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Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

Strictly Confidential (FR)
Class I - FOMC

December 16, 1994

MONETARY POLICY ALTERNATIVES

Recent Developments[1]

(1) Immediately after the Committee meeting on November 15, the System announced a 3/4 percentage point increase in the discount rate, from 4 to 4-3/4 percent, that was passed through fully to reserve market conditions.[2] Market participants, who almost universally expected a policy action, were nevertheless surprised at the extent of the tightening, and other money market interest rates firmed a bit as a result. Major commercial banks raised the prime rate 3/4 percentage point, to 8-1/2 percent. Perhaps because the Committee's action lent some assurance that the Federal Reserve was determined to contain inflation, rates further out the Treasury yield curve increased only a few basis points, at most, and the rate on the thirty-year bond actually fell that day.

(2) In subsequent weeks, the Treasury yield curve flattened further. Data releases on economic activity were on the firm side of expectations and tended to strengthen the notions that the economy retained considerable buoyancy and that more policy restraint than was previously anticipated would be forthcoming. By December 5, short-term interest rates had risen 1/2 percentage point from levels just before the FOMC meeting. Rates have retraced a portion of these increases in recent days as favorable data on inflation, against the backdrop of skittish conditions in financial markets, have led market participants to all but eliminate the prospects for policy tightening

1. Financial market quotations in this section are taken as of noon, Friday, December 16.

2. The allowance for adjustment plus seasonal borrowing, which was initially left unchanged at $225 million, was lowered twice over the intermeeting period, in steps of $50 million, to capture the typical winter decline in seasonal borrowing.

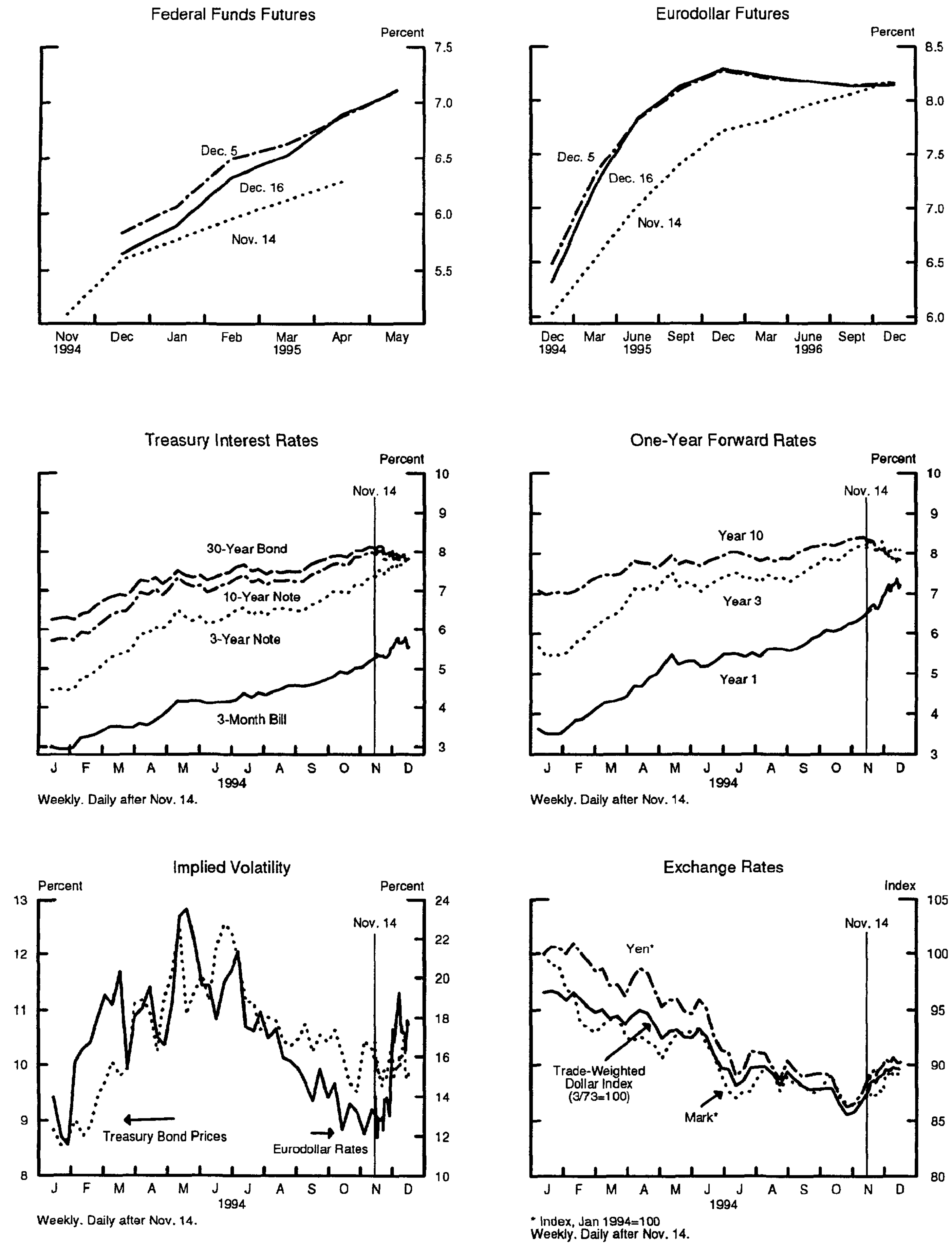
at the December meeting. Still, on balance over the intermeeting period, the term structures of federal funds and Eurodollar futures rates shifted up appreciably, and short-term rates rose 25 to 50 basis points (Chart 1).[3] In contrast to earlier this year, strong economic data did not have an adverse impact on the bond market. In fact, over the intermeeting period, longer-term yields shed 15 to 25 basis points. The relatively good inflation data, together with the more aggressive policy action, seemed to increase the confidence of market participants that policy would be firmed sufficiently to prevent a breakout of inflation. Under that interpretation, real interest rates may have risen across much of the maturity spectrum, which would be consistent with the recent strength in the value of the dollar on foreign exchange markets. In weighted-average terms, the U.S. dollar has appreciated about 2 percent since the last FOMC meeting and nearly 5 percent from November 1, just prior to the U.S. monetary authorities' exchange market intervention.[4] Also suggestive of a rise in real rates, and perhaps of more risks to the profit outlook than were expected at the time of the last FOMC meeting, major equity market indexes fell from 1-1/2 to 4-1/2 percent.

