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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

June 30, 1995

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The Committee's decision at the May 23 meeting to keep reserve conditions steady came as no surprise to market participants, and most interest rates showed little immediate change. In subsequent weeks, federal funds generally traded close to the intended rate of 6 percent. Desk operations were complicated by large swings in the Treasury's balance, mostly related to tax flows; by fluctuations in required reserves, which partly reflected the implementation or extension of retail sweep programs by two large regional banks; and by an unexpected slowdown in currency. Also, the desk continued to monitor closely the demand for excess reserves, which has run on the lean side.¹

(2) Despite the stability of the federal funds rate, other short-term rates fell 1/4 percentage point over the intermeeting period, mostly owing to revisions to the prospects for the economy and monetary policy. When the Committee met last month, market participants apparently viewed the weakish cast to real activity as raising the odds of some policy easing later in the year. Futures quotes on federal funds and Eurodollar rates, for example, tilted down slightly

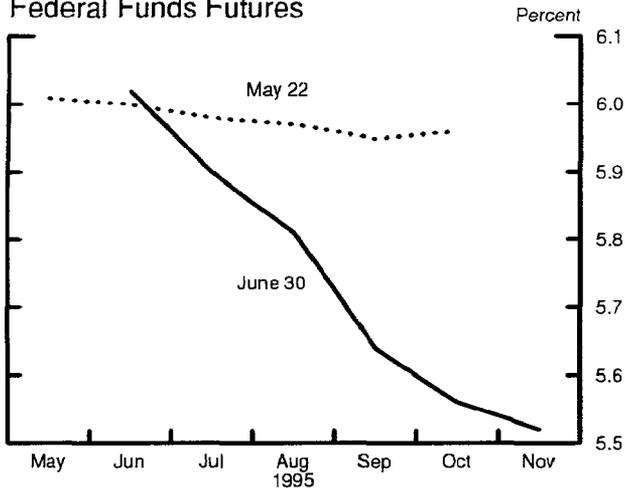
1. In the three maintenance periods completed over the intermeeting period, excess reserves averaged a shade under \$900 million and banks appeared to hold off meeting their reserve needs until late in those periods. Over the last year, depositories have been reducing their excess reserves, evidently as a response to the rising cost of overnight funds. The domestic desk has retained the formal assumption of \$1 billion of excess reserves, but has been dealing with it very flexibly. The allowance for adjustment plus seasonal borrowing, which began the intermeeting period at \$175 million, was raised \$50 million to accommodate the summer upswing in its seasonal component. Borrowing averaged a touch below its allowance, except in the most recently completed maintenance period, when a money-center bank experiencing technical difficulties tapped the window in size over a weekend.

(chart). Many of the economic data releases that followed, particularly the decline in payroll employment posted for May, made easing appear even more probable. In recent days, however, upticks in several indicators have tempered the market's expectation regarding policy ease. Nonetheless, money-market futures rates still point down over the balance of 1995 and by more than they did in mid-May.

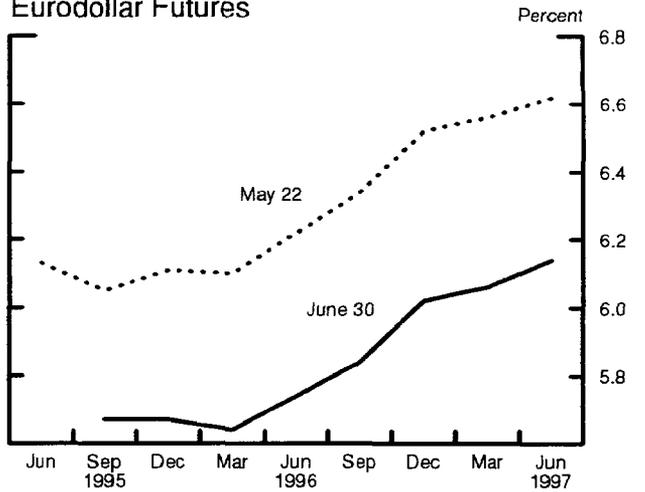
(3) In capital markets, the yield curve for Treasury coupon securities shifted down 20 to 30 basis points on balance. The bond-market rally, which lasted through most of the intermeeting period, was helped along at times by evidence that major economies abroad were weaker than had been anticipated and by a political dialogue at home indicating that meaningful progress in narrowing future federal budget deficits might be in the cards. A significant portion of the decline in nominal yields would seem to embody a revision to real interest rates; some trimming of inflation expectations cannot be ruled out, but readings from surveys are ambiguous. Corporate and municipal yields have not matched the decline in Treasury rates, and risk spreads, particularly for junk bonds, have edged higher. Discussions of a possible flat income tax, which would erode the benefits of tax-exempt debt, may have contributed to the run-up in the ratio of tax-exempt-to-taxable yields. The drop in interest rates helped to lift the stock market, with most major equity indexes gaining at least 2-1/2 percent over the intermeeting period. With the fiscal outlook uncertain and the sense prevalent in the marketplace that the stance of monetary policy might shift over coming months, measures of price volatility moved higher; however, volatility--both realized as measured from actual rate changes or expected as implied from options prices--remains below the level posted in the spring of last year.

Chart 1

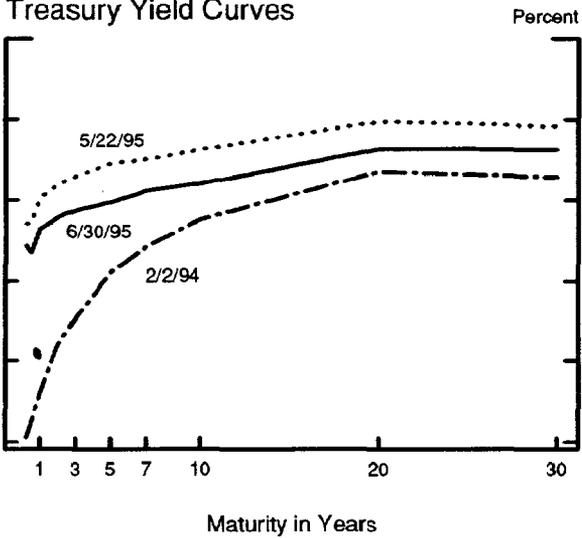
Federal Funds Futures



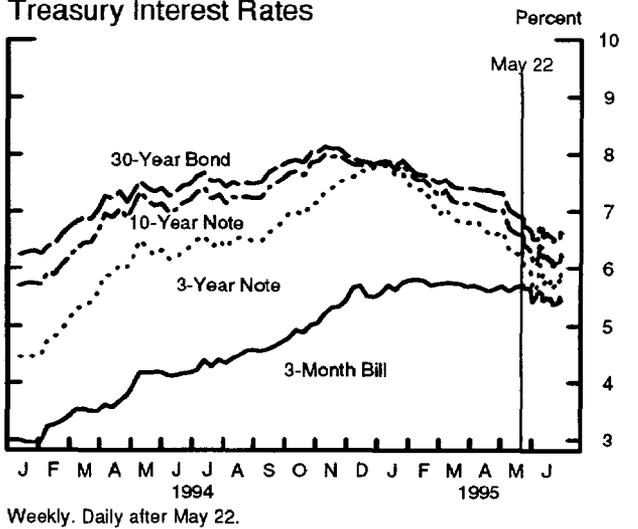
Eurodollar Futures



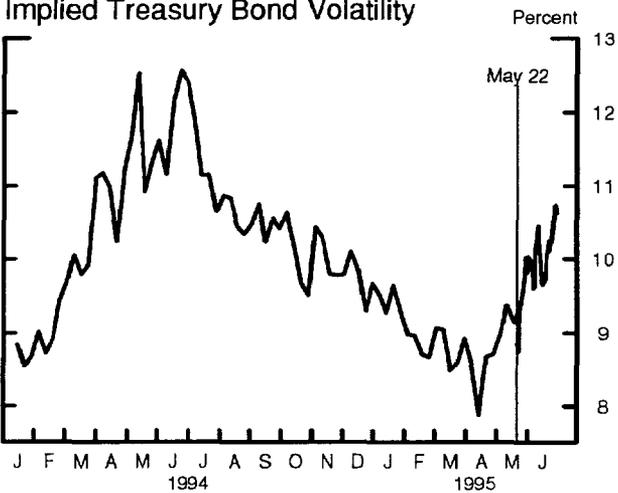
Treasury Yield Curves



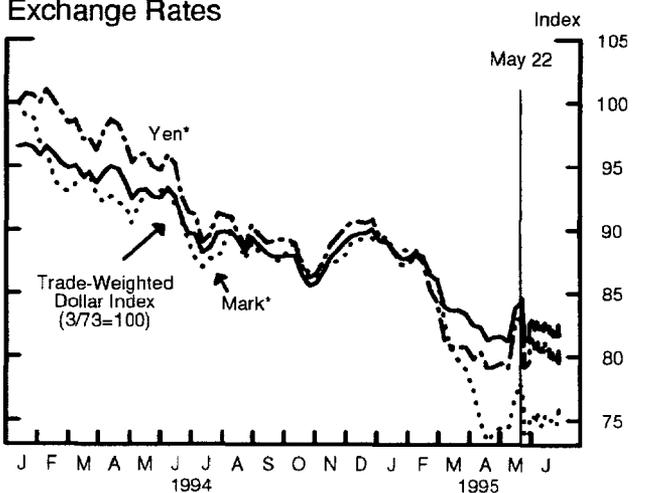
Treasury Interest Rates



Implied Treasury Bond Volatility



Exchange Rates



Weekly. Daily after May 22.

* Index, Jan 1994=100
Weekly. Daily after May 22.

