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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 (F.R.)
Class I -- FOMC

March 21, 1997

MONETARY POLICY ALTERNATIVES

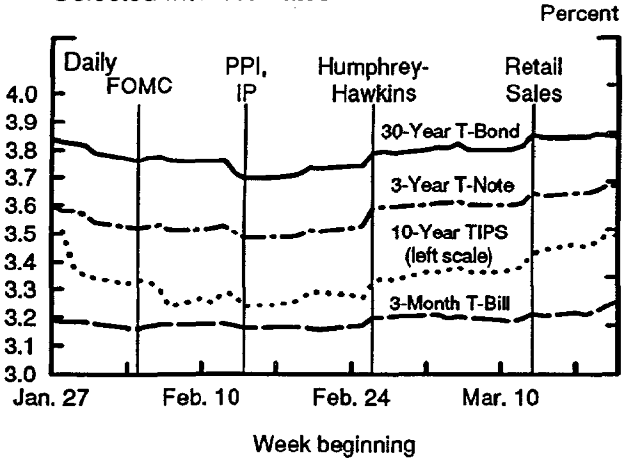
Recent Developments

(1) Since the February FOMC meeting, federal funds have traded near the intended rate of 5-1/4 percent, though unexpectedly low demands for excess reserves at times have pulled the rate below this level. Other interest rates drifted down on balance over the first part of the intermeeting period (chart), as incoming data showed inflation damped and seemed to confirm widely held expectations that the economy would slow in the first quarter. Rates backed up subsequently, however, partly in response to the Chairman's Congressional testimonies, which were read as suggesting both somewhat greater concern about the potential for building inflationary pressures than the market had perceived and a greater willingness by the Federal Reserve to tighten in order to head them off. In recent weeks, evidence that spending and output growth remained strong and that any slowing of the economic expansion in the first quarter was likely to be much less marked than had been anticipated added to upward pressure on interest rates, as perhaps did the perception that prospects for an agreement to balance the budget were diminishing.

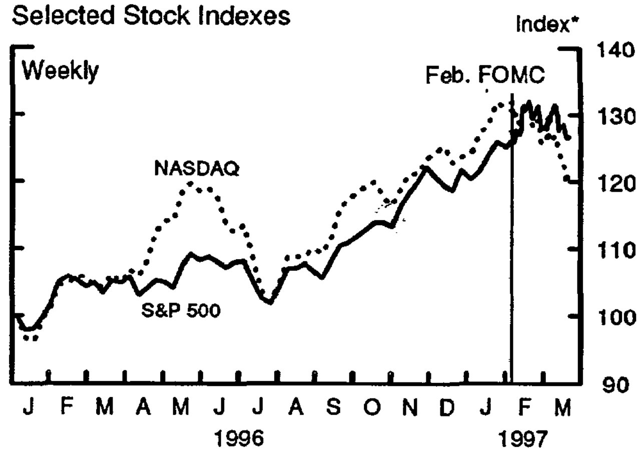
(2) On net, short-term rates rose 20 to 30 basis points over the intermeeting period and, judging from federal funds futures quotes, markets recently have come to assign high odds on a quarter-point tightening in March. Intermediate- and longer-term Treasury rates rose 25 to 40 basis points. The Treasury's inflation-indexed bond increased about half as much; however, limited trading activity in this bond counsels against a fine reading of changes in the spread of the nominal over real rates, which incorporates compensation for

