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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

May 16, 1997

Monetary Policy Alternatives

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

May 16, 1997

MONETARY POLICY ALTERNATIVES

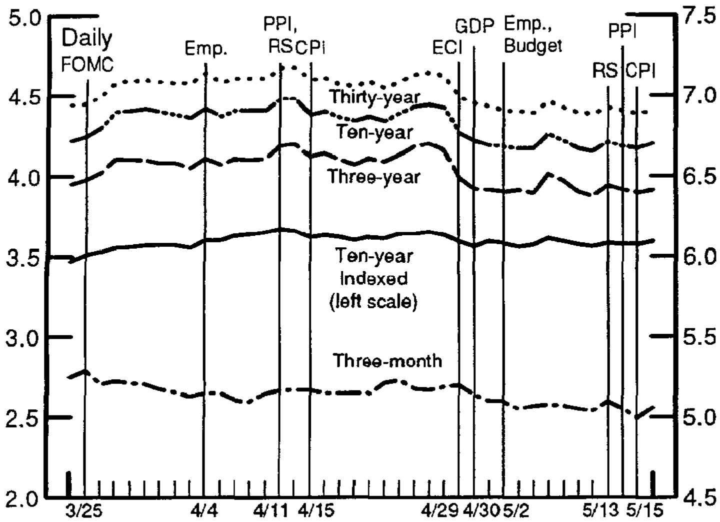
Recent Developments

(1) Over the intermeeting period, federal funds averaged close to the slightly higher rate of 5½ percent adopted by the FOMC as its intended level at the last meeting. Federal funds generally traded near their intended level, despite the complications to Desk operations posed by soaring individual nonwithheld income tax payments in mid-April, which pushed Treasury balances well above the capacity of the Treasury Tax and Loan system at depository institutions for an extended period. The diversion of the excess to the Treasury's account at the Federal Reserve drove that account to a record level, leading to substantial upward adjustments to estimated reserve needs. The Desk met these needs primarily through repurchase agreements, entering the market earlier than usual on a number of occasions to maximize the availability of collateral and, in an even rarer tactic, twice arranging two rounds of RP transactions on a single day. The Desk also purchased bills and coupons on an outright basis to help offset the tax-related reserve drain as well as to address longer-term reserve needs stemming from the uptrend in currency outstanding.

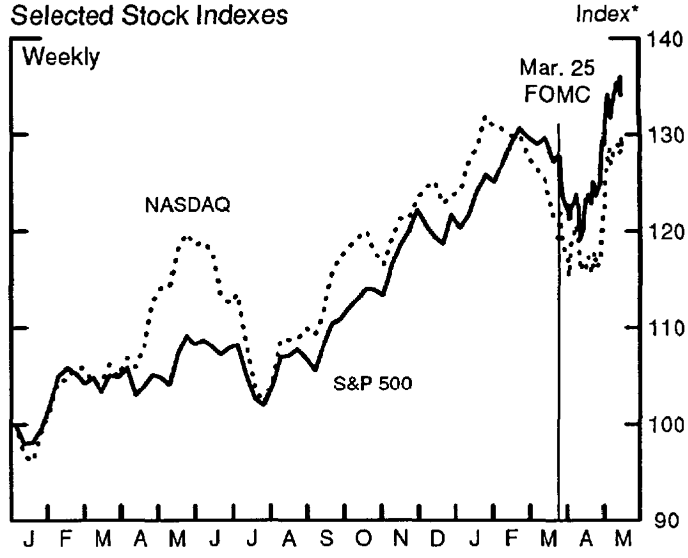
(2) Market interest rates generally showed small mixed changes on balance over the intermeeting period. At the short end of the maturity structure, rates on most private instruments were up 5 to 10 basis points, owing to the March policy action, which had been mostly anticipated. The three-month Treasury bill rate, however, fell 20 basis points, in reaction to reduced issuance (chart). Intermediate- and long-term yields rose early in the intermeeting period, responding mainly to indications of sustained strength in aggregate

