

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

August 18, 1995

MONETARY POLICY ALTERNATIVES

Recent Developments

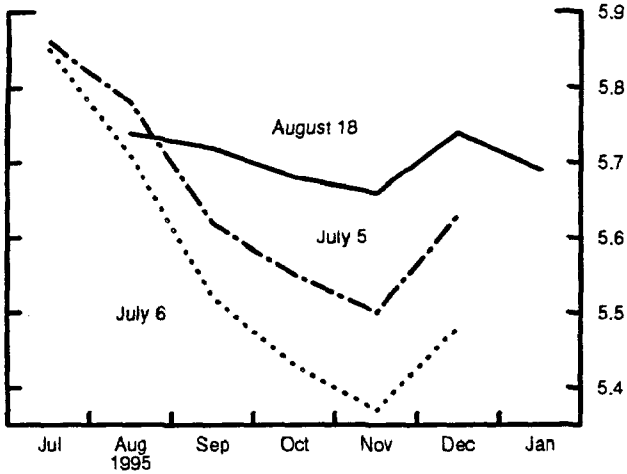
(1) With inflation pressures seen to be receding, the Federal Open Market Committee eased monetary policy slightly on July 6, reducing the intended federal funds rate 25 basis points to 5-3/4 percent. Federal funds have generally traded near the intended rate over the intermeeting period.¹ Market prices had apparently built in a slight downward tilt to policy over coming months, including some odds of a System easing on July 6 (chart). In the event, the actual move was interpreted as indicating concern by the Federal Reserve regarding the state of the economy, and, based on previous patterns of policy action, as likely to be followed by additional easings. Consequently, short- and intermediate-term market rates fell about 20 basis points on the day; long-rates dropped 10 basis points, to their lowest levels in 1995. The prime rate was cut 25 basis points, to 8-3/4 percent.

(2) Subsequently, however, stronger economic data--reinforced by the Chairman's Humphrey-Hawkins testimony--disabused many market participants of the notion that the economy would be weak enough to prompt further substantial monetary policy ease. Judging from implied volatility on Treasury bond futures (chart), investor uncertainty

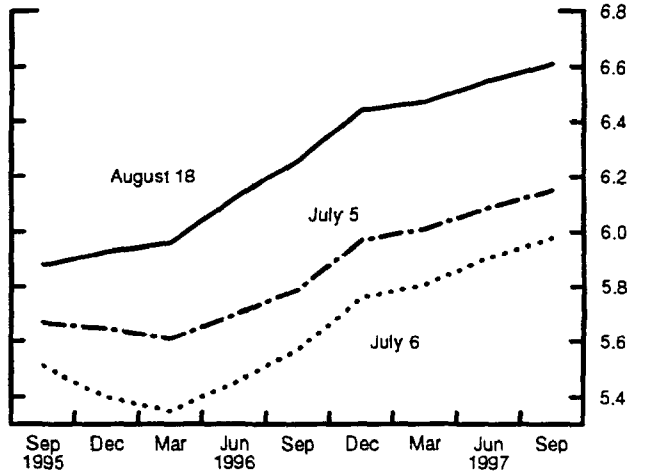
1. In order to allow for anticipated increases in its seasonal component, the borrowing allowance was raised \$25 million both on the morning of July 6 and on July 20, ending at \$275 million. The borrowing allowance was not reduced to effect the policy change because adjustment borrowing already was expected to be at minimal levels. In the three maintenance periods completed since the last FOMC meeting, borrowing has averaged \$74 million above its allowance, largely reflecting heavy use of the window on the August 2 settlement day, when demands for excess reserves were elevated.

