawkins ranges for 1996 and 1997 and the operational paragraph for the intermeeting period.

Paragraph for 1996 and 1997 Ranges

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee REAFFIRMED at THIS its meeting in January THE RANGES IT HAD established IN JANUARY ranges for growth of M2 and M3 of 1 to 5 percent and 2 to 6 percent respectively, measured from the fourth quarter of 1995 to the fourth quarter of 1996. [IN FURTHERANCE OF THESE OBJECTIVES, THE COMMITTEE AT THIS MEETING RAISED/LOWERED THE RANGES IT HAD ESTABLISHED IN JANUARY FOR GROWTH OF M2 AND M3 TO RANGES OF ___ TO ___ PERCENT AND ___ TO ___ PERCENT RESPECTIVELY, MEASURED FROM THE FOURTH QUARTER OF 1995 TO THE FOURTH QUARTER OF 1996.] The monitoring range for growth of total domestic nonfinancial debt was MAINTAINED set at 3 to 7 percent (RAISED/LOWERED TO ___ TO ___ PERCENT) for the year. FOR 1997 THE COMMITTEE AGREED ON TENTATIVE RANGES FOR MONETARY GROWTH, MEASURED FROM THE FOURTH QUARTER OF 1996 TO THE FOURTH QUARTER OF 1997, OF ___ TO ___ PERCENT FOR M2 AND ___ TO ___ PERCENT FOR M3. THE COMMITTEE PROVISIONALLY SET THE ASSOCIATED MONITORING RANGE FOR GROWTH OF TOTAL DOMESTIC NONFINANCIAL DEBT AT ___ TO ___ PERCENT FOR 1997. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability.

movements in their velocities, and developments in the economy and financial markets.