Chart 1

Selected Treasury Interest Rates

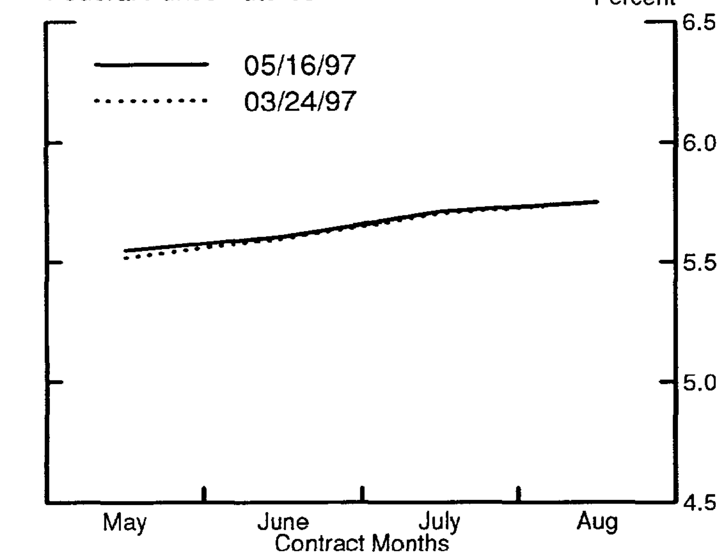


Selected Stock Indexes

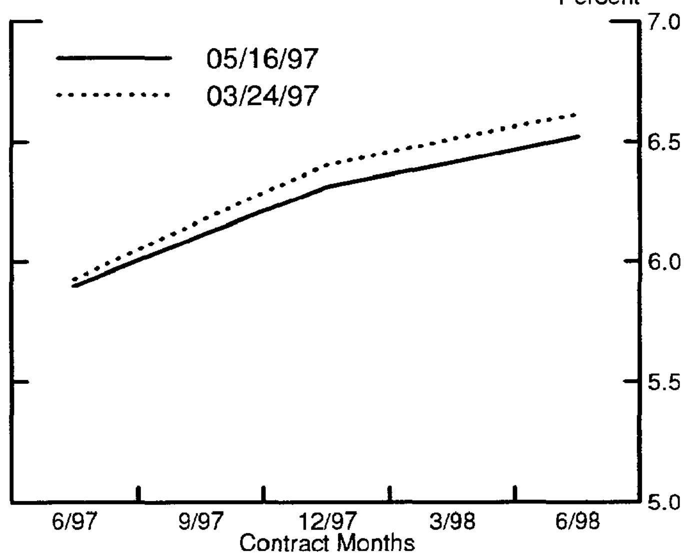


*Index, Jan 1996=100
Daily beginning Mar 24.

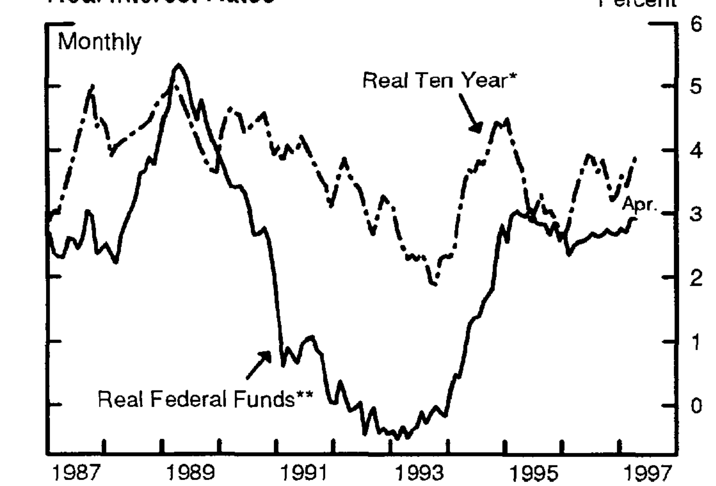
Federal Funds Futures



Eurodollar Futures



Real Interest Rates



* 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.

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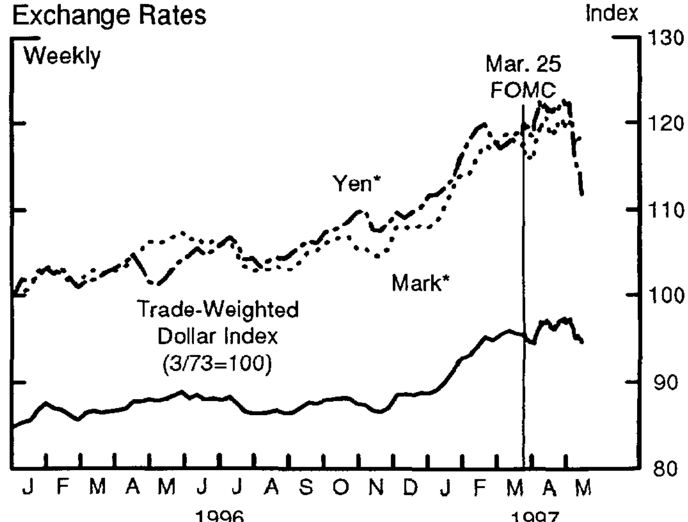
Exchange Rates



* Index, Jan 1996=100
Daily beginning March 24.

demand and output. Subsequently, the bond market more than rolled back these increases on the publication of data suggesting that wage and price pressures remained damped and that economic growth was moderating. Also contributing to the rally were expectations of reduced federal borrowing, reflecting strong tax flows and perhaps the announcement of an agreement to balance the budget, as well as a speech by the Chairman that was perceived, on balance, to be suggesting that the odds on monetary policy tightening might be lower than previously expected. Judging from quotes on federal funds futures contracts, investors now see only a modest chance of a 25 basis point move at the May FOMC meeting. In contrast to the small declines in nominal bond yields, the rate on the Treasury's inflation-indexed security rose around 10 basis points over the period. Stock prices fluctuated substantially but finished the period up 4 percent to 8 percent. With real interest rates perhaps a bit higher, the rally appeared to be spurred by greater optimism about the outlook for earnings, supported by stronger-than-expected reports on first-quarter profits.

(3) In foreign exchange markets, the dollar's trade-weighted-average value roughly followed the pattern of U.S. intermediate- and long-term interest rates, rising early in the period but subsequently declining to end down about 1 percent, on balance. The depreciation in May has been especially pronounced against the yen. In Japan, long-term bond yields have risen about 20 basis points, on balance, and stock prices have rallied sharply on market perceptions that the economic picture may be brightening. In addition, Japanese authorities attempted to jawbone the yen higher, following up on the April 27 statement by the G-7 that emphasized "the importance of avoiding exchange rates that could lead to the emergence of large external imbalances." The dollar has risen about ½ percent on balance against the

deutsche mark as German bond yields declined 20 basis points.

; the Desk, again,

did not intervene.