(3) Financial markets were focused for a time on the events surrounding the difficulties of an investment fund run by Orange County, California that pushed the fund and the County into filing for

3. The one-month commercial paper rate rose 80 basis points, but nearly half of that rise occurred when that maturity crossed into 1995. That increase implies a year-end provision of about 2-3/4 percentage points. Current market talk centers around overnight rates of about 8 percent for federal funds over the year-end weekend.

4.

Chart 1



Federal Funds Futures
Percent
7.5
7.0
6.5
6.0
5.5
Dec. 5
Dec. 16
Nov. 14
Nov 1994
Dec
Jan
Feb
Mar 1995
Apr
May
Eurodollar Futures
Percent
8.5
8.0
7.5
7.0
6.5
6.0
Dec. 5
Dec. 16
Nov. 14
Dec 1994
Mar
June 1995
Sept
Dec
Mar
June 1996
Sept
Dec
Treasury Interest Rates
Percent
Nov. 14
30-Year Bond
10-Year Note
3-Year Note
3-Month Bill
10
9
8
7
6
5
4
3
J F M A M J J A S O N D
1994
Weekly. Daily after Nov. 14.
One-Year Forward Rates
Percent
Nov. 14
Year 10
Year 3
Year 1
10
9
8
7
6
5
4
3
J F M A M J J A S O N D
1994
Weekly. Daily after Nov. 14.
Implied Volatility
Percent
Percent
13
12
11
10
9
8
24
22
20
18
16
14
12
10
Nov. 14
Treasury Bond Prices
Eurodollar Rates
J F M A M J J A S O N D
1994
Weekly. Daily after Nov. 14.
Exchange Rates
Index
105
100
95
90
85
80
Nov. 14
Yen*
Trade-Weighted Dollar Index (3/73=100)
Mark*
J F M A M J J A S O N D
1994
* Index, Jan 1994=100
Weekly. Daily after Nov. 14.

bankruptcy. The municipal market bore the brunt of these developments, and rates rose relative to comparable Treasury issues, as investors and rating agencies traced out the ripple effects on the cash flows of the municipalities invested in the fund and speculated as to whether other state and local issuers may have followed Orange County's investment strategy. Uncertainty abated when, amid intense public scrutiny, only a few other problem situations emerged, and the ratio of municipal to Treasury yields returned to its level before the Orange County revelations. More generally, many risk premiums have edged higher over the intermeeting period, but remain thin by historical norms, and some measures of expected volatility have increased.

(4) M2 resumed growing in November, at a 3/4 percent rate, and was appreciably stronger than had been anticipated at the time of the last bluebook. This strength probably reflected some substitution out of mutual funds, as well as the surprising vigor of nominal spending. Bond mutual funds were hit hard by outflows throughout the month, while inflows to equity funds slowed markedly in November.[5] Small time deposits and money market mutual funds, whose offering rates have at least partly adjusted to higher market rates, grew at double-digit rates in November. In contrast, the rates on liquid deposits have moved very little this year, and those deposits continued to contract last month.[6] The higher opportunity cost of M2

5. M2 plus stock and bond funds (excluding retirement accounts) was about unchanged in November, as net redemptions and capital losses for mutual funds offset the slow growth of M2.

6. M1 declined at a 3/4 percent annual rate in November, sending reserves down at a 3-1/4 percent rate. With currency growth expanding at about a 10 percent pace, the monetary base rose at a 8-1/2 percent rate last month.

has induced households to seek investment alternatives, and, indicative of that pursuit, net noncompetitive tenders at Treasury auctions were again strong in November. On a quarterly average basis, the velocity of M2 is expected to increase at a 7 percent rate in the fourth quarter, pulling up its rise on the year to 5-1/2 percent. In contrast to the previous several years, the rise in velocity in 1994 is broadly consistent with the predictions of standard models that rely on the relative movements of deposit and short-term market rates. From the fourth quarter of 1993 to November, M2 has grown at a 1 percent rate, at the lower bound of its 1 to 5 percent annual range.

(5) The growth of M3 outpaced that of M2 again in November, but slowed from the previous month, leaving this aggregate about 1-1/4 percent at an annual rate above its level in the fourth quarter of last year--in the lower half of its annual range of 0 to 4 percent. Institution-only money funds decelerated appreciably last month, owing to redemptions by sophisticated investors as they switched toward direct holdings after the November 15 policy move. Bank issuance of large time deposits continued to be brisk, but bank emphasis on other managed liabilities lessened a bit further last month. Apparently, they again relied on selling some of their securities holdings to fund loan growth. Overall bank credit increased at about a 3 percent rate in November--close to the pace in each of the previous three months--with total loans expanding at more than an 8 percent annual clip.

(6) Available data suggest that the growth of the debt of nonfederal sectors has continued at a moderate pace in recent months. In the business sector, a widening financing gap and a pickup in the pace of merger activity have apparently pushed nonfinancial firms toward external funding, which has remained focused on bank loans

and the commercial paper market. Households' appetite for consumer debt has shown no sign of flagging; consumer credit recorded another two-digit growth rate in October and was on track for another strong month in November, at least according to bank data. Despite higher interest rates, little evidence of a slowdown in mortgage borrowing has emerged. Growth of total domestic nonfinancial debt over October and November appears to be in line with that of previous months, leaving this aggregate in the lower half of its monitoring range. With growth from the fourth quarter of 1994 just a shade over 5 percent, total debt will likely expand at a slower rate than nominal GDP this year.

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

	Sept.	Oct.	Nov.[2]	QIV to Nov.[2]
Money and credit aggregates				
M1	1.0	-3.6	-0.8	2.3
M2	-0.4	-1.1	0.7	1.0
M3	1.5	3.5	2.4	1.2
Domestic nonfinancial debt	5.7	4.7	6.1	5.3
Federal	6.0	5.4	7.7	5.9
Nonfederal	5.6	4.5	5.5	5.1
Bank credit	3.4	2.9	3.5	6.6
Reserve measures				
Nonborrowed reserves[1]	-1.1	-4.2	-0.6	-2.1
Total reserves	-0.7	-6.3	-3.3	-2.0
Monetary base	5.4	6.7	8.5	8.5
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	487	380	249	
Excess reserves	1060	804	998	

1. Includes "other extended credit" from the Federal Reserve.
2. Figures for debt for November are partly projected.
NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

Policy Alternatives

(7) Two policy alternatives are presented below for consideration by the Committee. Alternative B would keep the intended federal funds rate at 5-1/2 percent. The associated level of adjustment plus seasonal borrowing would initially be $125 million, but borrowing would subsequently drift lower in keeping with the typical winding down of demands for seasonal credit. Alternative C entails a 50 basis point rise in the federal funds rate, to 6 percent, achieved either through an equivalent increase in the discount rate with the same path for the borrowing allowance or an increase in the initial borrowing allowance to $175 million, with the same seasonal reductions thereafter.