(4) The dollar's weighted average exchange value has declined about 3-1/4 percent since the May meeting. Long-term interest rates abroad were little changed, on balance, while short-term rates, on average, edged lower. Essentially all of the dollar's net decline over the intermeeting period was posted in the week following the FOMC meeting, mainly in response to weak U.S. economic data. On May 31, U.S. monetary authorities initiated concerted intervention purchases of dollars against marks and yen, which caught market participants by surprise and seemed to have a significant short-run effect of boosting the dollar. The System purchased \$250 million against marks and a like amount against yen; the Treasury bought equal amounts. During June, the dollar has traded in a fairly narrow range, despite substantial further variations in U.S. interest rates and changing prospects for an agreement (eventually reached) regarding U.S.-Japan auto trade.

(5) The decline in U.S. interest rates over most maturities in recent months seems to have contributed to a surge in the expansion of M2. This aggregate increased at rates of 5 percent and 11-3/4 percent in May and June, respectively.² The performance of M2 over the past two months has pushed the growth of this aggregate from the fourth quarter of 1994 to June up to a 4 percent rate and placed it in the upper portion of its annual range. Growth of M2 for the first half of the year has been considerably stronger than anticipated in

2. M1 actually contracted over the two months, as the implementation of a retail sweep program and an extension of the program already in place transferred \$12 billion from reservable transaction deposits to savings and MMDAs. Those transfers, of course, are internal to M2. In the absence of these shifts, M1 would have grown at a 3-1/4 percent rate over the two months. Total reserves fell at a 6-1/2 percent annual rate over May and June. It appears that net foreign currency shipments slowed significantly and total currency grew at only a 3-1/4 percent rate over the two months. The monetary base expanded at a 2-1/2 percent rate over that period.

the January bluebook, especially under the tighter alternative selected by the Committee in February, despite slower spending than was forecast at the beginning of the year. Market rates, particularly at intermediate- and long-term maturities, have been lower, on balance, in the first half of 1995 than was expected by the staff. With rates on M2 assets, as usual, lagging market rates, savers have reallocated funds into deposits and money fund shares and out of market instruments. The pronounced flattening of the yield curve also may have encouraged demands for the shorter-term assets in M2. Growth in money market funds has been particularly strong. Indicative of the substitutions out of capital market instruments, the staff's standard M2 demand model, which looks at competing rates only on short-term instruments, has underpredicted M2 growth in the second quarter. The recent rapid growth in M2 should be sufficient to turn its velocity downward in the second quarter, producing the first quarterly decline in M2 velocity since early 1991.

(6) M3 has also expanded rapidly in May and June, at rates of 7-3/4 percent and 13 percent, respectively. From the fourth quarter of 1994 through June, M3 has increased at a 6-1/2 percent rate, leaving it well above the upper bound of its 0-to-4 percent annual range. The first-half outcome was about double the pace anticipated by the staff in the January bluebook; in retrospect, depositories have had larger funding needs--both bank and thrift credit have been stronger over the first half of the year than the staff had expected. Bank credit has expanded at a rate of 8-3/4 percent from the fourth quarter of 1994 to June, pulled along by strength in business and consumer loans. Lower short- and intermediate-term rates than in the January outlook have played some role

too: Institution-only money funds, like their retail brethren, pay yields that lag movements in money-market rates. In the past two months, the strong growth of M3-type money funds has provided a powerful boost to M3.

(7) The growth of nonfederal sector debt in April and May appears to have picked up from its first-quarter performance of 5-1/2 percent. While timely data on household-sector borrowing is scant, rapid growth of consumer loans at banks, especially after adjusting for securitizations, suggests that consumer credit has continued to expand at a double-digit clip in recent months, even as spending on durable goods has slowed. Judging by indexes of applications, mortgage activity has picked up a bit, although it is still too early to say if there has been any effect on net mortgage debt. Many corporations have rushed to borrow to take advantage of lower intermediate- and long-term market rates; net corporate bond issuance is estimated to have picked up substantially in May and appears to have been stronger in June. Reflecting the shift to capital market financing, perhaps along with some decrease in inventory investment, bank business lending has flagged of late. Net tax-exempt debt has extended its runoff in recent months, as advance-refunded issues continue to be retired. From the fourth quarter of 1994 through May, total nonfinancial debt grew at about a 5-1/2 percent rate, a pace about maintained by its private and federal components and up a bit from its growth in the second half of last year. All told, this performance, which was a shade faster than the staff had forecast in January, placed the aggregate in the upper portion of its 3-to-7 percent annual growth range.

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

	Apr.	May	June	QIV to June ¹
<u>Money and credit aggregates</u>				
M1	2.0	-7.1	0.9	-0.6
M1 adjusted for retail sweeps	2.0	-1.9	6.6	1.2
M2	4.1	5.0	11.7	3.9
M3	5.9	7.8	13.0	6.4
Domestic nonfinancial debt	4.7	5.7	--	5.5
Federal	0.7	5.9	--	5.2
Nonfederal	6.1	5.7	--	5.6
Bank credit	14.1	9.2	5.9	8.7
<u>Reserve measures</u>				
Nonborrowed reserves ²	-13.0	-4.7	-10.6	-5.9
Total reserves	-12.2	-3.9	-8.9	-6.0
Monetary base	7.8	7.2	-2.3	5.6
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	111	150	232	--
Excess reserves	753	889	968	--

1. 1994:QIV to May for debt aggregates.

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.

Long-Run Scenarios

(8) This section addresses the long-run implications of various monetary policy strategies and highlights several issues that pose risks to the staff's assessment of output and inflation prospects. The first set of scenarios examines three alternative strategies for monetary policy. All three embody the same underlying assumptions concerning macroeconomic forces and relationships; notably, they all assume additional fiscal policy actions through the 6-year simulation period to put the budget deficit along a path to balance early in the next decade. The three strategies, however, embed different assumptions concerning the economic outcomes that the Committee pursues. The baseline strategy begins with the Greenbook's projection for 1995 and 1996 and thereafter keeps inflation tilted down by maintaining a small margin of economic slack. The easier and tighter strategies extend the lower and higher funds rate scenarios in the Greenbook. The easier strategy may be viewed as consistent with a desire to have the unemployment rate average around its assumed natural rate over the forecast interval, while the tighter strategy may be seen as giving priority to approaching price stability over the next several years. These simulations are summarized in the table and Chart 2 on the following pages.

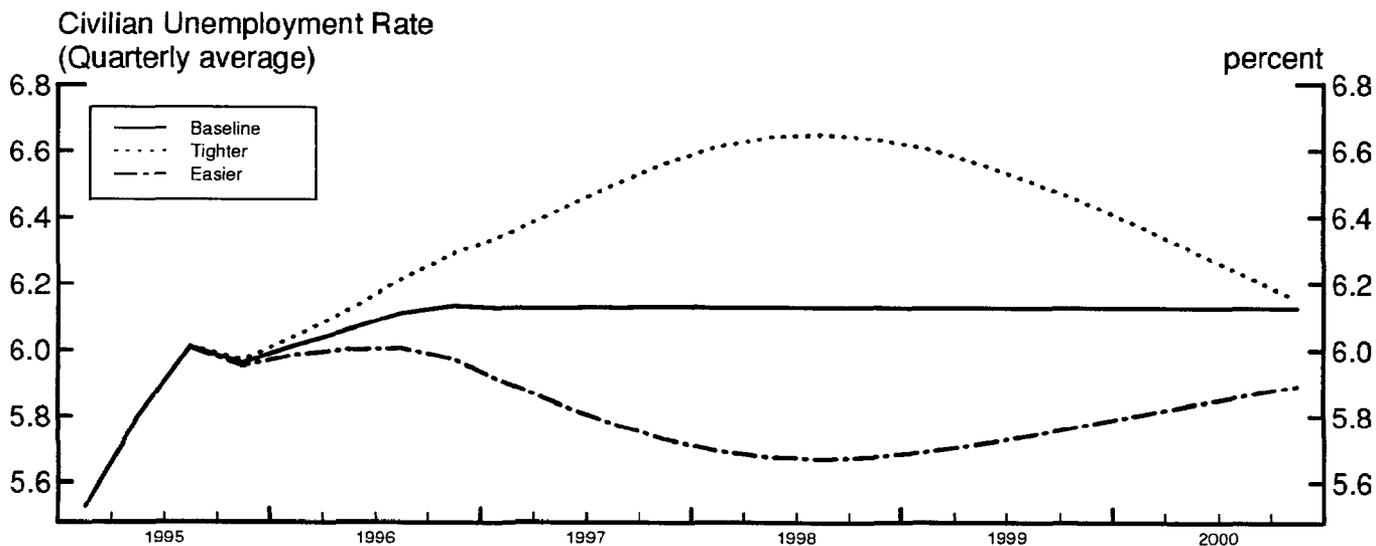
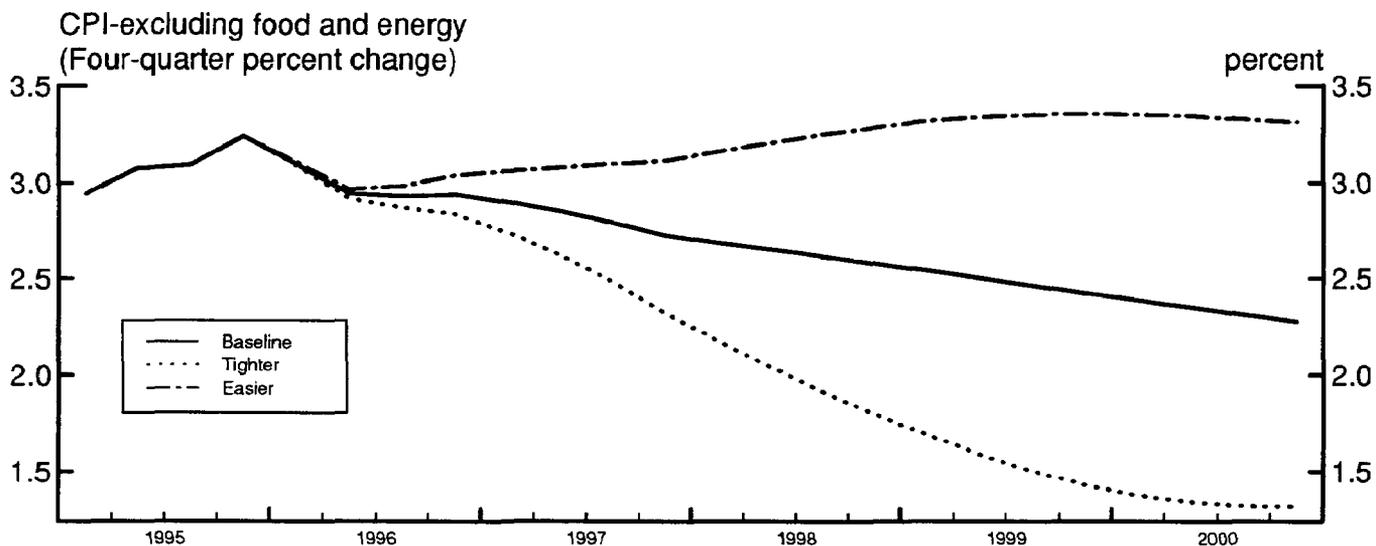
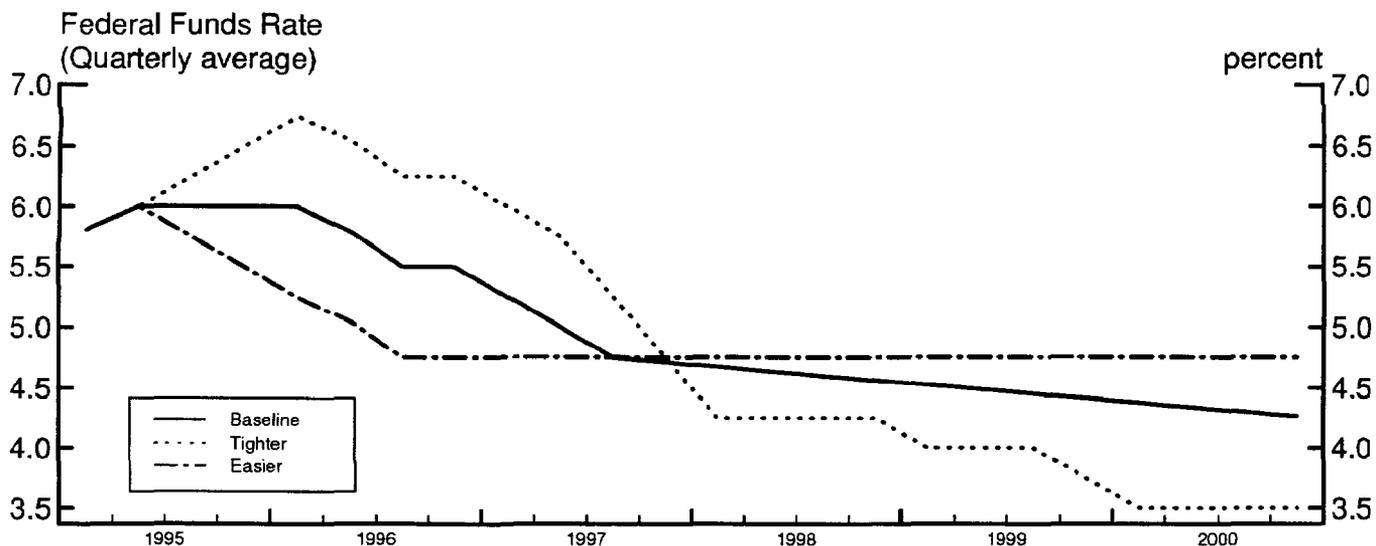
(9) The staff econometric model of the U.S. and foreign economies was used to extend the baseline forecast beyond the Greenbook horizon and to derive the effects relative to the baseline of the alternative policy strategies and of the different economic assumptions made below. The model includes neither forward-looking expectations nor any long-term gains in potential output from reducing inflation. The projections are based on an assumed natural rate of

