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[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.

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

March 22, 1996

MONETARY POLICY ALTERNATIVES

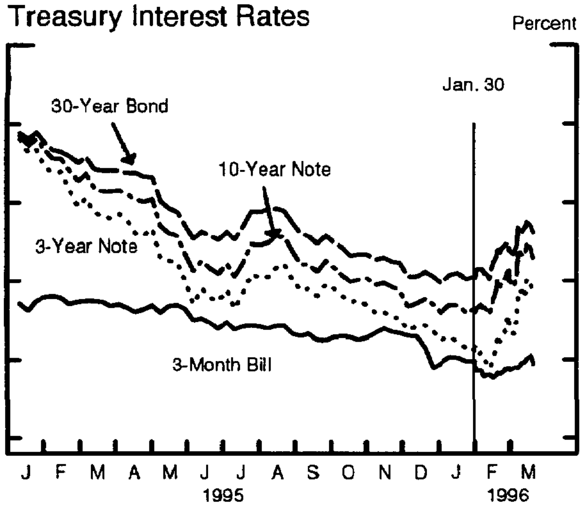
Recent Developments

(1) Following the January 30-31 meeting, the Federal Reserve announced that it was easing money market conditions a bit further; the discount rate was cut 1/4 percentage point to 5 percent and the federal funds rate was lowered a like amount to 5-1/4 percent. The effective federal funds rate has averaged close to that rate over the intermeeting period, but has shown a bit more variation than usual around the intended rate, perhaps partly reflecting the effects of low levels of required operating balances stemming from the spread of sweep programs.

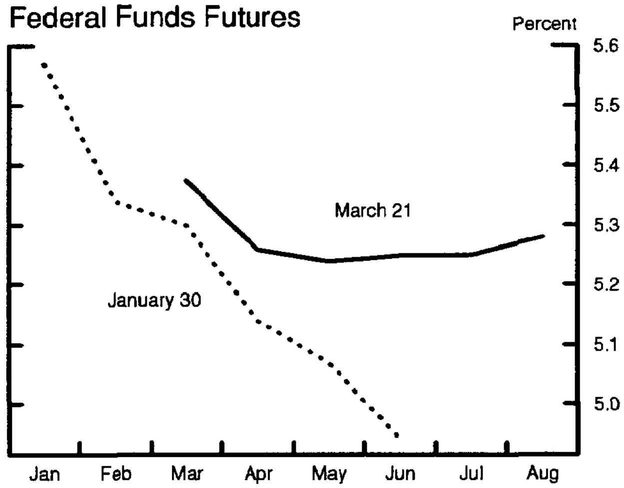
(2) The easing move had been mostly anticipated, and short-term market rates dropped slightly in its wake, while long-term rates were about unchanged. Since then, most rates have moved higher, and by substantial amounts, as incoming data have contradicted market expectations that the economy would be quite soft for a time and monetary policy consequently would be eased further. Rates on federal funds futures contracts, which in late January suggested a high probability of further ease not only at the January meeting but thereafter as well, are now essentially flat through the summer (chart).[1] Longer-term Treasury rates are up around 60 basis points over the intermeeting period, returning yields to their levels of late last summer. By far, the largest increases in forward one-year interest rates have occurred in the intermediate range, tending to support the

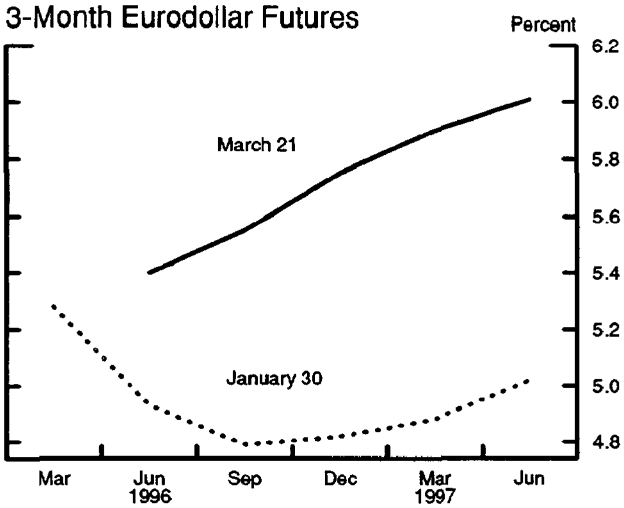
1. Rates on three-month Eurodollar futures actually tilt up after June, but this pattern probably reflects liquidity premiums more than firm expectations of policy tightening.