(4) Growth of the broad monetary aggregates have been strong over the past two months, exceeding the staff's projection. Much of the strength in M2, particularly in April, however, seems to have reflected a temporary buildup of liquid balances by households to make outsized tax payments.[1] Supporting this interpretation, data for late April and early May show a reversal of the M2 bulge as tax payments cleared. These data, together with rough estimates of the possible effects of the unusual tax payments on money holdings in April, suggest that underlying growth in M2 has tapered off from its strong pace of earlier this year. For the first time this year, M2 dropped below the 5 percent upper end of its annual growth range in the early weeks of May. The rapid growth in M3 in March and April was impelled by its M2 component as well as by large time deposits. M3 also dropped sharply in early May--but not by enough to bring it within its growth cone. The strength in M3 in March and April was associated in part with the need to fund a brisk expansion of bank credit. Banks acquired large volumes of securities on balance over the two months, likely as temporary outlets for the buildup of tax-related deposit balances, and business and real estate lending remained robust.

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[1] The buildup was mainly in savings accounts (including MMDAs) and money market mutual funds. M1 declined steeply in April, reflecting the effects of new retail sweep activity. (From 1994 through April, depository institutions have implemented more than $200 billion of such sweeps, reducing required reserve balances cumulatively by about $17 billion.) In addition to sweep accounts, moderate growth in currency restrained M1 and contributed to weakness in the monetary base, which rose only slightly in April.

(5) Growth of domestic nonfinancial sector debt so far in 1997 has been somewhat slower than in 1996, mainly owing to the reduced pace of federal borrowing. In March, this aggregate was a little below the midpoint of its annual range. Among private borrowers, consumer credit growth slowed in March from a very rapid rate earlier in the quarter, and bank data for April suggest modest expansion in such debt last month. Business borrowing, in contrast, appears to have remained fairly strong. Credit supply conditions are still generally quite favorable for business borrowers. In open markets, debt spreads have stayed near record low levels, and banks report a further easing of terms on C&I loans. Banks have been tightening standards and terms on consumer credit, however, as households have continued to experience debt servicing problems.

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

	Feb.	Mar.	Apr.	96:Q4 to Apr.[1]
Money and Credit Aggregates				
M1	1.0	-6.0	-11.4	-3.4
Adjusted for sweeps	7.5	5.3	0.4	5.4
M2	5.1	5.1	6.6	5.9
M3	9.0	6.8	8.8	8.0
Domestic nonfinancial debt	4.9	5.2	--	4.5
Federal	1.8	4.7	--	2.3
Nonfederal	6.0	5.3	--	5.3
Bank Credit	12.3	6.8	11.2	10.2
Adjusted[2]	9.1	10.3	11.4	8.5
Reserve Measures				
Nonborrowed Reserves[3]	-12.3	-19.9	-24.4	-12.5
Total Reserves	-12.3	-17.0	-21.7	-12.2
Adjusted for sweeps	3.4	7.1	3.4	6.5
Monetary Base	5.7	3.5	1.7	4.6
Adjusted for sweeps	7.2	6.2	4.3	6.6
Memo: (millions of dollars)				
Adjustment plus seasonal borrowing	42	156	261	--
Excess reserves	1031	1160	1015	--

1. 1996:Q4 through March for domestic nonfinancial sector debt and components.
2. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).
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

(6) Given the Committee's recent tightening, the staff now assumes a slightly higher real federal funds rate for a time than in its last forecast, but has not appreciably revised its expectations for most other key financial variables. In the current forecast, as in the last, the economy will continue to operate beyond its estimated potential through the end of 1998 and at a bit lower unemployment rate than in the forecast for the March meeting. Taking account of the incoming data, real GDP is now seen as rising about 3 percent over the four quarters of this year, somewhat more than in the last forecast. This growth rate for 1997 is well above, and the unemployment rate at the end of the year--at 4.8 percent--well below, the central tendencies of the Committee members' February forecasts. Nonetheless, the staff projection for total CPI inflation this year of not quite 2½ percent is lower than the members' Humphrey-Hawkins projections. The slowdown in economic growth that seems to be in train is not viewed by the staff as sufficient to forestall an upturn in inflation. For next year, with the unemployment rate remaining below 5 percent, the total and core CPI are projected to speed up to around 3 percent, despite a slight damping effect from technical changes to the indexes.

(7) Although there have been a number of fiscal developments since the last Committee meeting pointing toward reductions in expected deficits, none would seem to have a material effect on the appropriate near-term stance of monetary policy. The agreement to reach budget balance would not exert any additional fiscal restraint for several years. While the agreement had the potential, in the near term, for providing economic stimulus through lower interest and exchange rates and higher wealth valuations, in the event the response in

financial markets was muted. Personal tax payments have been much higher than expected and revenues for future years have been revised up, damping disposable income. However, this is not expected to have a material effect on the growth of spending. Taxpayers likely anticipated much of their higher payments and have already adjusted the level of their consumption, if necessary. In addition, some of the unexpected surge in payments may be a byproduct of the rise in wealth and a greater willingness to spend it. For these reasons, the lower path for disposable income going forward would be reflected mostly in a smaller measured private saving rate.

(8) Despite the staff's perception that underlying inflation pressures will be building, the Committee may find reasons to leave its policy stance unchanged, at least for the time being, as incorporated in **alternative B,** which keeps the intended federal funds rate at 5½ percent. In the Greenbook forecast, the expansion of real GDP abruptly slows by enough to keep resource utilization from increasing further. The Committee may feel that there is a reasonable chance that the rates of resource use in the forecast could be associated with more subdued inflation than the staff expects. Data becoming available since the last meeting indicate a continuing damped response of prices and costs to unemployment rates that were once regarded as well below sustainable levels, underscoring the heightened uncertainties of recent years about the relationship between resource use and inflation. Even if labor costs do accelerate as the staff projects, the higher profit share of late could provide an even greater buffer against the effects on prices than the staff has assumed, damping inflation rates for some time to come. The argument for standing pat would be stronger still if one gave appreciable weight to the notion that real short-term interest rates already had

moved to relatively high levels, providing some insulation against the risk that overly rapid economic growth would resume.