Alternative Strategies for Monetary Policy

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	(QIV to QIV percent change)					
CPI inflation--excluding food and energy						
baseline	3.2	2.9	2.7	2.6	2.4	2.3
tighter	3.2	2.8	2.3	1.8	1.4	1.3
easier	3.2	3.0	3.1	3.3	3.4	3.3
Nominal GDP growth						
baseline	4.1	4.5	4.5	4.4	4.2	4.0
tighter	4.0	4.1	3.5	3.6	3.7	3.6
easier	4.1	5.0	5.4	5.1	4.9	4.9
Real GDP growth						
baseline	1.7	2.2	2.5	2.5	2.5	2.5
tighter	1.6	1.8	1.9	2.5	3.0	3.1
easier	1.7	2.7	3.0	2.5	2.3	2.3
	(fourth-quarter level, percent)					
Unemployment Rate (1994-survey basis)						
baseline	6.0	6.1	6.1	6.1	6.1	6.1
tighter	6.0	6.3	6.6	6.6	6.4	6.2
easier	6.0	6.0	5.7	5.7	5.8	5.9
	(QIV to QIV percent change)					
M2						
baseline	4.0	4.5	5.1	4.9	4.5	4.0
tighter	3.8	3.5	4.1	4.9	4.4	4.3
easier	4.2	5.5	5.6	5.3	4.9	4.5
	(fourth-quarter level, percent)					
Federal funds rate						
baseline	6.0	5.5	4.7	4.6	4.4	4.3
tighter	6.5	6.3	4.8	4.3	3.8	3.5
easier	5.5	4.8	4.8	4.8	4.8	4.8

Chart 2

ALTERNATIVE STRATEGIES FOR MONETARY POLICY



Data points are plotted at the midpoint of each period.

unemployment of 5.9 percent.³ Each year that the unemployment rate exceeds its natural rate by 1 percentage point, the model predicts that inflation will be reduced by around 1/2 percentage point. In light of uncertainties about the relationships among economic variables and associated hazards of any forecasting exercise, the results reported below should be read only as suggestive of the general patterns likely to be engendered under each of the experiments.

(10) Under the baseline strategy, to effect a modest deceleration of inflation, the nominal federal funds rate is held at its current level through the first quarter of 1996 before falling to 4-3/4 percent in 1997 and drifting lower thereafter. The declines in nominal rates reflect in part an ebbing of inflation, but also incorporate lower real interest rates. The real funds rate ends the decade almost 1 percentage point below its current level, as monetary policy responds to the influence of fiscal restraint on the equilibrium federal funds rate. But under this strategy real rates are held slightly above their declining equilibrium levels to maintain a margin of slack in resource utilization and foster an ongoing deceleration in prices. Long rates fall by half as much as the funds rate because the anticipation of some budget deficit reduction has already been built into long rates. Fiscal restraint and associated real rate reductions raise gross investment (as a percent of GDP) relative to current levels by almost 1 percentage point by the end of the decade.

(11) The 1-1/4 percent decline in the funds rate under the easier strategy removes remaining monetary restraint and fully offsets fiscal drag. Thus, the unemployment rate stays in the neighborhood of

3. We have made no adjustments to the assumed future level of the NAIRU for the effects of oncoming demographic changes; nor have we adjusted the GDP growth rates to take account of the increasing distortion associated with the decline in computer prices.

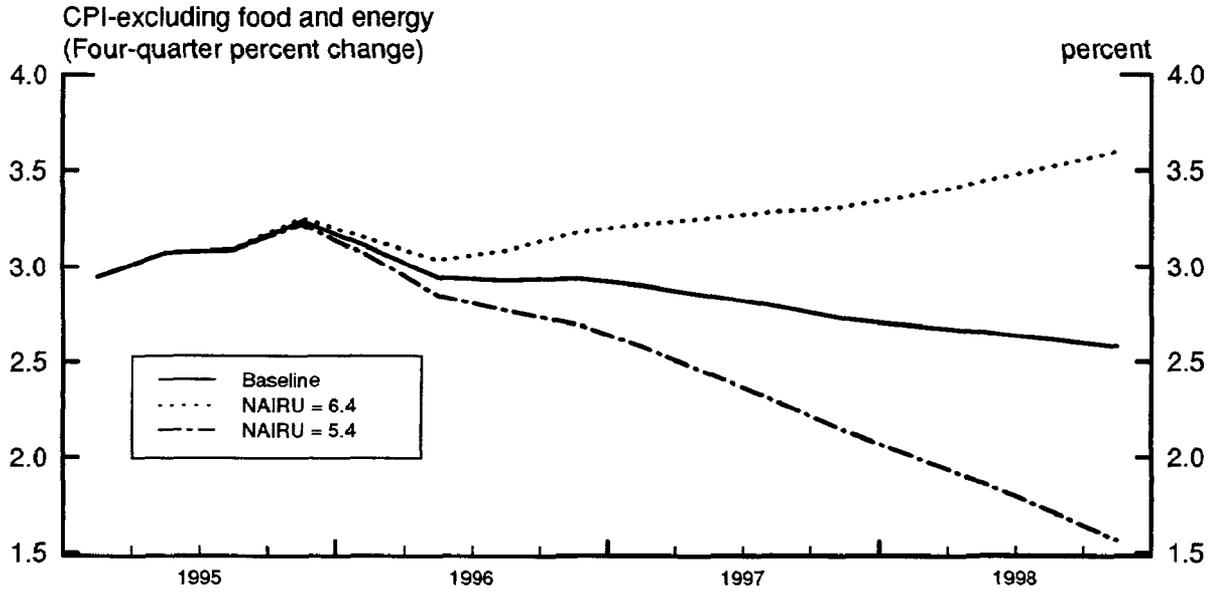
its natural rate through the 1990s. Inflation flattens out at around 3-1/4 percent, close to its current value. The drop in the federal funds rate is concentrated at the beginning of the simulation period, even though fiscal restraint is spread out over the entire period, because spending reacts with longer lags to interest rates than to fiscal policy. Moreover, in the model long-term rates do not anticipate the full measure of fiscal restraint and respond only sluggishly to changes in short-term rates. (These elements are present in all the simulations, but are illustrated most clearly under this strategy.) If bond markets were more forward looking, policy easing would have to be spread out over a longer period to get the same outcome.