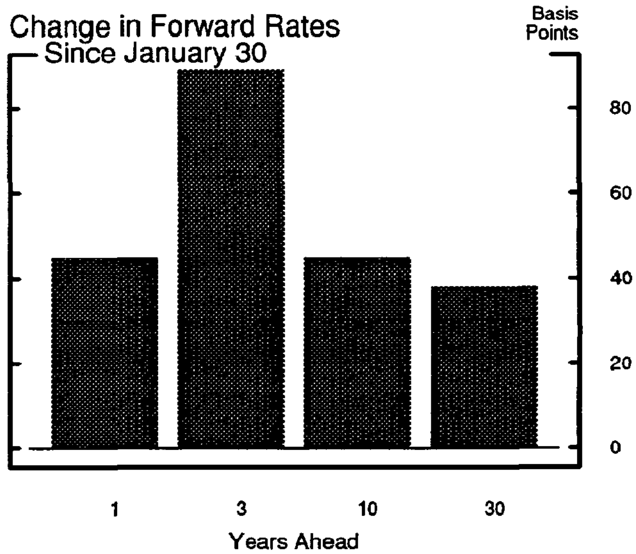
Chart 1

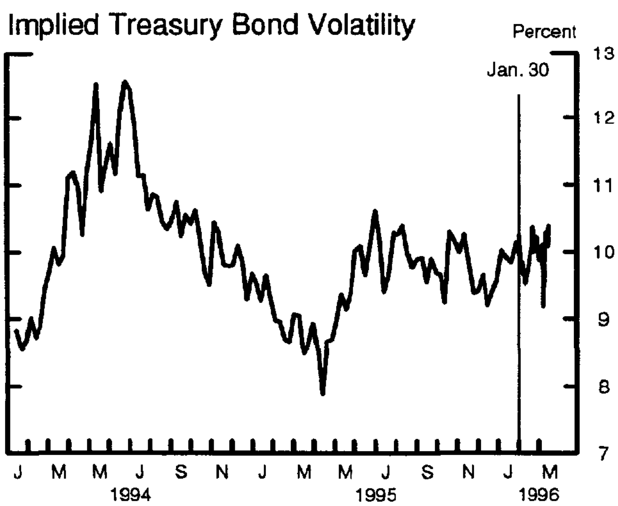


Weekly. Daily after Jan. 30.









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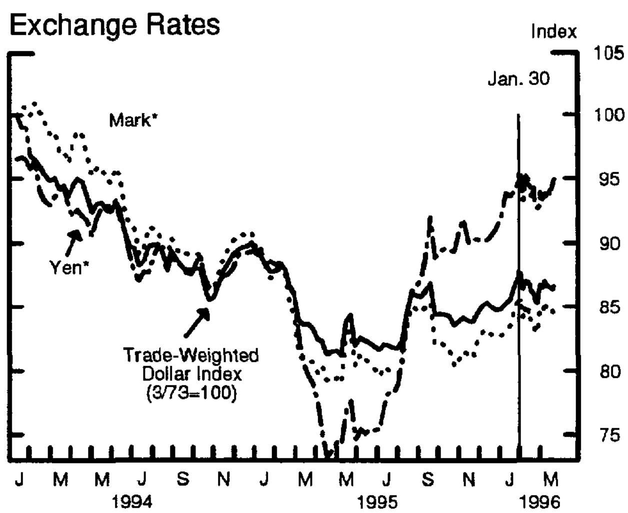

* Index, Jan 1994=100
Weekly. Daily after Jan. 30.

view that much of the rise in rates owed to evidence of unanticipated cyclical strength. Likely adding to the upward revision to expected future short-term rates was the dimming prospect for long-term deficit reduction. Given that both of these factors would tend to boost real interest rates over time, and given little in the way of surprising inflation news over the intermeeting period, it seems likely that the upward movement in nominal interest rates primarily reflected a rise in real rates. Despite the apparent increase in real interest rates, equity prices on net are up considerably since the last meeting, after having moved more or less in concert with bond prices for more than a year. The recent disparate movements may reflect a shift in investors' appetites for stocks or a more optimistic outlook for earnings--though professional stock analysts have been trimming their profit forecasts of late.

(3) The dollar's weighted average foreign exchange value declined over the first part of the intermeeting period, but has risen since late February, partly in association with increases in U.S. interest rates. On balance, the dollar is down about 1 percent since the last meeting. From one perspective, the lack of net dollar appreciation despite higher U.S. interest rates is not surprising, as ten-year bond rates in major foreign countries other than Japan are up 40 to 65 basis points over the intermeeting period, roughly in line with the increase in U.S. rates. From another, however, the reasons for the rise in foreign interest rates are not entirely clear, since they appeared to respond unusually strongly to movements in U.S interest rates after the March 8 employment report. To be sure, an improved economic outlook in a few countries, notably excepting Germany, and growing doubts that the fiscal discipline associated with the budget goals currently in the Maastricht treaty will ever be realized

may have contributed to rate increases abroad.

. The Desk did not intervene.

(4) Private credit flows continue at a moderate pace, but there are some hints that underlying demands for credit have slowed a bit. Bank lending has fallen off in February and March, even taking into account increased securitizations of bank loans. Business loans decelerated in February and declined in early March despite a sharply reduced pace of corporate bond issuance associated with the back-up in long-term interest rates. Although nonfinancial business borrowing in money and capital markets has been supported by financing requirements associated with elevated merger and corporate restructuring activity, credit needs to bridge the gap between internal funds and capital expenditures are estimated to have become quite small as inventory investment has declined. The weakness in bank business lending likely does not reflect a reduced availability of credit. For example, the Survey of Terms of Bank Lending showed that spreads on business loans continued to narrow in early February. Consumer credit growth remained fairly robust in January, but more recent bank data adjusted for securitizations suggest that consumer borrowing has downshifted a bit. Bank Call Report data from late 1995 show that delinquency rates on household loans, particularly credit cards, have deteriorated further, possibly restraining growth of consumer debt by damping both demand and supply.