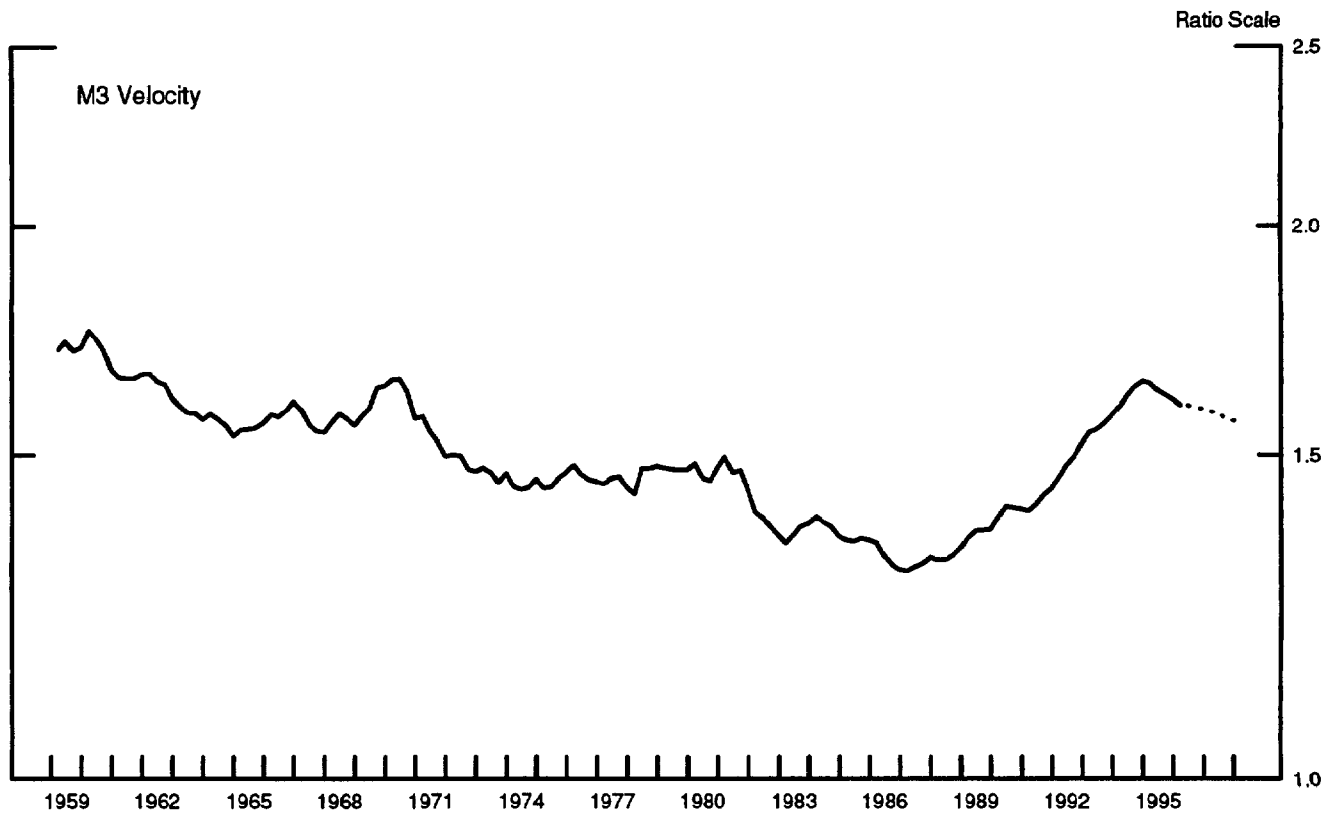
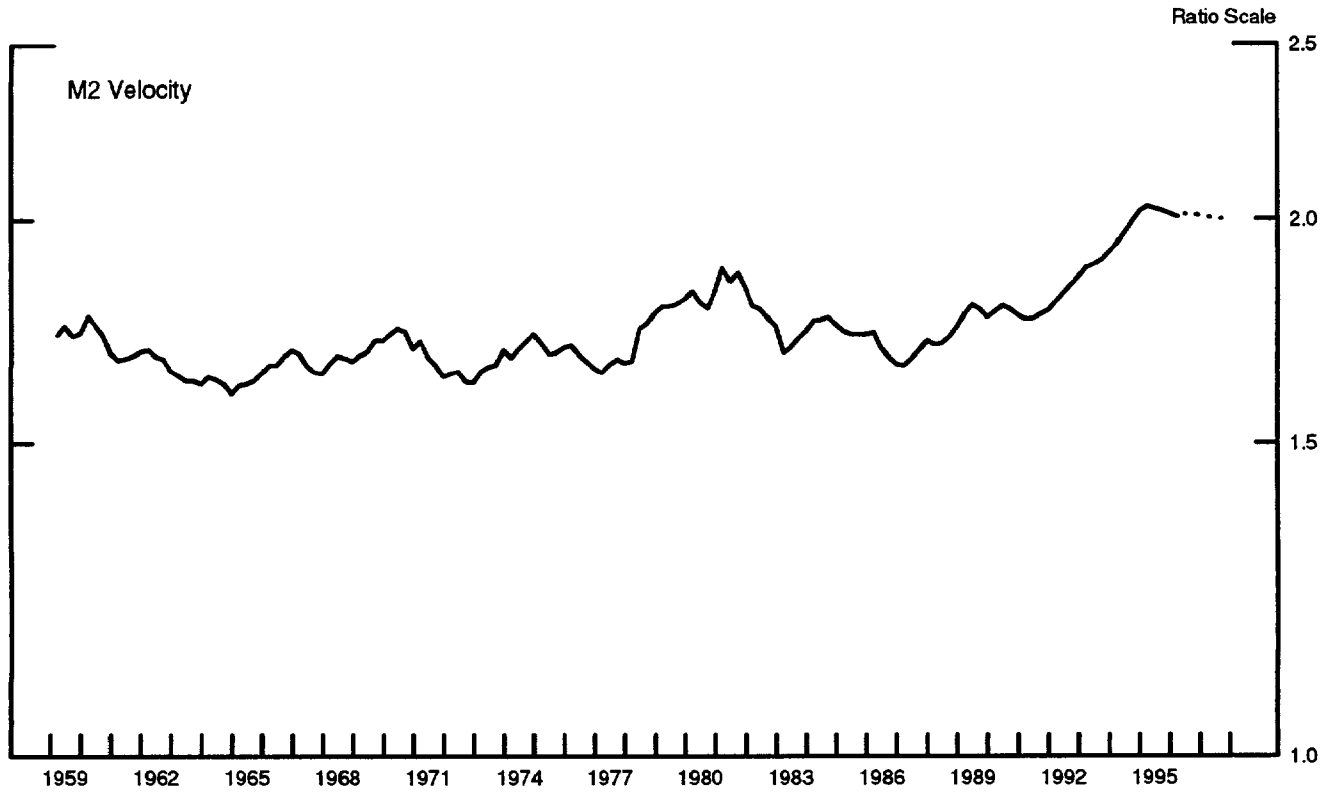
OPERATIONAL PARAGRAPH