Chart 1

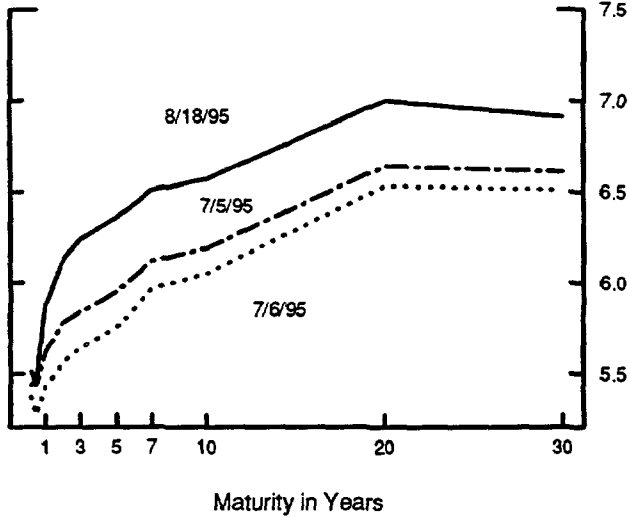
Federal Funds Futures



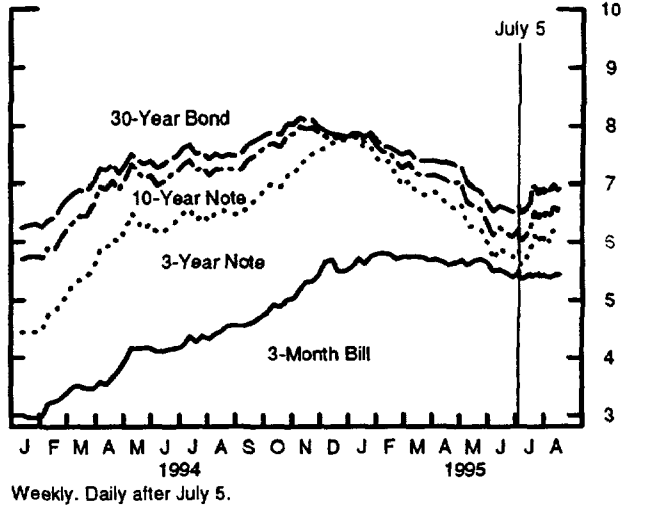
Eurodollar Futures



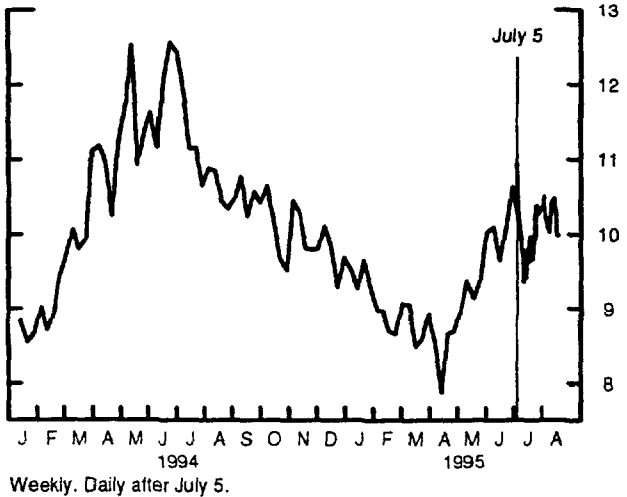
Treasury Yield Curves



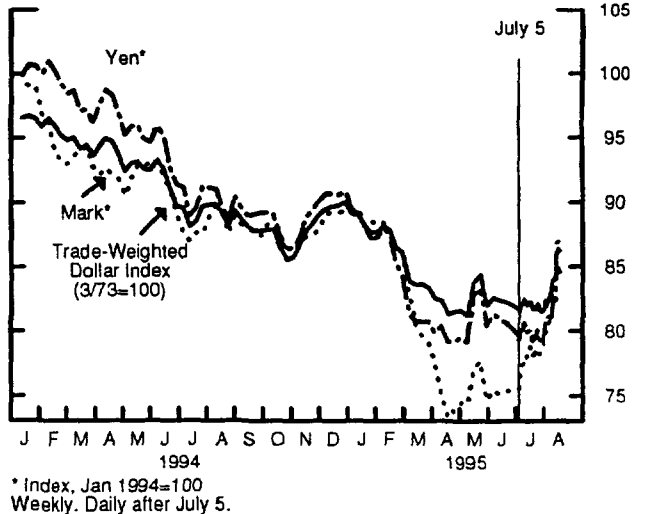
Treasury Interest Rates



Implied Treasury Bond Volatility



Exchange Rates



ebbed early in the intermeeting period, but has risen recently, perhaps contributing a little to the backup in bond yields. On balance since July 5, the Treasury yield curve has tilted up: While 3-month rates are fractionally lower, intermediate- and long-term rates have risen about 35 to 40 basis points. Nonetheless, bond yields currently are 1-1/4 percentage points below their highs of last fall. Some spreads of private over Treasury rates, which had widened a bit over the second quarter as the expansion weakened, retraced most of those increases during the intermeeting period. With earnings reports stronger than expected, major equity indexes finished the period higher.

(3) The brighter prospects for near-term economic growth in the United States and the rise in long-term interest rates here relative to the average of long-term rates abroad contributed to a 5-1/2 percent rise in the dollar's weighted average exchange value since the last Committee meeting. Renewed concerns about the pace of expansion in Europe, especially in Germany, led to declines in interest rates in these countries, and was an important factor in an increase in the dollar against the DM and associated European currencies. The dollar registered its largest gain--14 percent--relative to the Japanese yen. Japanese authorities took two separate actions to depreciate the yen and stimulate their economy. Early in the period, the Bank of Japan lowered its call money rate. Subsequently, Japanese authorities announced a series of measures to promote capital outflows by domestic financial institutions and on the same day undertook massive purchases of dollars in Tokyo. After each policy action, the Desk purchased dollars against yen in New York, in concerted operations with the Bank of Japan. Late in the period, in a coordinated intervention with

Japan . . . the Desk purchased \$700 million against both yen and DM, bringing its total purchases of dollars during the period to \$1.533 billion.² These actions and interventions appeared to have a substantial effect on yen-dollar exchange rates, perhaps because market participants interpreted them as signalling a realization by the Japanese authorities of the seriousness of their situation and a willingness to take additional steps, and perhaps because they acted as a catalyst for a correction to the unexplained strength in the yen this spring. The depreciation of the yen contributed to a more than 20 percent increase in Japanese stock prices and to a sharp backup in Japanese bond yields.