(5) Both of the broad monetary aggregates have strengthened in recent months and have moved above their growth cones. To some extent, the pickup in growth mirrors the decline in short-term interest rates in late 1995 and early 1996. Money market mutual funds,

whose rates adjust with a lag to market rates, have been particularly strong. M2 has been supported as well in the past three months by an unusual surge in demand deposits, which is only partly attributable to increases in mortgage refinancings. The brisk advance in M2 has come in the face of strong inflows to stock and bond mutual funds, which appear to have paused only briefly in reaction to recent market volatility.[2] M2 is estimated to have grown faster than nominal income in the first quarter, extending the recent string of velocity declines. As in the previous few quarters, the growth of M2 was somewhat faster than that predicted by the standard money demand model.

(6) The surge in demand deposits has pushed M1 growth well into positive territory in March, its first monthly advance since July 1995. Currency growth also picked up in March, to an 8 percent pace, reportedly reflecting strong foreign demand associated with uncertainties in Taiwan and Russia.[3] The introduction of additional sweep programs, however, caused balances in other checkable deposits to continue to contract. Adjusted for retail sweeps, M1 has expanded at an 8-3/4 percent rate since the fourth quarter, while the base has risen 5 percent.

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2. M2 plus stock and bond funds is estimated to have expanded at a 7 percent rate in February and apparently strengthened sharply in March along with M2.

3. The monetary base contracted at a 4 percent rate in February and rebounded to a 8-1/4 percent rate in March, reflecting additional required reserves against demand deposits in that month and the pickup in currency growth. Total reserves declined at a 14-1/2 percent rate in February and expanded at a 17 percent rate in March.

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

	Jan.	Feb.	Mar.	QIV to Mar.[1]
Money and credit aggregates				
M1	-6.2	-2.1	11.2	-0.3
Adjusted for OCD sweeps	7.9	5.5	17.5	8.8
M2	4.7	5.3	11.1	6.5
M3	7.2	10.0	11.0	7.9
Domestic nonfinancial debt	2.0	5.4	--	4.0
Federal	-3.8	6.5	--	1.3
Nonfederal	4.1	5.0	--	4.9
Bank credit	8.5	3.3	--	5.2
Reserve measures				
Nonborrowed reserves[2]	-11.1	-14.4	17.0	-3.1
Total reserves	-15.8	-14.4	17.0	-4.1
Adjusted for OCD sweeps	12.1	1.2	34.8	15.3
Monetary base	0.4	-4.1	8.2	2.1
Adjusted for OCD sweeps	4.1	-2.0	11.7	5.0
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	38	35	35	--
Excess reserves	1485	849	1045	--

1. QIV to February for debt aggregates and bank credit.
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 figures for March incorporate assumptions of $1 billion for excess reserves and $50 million for adjustment and seasonal borrowing in the maintenance periods ending March 27 and April 10. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

Policy Alternatives

(7) Sorting through the estimated effects of bad weather, government shutdowns, and strikes, the economic data released since the January FOMC meeting suggest that the economy is now operating about where the staff had anticipated, albeit with a little more final demand and correspondingly less inventory stocking. While longer-term interest rates have moved sharply higher in recent weeks, the rise has been only a little larger and sooner than had been built into the last staff forecast. On balance, financial conditions still seem conducive to moderate expansion of spending, and the staff forecast anticipates that output growth will settle around its potential rate over the next two years with the federal funds rate maintained at 5-1/4 percent. This pace of economic activity should keep the unemployment rate steady, in the vicinity of 5-1/2 to 5-3/4 percent. With employment and production a touch above their long-run potential levels, increases in labor compensation and prices edge higher. The outcomes for real GDP growth and CPI inflation envisioned by the staff for 1996 are at the high end of the central tendencies of the forecasts provided by Board members and Reserve Bank presidents at the time of the last meeting.

(8) An unchanged policy stance, as in alternative B, would probably be preferred if the Committee concurred with the staff's assessment of the economy, viewed potential risks as about evenly balanced, and was willing to accept the possibility of a slight intensification of price pressures. Of course, this alternative might be even more attractive if the Committee saw smaller odds of rising inflation, as it did in January judging from the CPI forecasts submitted by the members. Moreover, in light of the unusual number of temporary

disruptions and distortions to economic activity in the last few months and the difficulties in understanding the implications of the recent movements of stock and bond prices, a pause might be favored to allow sufficient time to establish a firmer bearing on the likely course of spending and inflation, even if the Committee saw the risks to the outlook as possibly tilted to one side or the other.

(9) With market participants apparently expecting no policy action over the next few months, maintenance of current reserve conditions, as under alternative B, would elicit little reaction in credit markets. Capital market prices could remain volatile as incoming information continues to be difficult to interpret in the wake of the winter's economic disruptions. Although the anticipated softening of many indicators in March, such as payroll employment and industrial production, might boost markets for a time, data consistent with the staff forecast would seem, on balance, to imply little net change in longer-term yields. Market participants have largely discounted any chance of a multi-year budget agreement before the elections, so a renewal of meaningful negotiations on long-term deficit reduction has the potential to raise bond and stock prices. Absent such a development or unanticipated changes in policy abroad, the foreign exchange value of the dollar probably would remain around its current level.