Chart 1

Selected Interest Rates

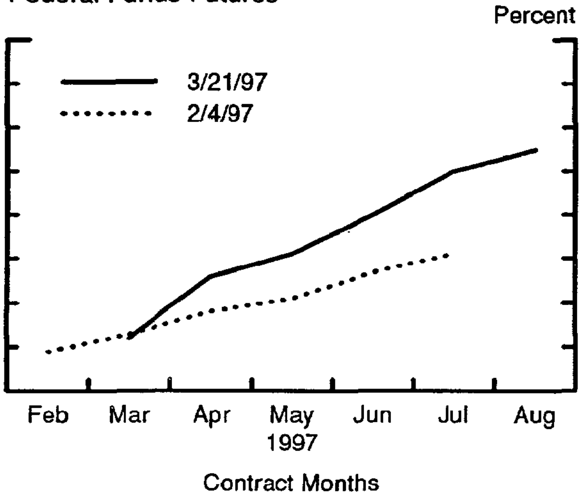


Selected Stock Indexes

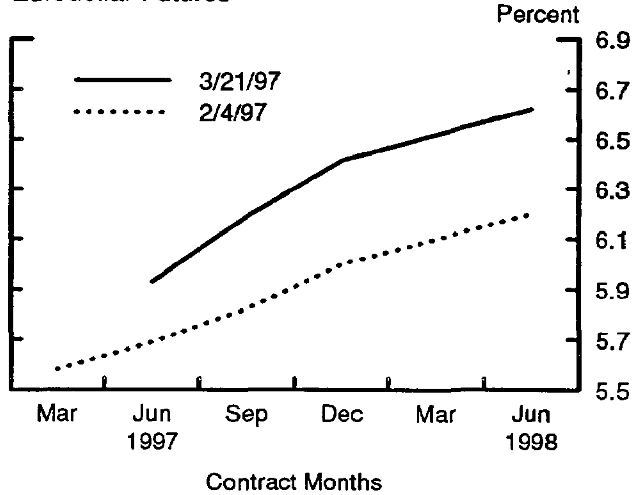


*Index, Jan 1996=100 Daily beginning February 4.

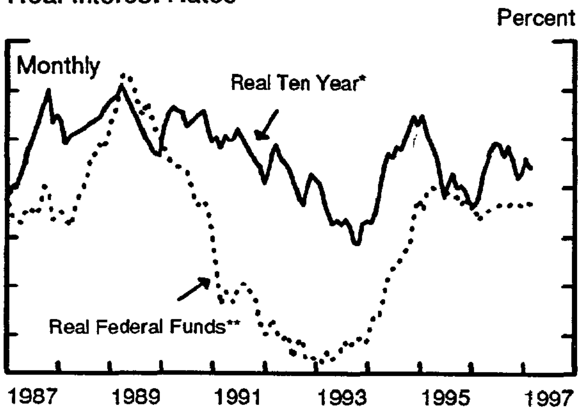
Federal Funds Futures



Eurodollar Futures

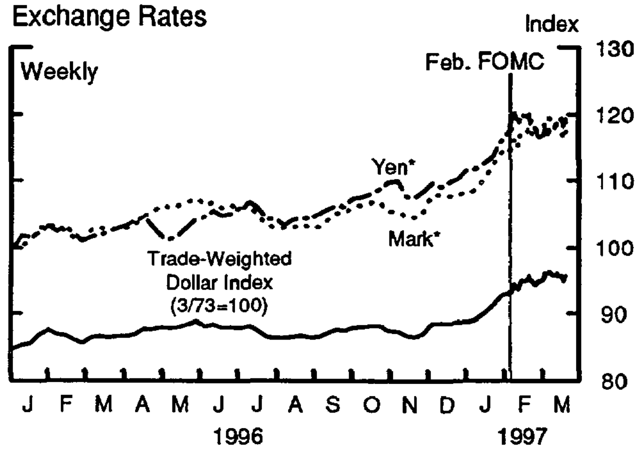


Real Interest Rates



* Long-term inflation expectations are measured by the Blue Chip survey until April 1991 and the Philadelphia Fed survey thereafter.
** The real federal funds rate is deflated by the change in the core CPI over the previous twelve months.

Exchange Rates



* Index, Jan 1996=100 Daily beginning February 4.

both expected inflation and inflation uncertainty. Survey data on inflation expectations have shown little change of late. Most indexes of equity prices declined slightly over the period, but weakness in technology and small capitalization stocks sent the NASDAQ down sharply.

(3) With growth prospects in the U.S. boosted relative to those abroad, reflected in greater increases in interest rates in the U.S. than abroad, the dollar's weighted-average exchange value rose 2-1/2 percent over the intermeeting period. The dollar appreciated only slightly against the yen, which was supported by a growing realization that Japan's trade and current account surpluses are burgeoning, that these surpluses are not sustainable, and that the yen most likely will eventually appreciate in response.

(4) Broad money growth remained fairly strong in February, though data for early March suggest some moderation. M2 expanded at a 5 percent rate last month, the same as in January, no doubt supported in both months by robust income growth.[1] Based on the staff's GDP forecast, M2 velocity is expected to rise only a little in the first quarter. With opportunity costs about unchanged, this behavior of velocity would extend the relatively stable relationship between these two measures that has prevailed for the last 2-1/2 years. M3 growth continued to outpace that of M2, reflecting sizable issuance of large time deposits, particularly by foreign banks, which have been using them to fund rapid asset expansion as

[1]M1 grew at a 3/4 percent annual rate in February; adjusted for the initial effects of sweeps, growth was at a 7-3/4 percent rate. The monetary base grew at a 6 percent rate last month, and at a 7-1/2 percent rate adjusted for the effect of sweeps.

well as to pay down borrowing from their foreign offices. M3 also continued to be boosted by further strong growth of money funds, which have continued to gain popularity as a business cash management vehicle in recent years.

