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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

August 12, 1994

MONETARY POLICY ALTERNATIVES

Recent Developments[1]

(1) Consistent with the Committee's decision to maintain the existing degree of pressure on reserve positions, the intended federal funds rate was kept unchanged at 4-1/4 percent during the intermeeting period. The allowance for adjustment and seasonal borrowing was raised in several steps over the period, by a total of $125 million, to accommodate increasing demands for seasonal credit. The federal funds rate averaged 4.28 percent in the intermeeting period.[2]

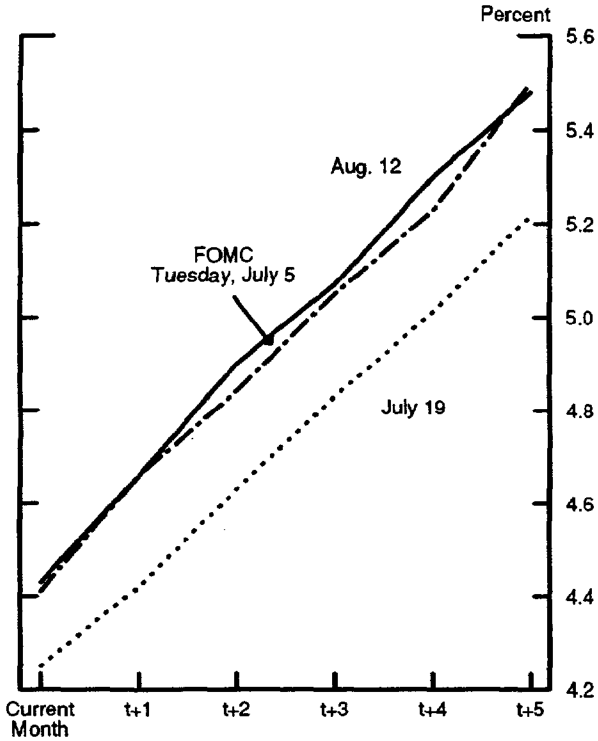
(2) Other market interest rates showed mixed changes over the intermeeting period. Rates generally edged lower in the first half of July, after the FOMC left policy unchanged at its meeting and as incoming data seemed to suggest continued moderation in aggregate demand and a lower trajectory for System firming. (See upper panels of chart.) However, after the Chairman's Humphrey-Hawkins testimony and the strong employment report made substantial near-term tightening appear considerably more likely, rates began to back up. Most of the net rate increases over the intermeeting period were registered on short-term Treasuries, which may have been affected as well by expectations of a large swing in bill issuance from the second to the third quarter. Expected bond market volatility continued to decline (chart), helping to hold down long-term yields, and spreads on the standard mortgage instruments stayed relatively nar-

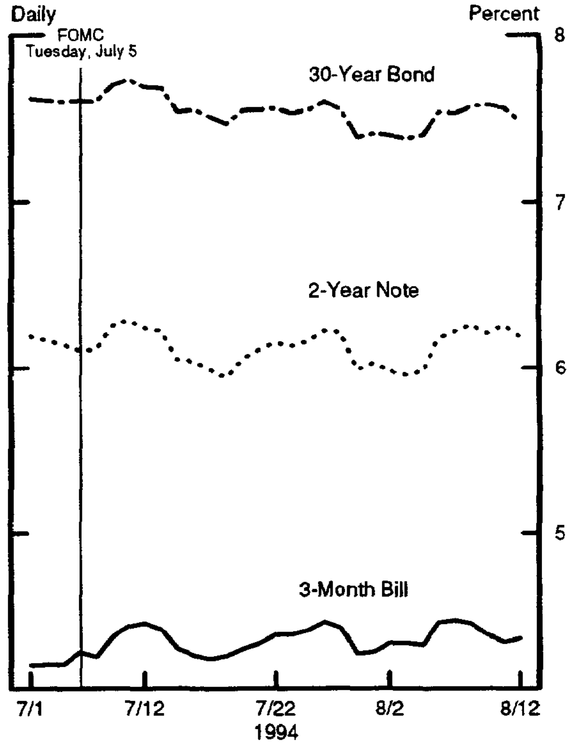
1. Financial market quotations in this section are taken as of noon, Friday, August 12.

2. Adjustment plus seasonal borrowing averaged about $22 million above its allowance in the two complete reserve maintenance periods since the last FOMC meeting.

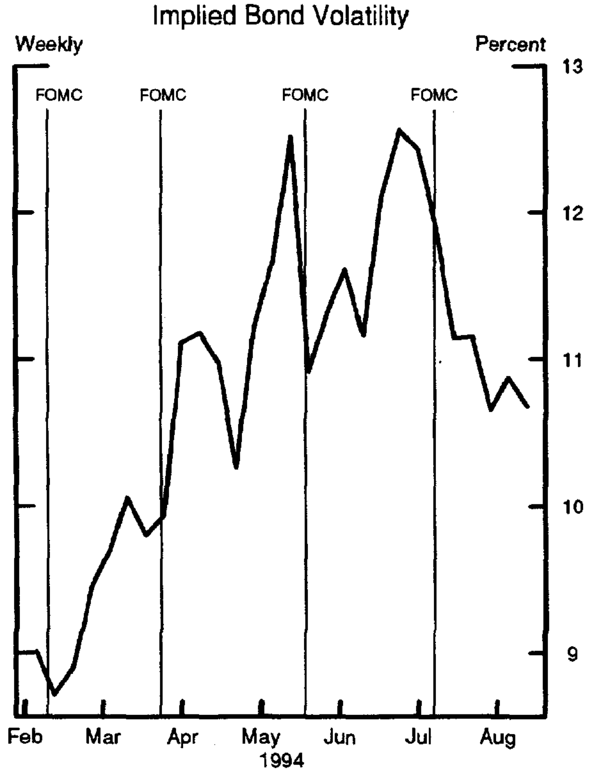
Chart 1

Federal Funds Futures

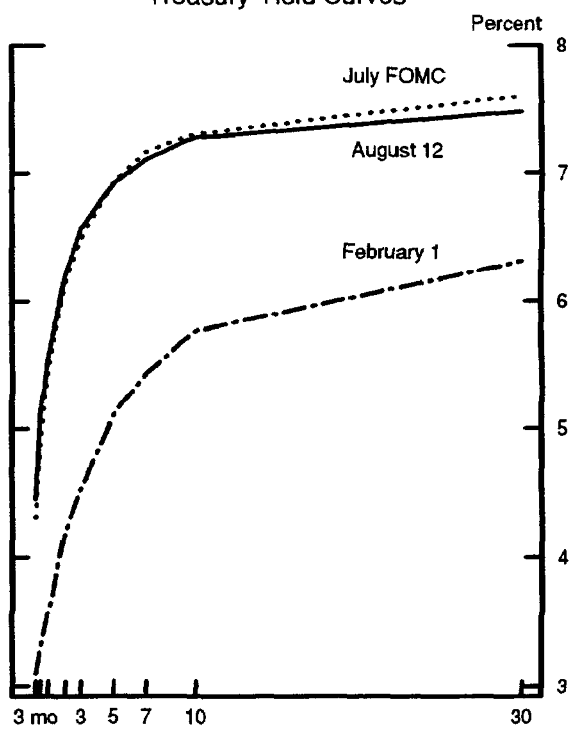




Implied Bond Volatility



Treasury Yield Curves



row.[3] With corporate profit reports for the second quarter generally better than expected, most stock prices rose 3 to 4 percent over the intermeeting period.