(8) In light of the prospects for aggregate demand and the likelihood that the economy already is operating a little beyond its sustainable potential, the staff believes that damping inflation pressures will require a substantial further tightening of policy before very long, although not necessarily at this meeting. The Greenbook economic forecast assumes a further increase of 100 to 150 basis points in the federal funds rate by early spring. Financial markets appear to have built in a similar amount of policy tightening through next spring (though still more thereafter), and the prospective rise in short-term rates should keep real long-term rates at or slightly above current levels and preserve the recent gains in the real exchange value of the dollar. This restraint is viewed as reducing pressures on resources enough to stabilize inflation in 1996 at just over 3 percent.

(9) Keeping the stance of policy unchanged, as under alternative B, might appear warranted in light of the size of the recent action and of current financial conditions. Real short- and long-term

interest rates now look to be somewhat above longer-term averages, the dollar has moved higher, and all money measures have remained sluggish. If the Committee thought these developments implied a reasonable probability that policy actions to date had put in place sufficient restraint to contain inflation, it might want to await additional information in gauging the appropriate scope and timing of any future action. Moreover, the Committee might have gained some leeway to pause in its tightening, despite persistent strength in production and spending indicators, because the larger move in November, together with favorable wage and price data, has helped to calm developing inflation fears. Furthermore, after the news on Orange County and on derivatives-related difficulties at some bank holding companies, market participants seem to be especially wary of additional announcements of large losses on leveraged or derivatives positions. Through year-end, lenders are likely to be particularly conscious of possible credit quality problems of the counterparties that show up on their published statements. While a policy tightening on December 20 is unlikely to trigger market dislocations, such a possibility cannot be ruled out; in any case, the chances of such problems will be even more remote after year-end.

(10) As noted above, market participants now assess the probability of a near-term tightening as fairly low, but they see an intermeeting move before the next scheduled FOMC meeting on January 31 and February 1 as more likely. In these circumstances, and given the seemingly greater confidence of late in financial markets that the System will act as appropriate to counter a buildup in inflationary pressures, interest rates and the foreign exchange value of the dollar are unlikely to change very much in the immediate aftermath of a decision to leave policy unchanged, as under Alternative B. Movements in

financial markets subsequently will depend, of course, on the nature of incoming data. Continued strength in employment or final demand, especially if accompanied by adverse wage and price developments, would firm market expectations of System action early next year. Inaction in the face of such data could risk the re-emergence of concerns that the Federal Reserve was falling behind in its efforts to contain inflation, raising long-term interest rates and weakening the foreign exchange value of the dollar.

(11) The 1/2 percentage point rise in the federal funds rate under alternative C might be favored if the Committee viewed the recent string of surprisingly strong economic data as clearly indicating that the risks are still tilted in the direction of sustained faster inflation. The resulting 6 percent federal funds rate would imply a real federal funds rate that falls more assuredly in a zone that could be characterized as moderately restrictive. Following so soon after the November move, a policy tightening at this meeting would consolidate, or even extend, the gains made in reducing inflation expectations in financial markets. The inclination to adopt alternative C would be bolstered by a belief that financial markets have largely absorbed the Orange County shock and the risks of further disruptions are *de minimus*.

(12) Under alternative C, money market interest rates would firm somewhat, especially those at the shortest end, as the tightening would come somewhat sooner than now expected. To the degree that market participants saw such an action as evidence of an even stronger anti-inflationary resolve of the Committee, nominal forward rates at intermediate- and longer-term maturities would tend to decline, limiting any increase in longer-term rates. Real interest rates, however, would rise, bolstering the foreign exchange value of the dollar.

Quality spreads could widen a bit as higher rates increased debt-servicing burdens and raised questions about the ongoing strength of the expansion.

(13) Borrowing by nonfederal sectors through early 1995 should remain moderate. Nonfinancial businesses are projected to reduce their borrowing, particularly from the commercial paper market and banks, partly because we see the recent spate of debt-financed share retirements as an unusual bulge that is not likely to be sustained. Acting to cushion this slowdown will be borrowing to finance rising capital outlays as profits flatten out. Household debt, too, is projected to decelerate--to a pace more in line with that of earlier this year. This moderation owes to a projected slowing in the growth of consumption outlays, especially on durables, and to a decline in residential housing activity. The sustained contraction of the debt of state and local governments is expected to draw to a close, once past a substantial volume of retirements at the beginning of next year. On balance, debt of nonfederal sectors is projected to grow at around a 5 percent pace over the period from November to March, about in line with the average pace of 1994 as a whole, and the total debt of domestic nonfinancial sectors to expand through March at a 5-1/4 percent annual rate.

(14) Projected growth rates of the monetary aggregates from November to March are shown below under both alternatives. (More detailed data appear on the table and charts on the following pages.) The staff expects the growth of the monetary aggregates to remain damped over coming months, restrained by prior (and under alternative C, current) increases in opportunity costs. Nonetheless, growth rates for the aggregates generally are a little faster than envisioned in November. Expansion in nominal income is now seen as stronger over

the late months of 1994 and early months of 1995. In addition, the broader aggregates are likely to be buoyed slightly by shifts from longer-term mutual funds in the wake of less attractive returns and unfavorable publicity; however, with deposit rates still well short of market rates, most of the savings diverted from mutual funds is likely to continue to go into direct purchases of securities.

Growth from November to March	Alt. B	Alt. C
M2	1-1/4	1/2
M3	2-1/4	2
M1	-1	-2

(15) Under alternative B, M2 would strengthen to a 1-1/4 percent rate over the November-to-March period. Opportunity costs of holding M2--especially the small time deposit and money market mutual funds components--should narrow from current high levels as retail deposit and money fund rates continue to adjust upward to recent increases in market rates. As a result, growth in M2 velocity would slow to a 5 percent rate in the first quarter of next year from a 7 percent rate in the current quarter. M1 would continue to edge downward in response to previous increases in opportunity costs, although the drag from the slowdown of mortgage refinancing activity will be diminishing as such activity stabilizes at relatively low levels.[7] Boosted in part by faster growth in M2, M3 would be expected to grow at a 2-1/4 percent rate over the November-to-March period. In addition, a pickup in M3-type money market mutual funds, as rates on such funds catch up with market rates, would act to lift M3 growth.