(4) Broad money growth decelerated in July, but remained relatively strong, and data for early August suggest a persistence of the recent rapid growth. M2 expanded at a 6 percent rate last month, bringing its expansion from the fourth quarter of 1994 through July to a 4-1/4 percent pace, in the upper half of its annual range.³ The strength in M2 in recent months, despite sluggish growth of nominal GDP, likely reflects the increased attractiveness of the returns on M2 assets owing to the net decline in market interest rates this year, particularly at longer maturities. Retail money funds accounted for most of M2's growth in July, apparently drawing strength from household deposits as well as from sources outside M2; new investments in

2. Each of the Desk's interventions during the period was split evenly between the System and the Treasury.

3. M1 growth remained sluggish in July, at a 1-1/2 percent rate. Continued low interest rates on NOW accounts and the introduction of sweep programs at three additional banking organizations in early August led to further runoffs of these deposits. However, demand deposits showed continued growth, indicative of a pickup in mortgage refinancing activity as well as the adjustment of compensating balances to recent declines in short-term market rates. Total reserves rose at a 6-1/4 percent rate in July, tracking transactions deposits. Nevertheless, the monetary base declined at a 1/2 percent rate, owing to a drop in currency.

bond mutual funds remain anemic, and noncompetitive tenders at Treasury bill and note auctions have dropped off substantially.

(5) M3's expansion remained surprisingly robust in July at an 8-3/4 percent rate. From the fourth quarter of 1994 through July, M3 grew at a 6-3/4 percent rate, exceeding even the 6 percent upper bound of its new growth range for the year. Investments in M3-type money funds again were quite strong through early July, as yields on such funds lagged declines in short-term market rates. Furthermore, depositories continued to issue substantial volumes of large time deposits, partly to substitute for nondeposit funding sources.

(6) Business borrowing appears to have slowed somewhat, while household borrowing has remained near the accelerated pace of earlier this year. With the rise in bond yields, the composition of business borrowing has shifted back toward banks and the commercial paper market. Banks apparently continue to pursue business loans actively: in the August Loan Officer Survey, they reported further easing of lending terms and standards. Unlike recent surveys, however, banks did not report greater enthusiasm for making consumer and home mortgage loans. Nonetheless, total consumer credit grew rapidly in June, and bank consumer loans, inclusive of securitizations, remained robust in July. Federal debt growth slowed in July, after an acceleration over the second quarter. Total domestic nonfinancial debt is estimated to have grown at a 5-3/4 percent pace from the fourth quarter through June, leaving this aggregate somewhat above the midpoint of its 3-to-7 percent monitoring range for 1995.

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

	May	June	July	QIV to July ¹
<u>Money and credit aggregates</u>				
M1	-7.0	0.8	1.3	-0.4
M1 adjusted for retail sweeps	-1.8	8.3	1.9	1.3
M2	5.3	11.7	5.9	4.2
M3	7.9	12.7	8.8	6.8
Domestic nonfinancial debt	5.9	6.4	--	5.7
Federal	5.9	8.4	--	5.7
Nonfederal	5.8	5.7	--	5.8
Bank credit ²	11.0	4.4	5.3	7.5
<u>Reserve measures</u>				
Nonborrowed reserves ³	-4.9	-11.1	4.3	-4.7
Total reserves	-4.1	-8.5	6.3	-4.4
Monetary base	7.2	-2.7	-0.4	4.8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	150	272	371	
Excess reserves	880	964	1088	

1. QIV to June for debt aggregates.

2. Excludes the estimated effects of FASB 115 and FIN 39 on reported values of securities.

3. 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.

Policy Alternatives

(7) Incoming information since the July FOMC meeting has indicated somewhat stronger final demand over the late spring and early summer and less inventory stocking than the staff had predicted. As a consequence, the staff has revised up its forecast of the growth of output to 2 percent this year. The forecast for 1996 envisions output expanding close to the growth rate of potential. These forecasts are based on similar financial conditions and fiscal restraint as assumed in the June Greenbook. For the two years combined, this projection is consistent with the central tendency of the range of projections of FOMC members in early July. Even though the staff's output forecast has been raised for this year, favorable price and compensation news has resulted in a small downward revision to projected CPI inflation in 1995, to just below 3 percent and beneath the central tendency of FOMC expectations. Inflation for 1996 is seen as edging higher--mostly owing to a rise in energy prices--but holding within the central tendency of Committee projections. Against this backdrop, the staff has presented the usual three alternative policy options.

(8) Financial markets still see slight odds of a monetary easing by year-end, but they do not expect any action at the August FOMC meeting. Thus, the choice of the unchanged federal funds rate of alternative B should have little immediate impact on market interest rates. Over the intermeeting period, data in line with the staff's forecast of a pickup in output growth to a moderate pace might remove any lingering expectations of policy ease among market participants; but with inflation also projected to be quite subdued, substantial

shifts in the anticipated course of policy are unlikely. At the current ceiling for federal government debt, the staff does not expect the Treasury to alter financing patterns much until late September or to run out of cash until the first half of November. Nonetheless, as the room under the debt ceiling shrinks, absent signs of some narrowing of the differences between the President and congressional leaders, financial markets may begin to focus more on the implications for debt markets and the economy of a disruption in federal financing, or possibly even a temporary default. To date, interest rates appear to have been unaffected by the possibility of such a disruption, and over the intermeeting period, which ends before the new fiscal year, markets will probably remain of the view that in the end some compromise will be reached to avert the most dire consequences.