(3) The weighted-average foreign exchange value of the dollar was little changed, on balance, over the intermeeting period. The currency continued to move lower in early July but seemed to gain some support from statements about the desirability of a stronger dollar by U.S. Treasury officials and by Chairman Greenspan at the Humphrey-Hawkins hearing. In Japan most interest rates rose 20 to 25 basis points in response to increasing indications of a turnaround in the Japanese economy. Three-month interest rates showed little net change in Germany, but bond yields there rose 25 basis points. Bond yields in Europe generally increased sharply late in the period in the wake of discount rate increases in Italy and Sweden intended to support the lira and the krona.

; the Desk did not intervene.

(4) Growth of all of the monetary aggregates in July was considerably stronger than projected at the time of the last FOMC meeting; although data for early August suggest a return to subdued expansion, on balance the broad aggregates remain above expected levels. M2 and M3 increased at 5 and 6 percent rates, respectively, last month, leaving these aggregates slightly above the lower ends of their annual ranges. Despite the likely depressing effects of declining mortgage refinancings and compensating balances, demand deposits expanded at a rapid pace last month, helping to boost M1 growth to a

3. The thirty-year Treasury bond yield fell 12 basis points over the intermeeting period, but some of this decline reflected the effects of a shift to a newly auctioned bond at the end of the period.

7-1/2 percent rate.[4] In addition, a jump in overnight Eurodollars buoyed the nontransaction components of M2 and M3. Even aside from these volatile components, however, M2 accelerated in July, perhaps owing partly to a resumption of runoffs in bond mutual funds.[5] Flows into money market funds were particularly strong, likely benefitting from their close substitutability with bond funds within a family of funds. In addition, the contraction of savings and MMDAs slowed a bit, and the expansion of other checkable and small time deposits picked up in July, perhaps partly reflecting a greater appreciation of the protection of principal in deposits. Rates on small CDs continued to increase, but their response to rising market rates this year has been unusually sluggish, and an especially wide gap to market rates remains. The continuing attraction of direct holdings of short- and intermediate-term market instruments is indicated by persistently high levels of noncompetitive tenders in Treasury auctions. Rather than bid aggressively for retail deposits, banks have relied on wholesale sources--especially funds raised by their foreign offices and, recently, in the domestic large CD market--to finance increases in bank credit.

(5) Bank credit surged in July. Growth of security holdings rose, but that pickup primarily reflected revaluation of banks' off-balance sheet positions; banks reduced their holdings of U.S. govern-

4. Total reserves and the monetary base increased in July at 1-3/4 and 8 percent rates, respectively, with currency growth remaining at a robust 10-1/4 percent pace.

5. M2 plus bond and stock mutual funds is estimated to have expanded at a 3-3/4 percent rate last month. This aggregate has increased at a 1 percent pace since the fourth quarter of 1993.

ment securities slightly.[6] Much of the jump in overall bank credit growth was accounted for by a strong pickup in lending. Business loans rose at an 17 percent annual rate. According to responses to the August Senior Loan Officer Opinion Survey, demand for business loans has increased, reflecting needs to finance inventory and fixed investment. Reduced financing in the capital markets as well as borrowing to finance mergers also appear to have prompted a portion of the recent growth in business loans.[7] In the household sector, consumer loans expanded sharply at banks in July, suggesting that overall consumer credit about maintained June's strong pace. In the aggregate, the expansion of the debt of nonfederal sectors is estimated to have continued in recent months at about the 5 percent pace of earlier this year. From the fourth quarter of 1993 through June, total debt rose at a 5-1/2 percent rate, leaving this aggregate well within its 4-to-8 percent monitoring range.

6. An interpretation by the Financial Accounting Standards Board (FIN 39) requires banks to include on their balance sheets the net value of off-balance-sheet contracts with each individual counterparty. If the net value of contracts with a given counterparty is positive, it is included in "other securities holdings" on the balance sheet; if negative, it is reported as a liability. In contrast to the first three months of this year, when banks were phasing in such reporting, the bulk of the rise in "other securities holdings" in July reflected a revaluation of existing positions. Such a rise does not necessarily indicate an increase in bank net worth, however, as offsetting changes may have been recorded on the liability side.

7. The loan officer survey also suggests that banks continued to ease terms and standards on business loans over the past three months.

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

	May	June	July	QIV. to July[1]
Money and credit aggregates				
M1	1.9	3.7	7.6	4.3
M2	.3	-3.2	4.9	1.6
M3	-1.8	-1.1	6.0	0.6
Domestic nonfinancial debt	4.8	5.2	--	5.4
Federal	4.2	6.7	--	6.2
Nonfederal	5.1	4.7	--	5.1
Bank credit	1.7	3.2	12.6	7.2
Reserve measures				
Nonborrowed reserves[2]	-9.9	-6.7	-0.7	-1.7
Total reserves	-8.4	-4.0	1.8	-1.0
Monetary base	7.6	7.7	8.0	9.1
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	200	333	458	--
Excess reserves	915	1105	1086	--

1. QIV to June 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.

Monetary Policy Alternatives

(6) Three monetary policy alternatives are presented for consideration by the Committee. Under alternative B, federal funds would continue to trade around 4-1/4 percent in association with retaining the $450 million allowance for adjustment plus seasonal borrowing.[8] Under alternative C, the federal funds rate would be raised to 4-1/2 percent and the initial borrowing allowance to $475 million. Under alternative D, the funds rate would be moved to 4-3/4 percent, either through an increase in the initial borrowing allowance to $500 million or a hike in the discount rate to 4 percent and unchanged adjustment plus seasonal borrowing.

(7) In the staff economic forecast, the federal funds rate rises a full percentage point by early next year and remains at that higher level over the balance of 1995. The economy is already essentially at potential, and aggregate demand will continue to be bolstered by, among other factors, the aggressive lending posture adopted by banks and by foreign demands for the U.S. goods and services owing to the lower dollar and stronger growth abroad. In these circumstances, further policy tightening is seen as needed to hold total output at potential to keep inflation from rising. The Greenbook rate assumption does not necessarily entail a tightening at the August FOMC meeting itself, but it does imply that the upward trajectory of short-term rates will be resumed fairly promptly.

(8) Alternative B might be preferred if it were thought that there would be less strength in the economy than in the staff forecast. Such a view might follow from placing more weight on recent

8. Later in the intermeeting period it may prove necessary to reduce the borrowing allowance a little to reflect the onset of the typical unwinding of the summer bulge in seasonal borrowing.

soft spending indicators, on undesired inventory buildups, or on the effects of previous policy tightenings. Waiting for more clarification of how much slowing in spending growth is already in train would be seen as posing fewer risks than implied in the staff forecast if it were thought that favorable readings on price indexes suggested that some slack remained in the economy.