(5) Growth of nonfinancial sector debt appears to have slowed a bit in the early months of the year, owing to some running down of cash balances of the federal and state government sectors. Private debt, by contrast, looks to be expanding at a little above its fourth-quarter pace. A greater flow of credit to the nonfinancial business sector reflects merger and acquisition activity and capital outlays. As bond yields backed up, the composition of business borrowing shifted a little in the direction of short-term sources of funds. Reflecting the strength of business balance sheets, credit supply conditions remain quite favorable. Junk bond spreads have narrowed; spreads on other open market instruments have held steady at very low levels; spreads of large bank loan rates over base rates ticked up in the first quarter, but they remain in the low portion of the historical range. Problems in the "sub-prime" auto loan market, which have included instances of defaulted commercial paper and bankruptcy, have had little effect on either the commercial paper market generally or the availability of credit to the household sector overall. However, losses on credit cards continued to mount, and a major credit card lender recently reported an earnings loss owing to unexpected deterioration in loan quality. It remains to be seen whether this experience will prompt a more cautious approach over a wider spectrum of borrowers and lenders. The quality of other consumer debt also continued to erode through the end of last year, but by much less, and delinquencies on home mortgages moved up from very low levels. Household

sector debt growth appears to have strengthened somewhat so far this year, with faster growth evident in both its consumer credit and mortgage components.

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

	Dec.	Jan.	Feb.	96:Q4 to Feb.
Money and Credit Aggregates				
M1	1.1	-1.4	0.8	0.0
Adjusted for sweeps	9.4	4.0	7.7	7.0
M2	7.5	5.2	5.1	5.9
M3	10.1	6.7	10.4	8.8
Domestic nonfinancial debt	4.0	3.3	4.8	4.2
Federal	2.9	-.6	1.8	1.5
Nonfederal	4.4	4.6	5.8	5.2
Bank Credit	8.8	11.3	12.5	10.8
Adjusted[1]	6.1	6.2	9.3	7.2
Reserve Measures				
Nonborrowed Reserves[2]	8.5	-15.7	-8.1	-6.5
Total Reserves	7.0	-18.3	-8.1	-7.9
Adjusted for sweeps	21.1	-3.7	7.1	7.1
Monetary Base	9.2	3.0	5.9	5.7
Adjusted for sweeps	11.1	4.3	7.5	7.4
Memo: (millions of dollars)				
Adjustment plus seasonal borrowing	155	45	42	--
Excess reserves	1424	1223	1033	--

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).
2. Includes "other extended credit" from the Federal Reserve.

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

Policy Alternatives

(6) The current pace of economic activity appears considerably more robust than had been expected in the January Greenbook. Persistent strength in domestic demand has prompted the staff to raise appreciably its projections of nominal and real GDP growth for 1997; the staff projections had been in line with the central tendencies of FOMC member forecasts in the latest Humphrey-Hawkins report, but are now about a half percentage point above the upper ends of the central tendency ranges. With growth in real GDP projected by the staff to exceed its estimate of the growth in potential by nearly a percentage point this year, employment and economic activity would over time move further above levels thought to be associated with stable inflation. The increased inflation pressures are unlikely to show through right away; indeed, the staff still forecasts CPI inflation to be below the FOMC members' central tendency in 1997, held down by the rise in the dollar and favorable developments in food and energy markets. However, inflation picks up noticeably in 1998 and presumably beyond.

(7) Nonetheless, a number of considerations regarding the outlook might induce the Committee to forgo tightening at the March meeting, as under **alternative B**. The fact that resource utilization rates have been close to current levels for several quarters, with no sign that the underlying trend of price inflation is moving higher, might suggest that the economy may not in fact have overshot its long-run potential. In light of this possibility, the Committee may want to wait to see more definite indications that price pressures are likely to intensify before tightening--for example, additional increases in resource utilization or in wage inflation. Moreover, even if a tightening is needed, the Committee may perceive no urgency, especially in light of the projected decline in total CPI inflation this year, which, in turn,

would help restrain inflation expectations. Were the Committee to wait to see if the unemployment rate declines, or if temporary factors damping compensation growth like health care savings or worker insecurity diminish, sufficient lead time may still be available to prevent tight labor markets from being translated into a materially higher rate of general price inflation. Even should the upturn in wage inflation already observed be sustained or become steeper, it still could be largely absorbed for a time in reduced profit margins or matched by faster productivity growth, rather than passed through quickly to prices. Finally, the enthusiasm of international investors for the dollar may prove more lasting than anticipated by the staff, restraining inflation pressures in 1998 and beyond relative to the staff forecast.