(9) Many analysts continue to predict that the Committee will tighten policy at this meeting. However, in recent weeks, markets appear to have removed all but modest odds of any action, and the choice of alternative B should trigger a relatively minor decline in rates. As the intermeeting period progresses, incoming evidence confirming the staff forecast of markedly slower second-quarter growth in real GDP and still-quiescent inflation readings could further erode expectations of policy firming, fueling additional price gains in fixed-income markets. As an exception, the recent decline in the three-month bill rate should begin to unwind significantly with the approach of renewed net bill issuance in July. The exchange value of the dollar probably would fluctuate around its recent lower levels or even drift lower.

(10) Some firming of the intended federal funds rate would seem justified if the underlying uptrend in inflation in the Greenbook forecast, which assumes no policy tightening until well into next year, were viewed both as the most likely outcome and as unacceptable. Tightening also might be favored even if the Committee has a more benign outlook for inflation, perhaps because it sees potential output as much higher than does the staff, but perceives an unacceptable risk that the staff outcome might be realized. Despite the recent good inflation performance, each decline in the unemployment rate has raised the likelihood that the economy has breached its potential and that inflation pressures will intensify, a concern that has presumably been accentuated with the unemployment rate falling to under 5 percent. Because of the lags in the effects of monetary policy actions, the Committee may decide that another move now to head off higher future inflation is warranted, even

recognizing the inevitable uncertainties about prospective aggregate demand and the level of the NAIRU. In addition, although real short-term rates are above historical averages, the recent strength in profits and share prices might suggest that unusually productive investment opportunities and rising wealth will require still higher real rates to restrain demand. Against this backdrop, the recent runup in bond and stock prices may have reinforced the risk that the economic expansion will remain robust on average over coming quarters, intensifying the strain on resources and heightening inflation pressures by even more than is foreseen in the Greenbook.

(11) The ½ percentage point rise in the federal funds rate under **alternative C** would come as a major surprise to financial market participants and likely would spark a considerable rise in interest rates and the exchange value of the dollar. Future expected real short rates could shift up appreciably over a relatively long time horizon as the market saw the action as reflecting an FOMC view, which the market may find persuasive, that inflation pressures over the near term were likely to be stronger than the market had previously anticipated and an intention to contain those pressures through further aggressive policy tightenings. The higher real interest rates for discounting future business profits, along with possibly greater downside risks to those profits, could take a considerable toll on equity prices as well. It is possible, though, that the market would see such a prompt substantial firming as enough to hold inflation in check, or even reduce price pressures, without the need for any future tightenings. In these circumstances, upward revisions to expected future interest rates would be appreciably smaller, and the selloff at the longer end of the maturity spectrum considerably more limited.

(12) If the FOMC believed that the time were ripe for some further tightening, but thought that a smaller rise in the funds rate might well be enough to contain any emerging inflation problem, it could instead opt for a ¼ percentage point increase. Such an action might be viewed as a logical follow-through to the Committee's action at the last meeting, given the subsequent data indicating first-quarter growth in real GDP substantially above trend and an appreciable decline in the unemployment rate. It also would come as less of a shock to market participants, lessening the likelihood of a sharp selloff in bond and stock markets.

(13) Under the staff forecast, the growth of debt of domestic nonfinancial sectors will be damped somewhat over coming months, held down by Treasury paydowns through midyear and subdued federal borrowing thereafter. Elsewhere, borrowing by businesses is expected to continue around the faster pace of the first quarter. Strong merger activity and rising external financing needs, as profits level out, will be supporting healthy growth in business debt. In that environment, lender caution could become evident, but credit supplies to businesses still should remain ample. In the household sector, borrowing is likely to be supported by continued high levels of housing activity and outlays for consumer durables; some further tightening of supply conditions for consumer credit to marginal borrowers will exert only modest restraint on overall household borrowing. With some pickup in total domestic nonfinancial debt growth after midyear, expansion in this aggregate should remain around a 4½ percent pace from the fourth quarter of 1996 through September, somewhat below the 5 percent midpoint of its annual range.

(14) The runoff of the tax-related deposit surge of April should be completed in May, after which the monthly growth of M2 and M3 under alternative B is expected to stabilize at annual rates of 4½ and 6 percent, respectively, through September--somewhat below the pace of the first five months of the year. Quarterly average growth of M2 in the second and third quarters would be a touch below the staff's projected average pace for nominal GDP of 4¼ percent over the two quarters, reflecting the lagged effects of higher opportunity costs stemming from the policy firming in March. M3 growth is expected to ease slightly, though still remain strong. Rapid money fund growth and some further shifting toward large time deposits and away from overseas funding of bank assets will continue to sustain growth in this aggregate, even in the face of a substantial slowing in bank credit growth. As shown in the charts, the staff anticipates that M2 will have grown at a 4¾ percent rate from the fourth quarter of 1996 through September, just below the 5 percent upper end of its annual range, while M3 will have expanded at a 6¾ percent rate over the same period, well above the 6 percent upper bound of its annual range.