(12) To open an output gap sufficient to attain approximate price stability early in the next decade, the tighter strategy involves an appreciable increase in the federal funds rate by early next year. The funds rate must fall thereafter, not only in line with fiscal restraint and lower inflation, but also to limit overshooting of price stability after the end of the simulation horizon. Of course, the model does not incorporate any credibility effects from following the tighter policy; inflation expectations move down in lagged response to inflation itself, and the sacrifice ratio is unaffected by the policy strategy.

(13) The recent behavior of labor compensation may be seen as raising questions about the level of the NAIRU. Chart 3 shows the effects on inflation of a NAIRU 1/2 percentage point lower or higher than in the baseline, if the nominal federal funds rate were held to its baseline path. With the predetermined path for nominal rates, the difference in inflation begins small, but becomes larger and larger

Chart 3

ALTERNATIVE NAIRU ASSUMPTIONS
(Baseline Path for Federal Funds Rate)

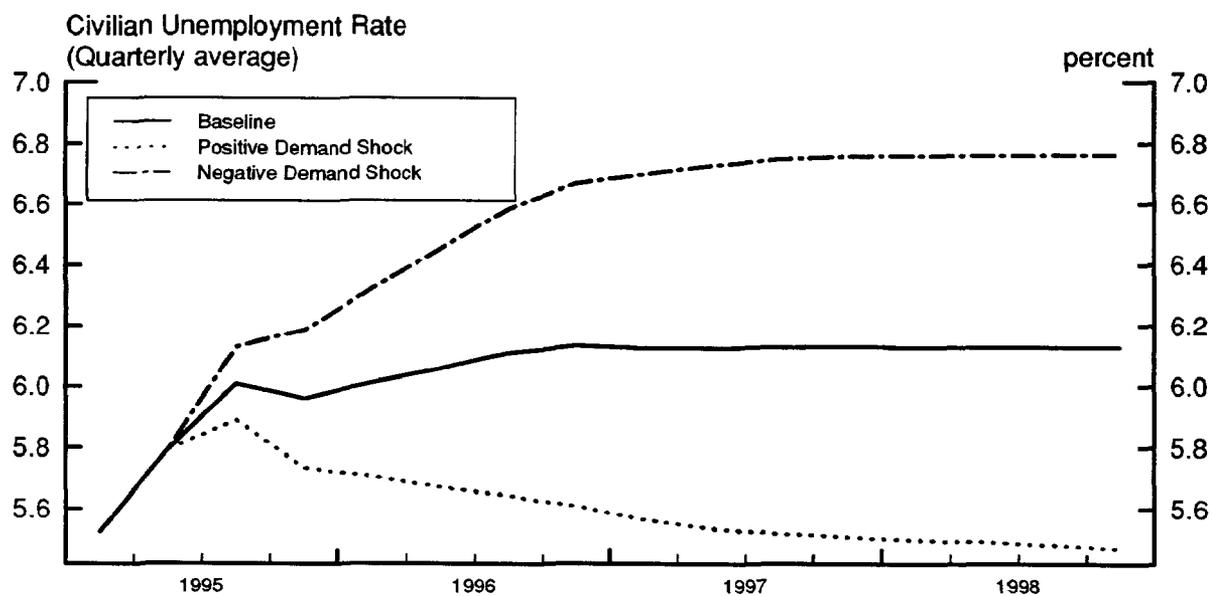
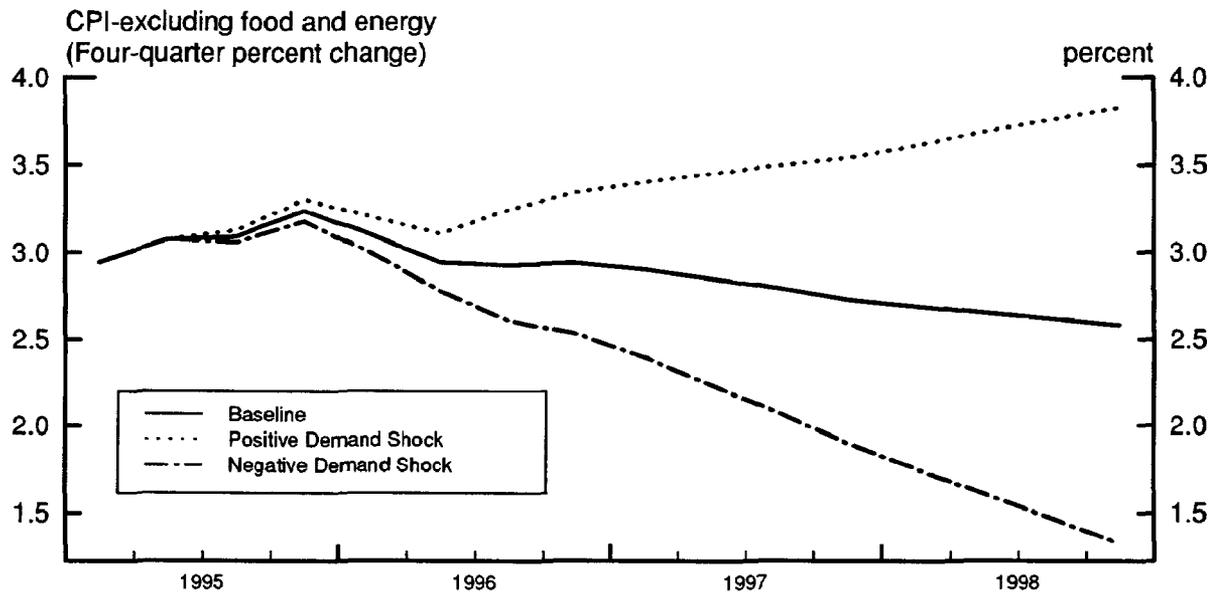


over time as real rates deviate increasingly from their equilibrium levels. To bring aggregate demand in line with the new level of potential output, the real federal funds rate must adjust by about half a percentage point in the same direction as the change in the NAIRU. If, owing to recognition lags, the needed policy change is delayed, or if the longer-term rate adjusts sluggishly to the funds rate, the initial change in the nominal federal funds rate must be appreciably larger than one-half percentage point to keep inflation along the baseline path.

(14) Chart 4 shows the effects of shocks to the staff projection of aggregate demand. As in the previous exercise, the nominal federal funds rate is held along its baseline path. The shocks were designed as surprises of about half a percentage point in the personal savings rate--well within its range of historic variation, and an important uncertainty in the economic outlook. They could also proxy for alternative fiscal policies. The shift in aggregate demand creates an imbalance between it and potential output, which, in the absence of a policy response, results in ever rising or falling inflation. Even a shock of these modest proportions gives rise to a difference from the baseline in the unemployment rate of more than a half percentage point in 1997. The equilibrium real federal funds rate moves about one quarter of a percentage point in this example; once again, given the lags in the effects of policy and, depending on the dynamics of the financial markets, greater policy adjustments likely would be needed initially to hold the inflation rate to its baseline path.

Chart 4

SHOCKS TO AGGREGATE DEMAND (Baseline Path for Federal Funds Rate)



Data points are plotted at the midpoint of each period.

Long-Run Ranges

Projections and Ranges for 1995

(15) As background for the Committee's discussion of its money and credit ranges for 1995, the table below presents the staff's projections for the aggregates under the three longer-run policy strategies discussed in the previous section. The table also gives two alternatives for the Committee's money and debt ranges for this year.⁴ Money and debt growth rates under the baseline strategy are the same as in the Greenbook. For the easier and tighter strategies, the projections for M1 and M2 are based partly on adjustments derived from the staff's standard econometric money demand models. The forecasts for M3 and debt under the alternatives are judgmental. Given the timing and assumed sizes of the policy moves under the easier and tighter strategies, monetary growth rates are affected relatively little for 1995 as a whole.

Growth of Money and Credit and Ranges for 1995
(percent)

	<u>Staff Projections</u>			<u>Ranges</u>		Memo: QIV to June
	<u>Easier</u>	<u>Baseline (Greenbook)</u>	<u>Tighter</u>	<u>Alt. I (current ranges)</u>	<u>Alt. II</u>	
M2	4-1/4	4	3-3/4	1 to 5	1 to 5	3.9
M3	5-3/4	5-1/2	5-1/4	0 to 4	2 to 6	6.4
Debt	4-3/4	4-3/4	4-3/4	3 to 7	3 to 7	5.5*
M1	0	-1/2	-1	--	--	-0.6
Memo: Nominal GDP	4.1	4.1	4.0			3.3**

* - 1994:QIV to May.