(9) Alternative B might be favored to the extent that the staff forecast were seen to be credible and the outcome to balance acceptably Committee concerns about expansion in output with those of the containment of inflation. The stronger economic data available over the recent intermeeting period could be read as suggesting that policy in the latter part of 1994 and first part of 1995 might not have been as restraining as suggested by the level of short-term real rates relative to their long-run averages. Nominal values of the foreign exchange value of the dollar and of bond yields are still appreciably below their levels of last fall, even though the nominal federal funds has been raised 1 percentage point on balance since that time. With inflation relatively subdued, it seems highly likely that real exchange rates and long-term interest rates have fallen noticeably as well over the last nine months. These declines, together with

generally supportive credit conditions. could be viewed as underpinning the continued momentum in business and household spending. In any event, an unchanged stance of policy would buy time for more information to accumulate to determine whether the economy is indeed on track to a sustainable pace of expansion.

(10) A further easing of policy, as under alternative A, could be supported if recent price and wage news were read as suggesting that the underlying determinants of inflation were more favorable than in the staff forecast. With inflation and inflation expectations decreasing in these circumstances, nominal rates would have to be reduced to keep real rates from rising. Indeed, the Committee might want to lower real rates as well if it wished to realize a little higher output as well as lower inflation. In addition, the Committee might want to consider lowering the federal funds rate if it were concerned that risks to the economic outlook were still seen to be concentrated on the down side. Such risks might be viewed as heightened by the recent increases in longer-term interest rates and in the foreign exchange value of the dollar, if the Committee thought that markets had overreacted to stronger data, especially in light of oncoming fiscal restraint.

(11) The drop in the federal funds rate of 1/2 percentage point contemplated under alternative A would be much larger and sooner than market participants currently expect. As a consequence, short-term interest rates would fall nearly 50 basis points and banks probably would cut the prime rate 1/2 percentage point. The immediate effect of an easing likely would be to reduce intermediate- and long-term rates as well, especially if the Federal Reserve's perceived optimism on inflation were to influence the market's assessment of the

outlook. Unless incoming data confirmed an improved inflation picture, however, market participants would come to question the sustainability of the drop in short-term rates, and intermediate- and long-term rates could back up. In any case, the dollar likely would fall as System action reduced real interest rates.

(12) The choice of the higher rates of alternative C would seem to rest on concerns about the longer-term inflation outlook. As noted, in the staff forecast, inflation holds steady through 1996, and, with no slack in the economy at the end of the forecast period, would not be expected to decline appreciably in 1997. If the Committee were intent on making measurable progress toward price stability in the next several years, a rise in the real federal funds rate from its current level would seem to be needed based on the relationships embodied in the staff forecast. To be sure, unexpected developments could reduce inflation pressures, perhaps by putting slack in the economy, but there can be no assurance of such a surprise on either the supply or demand sides. The need for a tightening of policy to reestablish a disinflationary trend might seem all the more pressing if the firmer spending data of late and the brisk pace of broad money growth, with the economy already producing around its potential, were seen as suggesting risks on the side of more inflation than in the staff forecast.

(13) Alternative C would come as a surprise to market participants, and money market interest rates would rise at least 50 basis points and the dollar would strengthen further on foreign exchange markets. Intermediate- and long-term rates also would increase, with the extent of the rise depending on whether market participants saw the action as implying more underlying strength in

aggregate demand and greater inflationary pressure than currently envisioned or whether this tightening were interpreted as suggesting more resolve by the Committee to bring inflation down.

(14) Moderate growth in GDP in the staff forecast is expected to be associated with some slowing in borrowing by nonfinancial sectors in the remaining months of the year. Business requirements to fund inventory accumulation are diminishing, and borrowing for share retirements is likely to pause a bit before accelerating later this year and early next year to finance the consummation of recently announced mega-merger deals. In the household sector, debt should continue to expand around its recent pace, further increasing debt-to-income ratios. A pickup in mortgage financing in association with a little stronger residential housing activity will tend to be offset by a modest slowing in growth of consumer credit as repayments on loans for big-ticket items catch up with the earlier surge in extensions. Credit should be readily available to private borrowers, though we expect an end to the trend of easing terms and conditions as lenders reassess risk and returns in an environment of moderate real income growth and rising debt of households and businesses. Very large retirements of tax-exempt bonds and anemic gross issuance will further drag down the stock of tax-exempt debt, and, in the federal sector, debt growth in the near term is projected to slow even apart from debt-ceiling disruptions. Consequently, as shown in the table below, total debt of domestic nonfinancial sectors is projected to expand at a 3-3/4 percent rate over the final five months of this year, placing this aggregate in the fourth quarter 5 percent above its year-earlier level.

Growth in Money and Debt

	<u>July to December</u>	<u>Implied 1994-Q4 to 1995-Q4</u>	<u>1995 Ranges</u>
M2	5.2	4.6	1 - 5
M3	5.8	6.6	2 - 6
M1	- .9	- .6	
Total debt	3.8	5.0	3 - 7
Nonfederal	4.0	5.2	

Note. Growth rates based on alternative B.