(10) Given the staff's assessment of the economy, the 1/2 percentage point easing in reserve market conditions offered under alternative A would boost the economy marginally further beyond its potential and tilt the inflation rate up a bit more noticeably. With the latter outcome apparently inconsistent with the Committee's strategy for achieving its long-run goals, adopting alternative A would seem to require that, relative to the staff, Committee members

expect somewhat weaker spending or better inflation. For example, policy relaxation might be seen as buying further insurance against the risk that the recent rise in bond yields would truncate the apparent strengthening in activity this year or as attaching weight to the possibility that the NAIRU is lower.

(11) In light of the uncertainty about the current economic situation and the widespread expectation that System policy is on hold, it is difficult to gauge how market participants would react to the 1/2 percentage point of policy ease envisioned under alternative A. It is safe to say that most of the decline in the federal funds rate would carry through to other shorter-term market rates. Market participants might read the action, coming on the heels of 1/4 point moves at two successive meetings, as revealing the judgment of policy makers either that the economy could work with a thinner margin of unused capacity without higher inflation or that aggregate demand is weaker than most analysts are now expecting. With market participants particularly uncertain about the economy, they might give the Committee the benefit of the doubt, at least for a while, and infer from the policy action that the economic situation had changed. In that circumstance, intermediate- and long-term rates could fall significantly. Alternatively, this policy easing might be seen to reflect a misreading of the economic situation or evidence that the Committee was willing to tolerate upside risks to inflation in the interest of stimulating growth for a time. Should this interpretation predominate, inflation expectations would rise; although real interest rates probably would fall, the prices of debt instruments could come under downward pressure. Under all these scenarios, the foreign exchange value of

the dollar would weaken, and especially so if inflation expectations deteriorated.

(12) A 1/2 percentage point tightening in reserve conditions, as under alternative C, might be favored if the Committee agreed with the staff forecast but viewed its outcome for inflation as undesirable, particularly if the Committee wanted to make some progress toward price stability. Indeed, given that the economy is already operating at or beyond many estimates of its potential, the Committee might see significant upside risks to the inflation forecast. In this regard, the recent behavior of asset prices and some financial aggregates could potentially be signalling inflationary pressures. Part of the rise in bond yields might be associated with higher inflation expectations, and the gains in equity markets have the potential to provide excessive stimulus to spending. Moreover, the broad monetary aggregates have been growing rapidly of late, suggesting ample liquidity in household balance sheets and readily available funds for depositories. Relative to the staff forecast, a 1/2 percentage point firming in reserve conditions would take a little pressure off resource markets, raising the odds that the inflation rate would not tend to drift higher.

(13) The 50 basis point tightening of alternative C would catch market participants unawares and show through to instruments at the shortest maturities. The response further along the term structure of interest rates could also be substantial, as the action would likely be interpreted as suggesting that the Federal Reserve saw considerable inflation risks. Even so, the rise in longer-term rates likely would reflect a significant real component and the dollar would tend to increase on exchange markets and stock prices to weaken.

(14) As shown in the table below, over the next six months the staff expects some rebound in the growth of nonfederal sector debt to around the pace of earlier in the year, but a modest slowing in broad money growth. In the staff outlook, credit conditions are anticipated to remain favorable, although banks may adopt a little additional caution, particularly with regard to their consumer lending. Consumer debt growth is expected to slow some, but should still be fairly robust, while the expansion of home mortgage debt stays near its recent pace. As long-term yields stabilize in the staff forecast, bond offerings should pick up, in part to finance the ongoing wave of merger activity. Bank business lending is likely to recover, but, reflecting the lessened need to finance inventory accumulation, to a moderate growth pace. On net, domestic nonfinancial sector debt should expand at a 5 percent annual rate over the March-to-September period, remaining comfortably within its 3-to-7 percent annual range.

Growth of Money and Debt *
(percent at annual rates)

	March to September	1995 QIV to September
M2	5	5-3/4
M3	5	6-1/4
M1	1/2	1/4
Adjusted for sweeps	6-1/2	7-1/2
Debt	5	5
Federal	5-1/4	4-1/2
Nonfederal	5	5

* Assumes an unchanged federal funds rate.