(8) With market participants apparently placing high odds on a 25 basis point tightening in the federal funds rate at the March meeting, interest rates probably would fall somewhat if the unchanged policy of alternative B were adopted. Nonetheless, many observers would likely continue to view tightening as inevitable, unless economic growth slows to an unexpected degree, and these expectations would limit the decline in long-term rates and any softening in the dollar. Indeed, if data in the weeks ahead come in as the staff projects -- strong real GDP growth and the unemployment rate declining -- both short- and long-term interest rates would back up, with long-term rates possibly more than reversing any initial rally.

(9) The Committee might choose to increase the federal funds rate, perhaps by the 50 basis points of **alternative C**, in order to lean against the likely buildup of inflation pressures. Recent strength in aggregate demand suggests that interest rates are not high enough to restrain economic growth over the near term to the likely rate of increase in potential, so resource use probably will be moving more decidedly above sustainable levels.

The alternative simulations in the Greenbook imply that substantial tightening is needed over the balance of the year to forestall a lasting increase in the rate of inflation. Because of lags in the effects of policy, delaying the tightening process for long in these circumstances would increase the amount that the real funds rate eventually would have to be raised to reverse the impetus imparted to the inflation process, amplifying the associated swing in real GDP. Even if the Committee is not as pessimistic as the staff on the inflation outlook, some firming may still be warranted to improve the balance of risks facing the economy. Robust final demand and lean inventories would suggest that the likelihood of significant economic weakness is small at present and that the economy should retain significant forward momentum even after a tightening. With demand strong, only unusual, persistent increases in productivity or in labor force participation would avert added cost and price pressures at some point in the future if the current funds rate is maintained. Given these current risks, a tightening action might seem especially appropriate if the Committee sought to improve the prospects for progress over the next few years toward its long-run price stability objective.

(10) In light of recent data on economic activity and the mention of the possibility of preemptive action in the Chairman's testimonies, a slight tightening would surprise market participants very little. Nevertheless, a 50 basis point move at this meeting is larger than market analysts expect, judging partly by what is built into the yield curve; it would likely prompt a substantial decline in bond and equity prices and a further strengthening of the dollar in foreign exchange markets. The extent of the response in financial markets would, of course, depend on whether the policy move were seen as the first of a series or as a one-time adjustment. On the one hand, a 50 basis point change might be read as indicating that the Federal Reserve was more concerned about inflation prospects than most had thought, adding

to the upward pressure on rates. On the other, markets might assume that, with a move of this size, policy would be on hold for a while, reducing uncertainties about whether further actions were imminent. Indeed, recent FOMC minutes and Committee members' speeches and testimonies have generally emphasized the Committee's perception that any disequilibrium is small, and markets could see the 50 basis point adjustment as putting policy at a setting that would re-equilibrate risks for some time.

(11) If the Committee felt that a tightening were needed but believed that a modest firming might be sufficient to contain inflation, it could choose to raise the federal funds rate 25 rather than 50 basis points. Even if a larger increase were seen as ultimately necessary, a smaller initial move might seem desirable if it were viewed as less likely to trigger an outsized reaction in financial markets. Since high odds on a 25 basis point tightening are already embodied in market yields, both long- and short-term rates might rise relatively little on the announcement of such an action. However, market responses over time would likely be muted only if market participants took the modest firming to augur less cumulative tightening than an immediate 50 basis point move. Based on the pattern of prior Committee actions, markets could soon begin to build in at least one more 25 basis point firming, a tendency that would be amplified if incoming data are as strong as in the staff forecast.

(12) Under alternative B and the staff forecast, debt is expected to continue to grow around its recent pace in the months ahead, while money growth tends to moderate as the expansion of nominal GDP slows. The debt of nonfinancial sectors is expected to grow at a 5 percent rate from February to June, paced by the business and household sectors. Business borrowing picks up somewhat, as capital spending remains strong, while flows of internal funds level out. For households, although credit is likely to become somewhat harder to

obtain for marginal borrowers, overall consumer debt should remain on its recent moderate growth path.