(9) Market participants now seem to expect at least a 25 basis point increase in the federal funds rate at the August meeting, with some possibility of a 50 basis point increase; a 4-3/4 percent funds rate is anticipated by late September. In these circumstances, the choice of no change in the stance of policy under alternative B would result in some decline in short-term interest rates, and the dollar might tend to weaken on foreign exchange markets. Long-term rates could move lower, at least initially. Market participants might view the absence of action as indicating a milder degree of tightening into the future as well--perhaps because the Federal Reserve saw less inflation in the outlook than previously thought. However, rate declines would be limited to the extent that market participants questioned the Fed's anti-inflation resolve; absent subsequent data pointing to further weakening in aggregate demand or surprisingly modest price pressures, concerns about inflation would mount, pushing up longer-term interest rates.

(10) A tightening of reserve conditions might seem appropriate if the Committee saw significant risks of greater inflation from the pressure of demand on available resources under an unchanged policy. An immediate rise in short-term interest rates might also be seen as more consistent with the Committee's longer-run intention to make progress

toward price stability. The question in these circumstances would be how large an increase in the federal funds rate should be sought.

(11) Alternative C embodies a move of 25 basis points. An increase of this size, by itself, would be unlikely to have a substantial effect on spending or prices, but a small tightening could lend assurance that policy had firmed enough to keep the economy around its potential. Although further tightening could prove to be necessary, the Committee might judge that the case for a larger move is not yet established. As noted above, alternative C is about what is built into the structure of market interest rates, and neither interest nor exchange rates are likely to react very strongly to such an action. However, this would be the first move since the announcement in May that excess accommodation had been substantially removed and could be seen as marking a return to the usual practice of reacting to incoming data with small changes in reserve conditions. Markets could become somewhat more unsettled and volatile, especially if the rise in short-term rates were perceived as less than needed and therefore likely to be followed by another increase but of uncertain timing.

(12) The more forceful move of alternative D might be chosen if the Committee viewed the economic situation as highly likely to require substantial additional monetary tightening, for example, of the scope embodied in the steep tilt to the yield curve over the next few years. Alternatively, the Committee also might take this action if it believed that only moderate further tightening were required to hold inflation in check. In this regard, the 50 basis points of alternative D would imply more assurance of this outcome than alternative C and, therefore, would be more likely to be followed by a period of stability of short-term rates. Given these alternative rationales, the Committee

might want to explain its reasoning publicly--an opportunity for which would naturally occur if the increase were accomplished through a hike in the discount rate. The market response might depend importantly on how the action was perceived. If the market saw it as one of a series of further steps, interest rates could rise substantially along the maturity spectrum. On the other hand, if markets saw the increase as the last at least for a time, short-term rates would rise, but intermediate- and possibly long-term rates might move very little. Some forward rates would be revised down and reductions in expected volatility might lower risk premiums on longer-term assets.

(13) Under all of the alternatives, borrowing by nonfederal sectors is expected to remain around the pace of recent months. Borrowing by nonfinancial businesses will be buoyed by further increases in external financing needs and large cash-for-equity merger transactions. The more aggressive posture of bank lenders and the higher levels of bond rates since earlier this year suggest that banks will continue to be a major source of credit in the months ahead, although businesses are likely to take advantage of any intermittent rallies in the bond market to lengthen debt maturities. Still-large outlays for housing and consumer durables will boost growth in mortgage and consumer credit to a pace roughly in line with that of personal disposable income. With federal debt growth firming a bit in the months ahead, total debt of domestic nonfinancial sectors is projected to grow at nearly a 5 percent pace over the remainder of the year--placing annual growth in this aggregate at 5-1/4 percent, in the lower half of its 4 to 8 percent monitoring range.

(14) Growth of the monetary aggregates over July to December is presented below for alternatives B and D. The path for alternative B

is based on the assumption of no change in the federal funds rate for the rest of this year. Alternative D assumes a 50 basis point increase in the funds rate at this meeting and no change thereafter.[9] (Money growth under the reserve conditions of alternative C would lie half way between alternatives B and D.)

	Alt. B	Alt. D
Growth from July to December		
M2	1-1/2	1
M3	3/4	1/2
M1	3	2-1/4
Implied growth 93Q4 to 94Q4		
M2	1-1/2	1-1/4
M3	1/2	1/2
M1	4	3-1/2

(15) M2 would grow at a 1-1/2 percent rate over the July-to-December period under alternative B, down from the July pace but quicker than that over the first six months of the year. Acting to boost growth in this aggregate would be some narrowing of opportunity costs as deposit rates, especially those on small time deposits, moved up in lagged response to earlier increases in market rates. Renewed outflows from bond mutual funds over recent weeks, even as bond rates

9. The interest rate path of the Greenbook forecast, because it assumes continuing increases over the balance of the year, corresponds to none of the bluebook alternatives. With the interest rates and nominal income of the Greenbook, the staff would expect M2 growth at a 1 percent rate for the July-to-December period and 1-1/2 percent for the year, and M3 growth at a 1/2 percent pace for both intervals; M1 growth would be at a 2-1/4 percent rate from July to December and 3-3/4 percent for the year. Although these money growth rates are roughly the same as those projected for alternative D, the higher year-end level of rates assumed in the Greenbook implies slower growth of money and income in the first half of 1995 than would alternative D.

Alternative Levels and Growth Rates for Key Monetary Aggregates

		M2 Alt. B	M2 Alt. D	M3 Alt. B	M3 Alt. D	M1 Alt. B	M1 Alt. D
Levels in Billions							
May-94		3590.9	3590.9	4216.3	4216.3	1142.9	1142.9
Jun-94		3581.3	3581.3	4212.5	4212.5	1146.4	1146.4
Jul-94		3595.9	3595.9	4233.4	4233.4	1153.7	1153.7
Aug-94		3599.2	3598.6	4237.3	4236.6	1155.5	1155.2
Sep-94		3604.6	3601.6	4239.4	4237.3	1158.8	1157.5
Oct-94		3609.7	3604.0	4241.4	4237.5	1162.1	1159.6
Nov-94		3614.5	3606.4	4243.5	4238.6	1165.0	1161.8
Dec-94		3618.7	3608.8	4245.6	4239.6	1167.9	1164.1
Monthly Growth Rates							
Jun-94		-3.2	-3.2	-1.1	-1.1	3.7	3.7
Jul-94		4.9	4.9	6.0	6.0	7.6	7.6
Aug-94		1.1	0.9	1.1	0.9	1.9	1.6
Sep-94		1.8	1.0	0.6	0.2	3.4	2.4
Oct-94		1.7	0.8	0.6	0.1	3.4	2.2
Nov-94		1.6	0.8	0.6	0.3	3.0	2.2
Dec-94		1.4	0.8	0.6	0.3	3.0	2.4
Quarterly Averages							
94 Q1		1.8	1.8	0.2	0.2	6.0	6.0
94 Q2		1.4	1.4	-0.1	-0.1	1.9	1.9
94 Q3		1.4	1.3	1.8	1.8	4.4	4.2
94 Q4		1.6	0.9	0.6	0.3	3.1	2.2
Growth Rate							
From	To						
Dec-93	Jul-94	1.4	1.4	0.1	0.1	3.8	3.8
Jul-94	Dec-94	1.5	0.9	0.7	0.4	3.0	2.2
93 Q4	Jul-94	1.6	1.6	0.6	0.6	4.3	4.3
91 Q4	92 Q4	1.9	1.9	0.5	0.5	14.3	14.3
92 Q4	93 Q4	1.4	1.4	0.6	0.6	10.5	10.5
93 Q4	94 Q4	1.6	1.3	0.6	0.5	3.9	3.6