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

Appendix A

Chart A-1

Actual and Projected Velocity of M2 and M3*

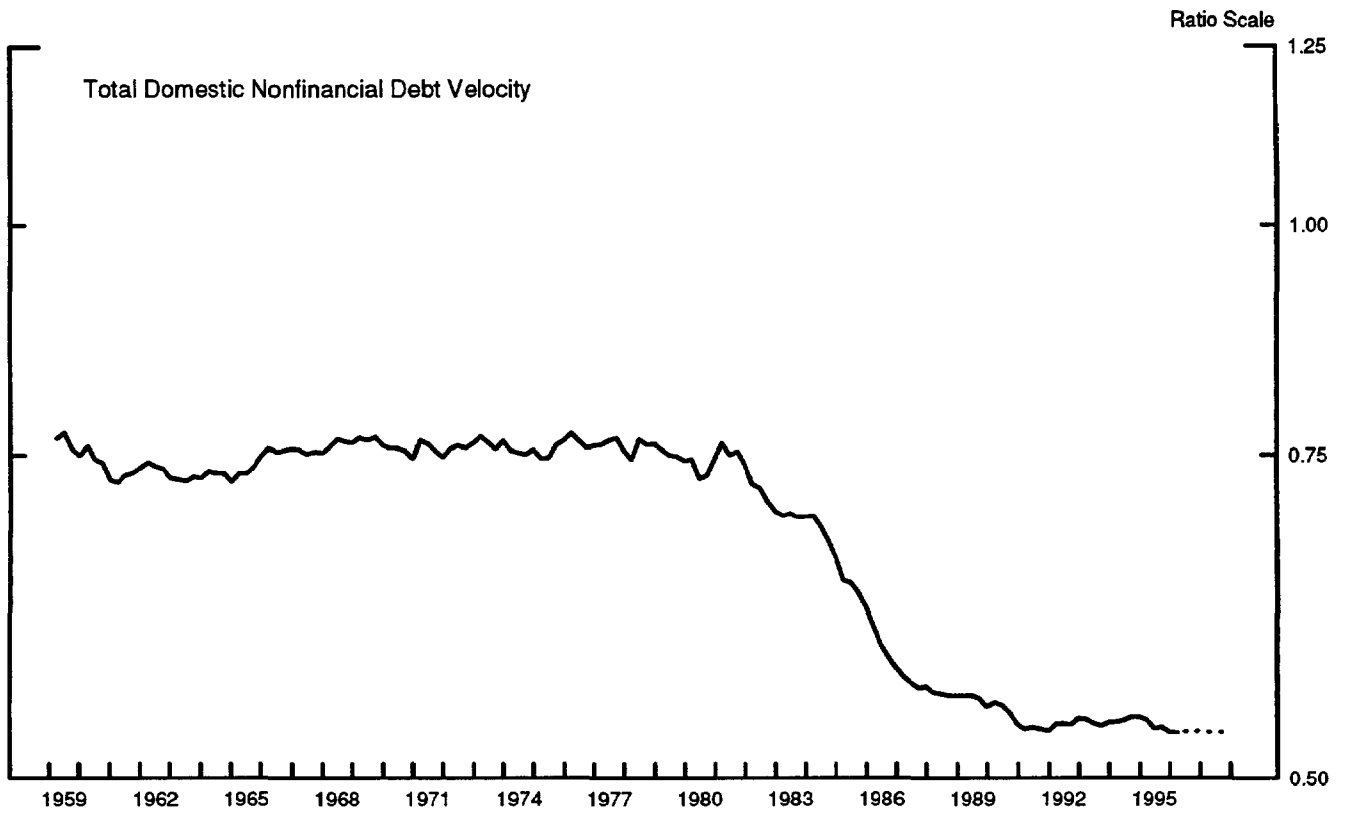
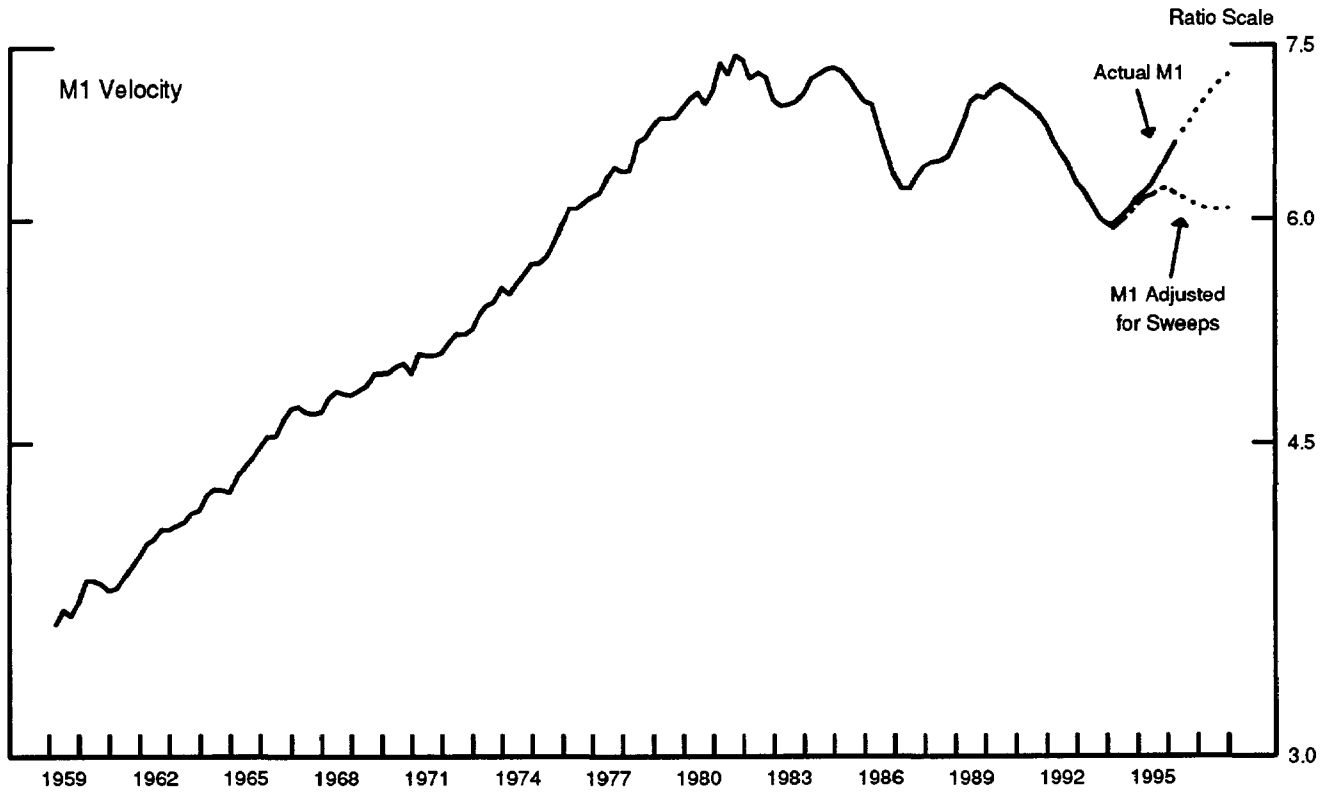