(13) M2 growth from February to June under alternative B is projected to slow to a 4-1/2 percent rate, reflecting the deceleration in nominal GDP. By midyear, this aggregate will likely be near the upper edge of its 1-to-5 percent annual range. Expansion of M3 should ease relative to its unusually rapid pace of earlier this year, as the torrid growth in money funds slows to a more sustainable rate and depositories resume a more typical balance of financing between deposits and non-deposit funding sources. From February to June, M3 is projected to increase at a 6 percent rate, leaving it well above the upper end of its annual range.

Growth Rates of Money and Debt

(percent, annual rates)

	February to June	1996:Q4 to June
M2	4-1/2	5
M3	6	7-1/4
M1	-6	-3-1/2
Adjusted for sweeps	4-1/2	5-1/2
Debt	5	4-3/4

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2		M3		M1	
	Alt. B	Alt. C	Alt. B	Alt. C	Alt. B	Alt. C
Levels in Billions						
Dec-96	3833.1	3833.1	4925.2	4925.2	1081.0	1081.0
Jan-97	3849.8	3849.8	4952.7	4952.7	1079.7	1079.7
Feb-97	3866.1	3866.1	4995.8	4995.8	1080.4	1080.4
Mar-97	3878.1	3878.1	5020.4	5020.4	1073.5	1073.5
Apr-97	3893.3	3892.1	5045.1	5044.3	1066.6	1066.1
May-97	3908.5	3904.7	5069.9	5067.4	1061.9	1060.5
Jun-97	3924.1	3917.6	5094.8	5090.6	1058.4	1055.9
Monthly Growth Rates						
Dec-96	7.5	7.5	10.1	10.1	1.1	1.1
Jan-97	5.2	5.2	6.7	6.7	-1.4	-1.4
Feb-97	5.1	5.1	10.4	10.4	0.8	0.8
Mar-97	3.7	3.7	5.9	5.9	-7.7	-7.7
Apr-97	4.7	4.3	5.9	5.7	-7.7	-8.2
May-97	4.7	3.9	5.9	5.5	-5.3	-6.4
Jun-97	4.8	4.0	5.9	5.5	-4.0	-5.2
Quarterly Averages						
96 Q3	3.4	3.4	5.4	5.4	-6.5	-6.5
96 Q4	5.0	5.0	7.8	7.8	-7.3	-7.3
97 Q1	5.7	5.7	8.2	8.3	-0.9	-1.0
97 Q2	4.5	4.2	6.4	6.2	-5.8	-6.3
Growth Rate						
From To						
Feb-97 Jun-97	4.5	4.0	5.9	5.7	-6.1	-6.8
96 Q4 Feb-97	5.9	5.9	8.8	8.8	0.0	0.0
96 Q4 Jun-97	5.1	4.8	7.2	7.1	-3.5	-3.9
95 Q4 96 Q4	4.6	4.6	6.7	6.7	-4.6	-4.6
96 Q4 97 Q2	5.2	5.0	7.4	7.3	-3.4	-3.6
1997 Annual Ranges:	1.0 to 5.0		2.0 to 6.0			