1994 Target Ranges: M2: 1 to 5; M3: 0 to 4

Chart 2

ACTUAL AND TARGETED M2

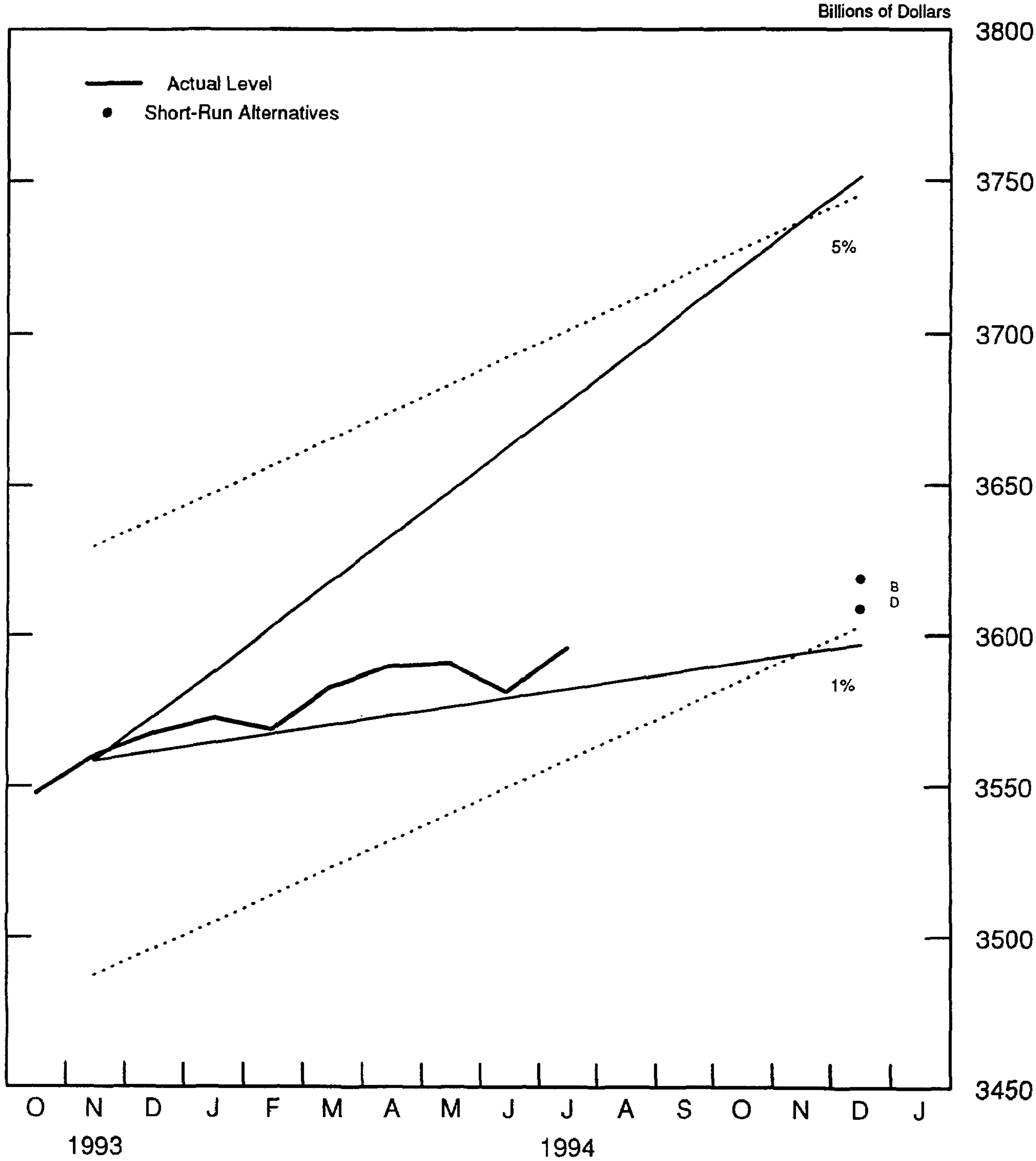