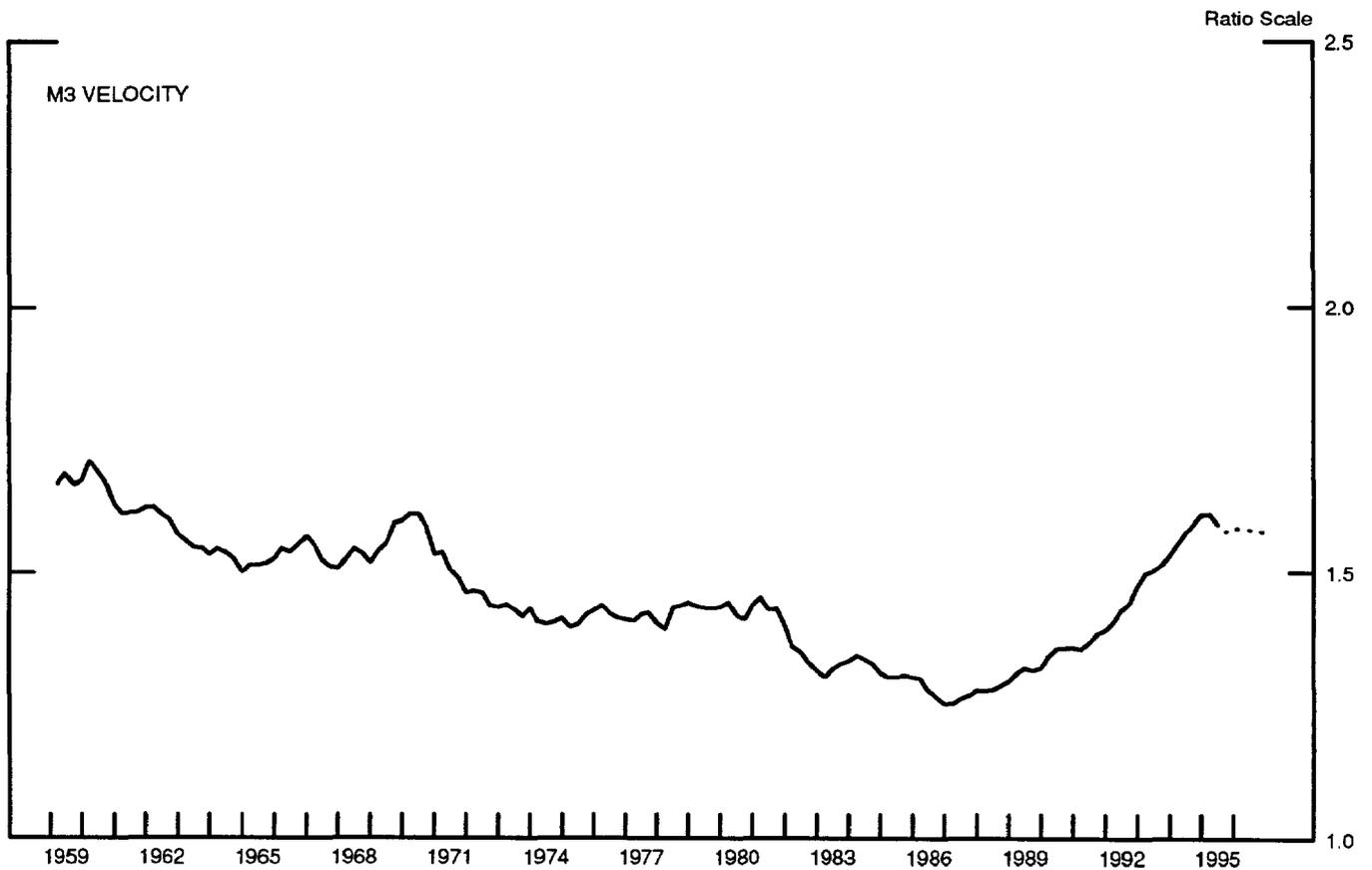
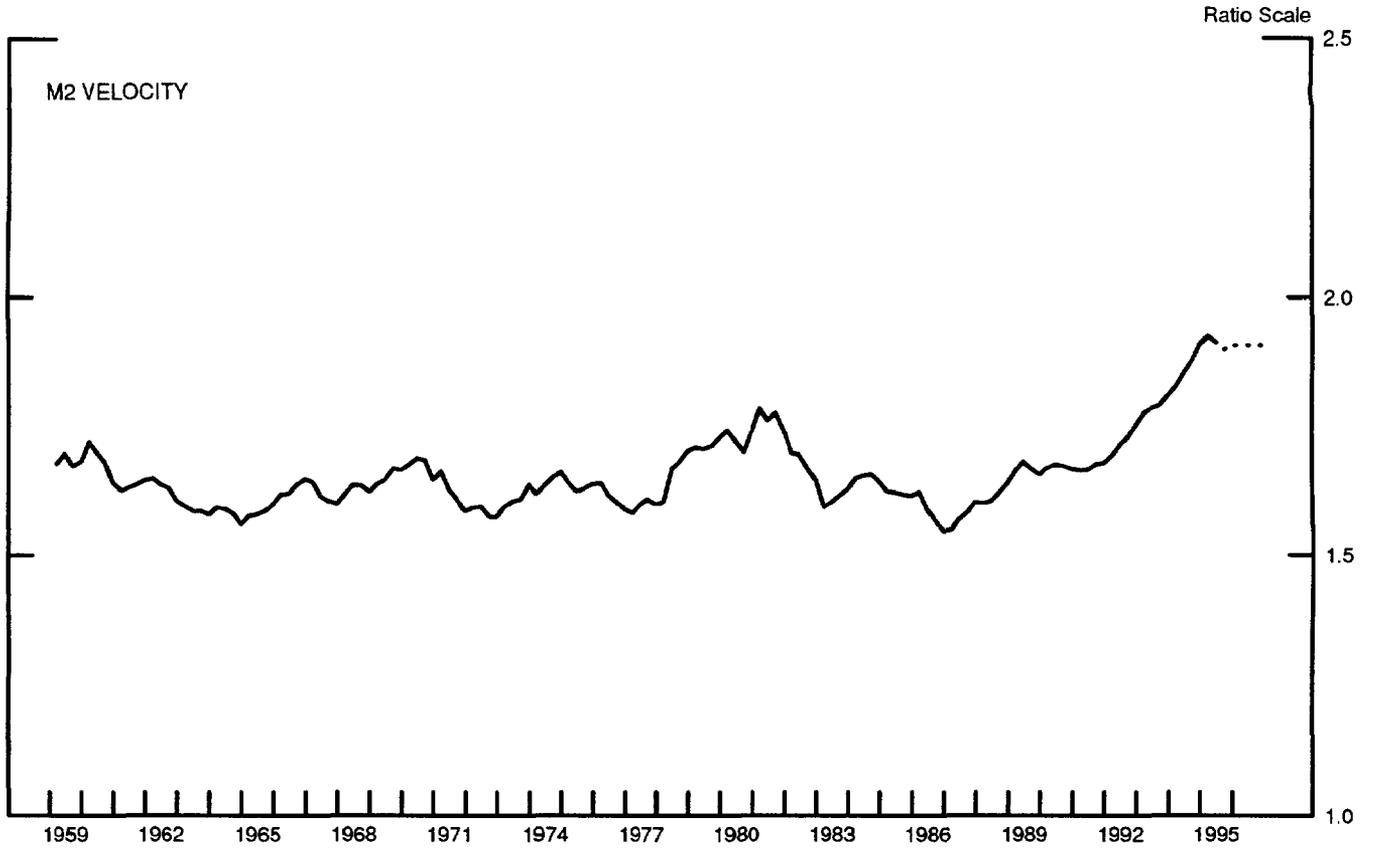
** - 1994:QIV to 1995:QII (Greenbook projection).

4. Ranges for previous years and outcomes are shown in appendix A.

(16) In assessing the prospects for M2 over the remainder of the year, the staff has carried through only a part of the unusual strength witnessed in May and June. The lagged effects of the declines in interest rates in recent weeks should continue to induce investors to shift funds into deposits in coming months, but the magnitude of such flows in recent weeks has been surprising and seems unlikely to persist. The modest backup in interest rates and narrowing of the advantage of money fund yields over market rates anticipated in the staff forecast will also help to damp money growth. However, nominal income is projected to expand a little faster over the second half of the year, augmenting demands for money. Thus, M2 growth from June to December, at a 4-1/2 percent rate under the Greenbook baseline projection, is still expected to be a little higher than its first-half pace. For 1995 as a whole, M2 is expected to rise 4 percent, placing this aggregate in the upper half of its current 1-to-5 percent range.⁵ Its velocity would be flat over the year, an outcome that would differ considerably from the substantial increases over the past three years when M2 demand was restrained by, among other factors, shifts into mutual funds and, in 1994, by substantial increases in market interest rates. (The velocities of the aggregates appear on charts 5 and 6.)