Directive Language

(14) 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. 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 some moderation in the expansion of 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
96 -- High	5.61	5.18	5.37	5.61	5.57	5.83	5.15	8.50	6.59	7.02	7.16	8.23	6.34	8.72	8.42	6.01
-- Low	5.08	4.79	4.71	4.57	5.13	5.28	4.73	8.25	4.95	5.59	5.97	7.00	5.63	7.35	6.94	5.19
97 -- High	5.37	5.12	5.25	5.44	5.50	5.94	4.89	8.25	6.38	6.72	6.97	8.11	6.06	8.34	7.94	5.71
-- Low	5.05	4.98	5.00	5.17	5.35	5.37	4.80	8.25	5.93	6.30	6.56	7.69	5.84	7.92	7.56	5.45
Monthly																
Mar 96	5.31	4.96	4.96	5.06	5.29	5.39	4.76	8.25	5.79	6.27	6.60	7.75	6.07	8.07	7.62	5.51
Apr 96	5.22	4.95	5.06	5.23	5.36	5.40	4.75	8.25	6.11	6.51	6.79	7.90	6.20	8.32	7.93	5.73
May 96	5.24	5.02	5.12	5.33	5.36	5.38	4.74	8.25	6.27	6.74	6.93	8.02	6.22	8.46	8.07	5.77
Jun 96	5.27	5.09	5.25	5.48	5.46	5.45	4.76	8.25	6.49	6.91	7.06	8.13	6.25	8.59	8.32	5.92
Jul 96	5.40	5.15	5.30	5.52	5.53	5.44	4.81	8.25	6.45	6.87	7.03	8.07	6.15	8.56	8.25	5.98
Aug 96	5.22	5.05	5.13	5.35	5.40	5.39	4.82	8.25	6.21	6.64	6.84	7.87	6.00	8.33	8.00	5.84
Sep 96	5.30	5.09	5.24	5.50	5.51	5.45	4.82	8.25	6.41	6.83	7.03	8.06	6.11	8.48	8.23	5.85
Oct 96	5.24	4.99	5.11	5.25	5.41	5.37	4.82	8.25	6.08	6.53	6.81	7.83	5.97	8.22	7.92	5.64
Nov 96	5.31	5.03	5.07	5.14	5.38	5.39	4.83	8.25	5.82	6.20	6.48	7.54	5.85	7.91	7.62	5.53
Dec 96	5.29	4.91	5.04	5.18	5.44	5.70	4.85	8.25	5.91	6.30	6.55	7.63	5.91	8.01	7.60	5.52
Jan 97	5.25	5.03	5.10	5.30	5.43	5.43	4.85	8.25	6.16	6.58	6.83	7.93	5.99	8.21	7.82	5.56
Feb 97	5.19	5.01	5.06	5.23	5.37	5.39	--	8.25	6.03	6.42	6.69	7.81	5.90	8.03	7.65	5.49
Weekly																
Dec 4 96	5.52	4.94	5.03	5.11	5.40	5.51	4.88	8.25	5.72	6.08	6.37	7.62	5.83	7.97	7.44	5.47
Dec 11 96	5.22	4.87	5.01	5.17	5.41	5.54	4.82	8.25	5.85	6.26	6.52	7.67	5.93	8.06	7.57	5.52
Dec 18 96	5.38	4.85	5.04	5.21	5.42	5.65	4.83	8.25	5.97	6.40	6.64	7.69	5.95	8.00	7.74	5.53
Dec 25 96	5.18	4.93	5.07	5.21	5.48	5.83	4.90	8.25	5.97	6.35	6.59	7.64	5.92	8.00	7.64	5.57
Jan 1 97	5.37	5.02	5.09	5.19	5.48	5.94	4.89	8.25	5.98	6.35	6.58	7.83	5.96	8.16	7.67	5.56
Jan 8 97	5.28	5.04	5.12	5.30	5.42	5.45	4.82	8.25	6.13	6.55	6.78	7.95	5.96	8.25	7.85	5.54
Jan 15 97	5.19	5.03	5.09	5.31	5.44	5.43	4.82	8.25	6.15	6.57	6.81	7.93	6.01	8.20	7.87	5.57
Jan 22 97	5.19	5.03	5.09	5.29	5.42	5.43	4.82	8.25	6.14	6.55	6.82	8.00	6.00	8.28	7.85	5.57
Jan 29 97	5.18	5.04	5.12	5.31	5.42	5.43	4.82	8.25	6.21	6.64	6.90	7.92	6.02	8.15	7.88	5.55
Feb 5 97	5.30	5.00	5.08	5.26	5.41	5.43	4.87	8.25	6.07	6.51	6.78	7.86	5.95	8.01	7.74	5.51
Feb 12 97	5.05	5.01	5.07	5.22	5.37	5.39	4.81	8.25	6.02	6.43	6.72	7.69	5.87	7.92	7.65	5.52
Feb 19 97	5.22	4.98	5.00	5.17	5.35	5.38	4.81	8.25	5.93	6.30	6.56	7.77	5.84	7.99	7.56	5.45
Feb 26 97	5.16	5.00	5.05	5.22	5.35	5.37	4.80	8.25	6.05	6.42	6.68	7.94	5.93	8.18	7.65	5.49
Mar 5 97	5.36	5.09	5.17	5.38	5.42	5.42	4.84	8.25	6.25	6.58	6.83	7.97	5.97	8.23	7.84	5.54
Mar 12 97	5.19	5.07	5.19	5.39	5.44	5.42	4.80	8.25	6.26	6.58	6.85	8.09	6.02	8.27	7.84	5.61
Mar 19 97	5.26	5.12	5.25	5.44	5.50	5.45	4.81	8.25	6.38	6.72	6.97	8.11	6.06	8.34	7.94	5.71
Daily																
Mar 14 97	5.15	5.10	5.21	5.42	5.49	5.43	--	8.25	6.35	6.71	6.95	--	--	--	--	--
Mar 20 97	5.32	5.20	5.32	5.50	5.55	5.51	--	8.25	6.45	6.75	6.97	--	--	--	--	--
Mar 21 97	5.27 p	5.26	5.36	5.54	5.62	5.59	--	8.25	6.46	6.74	6.96	--	--	--	--	--