Chart 3

ACTUAL AND TARGETED M3

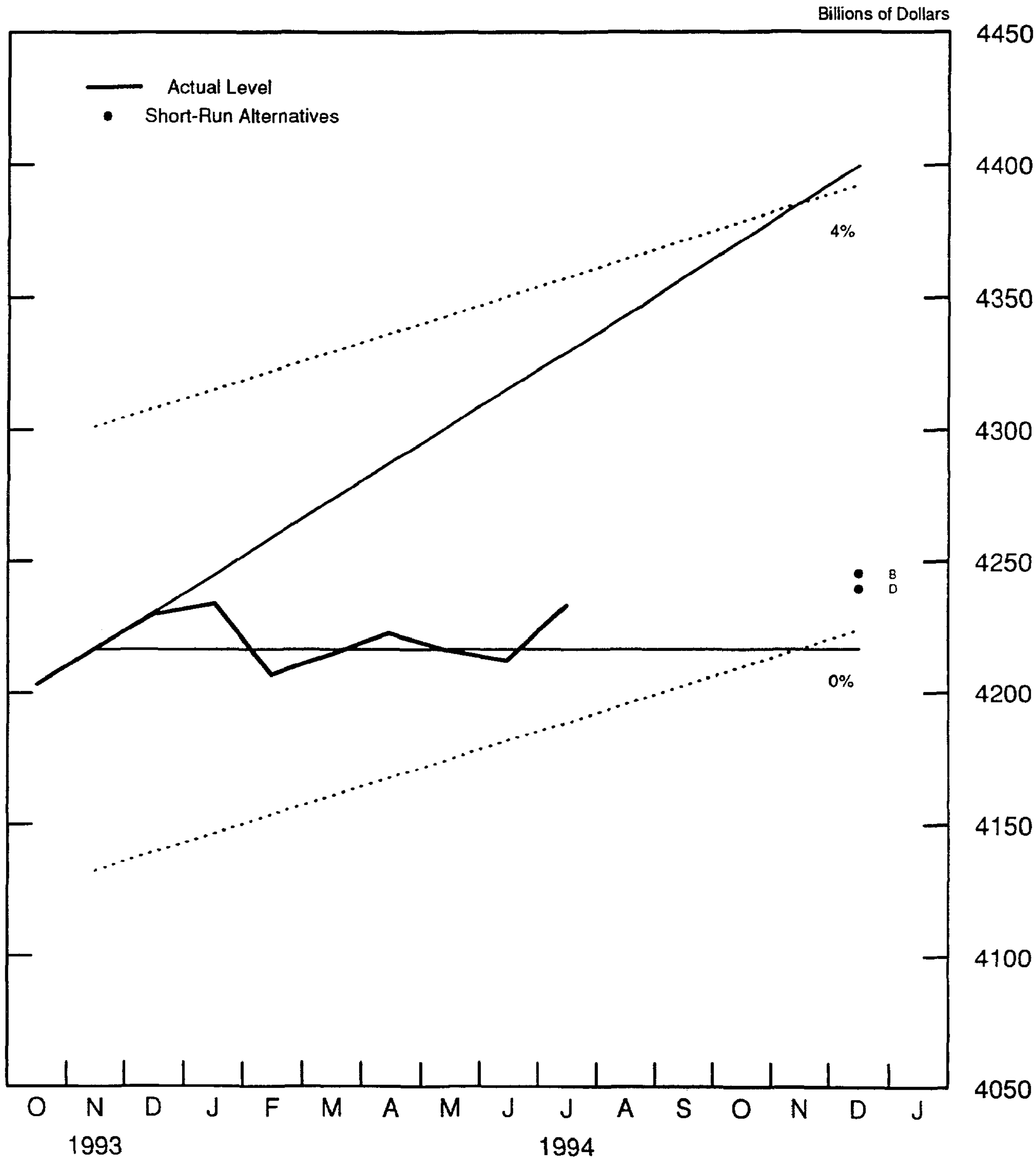
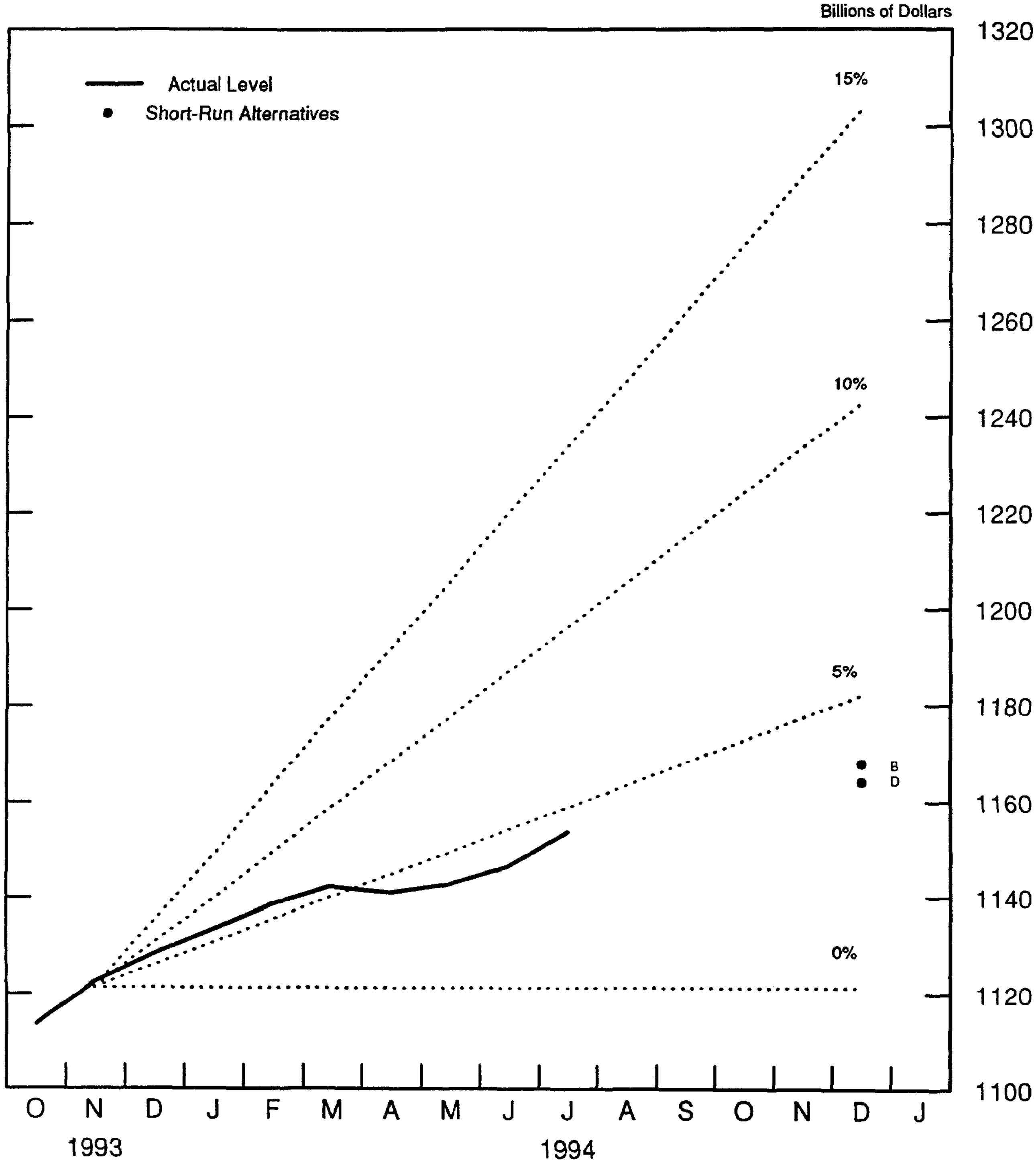