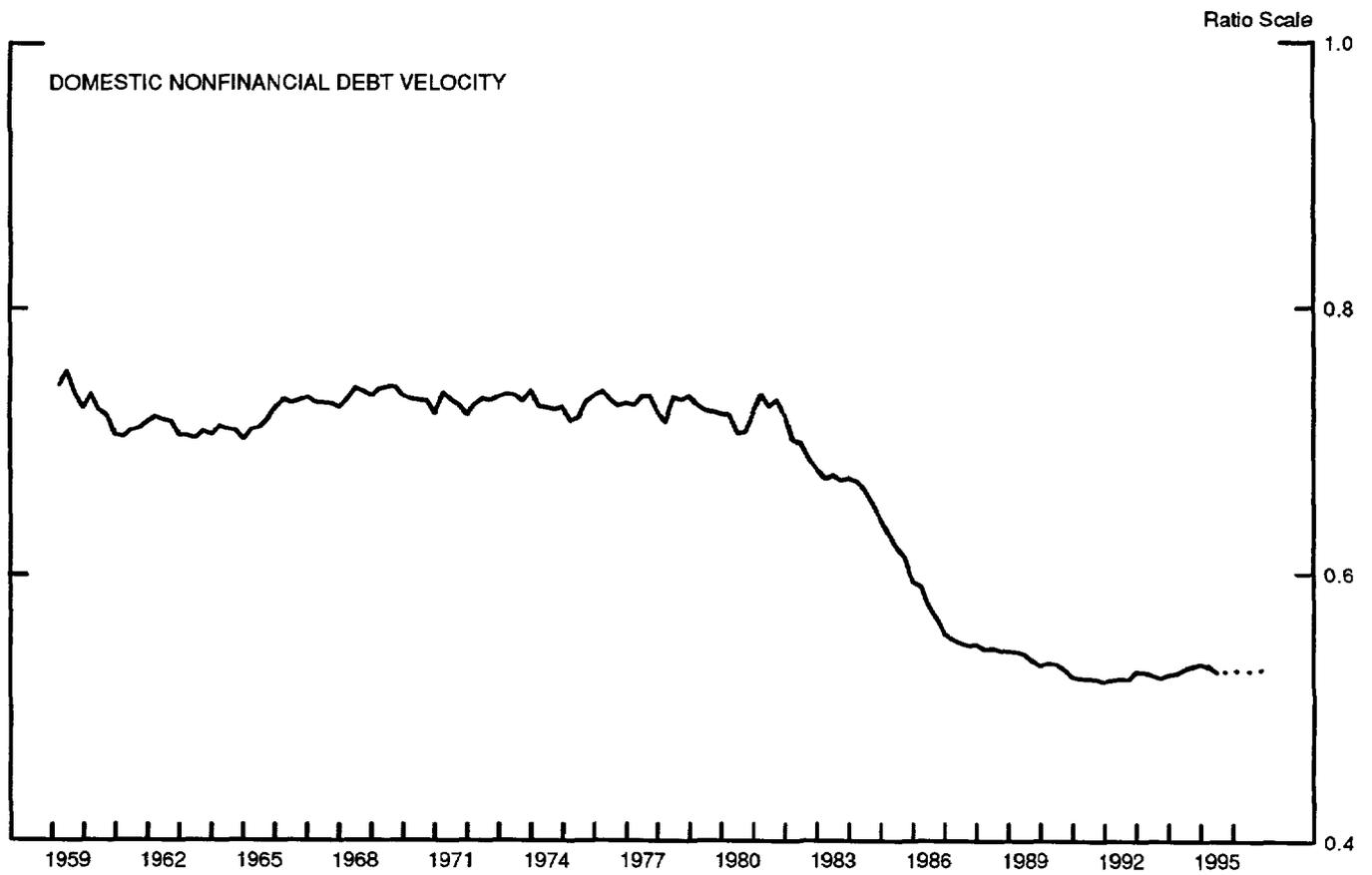
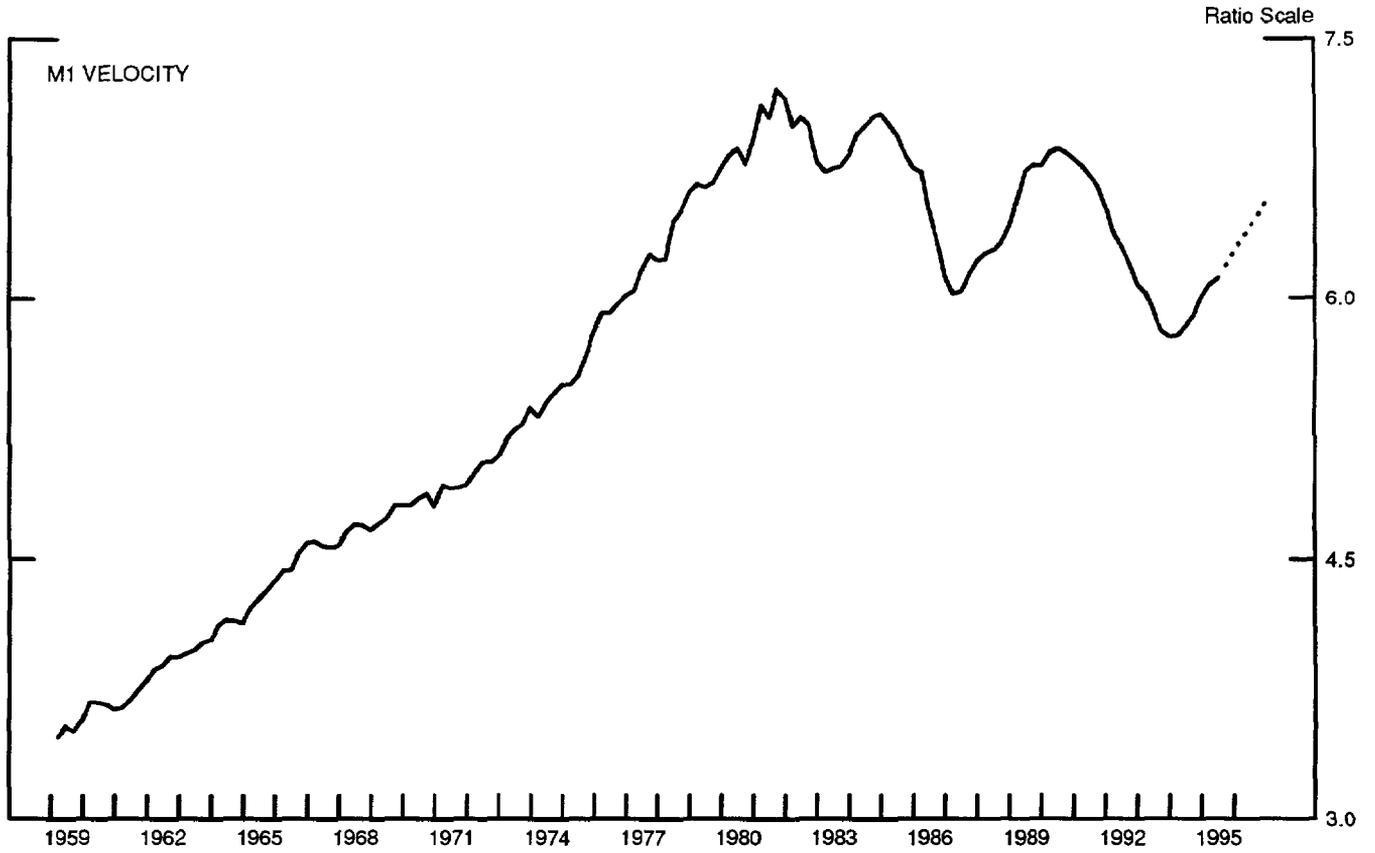
5. The staff expects M1 to be about flat over June to December and, for the year as a whole, to fall 1/2 percent under the Greenbook baseline projection. The weakness of this aggregate relative to nominal GDP owes primarily to the lagged effects of higher yields on alternative short-term assets. In addition, NOW account sweeps are projected to depress M1 about 1-1/4 percent over the year. Shipments of currency abroad are expected to lift the narrow aggregate about 1-1/2 to 2 percentage points--the same as in recent years. Mortgage refinancing activity should provide only a limited boost to demand deposits and M1. Total reserves are likely to decline further over the balance of the year, partly reflecting a little additional sweep activity, while growth in the monetary base would be modest but positive.

Chart 5
ACTUAL AND PROJECTED VELOCITY OF M2 AND M3*



*Projections are based on staff forecasts of GDP and money.

Chart 6
ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT*



*Projections are based on staff forecasts of GDP, money, and debt.

(17) Over the second half of 1995, M3 growth is also expected to moderate from its recent rapid pace, primarily reflecting a sharp slowing in bank credit, as inventory financing abates, and in institution-only money funds. But, at a 4-1/2 percent rate from June to December under the Greenbook baseline projection, the expansion of M3 should remain brisk compared with its performance of the past few years. For 1995 as a whole, M3 is expected to rise 5-1/2 percent, well above its current 0-to-4 percent annual range.

(18) The debt of domestic nonfinancial sectors is anticipated by the staff to decelerate noticeably over the second half of the year. Federal borrowing should tail off, partly in response to the strong cash position of the Treasury resulting from unexpectedly heavy tax receipts in the second quarter. Borrowing in the business sector also is likely to flag a bit from its strong pace of the first half, as the corporate financing gap shrinks in association with the slower pace of inventory accumulation. On a fourth-quarter to fourth-quarter basis, overall debt is projected to expand 4-3/4 percent this year under all of the scenarios, a little above nominal income growth and in the middle of its range.

(19) As noted, M2 and debt most likely will finish 1995 within their current ranges (given as alternative I) under the Greenbook baseline assumption of no change in the stance of monetary policy. This outcome is likely as well under the easier and tighter policy strategies. However, in view of the recent surge in M2 growth, there is a distinct possibility that M2 could run above its current range under the baseline forecast and especially under the easier strategy. The extent of the recent surge in M2 growth suggests a significant

sensitivity of that aggregate to intermediate- and longer-term interest rates, which is not captured by the standard econometric model. M3 very likely will exceed its current range under any of the strategies. In these circumstances, the Committee might choose to retain the existing ranges for all of the aggregates and explain the expected overshoot of the M3 range as the result of a temporary surge in intermediation by depositories and money funds resulting from cyclical swings in interest rates and inventories. The explanation could emphasize that the FOMC does not believe that the predicted outcome will interfere with achievement of its longer-run objectives.

(20) Alternative II would retain the current ranges for M2 and debt but raise the range for M3 by 2 percentage points, encompassing expected growth of the aggregates under all three scenarios. An increase in the M3 range likely would be needed eventually in any case. Historically, the velocity of this aggregate tended to decline, a result of growth of banks and thrift institutions that until the late 1980s was usually faster than that of the economy as a whole. From the late 1980s until recently, that tendency was reversed by retrenchment of depository institutions, a stricter regime of supervision and regulation, and a shift toward open-market funding by borrowers. Accordingly, the Committee has selected relatively low ranges for M3 over the past few years. Looking forward, it is difficult to predict how much spending will be financed through depository intermediation, but it seems unlikely that the retrenchment of the early 1990s will be repeated. With this background, an increase in the range for M3 could be seen as a technical adjustment to take account of a return to more normal patterns of intermediation, with no significance for the thrust of monetary policy. Although alternative II

would cover the staff projection for M3 in 1995 under the monetary policy assumption in the Greenbook baseline forecast, considerable risk would remain that it would run above even that range--a probability that would increase if the Committee followed the easier policy strategy.

Projections and Ranges for 1996

(21) Projections and alternative ranges for 1996 are presented in the table on the next page. During 1996, the pickup in nominal income growth and fall-off of short-term interest rates under the Greenbook baseline forecast should support M2 growth. The growth of this aggregate, at 4-1/2 percent, is expected to match that of nominal income, keeping its velocity unchanged for the second year in a row.⁶ M3 is projected to rise 5 percent next year, a little more slowly than in 1995. The funding needs of depository institutions should increase less rapidly than this year, reflecting slower extensions of credit by banks and thrifts; more credit demands are likely to be met in the markets to take advantage of relatively low intermediate- and long-term interest rates. Overall domestic nonfinancial sector debt growth, at 4-1/2 percent, should be about in line with that of nominal GDP.