*Projections are based on staff forecasts of GDP and money.

Appendix A

Chart A-2

Actual and Projected Velocity of M1 and Debt*



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

Appendix B

ADOPTED LONGER-RUN RANGES FOR THE MONETARY AND CREDIT AGGREGATES

(percent annual rates)

	M1		M2		M3		Domestic Non-financial Debt ¹	
QIV 1979 - QIV 1980	4 - 6.5	(7.3) ^{2,3}	6 - 9	(9.8)	6.5 - 9.5	(9.9)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3) ^{2,4}	6 - 9	(9.4)	6.5 - 9.5	(11.4)	6 - 9	(8.8) ⁵
QIV 1981 - QIV 1982	2.5 - 5.5	(8.5) ²	6 - 9	(9.2)	6.5 - 9.5	(10.1)	6 - 9 ⁶	(7.1) ⁵
QIV 1982 - QIV 1983	5 - 9 ⁷	(7.2)	7 - 10 ⁸	(8.3)	6.5 - 9.5	(9.7)	8.5 - 11.5	(10.5)
QIV 1983 - QIV 1984	4 - 8 ⁹	(5.2)	6 - 9	(7.7)	6 - 9	(10.5)	8 - 11	(13.4)
QIV 1984 - QIV 1985	3 - 8	(12.7)	6 - 9	(8.6)	6 - 9.5	(7.4)	9 - 12	(13.5)
QIV 1985 - QIV 1986	3 - 8	(15.2)	6 - 9	(8.9)	6 - 9	(8.8)	8 - 11	(12.9)
QIV 1986 - QIV 1987	n.s. ¹⁰	(6.2)	5.5 - 8.5	(4.0)	5.5 - 8.5	(5.4)	8 - 11	(9.6)
QIV 1987 - QIV 1988	n.s.	(4.3)	4 - 8	(5.3)	4 - 8	(6.2)	7 - 11	(8.7)
QIV 1988 - QIV 1989	n.s.	(0.6)	3 - 7	(4.6)	3.5 - 7.5	(3.3)	6.5 - 10.5	(8.1)
QIV 1989 - QIV 1990	n.s.	(4.2)	3 - 7	(3.9)	1 - 5 ¹¹	(1.8)	5 - 9	(6.9)
QIV 1990 - QIV 1991	n.s.	(8.0)	2.5 - 6.5	(3.1)	1 - 5	(1.3)	4.5 - 8.5	(4.5)
QIV 1991 - QIV 1992	n.s.	(14.3)	2.5 - 6.5	(1.9)	1 - 5	(0.5)	4.5 - 8.5	(4.6)
QIV 1992 - QIV 1993	n.s.	(10.5)	1 - 5 ¹²	(1.4)	0 - 4 ¹²	(0.6)	4 - 8 ¹²	(4.9)
QIV 1993 - QIV 1994	n.s.	(2.3)	1 - 5	(1.0)	0 - 4	(1.4)	4 - 8	(5.3)
QIV 1994 - QIV 1995	n.s.	(-1.8)	1 - 5	(4.2)	2 - 6 ¹³	(6.1)	3 - 7	(5.3)
QIV 1995 - QIV 1996 ¹⁴	n.s.	(-1.5)	1 - 5	(4.8)	2 - 6	(6.3)	3 - 7	(4.8)

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

n.s. -- not specified.

Footnotes on following page

1. Targets are for bank credit until 1983; from 1983 onward targets are for domestic nonfinancial sector debt.
2. The figures shown reflect target and actual growth of M1-B in 1980 and shift-adjusted M1-B in 1981. M1-B was relabelled M1 in January 1982. The targeted growth for M1-A was 3-1/2 to 6 percent in 1980 (actual growth was 5.0 percent); in 1981 targeted growth for shift-adjusted M1-A was 3 to 5-1/2 percent (actual growth was 1.3 percent).
3. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.
4. Adjusted for the effects of shifts out of demand deposits and savings deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -(4-1/2) to -2 and 6 to 8-1/2 percent, respectively. Actual M1-B growth (not shift adjusted) was 5.0 percent.
5. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.
6. Range for bank credit is annualized growth from the December 1981 - January 1982 average level through the fourth quarter of 1982.
7. Base period, adopted at the July 1983 FOMC meeting, is 1983 QII. At the February 1983 meeting, the FOMC had adopted a 1982 QIV to 1983 QIV target range for M1 of 4 to 8 percent.
8. Base period is the February-March 1983 average.
9. Base period, adopted at the July 1985 FOMC meeting, is 1985 QII. At the February 1983 meeting, the FOMC had adopted a 1984 QIV to 1985 QIV target range for M1 of 4 to 7 percent.
10. No range for M1 has been specified since the February 1987 FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.
11. At the February 1990 meeting, the FOMC specified a range of 2-1/2 to 6-1/2 percent. This range was lowered to 1 to 5 percent at the July 1990 meeting.
12. At the February 1993 meeting, the FOMC specified a range of 2 to 6 percent for M2, 1/2 to 4-1/2 percent for M3, and 4-1/2 to 8-1/2 percent for domestic nonfinancial debt. These ranges were lowered to 1 to 5 percent for M2, 0 to 4 percent for M3, and 4 to 8 percent for domestic nonfinancial debt at the July 1993 meeting.
13. At the February 1995 meeting, the FOMC specified a range of 0 to 4 percent. This range was raised to 2 to 6 percent at the July 1995 meeting.
14. Growth rates in parentheses for the monetary aggregates are from 1995 QIV to June 1996 and for nonfinancial debt are from 1995 QIV to May 1996.