Chart 4

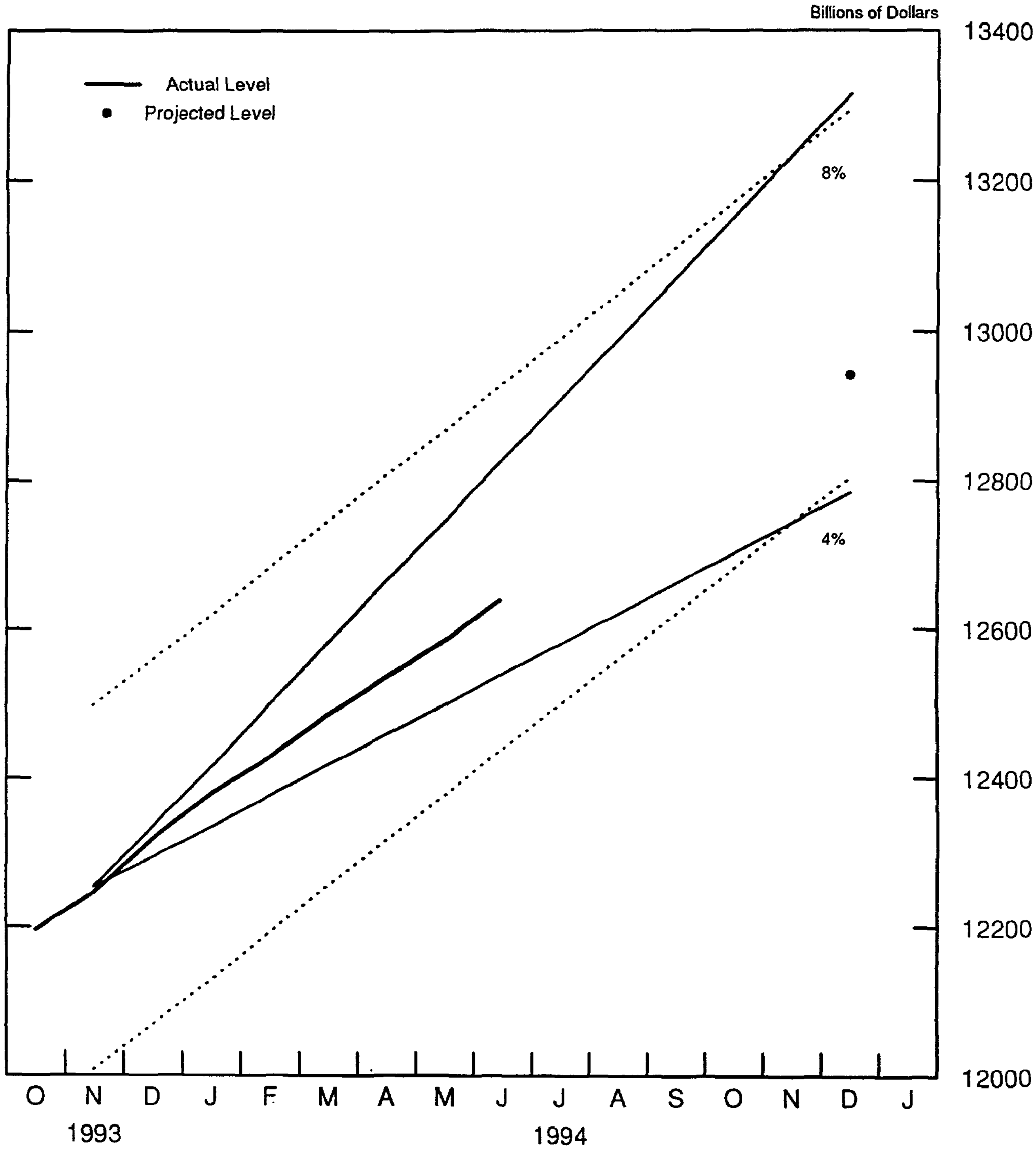
M1



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

Chart 5

DEBT



Billions of Dollars
Actual Level
Projected Level
8%
4%
13400
13200
13000
12800
12600
12400
12200
12000
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
J
1993
1994

have fluctuated around levels attained in the spring, suggest that households may continue to rebalance portfolios in a way that might also impart some upward tilt to growth of the broader aggregates. Restraining monetary growth is some projected slowing of nominal income growth, even under the unchanged interest rate assumptions of this alternative.[10] M2 velocity would rise at around a 3 percent rate in the third and fourth quarters, somewhat slower than over the first half and about in line with predictions of traditional models of money demand.[11] M3 is projected to grow at a 3/4 percent pace in the July-to-December period, a bit less slowly than in the first half of the year. Abstracting from the effects of FIN 39, we expect a little more growth in bank credit over the second half of the year--though not a persistence of the unusually rapid increase in July. Moreover, with short-term rates unchanged under alternative B, institution-only money funds should be stable after large runoffs through the spring.

(16) Under alternative D, M2 would grow at a 1 percent rate over the July-to-December period. Opportunity costs would widen under this alternative, particularly damping M1 and savings deposits. However, if bond yields backed up under this alternative, the additional capital losses might accentuate a redirection of savings back into M2, offsetting some of this restraining effect. M3 would grow at only a

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10. M1 would expand at about a 3 percent rate over the July-to-December period under alternative B. Continued rapid currency growth would account for this expansion, as higher opportunity costs reached earlier this year and slow mortgage refinancing activity hold transaction deposits about flat. The monetary base would grow at a 7-1/2 percent rate and total reserves would contract at a 3 percent rate over this period.

11. M2+ is predicted to grow a little more rapidly than M2 over the second half of this year, but not as fast as nominal output, and its velocity would still register an appreciable increase.

1/2 percent rate from July to December, as institution-only money funds ran off appreciably owing to their lagging yields.

Directive Language

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

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/ maintain/INCREASE SOMEWHAT the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, 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 modest growth in M2 and M3 over coming months.