(15) Growth rates of the broad monetary aggregates are expected to continue to slow from their recent very rapid pace, but to remain relatively strong. Portfolio shifts into M2 assets should abate with the stability of short-term rates and now-higher long-term rates, which make bond funds more attractive. The velocity of M2 is expected to decline in the third quarter, but primarily because of the bulge in M2 growth already experienced. In the fourth quarter, velocity is projected to be flat. For the year, M2 is expected to remain below the 5 percent upper bound of its annual range, even under alternative A.⁴ The projected softening in M3 owes primarily to lower growth in institutional money funds as their yields become better aligned with market rates. Bank credit is expected to expand at a moderate pace, and issuance of managed liabilities in M3 should remain strong, perhaps encouraged to a small degree by the recent decline in deposit insurance premiums. M3 appears likely to break the upper bound of its new range under any of the alternative policy

4. M1 is expected to continue to decline as more banks introduce arrangements to sweep funds from NOW accounts to MMDAs to reduce reserve requirements. Assuming only a moderate amount of about \$1 billion of additional sweeps over each of the last four months of the year, this financial innovation will reduce M1 growth over the four quarters of 1995 by 1-3/4 percentage points. Such programs, of course, leave M2 unaffected.

settings. (A table showing the growth rates of the monetary aggregates over the balance of the year under each of the alternatives is attached.)

	M2			M3			M1				
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C		
Levels in Billions											
Jul-95	3714.1	3714.1	3714.1	4489.4	4489.4	4489.4	1145.0	1145.0	1145.0		
Aug-95	3733.9	3733.9	3733.9	4517.3	4517.3	4517.3	1144.2	1144.2	1144.2		
Sep-95	3750.1	3748.9	3747.6	4538.3	4537.6	4536.8	1143.2	1142.7	1142.3		
Oct-95	3767.3	3763.5	3759.8	4559.9	4557.6	4555.4	1143.7	1142.2	1140.7		
Nov-95	3784.9	3778.6	3772.3	4581.2	4577.4	4573.6	1144.0	1141.3	1138.7		
Dec-95	3802.5	3794.0	3785.5	4602.9	4598.0	4593.0	1144.7	1140.6	1136.4		
Monthly Growth Rates											
Jul-95	5.9	5.9	5.9	8.8	8.8	8.8	1.3	1.3	1.3		
Aug-95	6.4	6.4	6.4	7.5	7.5	7.5	-0.8	-0.8	-0.8		
Sep-95	5.2	4.8	4.4	5.6	5.4	5.2	-1.0	-1.5	-2.0		
Oct-95	5.5	4.7	3.9	5.7	5.3	4.9	0.5	-0.6	-1.7		
Nov-95	5.6	4.8	4.0	5.6	5.2	4.8	0.3	-0.9	-2.1		
Dec-95	5.6	4.9	4.2	5.7	5.4	5.1	0.8	-0.8	-2.4		
Quarterly Averages											
95 Q1	1.7	1.7	1.7	4.4	4.4	4.4	0.0	0.0	0.0		
95 Q2	4.3	4.3	4.3	7.0	7.0	7.0	-0.9	-0.9	-0.9		
95 Q3	7.2	7.2	7.1	9.0	8.9	8.9	-0.5	-0.5	-0.6		
95 Q4	5.6	5.0	4.4	5.9	5.6	5.3	0.0	-0.9	-1.8		
Growth Rate											
From	To										
Dec-94	Jul-95		4.6	4.6	4.6	7.4	7.4	7.4	-0.4	-0.4	-0.4
Jul-95	Dec-95		5.7	5.2	4.6	6.1	5.8	5.5	-0.1	-0.9	-1.8
94 Q4	Jul-95		4.2	4.2	4.2	6.8	6.8	6.8	-0.4	-0.4	-0.4
Jul-95	95 Q4		5.7	5.2	4.7	6.1	5.9	5.7	-0.2	-0.9	-1.7
93 Q4	94 Q4		1.0	1.0	1.0	1.4	1.4	1.4	2.4	2.4	2.4
94 Q4	95 Q2		3.0	3.0	3.0	5.7	5.7	5.7	-0.4	-0.4	-0.4
94 Q4	95 Q4		4.8	4.6	4.4	6.7	6.6	6.5	-0.3	-0.6	-0.8
1995 Target Ranges:			1.0 to 5.0			2.0 to 6.0					