7. With the deposit components of M1 contracting over the November-to-March period, total reserves would fall at a 5 percent annual rate. In contrast, the monetary base would rise at a 6 percent pace, supported by the growth of currency.

Alternative Levels and Growth Rates for Key Monetary Aggregates

		M2 Alt. B	M2 Alt. C	M3 Alt. B	M3 Alt. C	M1 Alt. B	M1 Alt. C
Levels in Billions							
Nov-94		3595.5	3595.5	4269.6	4269.6	1147.7	1147.7
Dec-94		3597.5	3597.2	4278.9	4278.9	1146.6	1146.4
Jan-95		3599.7	3597.2	4289.8	4288.7	1145.2	1144.2
Feb-95		3603.9	3598.4	4293.1	4290.3	1144.1	1142.1
Mar-95		3610.4	3602.4	4301.5	4297.2	1143.4	1140.1
Monthly Growth Rates							
Nov-94		0.7	0.7	2.4	2.4	-0.8	-0.8
Dec-94		0.7	0.6	2.6	2.6	-1.2	-1.4
Jan-95		0.7	0.0	3.1	2.8	-1.5	-2.3
Feb-95		1.4	0.4	1.0	0.5	-1.1	-2.2
Mar-95		2.2	1.3	2.3	1.9	-0.8	-2.1
Quarterly Averages							
94 Q4		-0.4	-0.4	2.1	2.1	-1.5	-1.6
95 Q1		1.0	0.4	2.3	2.1	-1.2	-1.9
Growth Rate							
From	To						
Nov-94	Mar-95	1.2	0.6	2.2	1.9	-1.1	-2.0
93 Q4	Nov-94	1.0	1.0	1.2	1.2	2.3	2.3
94 Q4	Mar-95	1.2	0.6	2.2	1.9	-1.1	-1.9
91 Q4	92 Q4	1.9	1.9	0.5	0.5	14.3	14.3
92 Q4	93 Q4	1.4	1.4	0.7	0.7	10.5	10.5
93 Q4	94 Q4	1.0	1.0	1.2	1.2	2.3	2.3
94 Q4	95 Q1	0.3	0.1	0.6	0.5	-0.3	-0.5
1994 Target Ranges:		1 to 5		0 to 4			
1995 Target Ranges: (provisional)		1 to 5		0 to 4			