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						
Apr-97	3903.9	3903.9	5052.6	5052.6	1065.0	1065.0
May-97	3902.3	3901.7	5065.3	5064.9	1060.3	1060.1
Jun-97	3917.2	3914.6	5091.0	5089.4	1056.2	1055.3
Jul-97	3931.9	3926.7	5116.9	5113.6	1053.1	1051.1
Aug-97	3946.7	3939.0	5142.9	5138.0	1050.3	1047.1
Sep-97	3961.5	3951.8	5168.6	5162.7	1048.0	1043.5
Monthly Growth Rates						
Jan-97	5.2	5.2	5.5	5.5	-1.4	-1.4
Feb-97	5.1	5.1	9.0	9.0	1.0	1.0
Mar-97	5.1	5.1	6.8	6.8	-6.0	-6.0
Apr-97	6.6	6.6	8.8	8.8	-11.4	-11.4
May-97	-0.5	-0.7	3.0	2.9	-5.3	-5.5
Jun-97	4.6	4.0	6.1	5.8	-4.6	-5.4
Jul-97	4.5	3.7	6.1	5.7	-3.5	-4.7
Aug-97	4.5	3.8	6.1	5.7	-3.2	-4.6
Sep-97	4.5	3.9	6.0	5.7	-2.6	-4.2
Quarterly Averages						
97 Q1	5.9	5.9	7.7	7.7	-0.7	-0.7
97 Q2	4.3	4.2	6.8	6.8	-6.7	-6.8
97 Q3	4.0	3.3	5.8	5.5	-3.8	-4.9
97 Q4	4.5	4.0	6.0	5.8	-1.9	-3.3
Growth Rate						
From To						
Apr-97 Sep-97	3.5	2.9	5.5	5.2	-3.8	-4.8
May-97 Sep-97	4.6	3.9	6.1	5.8	-3.5	-4.7
96 Q4 Apr-97	5.9	5.9	8.0	8.0	-3.4	-3.4
96 Q4 May-97	4.8	4.8	7.2	7.1	-3.7	-3.8
96 Q4 Sep-97	4.8	4.5	6.8	6.7	-3.6	-4.1
95 Q4 96 Q4	4.6	4.6	6.7	6.7	-4.6	-4.6
1997 Annual Ranges:	1.0 to 5.0		2.0 to 6.0			