(22) The effects of the alternative strategies on relative growth rates of money and credit would be appreciably larger in 1996 than this year. M2 expansion, for example, would be about a percent-

6. In 1996, M1 is expected to be about flat. Demands for U.S. currency from abroad are assumed to continue at about the average pace of recent years. Other checkable deposits are projected to decrease significantly, based partly on an expectation that banks will continue to implement retail sweep accounts. With required reserves falling, total reserves would decline about 3 percent during 1996, while the monetary base, reflecting its larger currency component, would increase 5 percent.

age point stronger or weaker, reflecting both the influence of shifting opportunity costs as well as that of faster or slower nominal income growth induced by the different stances of monetary policy.

Growth of Money and Credit and Ranges for 1996
(percent)

	<u>Staff Projections</u>			<u>Ranges</u>		
	<u>Easier</u>	<u>Baseline (Greenbook)</u>	<u>Tighter</u>	<u>Current 1995 ranges</u>	<u>Alt. I</u>	<u>Alt. II</u>
M2	5-1/2	4-1/2	3-1/2	1 to 5	1 to 5	2 to 6
M3	5-3/4	5	4-1/4	0 to 4	2 to 6	2 to 6
Debt	5	4-1/2	4	3 to 7	3 to 7	3 to 7
M1	1-1/2	0	-1-1/2	--	--	--

Memo:

Nominal			
GDP	5.0	4.5	4.1

(23) Under alternative I, the Committee would keep the current 1995 ranges for M2 and debt in 1996 but would raise the limits for M3 by 2 percentage points (as in the alternative II ranges for 1995). The Committee might explain this action in terms of the evolving patterns of financial intermediation, noting that M3 growth within this higher range still would likely be consistent with containing inflation. Under the Greenbook baseline forecast, M2 would likely finish 1996 close to the upper end of its range, and M3 would be expected to be in the upper half of its range. Under the easier policy strategy, M2 would probably run somewhat above this range.

(24) Alternative II involves increasing to 2 to 6 percent the range for M2 as well as that for M3. The higher M2 range would more comfortably bracket the staff projection under the Greenbook baseline policy assumptions. The alternative II ranges also would more likely accommodate the faster money growth that would accompany the easier

monetary policy strategy than would the first alternative. A potential disadvantage of alternative II is that it may be perceived as a signal that the FOMC was placing less emphasis on achieving its price stability objective; in past monetary policy reports, the Committee has noted that the 1-to-5 percent range for M2 provided a benchmark for longer-run growth that could be expected under conditions of reasonable price stability if that aggregate's velocity resumes its historical pattern of no long-term trend.

Short-Run Policy Alternatives

(25) Two policy alternatives are presented below for Committee consideration. Under alternative B, the intended federal funds rate would be maintained at 6 percent. Under the easier policy stance of alternative A, the intended federal funds rate would be reduced by 1/2 percentage point to 5-1/2 percent.

(26) The decision to leave reserve market conditions unchanged, as under alternative B, might be favored if the staff economic forecast, which assumes a constant federal funds rate through early 1996, were viewed as both a reasonable and desirable outcome. In that forecast, near-term weakness is limited--about sufficient to bring the economy down to the level of its potential. An unemployment rate in the vicinity of its natural rate is restored by the third quarter, thereby nipping in the bud any tendency for inflationary momentum to build. The declines in real longer-term rates and the exchange rate that have already occurred, along with the rise in equity prices, stimulate final sales sufficiently to return growth close to the rate of its potential by late in 1995, holding the unemployment rate about constant. However, monetary policy still is a little to the restrictive side in the Greenbook forecast, leaving a small amount of slack in the economy over time. Against this backdrop, and with very recent indicators suggesting a limit to near-term weakness, the Committee may wish to see macroeconomic data accumulate that call the staff forecast into question before deciding to ease policy.

(27) Over the past few days, markets have come to view policy action at this meeting as much less likely, and interest and exchange rates probably would change little with the choice of alternative B,

though a further small backup in yields cannot be ruled out with the disappointment of some residual expectations of prompt easing. Markets are likely to view data over the intermeeting period consistent with the staff forecast as mixed; broad measures of production and employment would continue to the soft side, with the unemployment rate moving higher and inflation lower than in the first half, but indicators of sales should show some firming tendencies. In these circumstances, market participants likely would continue to see inflation risks as more muted and an intermediate-term policy ease as still a possibility.

(28) A reduction in the federal funds rate, perhaps of the 1/2 percentage point size embodied in alternative A, could be favored as a form of insurance against the downside risks in the economic outlook. The slowdown in consumer spending of late has been puzzling and foreign growth has weakened unexpectedly, raising some question of whether the recent weakness in the economy might persist and deepen. In that event, waiting for clearcut evidence of a sustained slowdown would be waiting too long to counter the weakness in spending. Moreover, even if the current slowdown were thought likely to be short-lived and mild, the risks of rising inflation have been greatly reduced, given that the economy is moving back to its level of potential output and pressures on prices at early stages of production have been abating. If so, holding the real federal funds rate at its current somewhat elevated level, especially when the long-run sustainable rate may be depressed by fiscal restraint, might no longer be appropriate. That is, the financial market conditions associated with the unchanged policy of alternative B, including the backup in long-term rates in

the staff forecast, might be seen as unnecessarily risking weak spending. Even in the staff forecast, unemployment in the latter part of 1996 is slightly above its natural rate; if the Committee were willing to see inflation level out at something over 3 percent rate--as in the easier scenario--rather than aim to tilt it down, it might be more disposed to consider a policy easing.

(29) Immediate implementation of the 1/2 percentage point cut in the federal funds rate of alternative A would represent a considerably more aggressive policy action than currently is priced into financial markets. Thus, short-term interest rates initially would decline further, with the rally probably showing through to some degree in bond markets as well. The exchange value of the dollar is likely to depreciate. At this point, market participants likely would be somewhat puzzled by this action, and the response of market prices would depend largely on their interpretation. A larger response in fixed-income and foreign exchange markets would be elicited to the degree that the 1/2 percentage point rate cut led the market to think that the Federal Reserve was responding to significant underlying weakness in the economic outlook. In this case, the policy action might be seen by market participants as only the first in a series of reductions in short-term rates. Such a perception could be mitigated if the reserve market action were not accompanied by a cut in the discount rate. Should the Committee instead decide on only a 1/4 percentage point reduction in the federal funds rate, the financial market impact could be appreciably less, though further Federal Reserve action likely would be anticipated.

(30) The influences affecting money and credit growth with and without a policy easing were discussed in general terms in the

previous section. In brief, growth of M2 and M3 from June to December seems likely to remain substantially stronger than in recent years, but down considerably from May and June. Were the Committee to ease by 1/2 percentage point at this FOMC meeting, M2 would probably not be boosted enough in coming months to exceed the 5 percent upper bound of its current annual range, though, obviously, the risks of running above the range would be significant. Under either alternative, M3 is expected to remain above its current 0-to-4 percent range.

Directive Language

(31) Presented below for Committee consideration is draft directive language relating to the ranges for 1995 and 1996 and the operational paragraph for the intermeeting period. With regard to the ranges for 1995, three alternatives are shown: (1) wording that might be used if the Committee decides to retain the ranges for 1995 that were adopted earlier this year; (2) wording to reflect a decision to change the ranges; and (3) wording to indicate a decision to raise the range for M3 while retaining the ranges for M2 and debt. The third option includes a brief statement of the reason for raising the M3 range; if this option were to be adopted, a fuller explanation would be provided in the Humphrey-Hawkins report and testimony and in the minutes for the meeting.

Paragraphs for 1995 and 1996 Ranges

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output.

(1) In furtherance of these objectives, the Committee REAFFIRMED at THIS its meeting THE RANGES IT HAD ESTABLISHED on January 31-February 1 established ranges for growth of M2 and M3 of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1994 to the fourth quarter of 1995. The Committee anticipated that money growth within these ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt was MAINTAINED AT lowered to 3 to 7 percent for the year.

(2) In furtherance of these objectives, the Committee at this meeting LOWERED/RAISED the ranges it had established on January 31-February 1 for growth of M2 and M3 to ranges of ___ to ___ and ___ to ___ percent respectively, measured from the fourth quarter of 1994 to the fourth quarter of 1995. The Committee anticipated that money growth within these ranges would be consistent with its broad policy objectives. The monitoring range for growth of total domestic nonfinancial debt was MAINTAINED AT/lowered to/RAISED TO 3 to 7 percent [___ TO ___ PERCENT] for the year.

(3) In furtherance of these objectives, the Committee reaffirmed at this meeting the range it had established on January 31-February 1 for growth of M2 of 1 to 5 percent, measured from the fourth quarter of 1994 to the fourth quarter of 1995. The Committee also retained the monitoring range of 3 to 7 percent for the year that it had set for growth of total domestic nonfinancial debt. THE COMMITTEE RAISED THE 1995 RANGE FOR M3 TO ___ TO ___ PERCENT AS A TECHNICAL ADJUSTMENT TO TAKE ACCOUNT OF CHANGING INTERMEDIATION PATTERNS. The Committee anticipated that money growth within these ranges would be consistent with its broad policy objectives.

For 1996 the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1995 to the fourth quarter of 1996, of ___ to ___ percent for M2 and ___ to ___ percent for M3. The Committee provisionally set the associated monitoring range for growth of domestic non-financial debt at ___ to ___ percent for 1996. [For 1996, the Committee established on a tentative basis the same ranges as

in 1995 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1995 to the fourth quarter of 1996.] The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/maintain/INCREASE 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 moderate growth in M2 and M3 over coming months.