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year	3-month	1-month			3-year	10-year	30-year			fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
93 -- High	3.24	3.12	3.27	3.48	3.36	3.44	2.92	6.00	5.06	6.73	7.46	8.28	6.44	8.17	8.14	5.36
-- Low	2.87	2.82	2.94	3.07	3.06	3.07	2.59	6.00	4.07	5.24	5.83	6.79	5.41	6.72	6.74	4.14
94 -- High	4.38	4.42	4.87	5.24	4.79	4.55	3.85	7.25	6.57	7.41	7.68	8.57	6.60	8.98	8.77	5.58
-- 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
Monthly																
Aug 93	3.03	3.02	3.14	3.30	3.14	3.14	2.64	6.00	4.36	5.68	6.32	7.16	5.67	7.05	7.11	4.48
Sep 93	3.09	2.95	3.06	3.22	3.12	3.14	2.65	6.00	4.17	5.36	6.00	6.94	5.50	6.89	6.92	4.36
Oct 93	2.99	3.02	3.12	3.25	3.24	3.14	2.65	6.00	4.18	5.33	5.94	6.91	5.48	6.85	6.83	4.25
Nov 93	3.02	3.10	3.26	3.42	3.35	3.15	2.66	6.00	4.50	5.72	6.21	7.25	5.71	7.32	7.16	4.24
Dec 93	2.96	3.06	3.23	3.45	3.26	3.35	2.70	6.00	4.54	5.77	6.25	7.28	5.59	7.27	7.17	4.23
Jan 94	3.05	2.98	3.15	3.39	3.15	3.14	2.71	6.00	4.48	5.75	6.29	7.24	5.54	7.12	7.06	4.21
Feb 94	3.25	3.25	3.43	3.69	3.43	3.39	2.73	6.00	4.83	5.97	6.49	7.45	5.65	7.35	7.15	4.20
Mar 94	3.34	3.50	3.78	4.11	3.77	3.63	2.86	6.06	5.40	6.48	6.91	7.82	6.16	7.96	7.68	4.55
Apr 94	3.56	3.68	4.09	4.57	4.01	3.81	3.03	6.45	5.99	6.97	7.27	8.20	6.48	8.55	8.32	4.96
May 94	4.01	4.14	4.60	5.03	4.51	4.28	3.29	6.99	6.34	7.18	7.41	8.37	6.46	8.78	8.60	5.46
Jun 94	4.25	4.14	4.55	4.98	4.52	4.36	3.61	7.25	6.27	7.10	7.40	8.30	6.38	8.62	8.40	5.45
Jul 94	4.26	4.33	4.75	5.17	4.73	4.49	3.75	7.25	6.48	7.30	7.58	8.45	6.48	8.82	8.61	5.52
Weekly																
Apr 27 94	3.59	3.78	4.21	4.64	4.10	3.88	3.13	6.75	6.01	6.89	7.17	8.27	6.42	8.69	8.32	5.15
May 4 94	3.76	3.95	4.37	4.86	4.22	3.95	3.15	6.75	6.21	7.09	7.33	8.51	6.43	8.89	8.53	5.25
May 11 94	3.70	4.18	4.68	5.14	4.61	4.29	3.24	6.75	6.50	7.34	7.52	8.46	6.60	8.98	8.77	5.54
May 18 94	4.02	4.16	4.64	5.07	4.61	4.36	3.31	6.89	6.35	7.19	7.41	8.23	6.41	8.50	8.56	5.58
May 25 94	4.22	4.17	4.57	4.93	4.48	4.32	3.47	7.25	6.22	7.10	7.35	8.30	6.41	8.76	8.53	5.48
Jun 1 94	4.27	4.17	4.63	5.06	4.51	4.35	3.51	7.25	6.32	7.13	7.40	8.19	6.38	8.71	8.55	5.52
Jun 8 94	4.13	4.11	4.52	4.92	4.47	4.35	3.57	7.25	6.16	6.97	7.27	8.21	6.20	8.49	8.25	5.45
Jun 15 94	4.21	4.12	4.51	4.90	4.44	4.32	3.59	7.25	6.19	7.04	7.34	8.32	6.34	8.61	8.33	5.43
Jun 22 94	4.19	4.15	4.53	4.94	4.49	4.35	3.63	7.25	6.28	7.14	7.44	8.41	6.43	8.68	8.46	5.41
Jun 29 94	4.19	4.16	4.58	5.11	4.62	4.41	3.64	7.25	6.38	7.20	7.48	8.49	6.56	8.89	8.57	5.48
Jul 6 94	4.38	4.21	4.67	5.19	4.78	4.52	3.70	7.25	6.50	7.33	7.62	8.57	6.52	8.91	8.68	5.56
Jul 13 94	4.30	4.38	4.83	5.23	4.79	4.55	3.75	7.25	6.57	7.41	7.68	8.42	6.47	8.79	8.72	5.58
Jul 20 94	4.30	4.27	4.67	5.06	4.66	4.47	3.78	7.25	6.37	7.22	7.52	8.45	6.46	8.82	8.52	5.46
Jul 27 94	4.28	4.39	4.79	5.23	4.69	4.46	3.80	7.25	6.49	7.29	7.56	8.27	6.47	8.71	8.57	5.54
Aug 3 94	4.28	4.33	4.74	5.12	4.68	4.45	3.83	7.25	6.36	7.15	7.43	8.37	6.37	8.82	8.38	5.50
Aug 10 94	4.26	4.42	4.87	5.24	4.75	4.50	3.85	7.25	6.52	7.26	7.52	8.35	6.49	8.84	8.57	5.56
Daily																
Aug 5 94	4.28	4.46	4.90	5.28	4.77	4.49	--	7.25	6.55	7.28	7.54	--	--	--	--	--
Aug 11 94	4.22	4.34	4.92	5.30	4.79	4.54	--	7.25	6.61	7.36	7.56	--	--	--	--	--
Aug 12 94	4.20p	4.38	4.90	5.28	4.79	4.61	--	7.25	6.57	7.27	7.48	--	--	--	--	--

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

p - preliminary data

Strictly Confidential (FR)-
Class II FOMC

AUGUST 15, 1994

Money and Credit Aggregate Measures

Seasonally adjusted

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components: In M2	nontransactions components: In M3 only	M3	L	total loans and investments[1]	U. S. government[2]	other[2]	total[2]
	1	2	3	4	5	6	7	8	9	10
Annual growth rates(%):										
Annually (Q4 to Q4)										
1991	7.9	2.9	1.2	-6.0	1.2	0.4	3.5	11.3	2.6	4.6
1992	14.3	1.9	-2.4	-6.3	0.5	1.4	3.7	10.7	3.2	5.0
1993	10.5	1.4	-2.3	-3.5	0.6	1.1	4.9	8.4	3.8	5.0
Quarterly Average										
1993-3rd QTR.	12.0	2.5	-1.7	-6.7	1.0	1.0	6.8	9.2	4.8	6.0
1993-4th QTR.	9.4	2.3	-0.8	4.0	2.6	1.9	3.1	5.5	4.9	5.0
1994-1st QTR.	6.0	1.8	-0.1	-8.9	0.2	2.3	6.8	7.1	5.3	5.8
1994-2nd QTR.	1.9	1.4	1.2	-8.7	-0.1	0.5	6.9	5.2	4.9	5.0
Monthly										
1993-JULY	11.4	1.7	-2.5	-10.6	-0.3	-0.8	9.0	7.4	5.3	5.9
AUG.	9.4	0.8	-3.0	-4.6	-0.0	2.0	1.7	9.1	3.8	5.2
SEP.	10.7	2.8	-0.8	1.5	2.6	-1.6	3.1	7.0	5.6	6.0
OCT.	9.0	1.2	-2.3	7.4	2.2	2.5	0.9	-1.8	5.7	3.7
NOV.	9.7	4.2	1.6	2.6	3.9	3.2	6.3	9.1	3.3	4.8
DEC.	6.4	2.5	0.7	10.2	3.7	4.8	5.2	13.3	5.0	7.2
1994-JAN.	5.4	1.7	0.0	-2.0	1.2	4.7	7.6	3.0	7.1	6.0
FEB.	5.4	-1.3	-4.4	-42.3	-7.7	-2.8	5.3	5.2	4.4	4.6
MAR.	4.0	4.7	5.0	-12.0	2.2	-0.1	10.5	9.0	4.0	5.4
APR.	-1.4	2.3	4.0	2.1	2.3	4.2	9.8	2.9	5.7	4.9
MAY	1.9	0.3	-0.3	-14.2	-1.8	-1.1	1.7	4.2	5.1	4.8
JUNE	3.7	-3.2	-6.4	10.9	-1.1	-2.8	3.2	6.8	4.7	5.2
JULY p	7.6	4.9	3.6	12.4	6.0		12.6			
Levels ($Billions):										
Monthly										
1994-MAR.	1142.4	3582.9	2440.5	631.8	4214.7	5139.8	3165.6	3375.4	9107.7	12483.2
APR.	1141.1	3589.9	2448.7	632.9	4222.8	5157.9	3191.4	3383.6	9150.6	12534.2
MAY	1142.9	3590.9	2448.0	625.4	4216.3	5153.2	3195.9	3395.4	9189.3	12584.6
JUNE	1146.4	3581.3	2434.9	631.1	4212.5	5141.1	3204.3	3414.5	9225.1	12639.6
JULY p	1153.7	3595.9	2442.2	637.6	4233.4		3237.9			
Weekly										
1994-JULY 4	1145.4	3589.8	2444.4	631.6	4221.4					
11	1149.9	3590.5	2440.6	635.0	4225.5					
18	1152.5	3594.8	2442.3	637.5	4232.3					
25 p	1158.2	3600.7	2442.5	643.3	4244.1					
AUG. 1 p	1159.2	3601.3	2442.2	637.9	4239.2					