6/28/96 (MARP)

SELECTED INTEREST RATES

(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper 1-month	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 fixed-rate	primary market	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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	4.89	5.05	4.98	5.55	5.73	5.16	8.50	5.36	5.68	6.06	6.98	5.65	7.40	7.11	5.53
96 -- High	5.61	5.12	5.29	5.51	5.48	5.73	5.15	8.50	6.52	6.95	7.10	8.22	6.34	8.64	8.39	5.98
-- Low	5.08	4.79	4.71	4.57	5.13	5.28	4.73	8.25	4.95	5.59	5.97	7.00	5.63	7.35	6.94	5.19
Monthly																
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
Dec 95	5.60	5.14	5.13	5.03	5.62	5.84	5.20	8.65	5.39	5.71	6.06	7.10	5.74	7.53	7.20	5.57
Jan 96	5.56	5.00	4.92	4.82	5.39	5.56	5.05	8.50	5.20	5.65	6.05	7.09	5.72	7.45	7.03	5.44
Feb 96	5.22	4.83	4.77	4.69	5.15	5.29	4.85	8.25	5.14	5.81	6.24	7.31	5.73	7.51	7.08	5.31
Mar 96	5.31	4.96	4.96	5.06	5.29	5.39	4.76	8.25	5.79	6.27	6.60	7.75	6.07	8.07	7.62	5.51
Apr 96	5.22	4.95	5.06	5.23	5.36	5.40	4.75	8.25	6.11	6.51	6.79	7.90	6.20	8.32	7.93	5.73
May 96	5.24	5.02	5.12	5.33	5.36	5.38	4.74	8.25	6.27	6.74	6.93	8.02	6.22	8.46	8.07	5.77
Weekly																
Mar 13 96	5.24	4.93	4.97	5.06	5.28	5.34	4.73	8.25	5.81	6.30	6.63	7.87	6.13	8.16	7.83	5.55
Mar 20 96	5.36	5.02	5.02	5.16	5.33	5.41	4.79	8.25	5.94	6.40	6.70	7.76	6.10	8.06	7.81	5.60
Mar 27 96	5.22	4.97	5.00	5.11	5.33	5.46	4.74	8.25	5.85	6.29	6.62	7.77	6.15	8.20	7.69	5.62
Apr 3 96	5.30	5.02	5.03	5.14	5.35	5.45	4.79	8.25	5.91	6.32	6.66	7.94	6.11	8.37	7.78	5.62
Apr 10 96	5.08	4.99	5.12	5.30	5.39	5.42	4.76	8.25	6.18	6.54	6.82	7.91	6.32	8.35	8.05	5.80
Apr 17 96	5.24	4.88	5.05	5.23	5.38	5.41	4.76	8.25	6.14	6.53	6.83	7.89	6.19	8.30	7.95	5.75
Apr 24 96	5.24	4.92	5.04	5.20	5.35	5.38	4.73	8.25	6.11	6.54	6.80	7.90	6.16	8.26	7.92	5.74
May 1 96	5.30	4.99	5.06	5.28	5.35	5.39	4.75	8.25	6.15	6.61	6.85	8.22	6.32	8.56	7.99	5.76
May 8 96	5.22	5.00	5.13	5.37	5.38	5.40	4.73	8.25	6.36	6.85	7.06	8.01	6.32	8.43	8.24	5.80
May 15 96	5.26	5.00	5.10	5.30	5.36	5.39	4.74	8.25	6.24	6.72	6.91	7.92	6.17	8.37	8.08	5.78
May 22 96	5.22	5.02	5.12	5.26	5.35	5.37	4.74	8.25	6.20	6.65	6.84	7.90	6.10	8.38	8.01	5.75
May 29 96	5.19	5.04	5.13	5.33	5.34	5.37	4.74	8.25	6.25	6.69	6.88	8.08	6.17	8.54	8.03	5.76
Jun 5 96	5.33	5.06	5.17	5.44	5.39	5.41	4.76	8.25	6.42	6.84	6.98	8.12	6.20	8.64	8.30	5.86
Jun 12 96	5.24	5.12	5.29	5.51	5.47	5.43	4.75	8.25	6.52	6.94	7.07	8.20	6.34	8.64	8.39	5.91
Jun 19 96	5.45	5.08	5.26	5.47	5.47	5.44	4.77	8.25	6.50	6.95	7.10	8.20	6.27	8.59	8.30	5.93
Jun 26 96	5.21	5.11	5.25	5.51	5.48	5.48	4.78	8.25	6.52	6.94	7.09	7.97	6.20	8.48	8.29	5.98
Daily																
Jun 21 96	5.19	5.12	5.26	5.53	5.48	5.46	--	8.25	6.52	6.96	7.11	--	--	--	--	--
Jun 27 96	5.30	5.06	5.20	5.45	5.50	5.50	--	8.25	6.38	6.83	6.99	--	--	--	--	--
Jun 28 96	5.42 ^p	5.04	5.16	5.39	5.48	5.52	--	8.25	6.26	6.71	6.89	--	--	--	--	--