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 24, 1997

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)										
1994	2.5	0.6	-0.3	6.6	1.7	2.7	6.9	5.7	5.1	5.2
1995	-1.6	4.0	6.7	15.3	6.2	7.4	8.7	4.4	5.9	5.5
1996	-4.6	4.6	8.8	14.8	6.7	5.9	4.1	3.8	6.0	5.4
Quarterly(average)										
1996-Q1	-3.5	5.3	9.3	11.7	6.6	4.9	4.6	3.0	5.7	5.0
1996-Q2	-1.4	4.5	7.0	13.9	6.4	6.3	3.1	4.7	6.2	5.8
1996-Q3	-6.5	3.4	7.7	12.7	5.4	5.5	1.7	3.8	5.8	5.3
1996-Q4	-7.3	5.0	10.2	18.0	7.8	6.5	6.6	3.2	5.6	5.0
Monthly										
1996-FEB.	-2.6	4.9	8.2	22.4	8.5	3.9	5.7	6.1	6.4	6.3
MAR.	6.9	9.4	10.6	9.6	9.5	10.5	-0.7	8.9	5.8	6.6
APR.	-2.9	3.4	6.1	7.6	4.3	6.7	7.9	4.2	6.5	5.9
MAY	-6.8	0.4	3.5	26.2	5.7	2.4	-1.0	2.0	6.1	5.0
JUNE	-1.7	5.3	8.2	6.9	5.7	7.0	2.2	2.1	6.0	5.0
JULY	-7.2	2.6	6.8	11.4	4.4	4.1	3.6	6.0	6.2	6.2
AUG.	-9.7	4.1	9.9	8.7	5.1	6.1	-2.6	4.5	5.0	4.9
SEP.	-7.2	4.0	8.7	21.7	7.8	8.3	6.1	1.0	5.3	4.2
OCT.	-14.3	4.0	11.4	25.7	8.7	4.5	8.4	3.8	5.9	5.3
NOV.	-0.2	6.8	9.6	5.6	6.5	7.4	7.9	4.2	6.1	5.6
DEC.	1.1	7.5	10.0	19.7	10.1	7.0	8.8	2.9	4.5	4.0
1997-JAN.	-1.4	5.2	7.9	11.8	6.7	4.5	11.3	-0.6	4.6	3.3
FEB. p	0.8	5.1	6.8	29.3	10.4		12.5			
Levels ($billions):										
Monthly										
1996-OCT.	1080.2	3787.9	2707.7	1069.5	4857.4	5982.9	3718.9	3758.2	10751.3	14509.5
NOV.	1080.0	3809.4	2729.4	1074.5	4883.9	6020.0	3743.3	3771.4	10805.9	14577.3
DEC.	1081.0	3833.1	2752.1	1092.1	4925.2	6055.2	3770.6	3780.4	10846.0	14626.3
1997-JAN.	1079.7	3849.8	2770.2	1102.8	4952.7	6078.0	3806.1	3778.6	10887.8	14666.4
FEB. p	1080.4	3866.1	2785.8	1129.7	4995.8		3845.7			
Weekly										
1997-FEB. 3	1087.2	3861.6	2774.4	1111.8	4973.4					
10	1083.1	3862.1	2779.0	1122.9	4985.0					
17	1076.8	3868.1	2791.3	1134.5	5002.6					
24	1080.3	3869.1	2788.8	1134.1	5003.2					
MAR. 3 p	1079.5	3870.6	2791.1	1139.2	5009.8					
10 p	1076.5	3875.0	2798.6	1142.5	5017.5					