Directive Language

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

In the implementation of policy for the immediate future, the Committee seeks to decrease (SOMEWHAT) slightly/ MAINTAIN/INCREASE (SOMEWHAT/SLIGHTLY) the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly (SOMEWHAT) greater reserve restraint (WOULD) might or slightly (SOMEWHAT) lesser reserve restraint would (MIGHT) be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with MORE moderate 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 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	primary market	
		1	2	3	4	5	6	7	8	9	10	11	12	13	fixed rate	fixed-rate
94 -- High	5.85	5.70	6.26	6.73	6.31	6.11	5.12	8.50	7.79	8.00	8.13	9.05	7.37	9.57	9.25	6.79
94 -- Low	2.97	2.94	3.12	3.35	3.11	3.11	2.68	6.00	4.44	5.70	6.25	7.16	5.49	7.02	6.97	4.12
95 -- High	6.21	5.81	6.31	6.75	6.39	6.10	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
95 -- Low	5.40	5.38	5.29	5.15	5.73	5.73	5.16	8.50	5.65	6.06	6.52	7.49	5.94	7.74	7.41	5.80
Monthly																
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	5.79
Nov 94	5.29	5.29	5.72	6.13	5.79	5.40	4.62	8.15	7.44	7.96	8.08	8.95	7.27	9.43	9.17	6.10
Dec 94	5.45	5.60	6.21	6.67	6.29	6.08	5.00	8.50	7.71	7.81	7.87	8.78	7.07	9.51	9.20	6.66
Jan 95	5.53	5.71	6.21	6.59	6.24	5.86	5.17	8.50	7.66	7.78	7.85	8.75	6.84	9.41	9.15	6.82
Feb 95	5.92	5.77	6.03	6.28	6.16	6.05	5.36	9.00	7.25	7.47	7.61	8.55	6.45	9.13	8.83	6.68
Mar 95	5.98	5.73	5.89	6.03	6.15	6.07	5.51	9.00	6.89	7.20	7.45	8.40	6.32	8.90	8.46	6.45
Apr 95	6.05	5.65	5.77	5.88	6.11	6.06	5.54	9.00	6.68	7.06	7.36	8.31	6.22	8.71	8.32	6.35
May 95	6.01	5.67	5.67	5.65	6.02	6.05	5.51	9.00	6.27	6.63	6.95	7.89	6.16	8.32	7.96	6.14
Jun 95	6.00	5.47	5.42	5.33	5.90	6.05	5.46	9.00	5.80	6.17	6.57	7.60	6.07	7.96	7.57	5.87
Jul 95	5.85	5.42	5.37	5.28	5.77	5.87	5.39	8.80	5.89	6.28	6.72	7.72	6.21	8.03	7.61	5.83
Weekly																
May 3 95	6.05	5.69	5.78	5.89	6.09	6.07	5.53	9.00	6.67	7.04	7.32	7.97	6.30	8.36	8.27	6.26
May 10 95	6.00	5.60	5.63	5.65	6.02	6.03	5.51	9.00	6.29	6.70	7.02	7.95	6.18	8.45	7.87	6.12
May 17 95	6.02	5.68	5.67	5.64	6.03	6.05	5.52	9.00	6.26	6.61	6.93	7.87	6.15	8.32	7.83	6.10
May 24 95	5.99	5.70	5.68	5.63	6.02	6.05	5.51	9.00	6.23	6.57	6.88	7.71	6.02	8.13	7.85	6.06
May 31 95	6.02	5.65	5.61	5.51	5.97	6.05	5.51	9.00	6.01	6.35	6.71	7.49	6.00	7.74	7.71	5.95
Jun 7 95	6.03	5.50	5.41	5.29	5.84	5.99	5.50	9.00	5.71	6.13	6.54	7.71	5.94	8.10	7.51	5.86
Jun 14 95	6.02	5.53	5.50	5.41	5.95	6.04	5.49	9.00	5.90	6.26	6.63	7.62	6.10	8.03	7.55	5.88
Jun 21 95	6.00	5.47	5.44	5.32	5.93	6.07	5.49	9.00	5.79	6.16	6.58	7.52	6.05	7.85	7.53	5.84
Jun 28 95	5.95	5.39	5.37	5.28	5.89	6.07	5.46	9.00	5.74	6.09	6.52	7.64	6.28	8.09	7.53	5.84
Jul 5 95	6.21	5.48	5.39	5.35	5.92	6.10	5.47	9.00	5.89	6.22	6.63	7.53	6.21	7.85	7.63	5.86
Jul 12 95	5.81	5.38	5.29	5.15	5.76	5.87	5.42	8.79	5.65	6.06	6.53	7.60	6.05	7.96	7.41	5.80
Jul 19 95	5.72	5.42	5.38	5.24	5.73	5.82	5.34	8.75	5.84	6.23	6.69	7.94	6.30	8.14	7.60	5.81
Jul 26 95	5.75	5.44	5.43	5.40	5.77	5.83	5.32	8.75	6.08	6.47	6.89	7.88	6.27	8.16	7.79	5.86
Aug 2 95	5.83	5.42	5.38	5.36	5.75	5.85	5.31	8.75	6.05	6.46	6.88	7.88	6.35	8.24	7.82	5.89
Aug 9 95	5.73	5.40	5.40	5.36	5.75	5.85	5.29	8.75	6.05	6.49	6.91	7.96	6.40	8.25	7.80	5.91
Aug 16 95	5.74	5.43	5.45	5.47	5.78	5.86	5.27	8.75	6.17	6.56	6.93	7.89	6.44	8.29	7.94	5.95
Daily																
Aug 11 95	5.67	5.42	5.46	5.47	5.75	5.84	--	8.75	6.19	6.59	6.98	--	--	--	--	--
Aug 17 95	5.76	5.44	5.48	5.55	5.80	5.87	--	8.75	6.24	6.57	6.90	--	--	--	--	--
Aug 18 95	5.67p	5.44	5.47	5.54	5.78	5.85	--	8.75	6.24	6.57	6.91	--	--	--	--	--