Chart 2

ACTUAL AND TARGETED M2

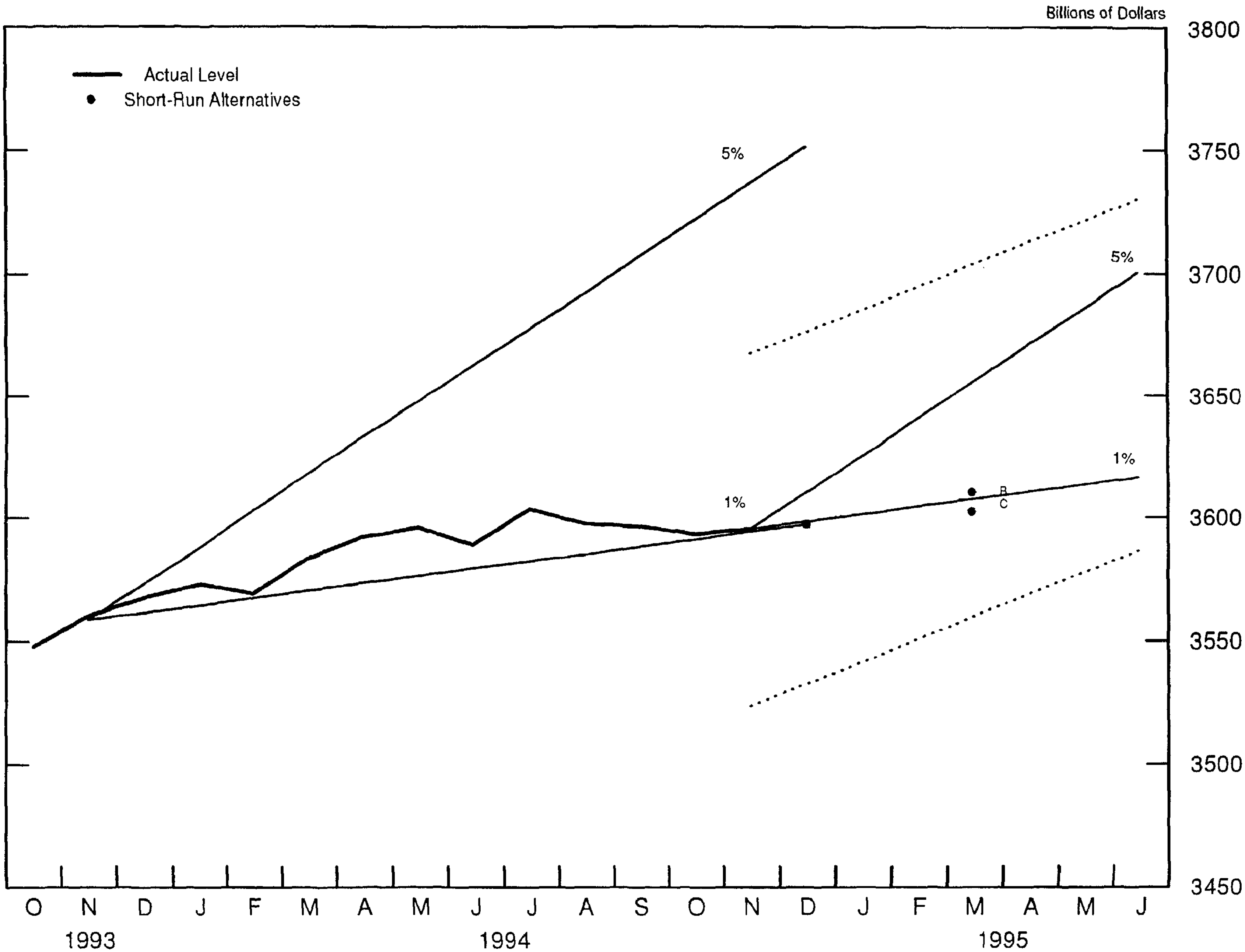


Chart 3

ACTUAL AND TARGETED M3

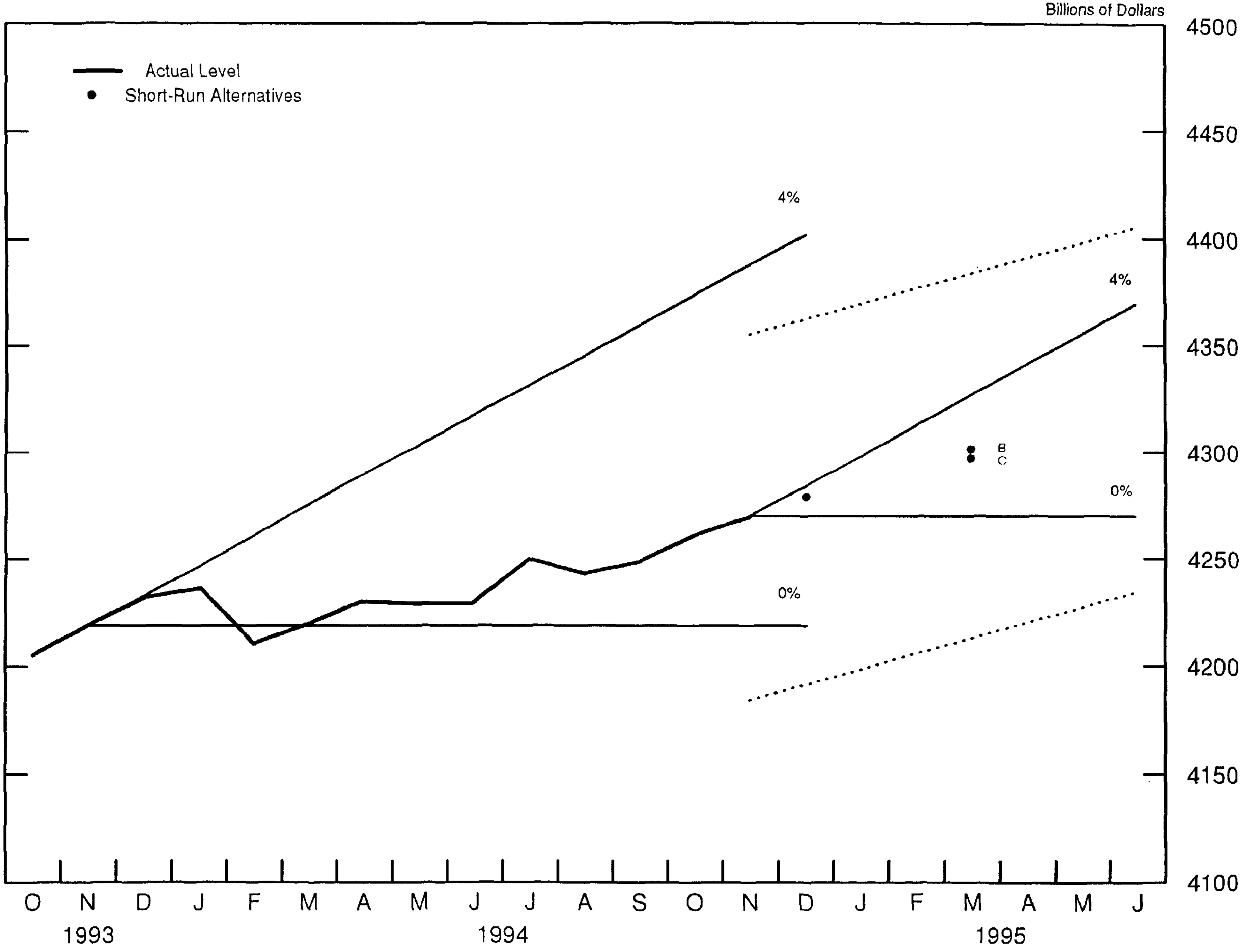
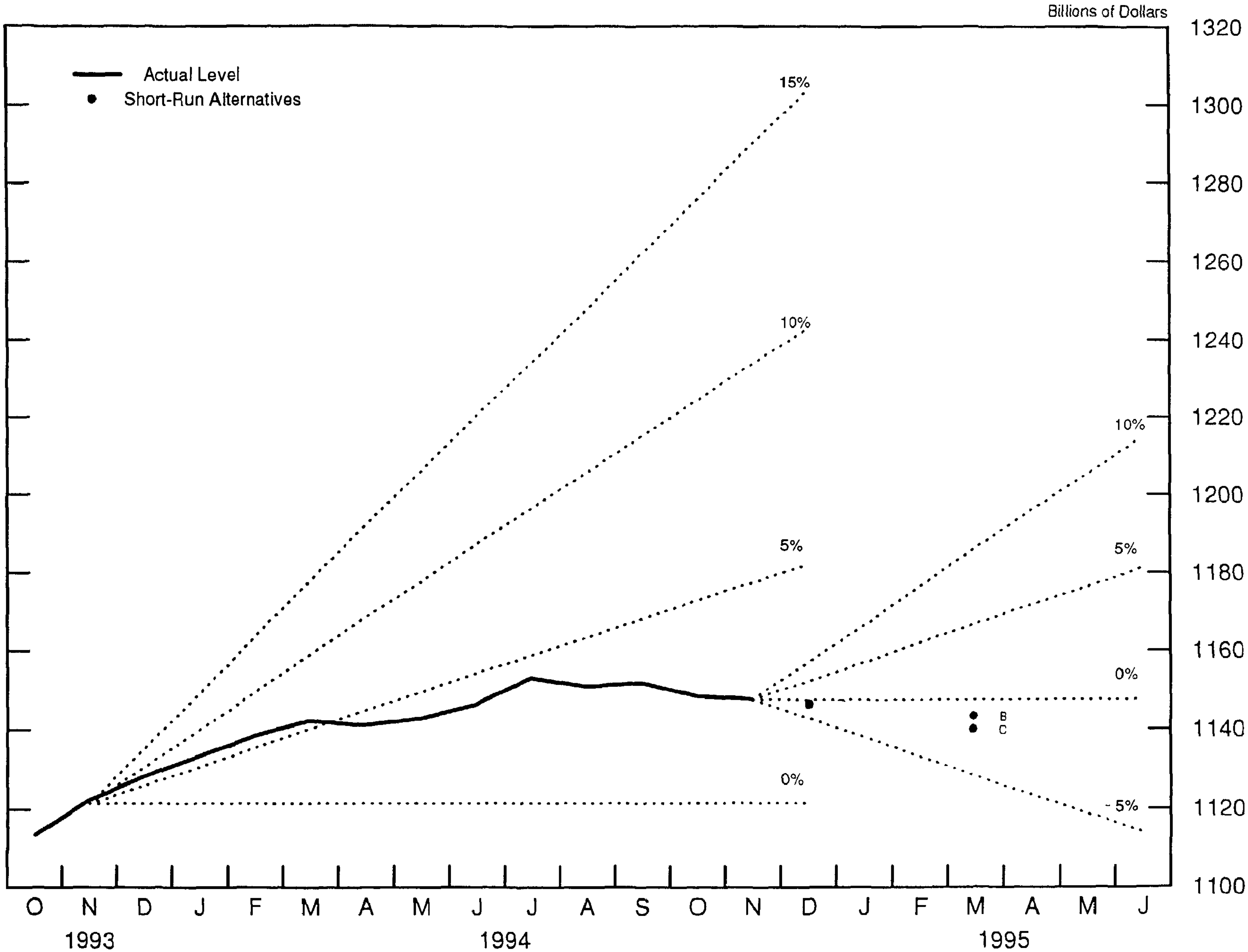