Chart 2

Actual and Projected M2

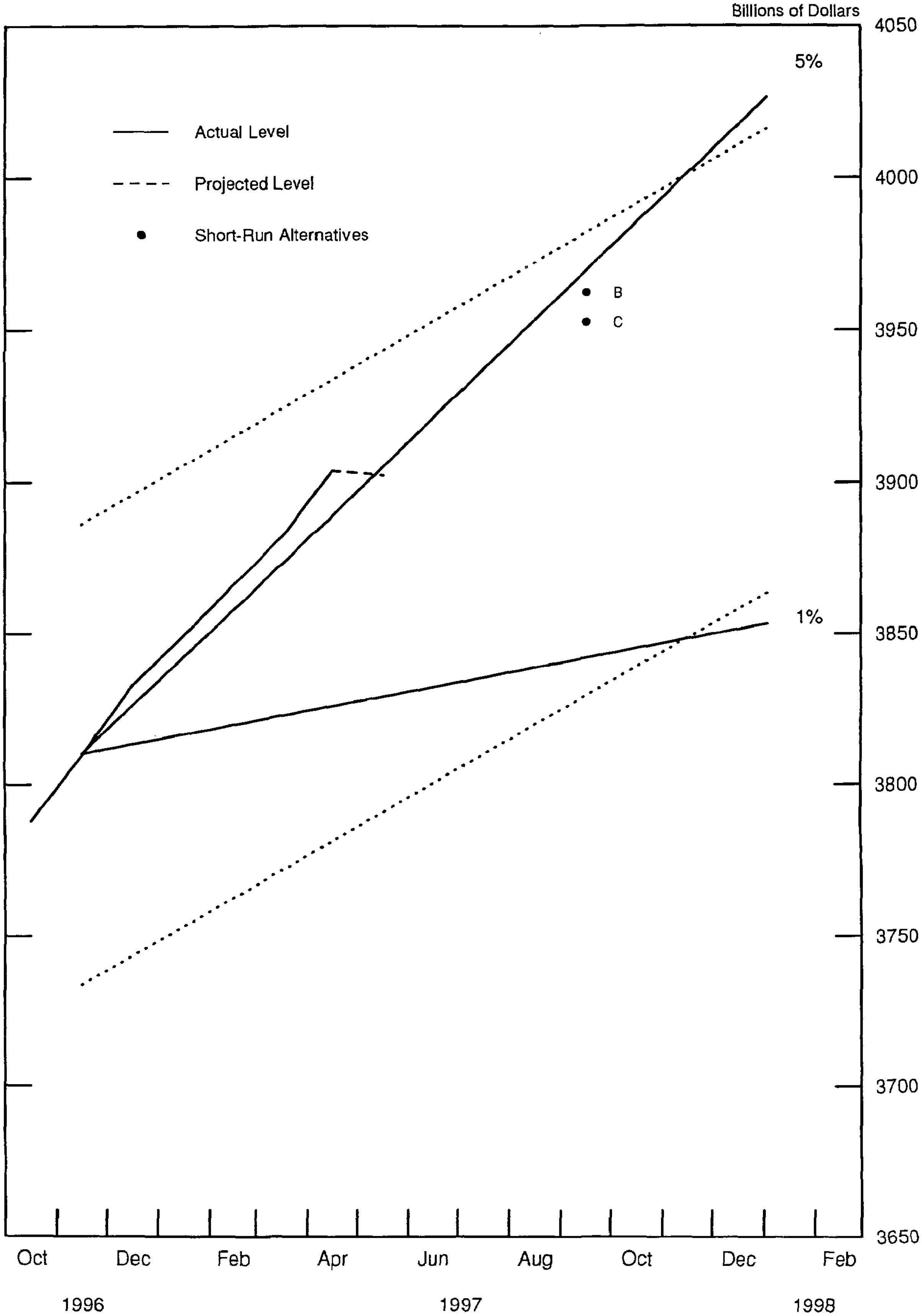


Chart 3

Actual and Projected M3

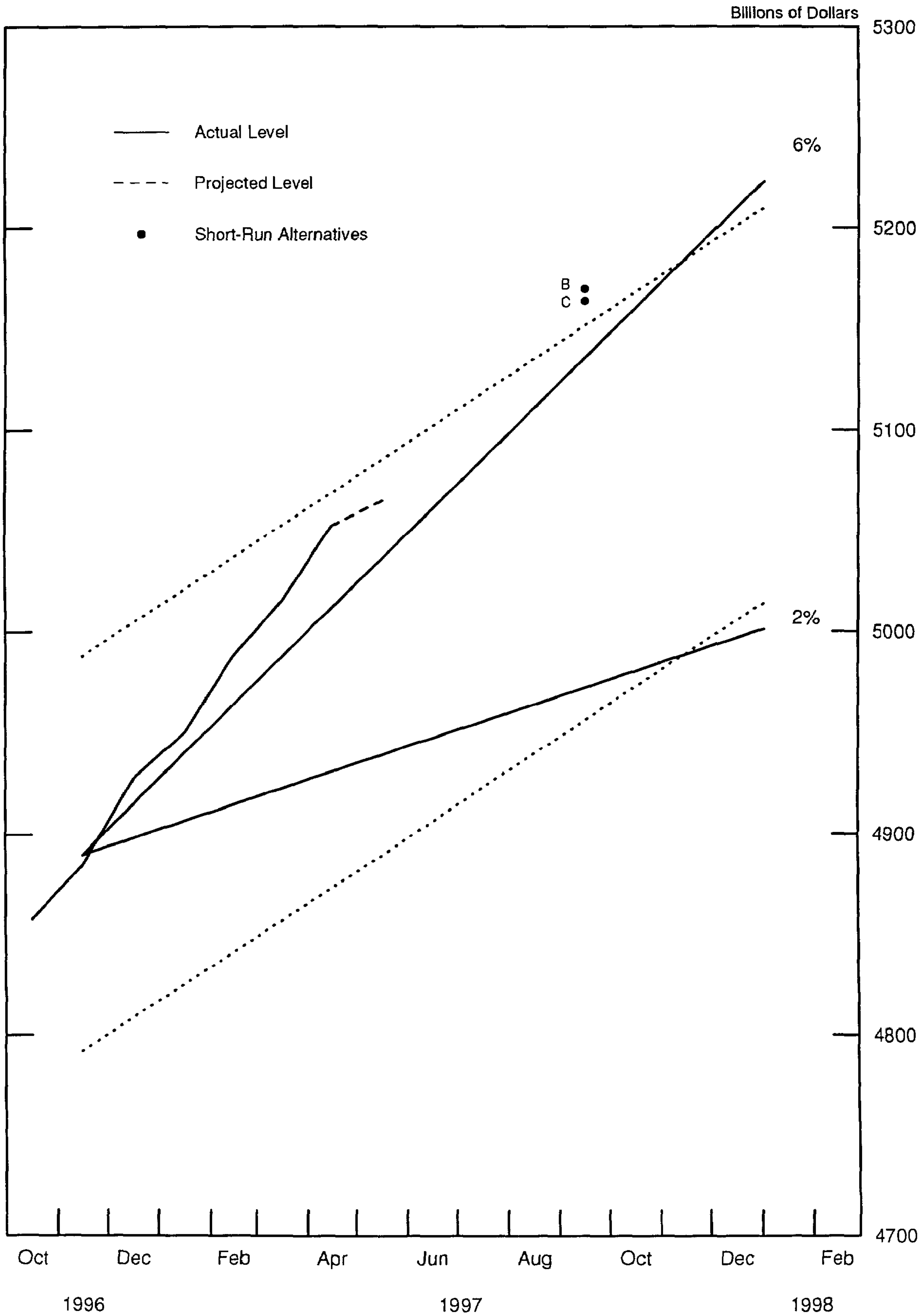
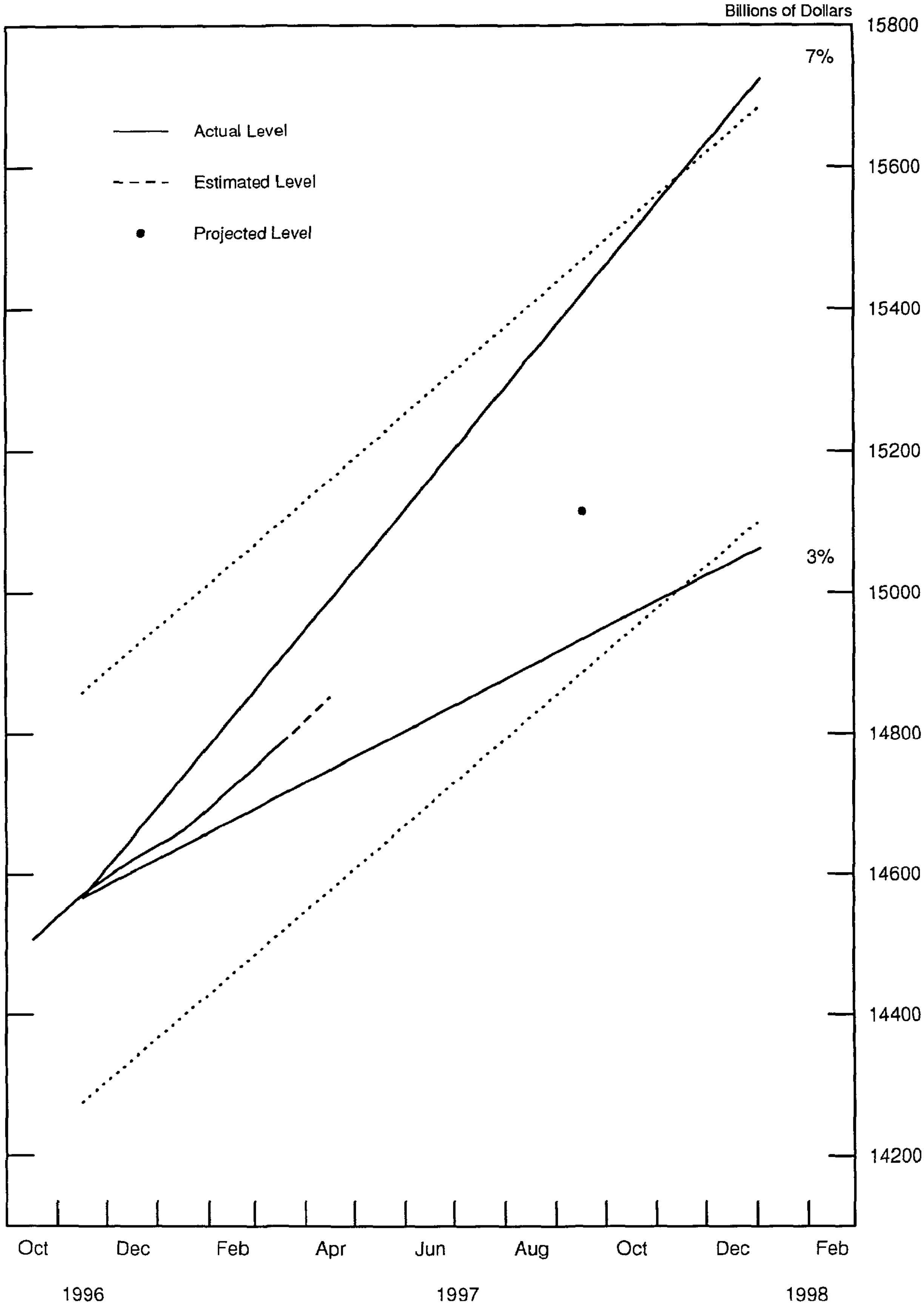