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

Money and Credit Aggregate Measures

Seasonally adjusted

AUGUST 21, 1995

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt ¹		
	M1	M2	nontransactions components		M3	L	total loans and investments ¹	U. S. government ²	other ⁴	total ⁴
			In M2	In M3 only						
	1	2	3	4	5	6	7	8	9	10
Annual growth rates (%)										
Annually (Q4 to Q4)										
1992	14.3	2.0	-2.3	-6.3	0.5	1.5	3.7	10.7	2.8	4.8
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.5	4.1	5.2
1994	2.4	1.0	0.5	3.5	1.4	2.5	6.8	5.7	4.8	5.1
Quarterly (average)										
1994-Q3	2.4	1.0	0.3	9.0	2.2	2.4	7.2	3.9	4.3	4.2
1994-Q4	-1.2	-0.3	0.1	12.3	1.7	3.4	4.0	5.9	5.0	5.2
1995-Q1	0.1	1.7	2.4	18.5	4.4	7.9	7.8	5.2	5.7	5.6
1995-Q2	-0.9	4.3	6.7	20.7	7.0	9.2	13.3	5.3	5.8	5.7
Monthly										
1994-JULY	5.4	3.8	3.1	12.0	5.1	5.9	13.5	1.1	3.0	2.4
AUG.	-1.5	-0.6	-0.2	2.7	-0.1	0.5	4.7	6.1	5.9	6.0
SEP.	0.2	-0.3	-0.5	12.9	1.8	1.4	4.8	6.0	5.2	5.4
OCT.	-2.9	-1.4	-0.6	18.6	1.7	4.3	3.7	5.4	4.0	4.4
NOV.	-0.6	0.5	0.9	6.9	1.5	1.9	2.0	8.5	5.7	6.5
DEC.	0.4	1.6	2.2	12.3	3.3	10.2	6.7	1.1	5.0	3.9
1995-JAN.	1.0	3.9	5.3	19.4	6.4	6.2	11.8	2.5	6.0	5.1
FEB.	-1.8	-1.5	-1.3	23.9	2.6	9.7	4.8	10.6	6.2	7.4
MAR.	0.6	2.5	3.3	26.1	6.3	10.2	9.0	7.4	4.8	5.5
APR.	1.9	4.2	5.3	15.8	6.2	9.5	24.4	0.7	6.1	4.7
MAY	-7.0	5.3	11.0	21.0	7.9	5.8	9.0	5.9	6.0	6.0
JUNE	0.8	11.7	16.7	17.1	12.7	12.1	4.9	8.4	5.6	6.3
JULY p	1.3	5.9	8.0	22.4	8.8		3.7			
Levels (\$billions)										
Monthly										
1995-MAR.	1147.9	3631.1	2483.1	727.8	4358.8	5409.4	3387.3	3557.5	9595.1	13152.6
APR.	1149.7	3643.8	2494.1	737.4	4381.2	5452.1	3456.2	3559.5	9644.1	13203.6
MAY	1143.0	3660.0	2517.0	750.3	4410.2	5478.5	3482.0	3577.0	9692.7	13269.8
JUNE	1143.8	3695.8	2552.0	761.0	4456.8	5533.7	3496.3	3602.0	9737.8	13339.8
JULY p	1145.0	3714.1	2569.1	775.2	4489.4		3507.0			
Weekly										
1995-JULY 3	1142.9	3702.9	2560.0	765.5	4468.4					
10	1144.1	3708.1	2564.0	762.5	4470.6					
17	1141.0	3708.3	2567.2	775.5	4483.7					
24	1142.4	3718.3	2575.9	779.4	4497.7					
31 p	1149.7	3723.1	2573.4	787.6	4510.7					
AUG. 7 p	1144.2	3731.9	2587.7	785.8	4517.7					

1. Adjusted for breaks caused by reclassifications.

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

p preliminary

pe preliminary estimate

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

AUGUST 21, 1995

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA ¹	Savings deposits ²	Small denomination time deposits ³	Money market mutual funds		Large denomination time deposits ⁴	Term RPs NSA ¹	Term Euro-dollars NSA ¹	Savings bonds	Short-term Treasury securities	Commercial paper ¹	Bankers acceptances
							general purpose and broker/dealer ⁵	Institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels (\$billions):															
Annual (Q4)															
1992	290.1	336.5	380.0	83.0	1177.5	882.2	359.2	205.8	358.4	81.8	46.7	154.5	331.0	365.5	20.6
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.7	46.5	170.8	330.2	383.8	15.5
1994	352.5	383.1	404.0	114.7	1157.7	810.1	383.9	180.7	357.5	103.7	53.2	179.9	364.6	411.6	11.0
Monthly															
1994-JULY	342.8	388.1	413.1	109.5	1201.2	776.5	376.1	178.7	338.4	102.8	51.0	177.7	358.1	392.8	10.9
AUG.	345.1	386.6	410.8	111.0	1192.6	782.8	377.0	177.4	342.0	101.1	51.2	178.5	364.2	387.7	11.4
SEP.	347.2	386.5	408.9	111.9	1183.7	789.6	377.4	176.3	348.2	101.9	52.1	179.1	359.1	391.7	11.9
OCT.	350.0	384.5	405.4	113.9	1171.0	799.6	379.5	180.8	353.6	102.1	52.7	179.5	358.6	404.2	11.8
NOV.	353.0	382.5	403.8	113.3	1157.8	810.4	383.3	180.5	357.4	103.2	54.5	179.9	362.3	404.0	11.0
DEC.	354.5	382.2	402.9	117.0	1144.2	820.3	389.0	180.8	361.4	105.7	52.4	180.3	372.9	426.5	10.2
1995-JAN.	357.7	383.6	399.3	123.9	1129.8	835.7	392.1	186.3	361.9	109.6	53.1	180.5	375.4	428.7	9.8
FEB.	358.8	384.1	395.9	118.4	1111.9	855.4	391.5	180.4	371.2	113.5	56.3	180.4	392.0	445.7	9.9
MAR.	362.5	383.3	393.3	118.3	1094.9	878.2	390.9	189.0	378.6	113.5	58.3	180.5	405.5	454.1	10.4
APR.	365.7	381.3	393.6	115.8	1082.4	896.8	396.0	192.9	380.3	116.6	59.8	180.9	404.4	475.2	10.3
MAY	368.1	380.6	385.0	116.5	1081.4	910.7	405.3	194.8	386.0	121.7	60.6	181.6	395.9	481.2	9.5
JUNE	367.4	386.8	380.6	117.3	1091.1	917.6	425.9	205.6	389.9	119.8	61.7	182.3	409.9	475.8	8.8
JULY p	367.1	389.6	379.5	114.5	1091.2	921.5	441.5	212.4	399.3	115.2	63.1				