Alternative Levels and Growth Rates for Key Monetary Aggregates

		M2			M3			M1		
		Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in Billions										
Feb-96		3690.8	3690.8	3690.8	4636.1	4636.1	4636.1	1117.0	1117.0	1117.0
Mar-96		3725.0	3725.0	3725.0	4678.6	4678.6	4678.6	1127.5	1127.5	1127.5
Apr-96		3746.1	3744.9	3743.6	4702.0	4701.2	4700.5	1132.3	1131.9	1131.4
May-96		3761.7	3758.0	3754.2	4720.0	4717.7	4715.3	1132.8	1131.3	1129.8
Jun-96		3778.6	3772.4	3766.1	4739.3	4735.4	4731.5	1134.0	1131.4	1128.8
Jul-96		3796.9	3788.4	3779.9	4760.3	4755.1	4750.0	1135.3	1131.1	1127.0
Aug-96		3813.7	3803.6	3793.5	4780.5	4774.5	4768.6	1136.3	1130.7	1125.2
Sep-96		3829.9	3818.5	3807.1	4800.8	4794.0	4787.3	1137.0	1130.2	1123.4
Monthly Growth Rates										
Feb-96		5.3	5.3	5.3	10.0	10.0	10.0	-2.1	-2.1	-2.1
Mar-96		11.1	11.1	11.1	11.0	11.0	11.0	11.2	11.2	11.2
Apr-96		6.8	6.4	6.0	6.0	5.8	5.6	5.2	4.7	4.2
May-96		5.0	4.2	3.4	4.6	4.2	3.8	0.5	-0.6	-1.7
Jun-96		5.4	4.6	3.8	4.9	4.5	4.1	1.3	0.1	-1.1
Jul-96		5.8	5.1	4.4	5.3	5.0	4.7	1.3	-0.3	-1.9
Aug-96		5.3	4.8	4.3	5.1	4.9	4.7	1.1	-0.4	-1.9
Sep-96		5.1	4.7	4.3	5.1	4.9	4.7	0.7	-0.6	-1.9
Quarterly Averages										
96 Q1		5.6	5.6	5.6	6.9	6.9	6.9	-2.6	-2.6	-2.6
96 Q2		7.1	6.7	6.3	7.2	7.0	6.8	4.2	3.7	3.1
96 Q3		5.5	4.8	4.1	5.1	4.8	4.5	1.1	-0.3	-1.7
Growth Rate										
From	To									
Mar-96	Sep-96	5.6	5.0	4.4	5.2	4.9	4.6	1.7	0.5	-0.7
95 Q4	Mar-96	6.5	6.5	6.5	7.9	7.9	7.9	-0.3	-0.3	-0.3
95 Q4	Sep-96	6.1	5.7	5.3	6.4	6.2	6.0	0.9	0.2	-0.5
93 Q4	94 Q4	0.6	0.6	0.6	1.6	1.6	1.6	2.4	2.4	2.4
94 Q4	95 Q4	4.0	4.0	4.0	5.9	5.9	5.9	-1.8	-1.8	-1.8
95 Q4	96 Q1	5.6	5.6	5.6	6.9	6.9	6.9	-2.6	-2.6	-2.6
95 Q4	96 Q2	6.4	6.2	6.0	7.1	7.0	6.9	0.8	0.5	0.3
95 Q4	96 Q3	6.1	5.8	5.4	6.5	6.3	6.1	0.9	0.3	-0.4
1996 Target Ranges:			1.0 to 5.0			2.0 to 6.0				

(15) The waning impetus imparted by past policy easings is expected to damp growth in the broad monetary aggregates relative to their recent rapid pace. Still, both M2 and M3 should expand faster than nominal income for the next two quarters. The staff is anticipating M2 to grow at a 5 percent rate from March to September, leaving the aggregate somewhat above its 1-to-5 percent annual range. With bank credit remaining sluggish, M3 is expected to slow to a 5 percent rate over the next six months and thus edge back toward the upper end of its 2-to-6 percent annual range. The continued spread of retail sweep programs is likely to pull down M1 further, although a pickup in currency shipments abroad associated with the introduction of the redesigned $100 bill next week should provide some offset in coming months.[4]

4. The staff assumes that about $6 billion of new sweep arrangements will be implemented each month of the forecast period. As a result, total reserves are projected to fall about $2-1/2 billion over the next six months, or 9-1/4 percent at an annual rate; in not seasonally adjusted terms, the projected decline is $2 billion. With currency growth projected to increase, the monetary base is expected to pick up some, and over the March-to-September period its expansion is projected at a 9-3/4 percent annual rate.

Directive Language

(16) 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 slightly(SOMEWHAT)/MAINTAIN/INCREASE (SLIGHTLY/SOMEWHAT) the existing degree of pressure on reserve positions~~, taking account of a possible reduction 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, slightly (SOMEWHAT) greater reserve restraint (WOULD/MIGHT) or slightly (SOMEWHAT) lesser reserve restraint would (MIGHT) be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over coming months.

SELECTED INTEREST RATES
(percent)