Chart 4

Actual and Projected Debt



Directive Language

(15) 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, slightly (SOMEWHAT) greater reserve restraint (MIGHT/WOULD) or slightly (SOMEWHAT) lesser reserve restraint might (WOULD) 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.

May 19, 1997

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	5.86	5.24	5.41	5.67	5.73	5.94	4.96	8.50	6.65	6.93	7.13	8.27	6.14	8.56	8.18	5.91
-- 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																
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	4.83	8.25	6.03	6.42	6.69	7.81	5.90	8.03	7.65	5.49
Mar 97	5.39	5.14	5.26	5.47	5.53	5.51	4.82	8.30	6.38	6.69	6.93	8.08	6.04	8.35	7.90	5.64
Apr 97	5.51	5.16	5.37	5.64	5.71	5.61	--	8.50	6.61	6.89	7.09	8.23	6.14	8.46	8.14	5.87
Weekly																
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
Mar 26 97	5.40	5.24	5.35	5.54	5.62	5.60	4.83	8.29	6.47	6.75	6.96	8.22	6.09	8.56	7.97	5.71
Apr 2 97	5.86	5.20	5.33	5.67	5.68	5.69	4.96	8.50	6.59	6.90	7.09	8.26	6.14	8.46	8.18	5.80
Apr 9 97	5.37	5.13	5.33	5.63	5.70	5.63	4.96	8.50	6.59	6.89	7.10	8.27	6.14	8.51	8.15	5.91
Apr 16 97	5.48	5.16	5.41	5.66	5.72	5.61	4.91	8.50	6.65	6.93	7.13	8.19	6.13	8.37	8.16	5.89
Apr 23 97	5.48	5.18	5.40	5.62	5.71	5.59	4.94	8.50	6.60	6.86	7.07	8.24	6.13	8.49	8.08	5.86
Apr 30 97	5.61	5.18	5.37	5.66	5.73	5.60	4.96	8.50	6.59	6.86	7.07	7.98	6.01	8.25	8.01	5.84
May 7 97	5.55	5.08	5.33	5.57	5.71	5.60	4.96	8.50	6.42	6.69	6.92	7.97	5.98	8.21	7.94	5.82
May 14 97	5.49	5.06	5.29	5.54	5.71	5.60	--	8.50	6.42	6.69	6.90	8.00	5.91	8.24	7.91	5.78
Daily																
May 9 97	5.46	5.05	5.26	5.53	5.70	5.59	--	8.50	6.40	6.67	6.89	--	--	--	--	--
May 15 97	5.51	4.99	5.31	5.51	5.71	5.62	--	8.50	6.39	6.67	6.88	--	--	--	--	--
May 16 97	5.46p	5.06	5.34	5.54	5.71	5.62	--	8.50	6.41	6.70	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.