Chart 4

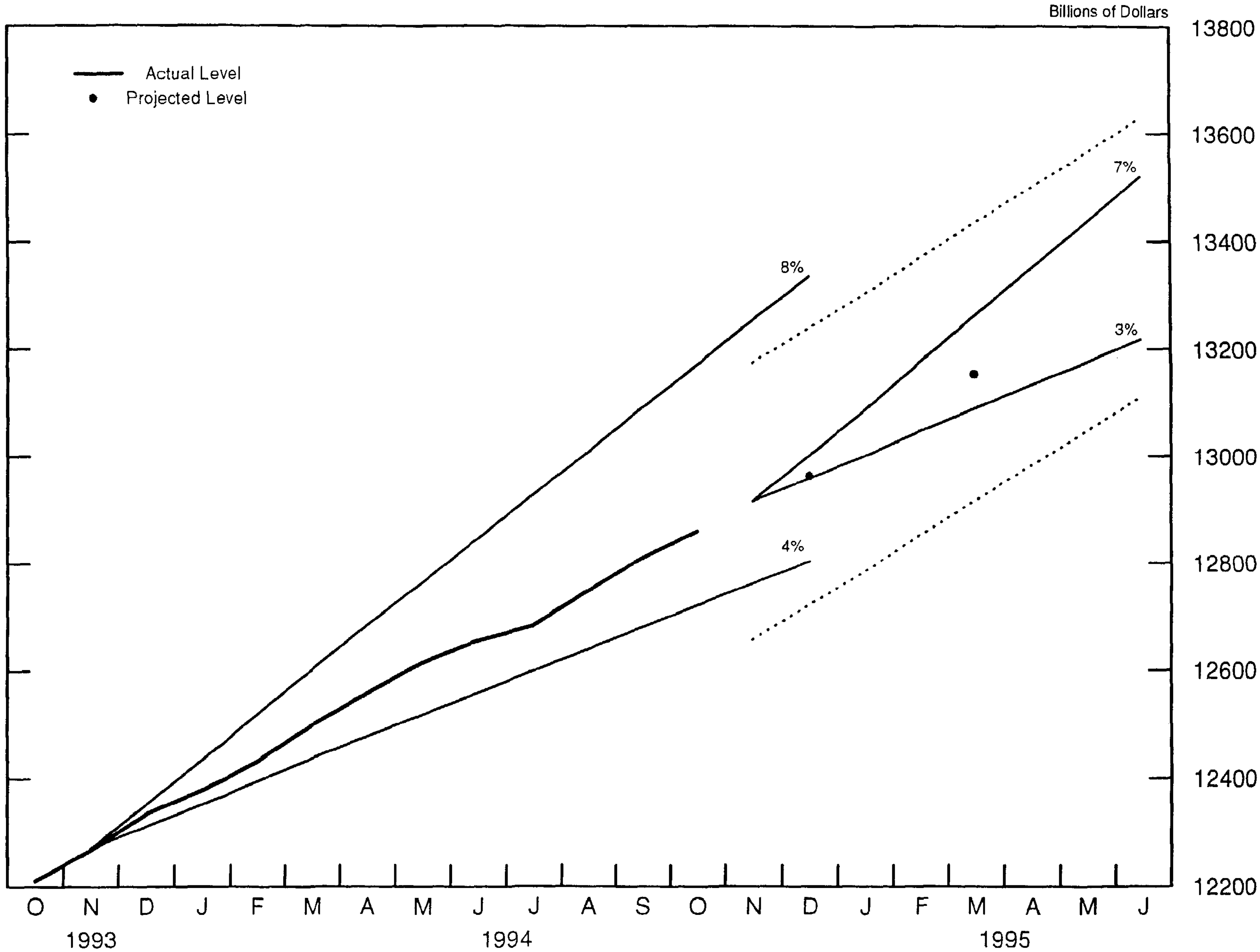
M1



Billions of Dollars
Actual Level
Short-Run Alternatives
15%
10%
5%
0%
10%
5%
0%
-5%
B
C
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 F M A M J
1993
1994
1995

Chart 5

DEBT


Billions of Dollars
Actual Level
Projected Level
8%
7%
3%
4%
13800
13600
13400
13200
13000
12800
12600
12400
12200
O N D J F M A M J J A S O N D J F M A M J
1993
1994
1995

Bank issuance of large CDs is expected to remain brisk, despite some moderation in loan growth, as bank reliance on nondeposit funding continues to abate.

(16) Under alternative C, opportunity costs would tend to increase as the rise in money market rates outpaced those on M2 components. M2 would expand at only a 1/2 percent rate over the November-to-March period, restrained by faster runoffs of M1 and savings deposits (including MMDAs) than under alternative B. By March, M2 would stand about 1/2 percent above its fourth-quarter 1994 base, a little below the bottom of its provisional growth range for 1995. M3 would expand at a 2 percent pace through March, damped by outflows from M3-type money market mutual funds. Growth in M3 from the fourth quarter of 1994 to March would be at a 2 percent rate, at the midpoint of its provisional range for 1995.