	Short-Term								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
95 -- High	6.21	5.81	6.31	6.75	6.39	6.10	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
-- Low	5.40	4.89	5.05	4.98	5.55	5.73	5.16	8.50	5.36	5.68	6.06	6.98	5.65	7.40	7.11	5.53
96 -- High	5.61	5.03	5.02	5.16	5.48	5.73	5.15	8.50	5.94	6.40	6.70	7.87	6.13	8.16	7.83	5.60
-- Low	5.09	4.79	4.71	4.57	5.13	5.28	4.73	8.25	4.95	5.59	5.97	7.00	5.63	7.35	6.94	5.19
Monthly																
Mar 95	5.98	5.73	5.89	6.03	6.15	6.07	5.51	9.00	6.89	7.20	7.45	8.40	6.32	8.90	8.46	6.45
Apr 95	6.05	5.65	5.77	5.88	6.11	6.06	5.54	9.00	6.68	7.06	7.36	8.31	6.22	8.71	8.32	6.35
May 95	6.01	5.67	5.67	5.65	6.02	6.05	5.51	9.00	6.27	6.63	6.95	7.89	6.16	8.32	7.96	6.14
Jun 95	6.00	5.47	5.42	5.33	5.90	6.05	5.46	9.00	5.80	6.17	6.57	7.60	6.07	7.96	7.57	5.87
Jul 95	5.85	5.42	5.37	5.28	5.77	5.87	5.39	8.80	5.89	6.28	6.72	7.72	6.21	8.03	7.61	5.83
Aug 95	5.74	5.40	5.41	5.43	5.77	5.85	5.27	8.75	6.10	6.49	6.86	7.84	6.37	8.24	7.86	5.93
Sep 95	5.80	5.28	5.30	5.31	5.73	5.82	5.24	8.75	5.89	6.20	6.55	7.55	6.18	8.01	7.64	5.81
Oct 95	5.76	5.28	5.32	5.28	5.79	5.81	5.20	8.75	5.77	6.04	6.37	7.36	6.05	7.88	7.48	5.74
Nov 95	5.80	5.36	5.27	5.14	5.74	5.80	5.26	8.75	5.57	5.93	6.26	7.30	5.89	7.79	7.38	5.64
Dec 95	5.60	5.14	5.13	5.03	5.62	5.84	5.20	8.65	5.39	5.71	6.06	7.10	5.74	7.53	7.20	5.57
Jan 96	5.56	5.00	4.92	4.82	5.39	5.56	5.05	8.50	5.20	5.65	6.05	7.09	5.72	7.45	7.03	5.44
Feb 96	5.22	4.83	4.77	4.69	5.15	5.29	4.85	8.25	5.14	5.81	6.24	7.31	5.73	7.51	7.08	5.31
Weekly																
Dec 6 95	5.75	5.31	5.21	5.06	5.68	5.83	5.21	8.75	5.37	5.68	6.06	7.10	5.65	7.56	7.18	5.53
Dec 13 95	5.73	5.30	5.20	5.08	5.67	5.85	5.21	8.75	5.43	5.72	6.06	7.13	5.79	7.54	7.15	5.55
Dec 20 95	5.90	5.15	5.13	5.03	5.65	5.88	5.22	8.71	5.44	5.78	6.12	7.10	5.79	7.55	7.23	5.64
Dec 27 95	5.48	4.89	5.05	4.98	5.55	5.81	5.16	8.50	5.36	5.71	6.06	6.98	5.71	7.40	7.11	5.55
Jan 3 96	5.35	4.96	4.96	4.91	5.48	5.73	5.15	8.50	5.25	5.60	5.97	7.08	5.63	7.47	7.02	5.46
Jan 10 96	5.53	5.03	5.00	4.91	5.44	5.61	5.11	8.50	5.28	5.70	6.07	7.17	5.79	7.42	7.08	5.45
Jan 17 96	5.61	5.02	4.92	4.84	5.43	5.58	5.04	8.50	5.23	5.69	6.10	7.00	5.70	7.37	7.02	5.48
Jan 24 96	5.44	4.97	4.87	4.78	5.37	5.53	5.03	8.50	5.14	5.59	6.02	7.11	5.77	7.54	7.00	5.37
Jan 31 96	5.53	4.97	4.87	4.75	5.30	5.50	5.01	8.50	5.16	5.65	6.06	7.22	5.69	7.35	7.02	5.37
Feb 7 96	5.21	4.85	4.77	4.62	5.16	5.29	4.91	8.25	5.05	5.67	6.13	7.18	5.67	7.41	7.02	5.33
Feb 14 96	5.09	4.79	4.71	4.57	5.13	5.28	4.84	8.25	4.95	5.63	6.07	7.28	5.67	7.49	6.94	5.19
Feb 21 96	5.17	4.80	4.78	4.71	5.14	5.29	4.81	8.25	5.14	5.86	6.29	7.47	5.76	7.78	7.32	5.34
Feb 28 96	5.31	4.85	4.81	4.81	5.14	5.28	4.78	8.25	5.35	6.01	6.44	7.45	5.86	7.82	7.41	5.38
Mar 6 96	5.57	4.89	4.82	4.85	5.17	5.31	4.79	8.25	5.43	6.01	6.41	7.80	5.88	8.09	7.38	5.40
Mar 13 96	5.24	4.93	4.97	5.06	5.28	5.34	4.73	8.25	5.81	6.30	6.63	7.87	6.13	8.16	7.83	5.55
Mar 20 96	5.36	5.02	5.02	5.16	5.33	5.41	4.79	8.25	5.94	6.40	6.70	7.76	6.10	8.06	7.81	5.60
Daily																
Mar 15 96	5.42	5.01	5.04	5.21	5.31	5.40	--	8.25	6.01	6.46	6.75	--	--	--	--	--
Mar 21 96	5.21	4.94	5.01	5.11	5.32	5.44	--	8.25	5.82	6.28	6.62	--	--	--	--	--
Mar 22 96	5.18p	4.97	5.02	5.12	5.33	5.45	--	8.25	5.85	6.32	6.65	--	--	--	--	--