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

JULY 1, 1996

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)										
1993	10.5	1.4	-2.4	-0.5	1.0	1.4	5.0	8.4	4.1	5.2
1994	2.4	0.6	-0.3	6.2	1.6	2.6	6.8	5.7	5.0	5.2
1995	-1.8	4.0	6.8	14.5	5.9	7.3	8.7	4.4	6.1	5.6
Quarterly(average)										
1995-Q3	-1.5	6.9	10.9	12.1	7.9	9.1	6.5	4.6	4.9	4.8
1995-Q4	-5.1	4.1	8.3	6.3	4.5	5.9	5.1	2.3	5.7	4.8
1996-Q1	-2.7	5.9	9.7	12.5	7.2	5.1	4.7	2.7	5.4	4.7
1996-Q2 pe	-¼	4	6	11¼	5¼					
Monthly										
1995-JUNE	-1.8	10.3	16.1	10.7	10.4	8.6	7.9	8.6	4.3	5.4
JULY	0.9	6.3	8.8	12.3	7.5	10.7	5.3	4.3	3.0	3.3
AUG.	-1.7	6.6	10.5	10.3	7.3	7.8	5.2	2.0	5.7	4.7
SEP.	-3.8	4.3	8.1	9.6	5.4	9.9	7.8	0.8	5.3	4.1
OCT.	-8.8	2.5	7.6	10.4	4.1	5.8	4.4	2.9	5.5	4.8
NOV.	-3.0	4.0	7.1	-0.1	3.2	1.4	4.0	4.4	7.0	6.3
DEC.	-4.4	5.7	10.3	-3.7	3.8	5.4	4.0	-0.4	4.5	3.2
1996-JAN.	-6.1	4.8	9.7	17.9	7.4	4.0	8.8	-2.0	5.2	3.3
FEB.	-2.0	5.4	8.6	28.5	10.0	4.4	3.5	7.6	6.4	6.7
MAR.	10.0	11.7	12.4	8.3	11.0	12.5	-3.0	11.2	4.2	6.0
APR.	-3.1	2.0	4.2	0.9	1.8	4.5	5.3	3.6	4.6	4.3
MAY	-6.6	-1.6	0.6	23.1	3.5		1.4			
JUNE pe	1	6	7	8	6					
Levels (\$billions):										
Monthly										
1996-JAN.	1119.2	3677.4	2558.2	927.0	4604.4	5704.3	3632.5	3638.6	10295.3	13933.8
FEB.	1117.3	3693.9	2576.6	949.0	4642.9	5725.1	3643.2	3661.7	10350.0	14011.7
MAR.	1126.6	3729.9	2603.3	955.6	4685.5	5784.5	3634.2	3696.0	10385.8	14081.8
APR.	1123.7	3736.1	2612.4	956.3	4692.4	5806.1	3650.2	3707.0	10425.7	14132.8
MAY	1117.5	3731.1	2613.6	974.7	4705.9		3654.6			
Weekly										
1996-MAY 6	1122.9	3732.5	2609.6	973.1	4705.5					
13	1115.7	3732.8	2617.1	974.8	4707.6					
20	1118.3	3731.0	2612.6	971.9	4702.9					
27	1113.6	3728.1	2614.5	975.2	4703.3					
JUNE 3	1123.2	3742.0	2618.7	981.5	4723.5					
10 p	1114.1	3747.2	2633.1	980.6	4727.8					
17 p	1120.6	3754.5	2633.9	977.7	4732.2					