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 (SLIGHTLY)/MAINTAIN/increase significantly (SOMEWHAT/ SLIGHTLY) the existing degree of pressure on reserve positions, [taking account of a possible increase in the discount rate]. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat (SLIGHTLY) greater reserve restraint (WOULD/MIGHT) or somewhat (SLIGHTLY) lesser reserve restraint would (MIGHT) be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with 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	5.85	5.70	6.26	6.73	6.31	6.11	4.97	8.50	7.72	8.00	8.13	9.05	7.37	9.57	9.25	6.75
-- 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																
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
Aug 94	4.47	4.48	4.88	5.25	4.81	4.65	3.95	7.51	6.50	7.24	7.49	8.36	6.44	8.82	8.51	5.53
Sep 94	4.73	4.62	5.04	5.43	5.03	4.90	4.15	7.75	6.69	7.46	7.71	8.62	6.55	8.93	8.64	5.54
Oct 94	4.76	4.95	5.39	5.75	5.51	5.02	4.30	7.75	7.04	7.74	7.94	8.80	6.83	9.25	8.93	5.78
Nov 94	5.29	5.29	5.72	6.13	5.79	5.40	4.62	8.15	7.44	7.96	8.08	8.95	7.27	9.43	9.17	6.10
Weekly																
Aug 31 94	4.72	4.57	4.88	5.27	4.87	4.79	4.08	7.75	6.48	7.23	7.49	8.38	6.43	8.69	8.48	5.49
Sep 7 94	4.74	4.55	4.84	5.26	4.87	4.81	4.12	7.75	6.48	7.24	7.52	8.59	6.46	8.90	8.51	5.47
Sep 14 94	4.70	4.58	4.95	5.34	4.94	4.85	4.14	7.75	6.62	7.41	7.68	8.69	6.51	8.93	8.66	5.49
Sep 21 94	4.73	4.64	5.06	5.47	5.00	4.89	4.17	7.75	6.71	7.49	7.75	8.70	6.66	9.02	8.73	5.56
Sep 28 94	4.66	4.72	5.20	5.56	5.17	5.00	4.20	7.75	6.82	7.58	7.81	8.71	6.70	9.10	8.82	5.67
Oct 5 94	5.07	4.78	5.30	5.67	5.39	5.03	4.26	7.75	6.98	7.68	7.88	8.80	6.82	9.30	8.89	5.72
Oct 12 94	4.62	4.93	5.35	5.68	5.55	5.13	4.29	7.75	6.99	7.71	7.90	8.73	6.73	9.12	8.93	5.77
Oct 19 94	4.72	4.89	5.31	5.69	5.45	4.99	4.31	7.75	6.94	7.64	7.85	8.87	6.81	9.29	8.85	5.77
Oct 26 94	4.72	5.02	5.47	5.85	5.52	4.97	4.35	7.75	7.15	7.85	8.03	8.85	6.95	9.30	9.03	5.88
Nov 2 94	4.77	5.04	5.48	5.85	5.56	5.01	4.40	7.75	7.16	7.88	8.03	9.05	7.16	9.43	9.05	5.91
Nov 9 94	4.74	5.19	5.62	5.98	5.69	5.18	4.41	7.75	7.36	8.00	8.13	9.00	7.23	9.38	9.19	6.01
Nov 16 94	5.22	5.32	5.73	6.12	5.75	5.39	4.50	7.96	7.41	7.95	8.10	9.00	7.37	9.52	9.19	6.12
Nov 23 94	5.53	5.33	5.79	6.23	5.87	5.59	4.77	8.50	7.52	7.98	8.10	8.80	7.32	9.37	9.25	6.35
Nov 30 94	5.85	5.44	5.87	6.34	5.95	5.62	4.84	8.50	7.58	7.89	7.99	8.81	7.18	9.57	9.23	6.47
Dec 7 94	5.47	5.67	6.15	6.57	6.26	6.07	4.91	8.50	7.62	7.82	7.92	8.78	7.17	9.50	9.15	6.56
Dec 14 94	5.48	5.70	6.26	6.73	6.31	6.11	4.97	8.50	7.72	7.81	7.88	8.79	7.02	9.47	9.25	6.75
Daily																
Dec 9 94	5.48	5.66	6.17	6.70	6.28	6.09	--	8.50	7.67	7.79	7.86	--	--	--	--	--
Dec 15 94	5.61	5.54	6.19	6.64	6.31	6.13	--	8.50	7.66	7.79	7.86	--	--	--	--	--
Dec 16 94	5.45p	5.56	6.23	6.68	6.23	6.12	--	8.50	7.71	7.81	7.86	--	--	--	--	--