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

MARCH 25, 1996

Money and Credit Aggregate Measures

Seasonally adjusted

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components		M3	L	total loans and investments[1]	U. S. government[2]	other[2]	total[2]
			In M2	In M3 only						
	1	2	3	4	5	6	7	8	9	10
Annual growth rates(%):										
Annually (Q4 to Q4)										
1993	10.5	1.4	-2.4	-0.5	1.0	1.4	5.0	8.4	4.1	5.2
1994	2.4	0.6	-0.3	6.2	1.6	2.6	6.8	5.7	5.0	5.2
1995	-1.8	4.0	6.7	14.2	5.9	7.2	8.5	4.4	5.9	5.5
Quarterly(average)										
1995-Q1	-0.1	1.0	1.6	19.9	4.5	6.1	7.9	5.1	5.4	5.4
1995-Q2	-0.5	3.8	5.8	16.9	6.3	7.3	14.5	5.4	7.6	7.0
1995-Q3	-1.5	6.9	10.9	12.2	8.0	9.1	6.0	4.6	4.7	4.6
1995-Q4	-5.1	3.9	8.1	5.4	4.2	5.7	4.8	2.3	5.3	4.5
Monthly										
1995-FEB.	-1.5	-0.0	0.7	14.8	2.8	7.1	4.5	10.5	5.9	7.1
MAR.	0.9	1.7	2.1	17.7	4.8	7.8	9.1	7.2	5.2	5.7
APR.	2.6	3.4	3.8	16.6	6.0	7.3	28.2	0.7	9.2	7.0
MAY	-5.2	4.9	9.7	19.5	7.7	6.0	7.4	6.2	10.0	9.0
JUNE	-1.8	10.3	16.1	10.7	10.4	8.6	7.2	8.6	4.0	5.2
JULY	0.9	6.3	8.8	12.5	7.5	10.8	4.5	4.3	2.7	3.1
AUG.	-1.7	6.6	10.5	10.2	7.4	7.8	5.2	2.0	5.6	4.7
SEP.	-3.8	4.4	8.2	9.6	5.4	9.9	7.7	0.8	4.5	3.5
OCT.	-8.8	2.3	7.4	9.5	3.8	5.5	4.0	2.9	4.8	4.3
NOV.	-3.0	3.6	6.5	-2.2	2.4	0.9	3.4	4.4	6.8	6.2
DEC.	-4.5	5.5	9.9	-5.1	3.3	5.1	3.6	-0.4	5.0	3.6
1996-JAN.	-6.2	4.7	9.5	17.3	7.2	4.5	8.5	-3.3	4.2	2.2
FEB. p	-2.1	5.3	8.6	28.9	10.0		3.3			
Levels ($billions):										
Monthly										
1995-OCT.	1131.8	3632.8	2501.0	915.6	4548.4	5652.4	3578.3	3632.6	10126.1	13758.7
NOV.	1129.0	3643.6	2514.6	913.9	4557.5	5656.7	3588.5	3645.8	10183.9	13829.6
DEC.	1124.8	3660.2	2535.4	910.0	4570.2	5680.7	3599.4	3644.6	10226.7	13871.3
1996-JAN.	1119.0	3674.5	2555.5	923.1	4597.6	5702.2	3625.0	3634.7	10262.4	13897.1
FEB. p	1117.0	3690.8	2573.8	945.3	4636.1		3635.1			
Weekly										
1996-FEB. 5	1119.2	3677.4	2558.3	927.3	4604.7					
12	1114.3	3682.3	2568.0	947.0	4629.3					
19	1114.2	3690.6	2576.4	945.9	4636.5					
26	1117.4	3698.7	2581.3	952.4	4651.1					
MAR. 4 p	1129.8	3719.5	2589.6	951.5	4671.0					
11 p	1123.0	3720.1	2597.1	952.9	4673.0					

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

MARCH 25, 1996

Components of Money Stock and Related Measures

Seasonally adjusted

Period	Currency	Demand deposits	Other checkable deposits	Savings deposits[1]	Small denomination time deposits[2]	Money market mutual funds: Retail[3]	Money market mutual funds: Institution-only	Large denomination time deposits[4]	RP's[5,6]	Eurodollars[5,6]	Savings bonds	Short-term Treasury securities[5]	Commercial paper[5]	Bankers acceptances[5]
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Levels ($billions):														
Annual (Q4)														
1993	320.0	381.6	412.1	1215.1	792.3	356.5	196.3	334.8	155.3	66.1	170.7	339.5	382.4	15.7
1994	352.8	383.3	404.2	1162.7	812.2	383.1	182.9	358.9	175.9	81.7	179.8	381.2	401.5	13.8
1995	371.9	388.7	359.1	1123.7	933.1	460.1	224.7	414.2	184.1	90.1	184.5	469.1	438.4	12.6
Monthly														
1995-FEB.	359.0	383.5	396.8	1118.0	857.5	390.8	188.4	371.8	191.9	86.4	180.5	400.2	414.9	13.5
MAR.	362.3	382.9	394.8	1102.5	877.7	390.2	195.0	377.6	191.1	87.2	180.7	411.1	420.9	13.7
APR.	365.0	382.1	395.1	1091.2	893.4	393.3	199.4	381.0	192.1	90.1	181.2	412.0	430.6	13.4
MAY	367.6	382.1	387.4	1089.5	906.1	401.6	203.7	384.5	197.2	91.1	181.7	405.5	437.0	12.0
JUNE	367.0	386.5	382.0	1097.0	913.7	418.8	213.2	387.7	191.7	91.8	182.4	414.7	428.9	11.0
JULY	367.3	388.5	380.8	1096.2	919.4	431.7	218.6	394.0	188.4	92.6	183.0	434.2	429.0	12.1
AUG.	368.5	389.3	377.2	1101.6	923.7	443.6	218.5	396.7	192.9	93.1	183.5	437.5	433.3	12.4
SEP.	369.5	389.4	372.4	1108.4	927.0	450.3	221.7	400.5	192.5	93.7	183.9	457.2	438.6	12.8
OCT.	370.8	388.1	364.1	1116.1	929.8	455.0	223.6	409.8	189.9	92.2	184.2	465.7	440.7	13.4
NOV.	371.6	388.2	360.3	1120.6	933.8	460.1	224.0	415.5	185.2	89.3	184.5	464.8	437.3	12.6
DEC.	373.2	389.8	353.0	1134.5	935.7	465.1	226.4	417.4	177.3	88.9	184.8	476.7	437.1	11.9
1996-JAN.	373.6	393.5	343.0	1151.8	935.0	468.6	229.7	416.5	184.6	92.3	185.0	470.6	437.2	11.7
FEB. p	373.3	397.4	337.5	1165.5	933.6	474.7	243.1	421.8	187.4	93.0				