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

Strictly Confidential (FR)-
Class II FOMC

AUGUST 15, 1994

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA[1]	Savings deposits[2]	Small denomi-nation time deposits[3]	Money market mutual funds: general purpose and broker/dealer[4]	Money market mutual funds: Institutions only	Large denomi-nation time deposits[5]	Term RP's NSA[1]	Term Euro-dollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptan-ces
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels ($Billions):															
Annually (4th Qtr.)															
1991	265.6	286.3	328.8	77.5	1027.8	1082.8	369.7	174.4	433.1	74.7	60.7	137.0	321.1	334.0	24.5
1992	289.7	337.1	380.1	81.2	1177.9	883.0	354.0	206.5	365.3	80.9	47.0	154.4	327.7	366.3	20.5
1993	319.5	382.1	411.9	90.6	1212.1	790.4	346.7	195.4	340.0	94.5	47.0	170.9	325.9	385.2	15.4
Monthly															
1993-JULY	309.7	366.4	402.8	81.1	1202.1	814.5	346.6	192.6	341.8	96.4	41.9	167.1	344.3	370.4	17.4
AUG.	312.4	370.9	404.2	82.1	1205.9	806.6	345.5	190.1	341.6	96.0	44.1	168.2	343.8	379.5	16.5
SEP.	315.4	375.4	406.6	85.4	1208.4	799.9	345.0	190.8	340.4	95.6	45.2	169.2	328.0	378.4	16.4
OCT.	317.6	378.4	409.5	89.4	1208.8	794.9	344.4	194.3	341.6	94.2	45.0	170.1	323.7	384.7	16.4
NOV.	319.5	383.2	411.8	90.4	1211.9	790.6	347.0	194.8	339.4	94.0	48.9	170.8	324.6	384.1	15.3
DEC.	321.4	384.8	414.3	92.1	1215.5	785.6	348.8	197.0	339.0	95.3	47.0	171.7	329.3	386.8	14.6
1994-JAN.	325.2	388.3	412.0	94.8	1220.3	779.5	347.8	192.7	341.5	91.3	46.0	172.7	339.1	391.6	14.9
FEB.	329.2	390.3	411.2	93.0	1220.9	774.5	343.7	176.9	335.7	89.3	48.1	173.4	341.6	403.0	15.3
MAR.	332.4	390.0	411.9	97.9	1221.9	771.1	348.4	177.4	330.9	91.2	47.0	174.1	345.8	389.6	15.7
APR.	334.8	388.9	409.3	94.6	1220.7	768.6	361.5	177.0	330.6	94.2	47.8	174.8	361.3	384.9	14.1
MAY	337.6	385.8	411.2	94.6	1215.9	769.1	365.1	169.3	333.5	91.7	47.7	175.7	358.8	391.0	11.4
JUNE	340.3	386.6	411.4	96.3	1207.2	770.4	359.3	169.5	333.8	95.3	48.4	176.6	349.0	392.6	10.5
JULY p	343.2	389.5	412.7	101.5	1202.2	772.5	363.5	170.9	336.9	95.7	49.7				

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

August 12, 1994

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

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total [4]	Net RPs [5]
	Net purchases [2]	Redemptions (-)	Net change	Net purchases [3] within 1 year	Net purchases [3] 1-5	Net purchases [3] 5-10	Net purchases [3] over 10	Redemptions (-)	Net Change			
1991	20,038	1,000	19,038	3,043	6,583	1,280	375	---	11,282	292	27,726	-1,614
1992	13,086	1,600	11,486	1,096	13,118	2,818	2,333	---	19,365	632	30,219	-13,215
1993	17,717	468	17,249	1,223	10,350	4,168	3,457	---	19,198	1,072	35,374	5,974
1993 ---Q1	---	---	---	279	1,441	716	705	---	3,141	289	2,851	-461
---Q2	7,749	---	7,749	244	2,490	1,147	1,110	---	4,990	91	12,648	10,624
---Q3	1,268	---	1,268	511	3,700	1,297	817	---	6,326	526	7,067	-8,644
---Q4	8,700	468	8,232	189	2,719	1,008	826	---	4,742	166	12,807	4,455
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	17,719
1993 August	902	---	902	100	1,100	500	100	---	1,800	125	2,577	4,528
September	366	---	366	411	2,400	797	717	---	4,326	35	4,656	1,262
October	1,396	468	927	---	---	---	---	---	---	70	857	-6,723
November	5,911	---	5,911	---	100	---	---	---	100	15	5,996	7,232
December	1,394	---	1,394	189	2,619	1,008	826	---	4,642	81	5,954	3,947
1994 January	---	---	---	---	---	---	---	616	-616	202	-817	-7,757
February	1,264	---	1,264	---	---	---	---	---	---	102	1,163	-3,946
March	900	---	900	147	1,413	1,103	618	---	3,281	108	4,073	40
April	1,101	---	1,101	209	2,817	1,117	896	440	4,599	180	5,520	8,208
May	1,395	---	1,395	155	---	---	---	---	155	70	1,480	5,441
June	4,143	---	4,143	---	---	---	---	---	---	58	4,085	4,070
July	---	---	---	---	---	---	---	---	---	322	-322	-5,023
Weekly												
April 27	---	---	---	---	---	---	---	---	---	51	-51	3,059
May 4	---	---	---	---	---	---	---	---	---	---	---	3,490
11	---	---	---	---	---	---	---	---	---	25	-25	-3,849
18	---	---	---	---	---	---	---	---	---	---	---	2,682
25	350	---	350	5	---	---	---	---	5	45	310	2,161
June 1	1,045	---	1,045	150	---	---	---	---	150	---	1,195	1,471
8	3,750	---	3,750	---	---	---	---	---	---	---	3,750	-5,396
15	---	---	---	---	---	---	---	---	---	26	-26	2,127
22	---	---	---	---	---	---	---	---	---	---	---	435
29	246	---	246	---	---	---	---	---	---	32	214	94
July 6	147	---	147	---	---	---	---	---	---	---	147	2,042
13	---	---	---	---	---	---	---	---	---	---	---	1,009
20	---	---	---	---	---	---	---	---	---	302	-302	-864
27	---	---	---	---	---	---	---	---	---	20	-20	-3,057
August 3	---	---	---	---	---	---	---	---	---	---	---	2,321
10	184	---	184	---	---	---	---	---	---	---	184	144
Memo: LEVEL (bil. $) [6]												
August 10			176.9	203.9	86.6	25.0	33.1		348.6		359.6	6.4

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
August 10	1.5	1.8	0.6	0.0	3.9