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 24, 1997

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)														
1994	352.4	384.9	404.8	1164.0	806.5	379.8	197.4	358.7	176.6	81.8	179.7	378.8	402.2	13.6
1995	371.4	390.3	362.1	1127.3	930.4	451.0	244.7	416.3	186.7	91.8	184.4	465.5	439.3	12.4
1996	392.6	400.9	278.3	1258.8	942.9	528.1	293.1	483.5	194.3	107.8	187.0	445.8	486.1	11.6
Monthly														
1996-FEB.	373.4	397.3	340.3	1165.1	934.1	466.0	259.7	426.3	188.9	95.4	185.2	448.1	443.0	10.5
MAR.	375.4	404.5	337.3	1180.2	930.8	476.8	263.7	432.5	187.8	94.0	185.4	458.4	446.3	10.1
APR.	376.4	404.5	333.9	1190.1	929.5	481.4	263.4	435.4	188.9	96.5	185.8	460.0	459.3	10.4
MAY	377.7	407.1	323.5	1195.6	928.4	484.5	263.6	442.5	202.7	97.0	186.1	439.6	468.0	11.0
JUNE	379.9	410.6	316.4	1204.1	928.8	493.6	269.7	448.9	195.2	97.8	186.4	448.5	470.1	11.5
JULY	382.8	408.7	308.7	1211.0	930.5	499.6	274.0	455.2	194.0	97.9	186.7	447.6	473.0	11.6
AUG.	385.2	405.8	300.4	1222.7	934.2	506.1	278.8	459.3	192.0	98.4	186.9	452.4	477.7	11.4
SEP.	387.6	404.9	292.2	1231.5	937.5	513.2	285.2	466.8	193.9	101.2	187.1	457.7	482.0	11.3
OCT.	390.2	398.2	283.2	1246.3	940.9	520.5	288.1	479.2	195.6	106.6	187.1	447.5	479.6	11.3
NOV.	392.5	402.1	276.8	1259.0	943.3	527.1	292.0	481.7	194.7	106.3	187.0	454.2	483.2	11.6
DEC.	395.2	402.5	274.8	1271.0	944.4	536.6	299.3	489.7	192.5	110.6	187.0	435.7	495.6	11.8
1997-JAN.	397.0	401.7	272.4	1282.5	945.2	542.4	296.3	497.6	195.2	113.8	186.7	415.2	512.2	11.2
FEB. p	400.5	404.3	267.0	1290.3	946.7	548.7	305.4	510.4	198.7	115.2				

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

March 21, 1997

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]
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
1996	9,901	---	9,901	1,275	3,177	776	1,965	787	6,407	1,637	14,670	5,351
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
1996 ---Q1	---	---	---	---	---	---	---	---	---	1,336	-1,336	-8,879
---Q2	3,399	---	3,399	35	1,899	479	1,065	787	2,691	138	5,952	2,959
---Q3	---	---	---	1,240	1,279	297	900	---	3,716	79	3,637	-2,454
---Q4	6,502	---	6,502	---	---	---	---	---	---	85	6,417	13,726
1996 March	---	---	---	---	---	---	---	---	---	108	-108	5,433
April	88	---	88	35	1,899	479	1,065	787	2,691	82	2,697	-2,925
May	---	---	---	---	---	---	---	---	---	16	-16	6,594
June	3,311	---	3,311	---	---	---	---	---	---	40	3,271	-711
July	---	---	---	---	---	---	---	---	---	52	-52	7,118
August	---	---	---	1,240	1,279	297	900	---	3,716	---	3,716	-9,267
September	---	---	---	---	---	---	---	---	---	27	-27	-304
October	---	---	---	---	---	---	---	---	---	63	-63	3,625
November	6,502	---	6,502	---	---	---	---	---	---	10	6,492	584
December	---	---	---	---	---	---	---	---	---	12	-12	9,518
1997 January	---	---	---	---	---	---	---	607	-607	187	-793	-10,151
February	---	---	---	818	1,125	---	---	---	1,943	27	1,916	-7,371
Weekly												
December 18	---	---	---	---	---	---	---	---	---	---	---	15,613
25	---	---	---	---	---	---	---	---	---	---	---	-8,118
January 1	---	---	---	---	---	---	---	---	---	---	---	4,247
8	---	---	---	---	---	---	---	---	---	---	---	-8,210
15	---	---	---	---	---	---	---	607	-607	170	-777	3,263
22	---	---	---	---	---	---	---	---	---	17	-17	-9,269
29	---	---	---	---	---	---	---	---	---	---	---	10,721
February 5	---	---	---	---	---	---	---	---	---	---	---	-12,348
12	---	---	---	---	---	---	---	---	---	---	---	7,645
19	---	---	---	---	1,125	---	---	---	1,125	---	1,125	-9,546
26	---	---	---	818	---	---	---	---	818	27	791	7,579
March 5	---	---	---	---	---	---	---	---	---	---	---	-9,508
12	---	---	---	---	1,438	---	1,117	---	2,555	---	2,555	7,457
19	---	---	---	---	1,423	---	---	---	1,423	---	1,423	-4,186
Memo: LEVEL (bil. $)[6] March 19			205.0	224.5	94.0	36.6	42.1		397.2		412.6	-13.7

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
March 19	1.1	0.5	0.4	0.0	2.0