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

JULY 1, 1996

Period	Currency	Demand deposits	Other checkable deposits	Savings deposits ¹	Small denomination time deposits ²	Money market mutual funds		Large denomination time deposits ⁴	RP's ^{5,6}	Eurodollars ^{5,6}	Savings bonds	Short-term Treasury securities ³	Commercial paper ⁶	Bankers acceptances ³
						Retail ⁶	Institution-only							
						1	2							
Levels (\$billions):														
Annual (Q4)														
1993	320.0	381.6	412.1	1215.1	792.3	356.5	196.3	334.8	155.3	66.1	170.7	339.5	382.4	15.7
1994	352.8	383.3	404.2	1162.7	812.2	383.1	182.9	358.9	175.9	81.7	179.8	381.2	401.5	13.8
1995	371.9	388.7	359.2	1123.8	934.6	460.1	225.2	414.3	184.3	91.6	184.5	468.7	438.2	12.6
Monthly														
1995-MAY	367.6	382.1	387.4	1089.5	906.1	401.6	203.7	384.5	197.2	91.1	181.7	405.3	437.0	12.0
JUNE	367.0	386.5	382.0	1097.0	913.7	418.8	213.2	387.6	191.7	91.8	182.4	414.5	428.9	11.0
JULY	367.3	388.5	380.8	1096.2	919.3	431.7	218.6	393.9	188.4	92.6	183.0	434.1	429.0	12.1
AUG.	368.5	389.3	377.2	1101.6	923.6	443.6	218.5	396.6	192.9	93.1	183.5	437.4	433.3	12.4
SEP.	369.5	389.4	372.4	1108.4	926.8	450.3	221.7	400.5	192.5	93.7	183.9	457.1	438.6	12.8
OCT.	370.8	388.1	364.1	1116.1	930.2	455.0	223.7	409.8	190.0	92.9	184.2	465.9	440.5	13.4
NOV.	371.6	388.2	360.4	1120.6	935.5	460.1	224.8	415.5	185.3	90.6	184.5	464.5	437.1	12.6
DEC.	373.2	389.8	353.0	1134.6	938.1	465.1	227.2	417.5	177.6	91.2	184.8	475.6	437.1	11.9
1996-JAN.	373.6	393.5	343.2	1151.8	937.8	468.6	230.6	416.6	184.4	95.5	185.0	466.0	437.2	11.7
FEB.	373.3	397.4	337.8	1164.5	937.4	474.7	243.9	422.4	186.2	96.4	185.0	444.7	442.3	10.2
MAR.	375.2	407.1	335.4	1183.0	932.7	487.6	248.3	429.7	184.1	93.6	185.2	458.9	445.1	9.8
APR.	375.9	406.3	332.6	1193.3	930.4	488.7	245.6	432.2	182.9	95.6	185.6	456.8	461.0	10.3
MAY	377.0	409.7	322.1	1197.8	928.5	487.4	243.5	437.3	196.9	96.9				

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

p preliminary

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

June 28, 1996

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					
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
1995	10,932	900	10,032	390	4,966	1,239	3,122	1,476	8,241	1,303	16,970	-1,023
1995 --Q1	---	---	---	---	---	---	---	621	-621	229	-850	-4,083
--Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,396
--Q3	842	---	842	---	100	---	100	---	200	501	541	-15,979
--Q4	5,621	900	4,721	390	2,317	400	1,884	485	4,506	261	8,965	8,644
1996 --Q1	---	---	---	---	---	---	---	1,228	-1,228	108	-1,336	-8,879
1995 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
December	---	---	---	390	2,317	---	1,884	---	4,591	58	4,533	6,666
1996 January	---	---	---	---	---	---	---	1,228	-1,228	---	-1,228	-12,623
February	---	---	---	---	---	---	---	---	---	---	---	-1,689
March	---	---	---	---	---	---	---	---	---	108	-108	5,433
April	88	---	88	35	1,899	479	1,065	787	2,691	82	2,697	-505
May	---	---	---	---	---	---	---	---	---	16	-16	8,625
Weekly												
March 6	---	---	---	---	---	---	---	---	---	45	-45	-6,519
13	---	---	---	---	---	---	---	---	---	50	-50	11,648
20	---	---	---	---	---	---	---	---	---	---	---	-10,669
27	---	---	---	---	---	---	---	---	---	13	-13	8,728
April 3	---	---	---	---	---	---	---	---	---	---	---	-4,820
10	88	---	88	---	---	---	---	---	---	35	53	3,357
17	---	---	---	35	1,899	479	1,065	787	2,691	---	2,691	4,963
24	---	---	---	---	---	---	---	---	---	---	---	6,289
May 1	---	---	---	---	---	---	---	---	---	47	-47	-15,158
8	---	---	---	---	---	---	---	---	---	---	---	7,561
15	---	---	---	---	---	---	---	---	---	---	---	-1,895
22	---	---	---	---	---	---	---	---	---	---	---	5,194
29	---	---	---	---	---	---	---	---	---	16	-16	-4,927
June 5	---	---	---	---	---	---	---	---	---	---	---	2,584
12	3,311	---	3,311	---	---	---	---	---	---	40	3,271	-6,784
19	---	---	---	---	---	---	---	---	---	---	---	17,726
26	---	---	---	---	---	---	---	---	---	---	---	-8,919
Memo: LEVEL (bil. \$) ⁶												
June 26			198.9	219.2	91.7	32.9	38.7		382.5		397.8	-12.9

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	0.5	0.5	0.0	2.4

June 26