p - preliminary data

Money and Credit Aggregate Measures

Seasonally adjusted

Strictly Confidential (FR)-
Class II FOMC

MAY 19, 1997

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)										
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	15.0	6.7	6.0	4.1	3.8	5.9	5.4
Quarterly(average)										
1996-Q2	-1.4	4.5	7.0	13.9	6.4	6.3	3.1	4.7	6.3	5.9
1996-Q3	-6.5	3.4	7.7	12.8	5.4	5.5	1.7	3.8	5.8	5.3
1996-Q4	-7.3	5.0	10.1	18.5	7.9	6.6	6.7	3.2	5.4	4.8
1997-Q1	-0.7	5.9	8.5	14.1	7.7		10.2	1.8	5.2	4.3
Monthly										
1996-APR.	-2.9	3.4	6.1	7.6	4.3	6.7	7.9	4.2	6.6	6.0
MAY	-6.8	0.4	3.5	26.2	5.8	2.4	-1.0	2.0	6.1	5.1
JUNE	-1.7	5.3	8.2	7.0	5.7	7.0	2.2	2.1	6.1	5.1
JULY	-7.2	2.6	6.8	11.4	4.4	4.1	3.7	6.0	6.2	6.1
AUG.	-9.7	4.1	9.9	8.9	5.1	6.1	-2.6	4.5	4.9	4.8
SEP.	-7.2	4.0	8.6	21.6	7.8	8.2	6.0	1.0	5.2	4.1
OCT.	-14.3	4.0	11.4	25.9	8.7	4.5	8.2	3.8	5.7	5.2
NOV.	-0.2	6.8	9.6	6.6	6.7	7.6	8.5	4.2	5.8	5.4
DEC.	1.1	7.5	10.0	21.0	10.5	7.3	9.0	2.9	4.5	4.1
1997-JAN.	-1.4	5.2	7.8	6.4	5.5	3.1	11.2	-0.6	4.8	3.4
FEB.	1.0	5.1	6.7	22.8	9.0	10.0	12.3	1.8	6.0	4.9
MAR.	-6.0	5.1	9.4	12.8	6.8		6.8	4.7	5.3	5.2
APR. p	-11.4	6.6	13.6	16.3	8.8		11.2			
Levels ($billions):										
Monthly										
1996-DEC.	1081.0	3833.0	2752.0	1094.6	4927.7	6057.7	3772.6	3780.4	10841.6	14622.0
1997-JAN.	1079.7	3849.7	2769.9	1100.4	4950.1	6073.2	3807.7	3778.6	10884.7	14663.3
FEB.	1080.6	3866.0	2785.4	1121.3	4987.3	6123.9	3846.8	3784.2	10938.7	14722.9
MAR.	1075.2	3882.4	2807.2	1133.3	5015.7		3868.6	3799.1	10987.2	14786.3
APR. p	1065.0	3903.9	2838.9	1148.7	5052.6		3904.7			
Weekly										
1997-APR. 7	1065.9	3897.2	2831.3	1136.9	5034.1					
14	1056.9	3895.8	2838.9	1151.5	5047.4					
21	1071.0	3916.6	2845.6	1148.1	5064.6					
28 p	1064.8	3907.0	2842.3	1156.9	5063.9					
MAY 5 p	1064.1	3894.4	2830.3	1153.8	5048.1					

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

MAY 19, 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	942.8	528.1	293.1	483.5	194.4	109.1	187.0	445.9	486.1	11.6
Monthly														
1996-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	195.3	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	194.1	97.9	186.7	447.6	473.0	11.6
AUG.	385.2	405.8	300.4	1222.7	934.1	506.1	278.8	459.3	192.3	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	194.1	101.2	187.1	457.7	482.0	11.3
OCT.	390.2	398.2	283.2	1246.3	940.8	520.5	288.1	479.2	195.5	107.1	187.1	447.6	479.6	11.3
NOV.	392.5	402.1	276.8	1259.0	943.2	527.1	292.0	481.7	194.6	107.6	187.0	454.3	483.2	11.6
DEC.	395.2	402.4	274.8	1271.0	944.4	536.6	299.3	489.6	193.0	112.7	187.0	435.7	495.5	11.8
1997-JAN.	397.0	401.7	272.5	1282.5	945.0	542.4	296.3	491.4	196.4	116.4	186.7	415.8	509.1	11.5
FEB.	400.5	404.2	267.3	1290.5	946.2	548.7	305.4	497.9	200.3	117.8	186.4	420.6	517.5	12.1
MAR.	402.4	402.8	261.6	1304.3	945.1	557.8	311.8	506.7	198.7	116.1				
APR. p	403.7	395.2	257.8	1323.3	946.4	569.2	311.6	518.9	200.3	117.9				

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

May 16, 1997

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

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	Net purchases[3] 1-5	Net purchases[3] 5-10	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
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
1997 ---Q1	---	---	---	818	3,985	---	1,117	607	5,314	230	5,084	-18,046
1996 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
March	---	---	---	---	2,861	---	1,117	---	3,978	17	3,961	-524
April	4,006	---	4,006	---	---	---	---	376	1,548	24	5,530	66,091
Weekly												
January 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
26	---	---	---	---	---	---	---	---	---	17	-17	2,699
April 2	---	---	---	---	---	---	---	---	---	---	---	-4,002
9	4,006	---	4,006	---	---	---	---	---	---	---	4,006	2,933
16	---	---	---	---	---	---	---	376	-376	10	-386	7,077
23	---	---	---	---	---	---	---	---	---	---	---	9,245
30	---	---	---	---	---	---	---	---	1,924	14	1,910	46,494
May 7	---	---	---	---	---	---	---	---	988	---	988	-25,641
14	---	---	---	---	---	---	---	---	2,218	---	2,218	694
Memo: LEVEL (bil. $)[6]												
May 14			209.0	230.5	95.1	37.7	43.1		406.4		420.9	-13.2

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
May 14	1.1	0.4	0.4	0.0	1.9