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

p preliminary

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

August 18, 1995

Period	Treasury bills			Treasury coupons				Federal agencies redemptions (-)	Net change outright holdings total ⁴	Net RPs ⁵		
	Net purchases ²	Redemptions (-)	Net change	Net purchases ³							Redemptions (-)	Net Change
				within 1 year	1-5	5-10	over 10					
1992	13,086	1,600	11,486	1,096	13,118	2,818	2,333	---	19,365	632	30,219	-13,215
1993	17,717	---	17,717	1,223	10,350	4,168	3,457	767	18,431	774	35,374	5,974
1994	17,484	---	17,484	1,238	9,168	3,818	3,606	2,337	15,493	1,002	31,975	7,412
1994 ---Q1	2,164	---	2,164	147	1,413	1,103	618	616	2,665	411	4,418	11,663
---Q2	6,639	---	6,639	364	2,817	1,117	896	440	4,754	307	11,086	4,179
---Q3	1,610	---	1,610	151	2,530	938	840	302	4,157	114	5,654	8,530
---Q4	7,071	---	7,071	575	2,408	660	1,252	979	3,916	169	10,818	8,602
1995 ---Q1	---	---	---	---	---	---	---	621	-621	229	-850	-4,083
---Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,395
1994 August	1,610	---	1,610	---	---	---	---	---	---	63	1,547	2,791
September	---	---	---	151	2,530	938	840	---	4,459	31	4,428	6,301
October	518	---	518	450	---	---	---	979	-529	62	-72	819
November	6,109	---	6,109	---	200	---	---	---	200	70	6,239	4,718
December	444	---	444	125	2,208	660	1,252	---	4,245	37	4,652	3,066
1995 January	---	---	---	---	---	---	---	621	-621	91	-712	8,171
February	---	---	---	---	---	---	---	---	---	55	-55	686
March	---	---	---	---	---	---	---	---	---	83	-83	4,774
April	---	---	---	---	2,549	839	1,138	370	4,156	20	4,136	2,758
May	---	---	---	---	---	---	---	---	---	30	-30	2,474
June	4,470	---	4,470	---	---	---	---	---	---	262	4,208	10,678
July	---	---	---	---	---	---	---	---	---	333	-333	13,602
Weekly												
May 3	---	---	---	---	---	---	---	---	---	---	---	7,413
10	---	---	---	---	---	---	---	---	---	30	-30	112
17	---	---	---	---	---	---	---	---	---	---	---	1,102
24	---	---	---	---	---	---	---	---	---	---	---	2,522
31	---	---	---	---	---	---	---	---	---	---	---	1,974
June 7	4,470	---	4,470	---	---	---	---	---	---	186	4,284	77
14	---	---	---	---	---	---	---	---	---	68	-68	5,865
21	---	---	---	---	---	---	---	---	---	---	---	15,133
28	---	---	---	---	---	---	---	---	---	8	8	12,253
July 5	---	---	---	---	---	---	---	---	---	---	---	1,281
12	---	---	---	---	---	---	---	---	---	15	-15	1,961
19	---	---	---	---	---	---	---	---	---	300	-300	474
26	---	---	---	---	---	---	---	---	---	18	-18	4,659
August 2	---	---	---	---	---	---	---	---	---	---	---	4,411
9	---	---	---	---	---	---	---	---	---	---	---	161
16	---	---	---	---	---	---	---	---	---	35	-35	2,157
Memo: LEVEL (bil. \$) ⁶			189.9	222.9	86.2	30.0	35.5		374.6		383.3	5.7

1 Change from end-of-period to end-of-period.

2 Outright transactions in market and with foreign accounts.

3 Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.

4 Reflects net change in redemptions (-) of Treasury and agency securities.

5 Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase-sale transactions (+).

6 The levels of agency issues were as follows:

within 1 year	1-5	5-10	over 10	total
1.5	1.1	0.4	0.0	3.0

August 16