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

p preliminary

March 22, 1996

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

Period	Treasury bills: Net purchases[2]	Treasury bills: Redemptions (-)	Treasury bills: Net change	Treasury coupons: Net purchases[3]: within 1 year	Treasury coupons: Net purchases[3]: 1-5	Treasury coupons: Net purchases[3]: 5-10	Treasury coupons: Net purchases[3]: over 10	Treasury coupons: Redemptions (-)	Treasury coupons: Net Change	Federal agencies redemptions (-)	Net change outright holdings total[4]	Net RPs[5]
1993	17,717	---	17,717	1,223	10,350	4,168	3,457	767	18,431	774	35,374	5,974
1994	17,484	---	17,484	1,238	9,168	3,818	3,606	2,337	15,493	1,002	31,975	-7,412
1995	10,932	900	10,032	390	4,966	1,239	3,122	1,476	8,241	1,303	16,970	-1,023
1994 ---Q1	2,164	---	2,164	147	1,413	1,103	618	616	2,665	411	4,418	-11,663
---Q2	6,639	---	6,639	364	2,817	1,117	896	440	4,754	307	11,086	4,179
---Q3	1,610	---	1,610	151	2,530	938	840	302	4,157	114	5,654	-8,530
---Q4	7,071	---	7,071	575	2,408	660	1,252	979	3,916	169	10,818	8,602
1995 ---Q1	---	---	---	---	---	---	---	621	-621	229	-850	-4,083
---Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,395
---Q3	842	---	842	---	100	---	100	---	200	501	541	-15,979
---Q4	5,621	900	4,721	390	2,317	400	1,884	485	4,506	261	8,965	8,644
1995 March	---	---	---	---	---	---	---	---	---	83	-83	4,774
April	---	---	---	---	2,549	839	1,138	370	4,156	20	4,136	-2,758
May	---	---	---	---	---	---	---	---	---	30	-30	2,474
June	4,470	---	4,470	---	---	---	---	---	---	262	4,208	10,678
July	---	---	---	---	---	---	---	---	---	333	-333	-13,602
August	433	---	433	---	---	---	---	---	---	122	311	-2,984
September	409	---	409	---	100	---	100	---	200	46	563	608
October	1,350	900	450	---	---	---	---	485	-485	83	-118	-427
November	4,271	---	4,271	---	---	400	---	---	400	120	4,551	2,404
December	---	---	---	390	2,317	---	1,884	---	4,591	58	4,533	6,666
1996 January	---	---	---	---	---	---	---	1,228	-1,228	---	-1,228	-12,623
February	---	---	---	---	---	---	---	---	---	---	---	-1,689
Weekly												
December 20	---	---	---	---	---	---	---	---	---	---	---	5,804
27	---	---	---	---	---	---	---	---	---	3	-3	1,191
January 3	---	---	---	---	---	---	---	---	---	---	---	4,220
10	---	---	---	---	---	---	---	---	---	---	---	-6,458
17	---	---	---	---	---	---	---	1,228	-1,228	---	-1,228	-2,199
24	---	---	---	---	---	---	---	---	---	---	---	-9,687
31	---	---	---	---	---	---	---	---	---	---	---	5,695
February 7	---	---	---	---	---	---	---	---	---	---	---	-6,148
14	---	---	---	---	---	---	---	---	---	---	---	2,020
21	---	---	---	---	---	---	---	---	---	---	---	1,625
28	---	---	---	---	---	---	---	---	---	---	---	8,217
March 6	---	---	---	---	---	---	---	---	---	45	-45	-6,519
13	---	---	---	---	---	---	---	---	---	50	-50	11,648
20	---	---	---	---	---	---	---	---	---	---	---	-15,123
Memo: LEVEL (bil. $)[6] March 20			195.5	219.2	89.2	32.2	37.8		378.4		391.8	-10.9

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

	within 1 year	1-5	5-10	over 10	total
March 20	1.5	0.5	0.5	0.0	2.5