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

DECEMBER 19, 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	2.8	4.7
1993	10.5	1.4	-2.3	-3.3	0.7	1.1	4.9	8.5	4.1	5.2
Quarterly Average										
1993-4th QTR.	9.4	2.4	-0.8	4.0	2.6	2.0	3.2	6.2	4.6	5.0
1994-1st QTR.	6.0	1.9	-0.0	-7.9	0.3	2.4	8.7	7.3	4.6	5.3
1994-2nd QTR.	1.9	1.9	2.0	-6.2	0.7	1.4	7.2	5.4	5.6	5.6
1994-3rd QTR.	3.0	0.8	-0.3	7.0	1.7	1.1	6.9	3.9	4.6	4.4
Monthly										
1993-NOV.	9.7	4.2	1.7	2.4	3.9	3.2	6.3	9.5	4.2	5.6
DEC.	6.4	2.6	0.7	10.0	3.7	5.0	5.7	11.8	4.6	6.6
1994-JAN.	5.4	1.7	0.0	-1.3	1.3	4.8	13.9	3.7	4.5	4.3
FEB.	5.3	-1.2	-4.3	-40.3	-7.4	-2.7	4.1	6.0	4.5	4.9
MAR.	4.0	4.7	5.1	-9.4	2.6	0.0	9.7	8.8	5.4	6.3
APR.	-1.3	2.9	4.9	3.2	3.0	5.2	10.6	3.9	6.3	5.7
MAY	1.8	1.3	1.1	-9.2	-0.3	1.4	2.1	4.2	6.1	5.6
JUNE	3.7	-2.4	-5.2	13.5	0.0	-2.6	4.6	4.9	3.7	4.0
JULY	7.1	4.8	3.7	12.4	5.9	6.0	13.1	1.0	3.2	2.6
AUG.	-2.2	-1.9	-1.8	-2.0	-1.9	-1.6	3.8	6.1	6.3	6.2
SEP.	1.0	-0.4	-1.0	12.3	1.5	-1.1	3.4	6.0	5.6	5.7
OCT.	-3.6	-1.1	0.1	28.9	3.5	7.5	2.9	5.4	4.5	4.7
NOV. p	-0.8	0.7	1.4	11.1	2.4		3.5			
Levels ($Billions):										
Monthly										
1994-JULY	1153.1	3603.5	2450.3	646.6	4250.0	5186.4	3259.2	3419.3	9264.0	12683.4
AUG.	1151.0	3597.8	2446.7	645.5	4243.3	5179.6	3269.6	3436.7	9312.5	12749.1
SEP.	1152.0	3596.6	2444.6	652.1	4248.7	5175.0	3278.8	3454.0	9355.6	12809.6
OCT.	1148.5	3593.4	2444.9	667.8	4261.2	5207.3	3286.6	3469.4	9390.8	12860.3
NOV. p	1147.7	3595.5	2447.8	674.0	4269.6		3296.3			
Weekly										
1994-NOV. 7	1143.8	3587.4	2443.7	677.2	4264.6					
14	1143.5	3588.2	2444.6	677.3	4265.5					
21	1153.0	3605.6	2452.6	670.1	4275.7					
28 p	1152.1	3601.7	2449.7	672.5	4274.3					
DEC. 5 p	1150.5	3600.2	2449.8	670.8	4271.0					

1. Adjusted for breaks caused by reclassifications.
2. Debt data are on a monthly average basis, derived by averaging end-of-month levels of adjacent months, and have been adjusted to remove discontinuities.

p preliminary
pe preliminary estimate

Strictly Confidential (FR)-
Class II FOMC

DECEMBER 19, 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	882.9	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	90.8	1212.1	790.4	346.7	195.4	340.0	96.1	47.0	170.9	326.1	385.2	15.4
Monthly															
1993-NOV.	319.5	383.2	411.8	90.6	1211.9	790.6	347.0	194.8	339.4	95.6	48.9	170.8	324.6	384.1	15.3
DEC.	321.4	384.8	414.3	92.3	1215.5	785.7	348.8	197.0	339.0	96.8	47.0	171.7	329.9	386.8	14.6
1994-JAN.	325.2	388.3	412.0	95.1	1220.3	779.5	347.8	192.7	341.8	92.9	46.0	172.7	339.8	391.6	14.9
FEB.	329.2	390.3	411.2	93.5	1220.9	774.4	343.7	176.9	336.5	91.5	48.1	173.4	341.5	403.0	15.3
MAR.	332.4	390.0	411.9	98.6	1221.9	771.1	348.4	177.4	332.2	94.0	47.2	174.1	344.8	389.6	15.7
APR.	334.8	388.9	409.3	97.0	1220.7	768.6	361.5	177.0	332.1	97.9	47.5	174.8	362.0	384.9	14.2
MAY	337.6	385.8	411.2	100.0	1215.9	769.1	365.1	169.3	335.0	96.9	48.6	175.7	364.6	391.0	11.5
JUNE	340.3	386.5	411.4	104.2	1207.2	770.4	359.3	169.5	335.3	100.8	50.9	176.6	351.9	392.6	10.6
JULY	343.2	389.1	412.5	109.2	1202.5	772.6	363.5	170.9	337.7	101.9	51.7	177.5	355.4	392.7	10.8
AUG.	345.4	387.5	409.7	110.8	1194.8	777.7	362.9	169.3	340.7	100.3	51.7	178.4	359.7	387.0	11.3
SEP.	347.3	388.0	408.2	112.5	1186.6	783.2	362.3	167.9	346.8	101.3	52.2	179.0	344.3	391.0	12.0
OCT.	349.9	385.9	404.4	116.2	1173.4	793.4	365.0	175.3	354.9	101.2	53.0	179.4	347.0	407.8	11.9
NOV. p	352.9	383.5	402.9	115.1	1159.9	805.7	369.8	175.6	361.5	101.6	54.6				

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

December 16, 1994

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

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	4,179
---Q3	1,610	---	1,610	151	2,530	938	840	11	4,448	405	5,654	-8,530
1993 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	-5,332
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
August	1,610	---	1,610	---	---	---	---	---	---	63	1,547	2,793
September	---	---	---	151	2,530	938	840	11	4,448	20	4,428	-6,301
October	518	---	518	450	---	---	---	---	450	1,041	-72	819
November	6,109	---	6,109	---	200	---	---	---	200	---	6,309	4,718
Weekly												
September 7	---	---	---	151	2,530	938	840	---	4,459	---	4,459	-4,008
14	---	---	---	---	---	---	---	---	---	20	-20	-1,916
21	---	---	---	---	---	---	---	---	---	---	---	-1,400
28	---	---	---	---	---	---	---	11	-11	---	-11	-4,650
October 5	---	---	---	---	---	---	---	---	---	---	---	4,914
12	---	---	---	---	---	---	---	---	---	44	-44	-835
19	---	---	---	---	---	---	---	---	---	979	-979	4,712
26	---	---	---	---	---	---	---	---	---	18	-18	221
November 2	572	---	572	450	---	---	---	---	450	---	1,022	-602
9	212	---	212	---	---	---	---	---	---	---	212	-629
16	4,716	---	4,716	---	---	---	---	---	---	---	4,716	380
23	480	---	480	---	---	---	---	---	---	---	480	2,526
30	648	---	648	---	200	---	---	---	200	---	848	524
December 7	---	---	---	125	2,208	660	1,252	---	4,245	---	4,245	-14,739
14	---	---	---	---	---	---	---	---	---	30	-30	9,615
Memo: LEVEL (bil. $)[6]												
December 14			185.0	211.2	90.0	28.1	34.8		364.1		375.8	-8.0

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.
4. Reflects net change in redemptions (-) of Treasury and agency securities.
5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).
6. The levels of agency issues were as follows:

	within 1 year	1-5	5-10	over 10	total
December 14	1.7	1.4	0.5	0.0	3.6