Appendix A

ADOPTED LONGER-RUN RANGES FOR THE MONETARY AND CREDIT AGGREGATES

(percent annual rates)

	M1		M2		M3		Domestic Non-financial Debt ¹	
QIV 1979 - QIV 1980	4 - 6.5	(7.3) ²³	6 - 9	(9.8)	6.5 - 9.5	(9.9)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3) ²⁴	6 - 9	(9.4)	6.5 - 9.5	(11.4)	6 - 9	(8.8) ⁵
QIV 1981 - QIV 1982	2.5 - 5.5	(8.5) ²	6 - 9	(9.2)	6.5 - 9.5	(10.1)	6 - 9 ⁶	(7.1) ⁵
QIV 1982 - QIV 1983	5 - 9 ⁷	(7.2)	7 - 10 ⁸	(8.3)	6.5 - 9.5	(9.7)	8.5 - 11.5	(10.5)
QIV 1983 - QIV 1984	4 - 8 ⁹	(5.2)	6 - 9	(7.7)	6 - 9	(10.5)	8 - 11	(13.4)
QIV 1984 - QIV 1985	3 - 8	(12.7)	6 - 9	(8.6)	6 - 9.5	(7.4)	9 - 12	(13.5)
QIV 1985 - QIV 1986	3 - 8	(15.2)	6 - 9	(8.9)	6 - 9	(8.8)	8 - 11	(12.9)
QIV 1986 - QIV 1987	n.s. ¹⁰	(6.2)	5.5 - 8.5	(4.0)	5.5 - 8.5	(5.4)	8 - 11	(9.6)
QIV 1987 - QIV 1988	n.s.	(4.3)	4 - 8	(5.3)	4 - 8	(6.2)	7 - 11	(8.7)
QIV 1988 - QIV 1989	n.s.	(0.6)	3 - 7	(4.6)	3.5 - 7.5	(3.3)	6.5 - 10.5	(8.1)
QIV 1989 - QIV 1990	n.s.	(4.2)	3 - 7	(3.9)	1 - 5 ¹¹	(1.8)	5 - 9	(6.9)
QIV 1990 - QIV 1991	n.s.	(8.0)	2.5 - 6.5	(2.8)	1 - 5	(1.2)	4.5 - 8.5	(4.5)
QIV 1991 - QIV 1992	n.s.	(14.3)	2.5 - 6.5	(2.0)	1 - 5	(0.5)	4.5 - 8.5	(4.6)
QIV 1992 - QIV 1993	n.s.	(10.5)	1 - 5 ¹²	(1.4)	0 - 4 ¹²	(0.6)	4 - 8 ¹²	(4.9)
QIV 1993 - QIV 1994	n.s.	(2.3)	1 - 5	(1.0)	0 - 4	(1.4)	4 - 8	(5.3)
QIV 1994 - QIV 1995 ¹³	n.s.	(-0.6)	1 - 5	(3.9)	0 - 4	(6.4)	3 - 7	(5.6)

NOTE: Numbers in parentheses are actual growth rates as reported at end of policy period in February Monetary Policy Report to Congress. Subsequent revisions to historical data (not reflected above) have altered growth rates by up to a few tenths of a percent.

n.s. -- not specified.

Footnotes on following page

1. Targets are for bank credit until 1983; from 1983 onward targets are for domestic nonfinancial sector debt.
2. The figures shown reflect target and actual growth of M1-B in 1980 and shift-adjusted M1-B in 1981. M1-B was relabelled M1 in January 1982. The targeted growth for M1-A was 3-1/2 to 6 percent in 1980 (actual growth was 5.0 percent); in 1981 targeted growth for shift-adjusted M1-A was 3 to 5-1/2 percent (actual growth was 1.3 percent).
3. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.
4. Adjusted for the effects of shifts out of demand deposits and savings deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -(4-1/2) to -2 and 6 to 8-1/2 percent, respectively. Actual M1-B growth (not shift adjusted) was 5.0 percent.
5. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.
6. Range for bank credit is annualized growth from the December 1981 - January 1982 average level through the fourth quarter of 1982.
7. Base period, adopted at the July 1983 FOMC meeting, is 1983 QII. At the February 1983 meeting, the FOMC had adopted a 1982 QIV to 1983 QIV target range for M1 of 4 to 8 percent.
8. Base period is the February-March 1983 average.
9. Base period, adopted at the July 1985 FOMC meeting, is 1985 QII. At the February 1983 meeting, the FOMC had adopted a 1984 QIV to 1985 QIV target range for M1 of 4 to 7 percent.
10. No range for M1 has been specified since the February 1987 FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.
11. At the February 1990 meeting, the FOMC specified a range of 2-1/2 to 6-1/2 percent. This range was lowered to 1 to 5 percent at the July 1990 meeting.
12. At the February 1993 meeting, the FOMC specified a range of 2 to 6 percent for M2, 1/2 to 4-1/2 percent for M3, and 4-1/2 to 8-1/2 percent for domestic nonfinancial debt. These ranges were lowered to 1 to 5 percent for M2, 0 to 4 percent for M3, and 4 to 8 percent for domestic nonfinancial debt at the July 1993 meeting.
13. Growth rates in parentheses for the monetary aggregates are from 1994QIV to June 1995 and for nonfinancial debt are from 1994QIV to May 1995.

6/30/95 (MARP)

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		
		3-month	6-month	1-year	3-month	1-month			3-year	10-year	30-year			secondary market	primary market	
		1	2	3	4	5	6	7	8	9	10	11	12	13	fixed-rate	fixed-rate
94 -- High	5.85	5.70	6.26	6.73	6.31	6.11	5.12	8.50	7.79	8.00	8.13	9.05	7.37	9.57	9.25	6.79
94 -- Low	2.97	2.94	3.12	3.35	3.11	3.11	2.68	6.00	4.44	5.70	6.25	7.16	5.49	7.02	6.97	4.12
95 -- High	6.20	5.81	6.31	6.75	6.39	6.10	5.61	9.00	7.80	7.85	7.89	8.81	6.94	9.57	9.22	6.87
95 -- Low	5.40	5.39	5.37	5.28	5.84	5.73	5.16	8.50	5.71	6.09	6.52	7.49	5.94	7.74	7.51	5.84
Monthly																
Jun 94	4.25	4.14	4.55	4.98	4.52	4.36	3.61	7.25	6.27	7.10	7.40	8.30	6.38	8.62	8.40	5.45
Jul 94	4.26	4.33	4.75	5.17	4.73	4.49	3.75	7.25	6.48	7.30	7.58	8.45	6.48	8.82	8.61	5.52
Aug 94	4.47	4.48	4.88	5.25	4.81	4.65	3.95	7.51	6.50	7.24	7.49	8.36	6.44	8.82	8.51	5.53
Sep 94	4.73	4.62	5.04	5.43	5.03	4.90	4.15	7.75	6.69	7.46	7.71	8.62	6.55	8.93	8.64	5.54
Oct 94	4.76	4.95	5.39	5.75	5.51	5.02	4.30	7.75	7.04	7.74	7.94	8.80	6.83	9.25	8.93	5.79
Nov 94	5.29	5.29	5.72	6.13	5.79	5.40	4.62	8.15	7.44	7.96	8.08	8.95	7.27	9.43	9.17	6.10
Dec 94	5.45	5.60	6.21	6.67	6.29	6.08	5.00	8.50	7.71	7.81	7.87	8.78	7.07	9.51	9.20	6.66
Jan 95	5.53	5.71	6.21	6.59	6.24	5.86	5.17	8.50	7.66	7.78	7.85	8.75	6.84	9.41	9.15	6.82
Feb 95	5.92	5.77	6.03	6.28	6.16	6.05	5.36	9.00	7.25	7.47	7.61	8.55	6.45	9.13	8.83	6.68
Mar 95	5.98	5.73	5.89	6.03	6.15	6.07	5.51	9.00	6.89	7.20	7.45	8.40	6.32	8.90	8.46	6.45
Apr 95	6.05	5.65	5.77	5.88	6.11	6.06	5.54	9.00	6.68	7.06	7.36	8.31	6.22	8.71	8.32	6.35
May 95	6.01	5.67	5.67	5.65	6.02	6.05	5.51	9.00	6.27	6.63	6.95	7.89	6.16	8.32	7.96	6.14
Weekly																
Mar 15 95	5.94	5.75	5.91	6.04	6.17	6.08	5.50	9.00	6.88	7.18	7.43	8.32	6.25	8.81	8.38	6.44
Mar 22 95	5.97	5.74	5.88	5.98	6.13	6.05	5.52	9.00	6.82	7.13	7.40	8.35	6.34	8.77	8.40	6.41
Mar 29 95	6.06	5.68	5.81	5.94	6.13	6.06	5.53	9.00	6.80	7.13	7.40	8.40	6.29	8.96	8.38	6.37
Apr 5 95	6.20	5.71	5.84	6.03	6.16	6.10	5.58	9.00	6.86	7.15	7.40	8.34	6.22	8.79	8.41	6.41
Apr 12 95	5.98	5.66	5.80	5.93	6.12	6.07	5.53	9.00	6.76	7.09	7.37	8.29	6.19	8.72	8.37	6.38
Apr 19 95	6.07	5.61	5.71	5.82	6.10	6.06	5.54	9.00	6.61	7.04	7.38	8.29	6.17	8.62	8.24	6.32
Apr 26 95	5.99	5.64	5.73	5.80	6.09	6.04	5.51	9.00	6.58	7.01	7.33	8.29	6.29	8.70	8.26	6.30
May 3 95	6.05	5.69	5.78	5.89	6.09	6.07	5.53	9.00	6.67	7.04	7.32	7.97	6.30	8.36	8.27	6.26
May 10 95	6.00	5.60	5.63	5.65	6.02	6.03	5.51	9.00	6.29	6.70	7.02	7.95	6.18	8.45	7.87	6.12
May 17 95	6.02	5.68	5.67	5.64	6.03	6.05	5.52	9.00	6.26	6.61	6.93	7.87	6.15	8.32	7.83	6.10
May 24 95	5.99	5.70	5.68	5.63	6.02	6.05	5.51	9.00	6.23	6.57	6.88	7.71	6.02	8.13	7.85	6.06
May 31 95	6.02	5.65	5.61	5.51	5.97	6.05	5.51	9.00	6.01	6.35	6.71	7.49	6.00	7.74	7.71	5.95
Jun 7 95	6.03	5.50	5.41	5.29	5.84	5.99	5.50	9.00	5.71	6.13	6.54	7.71	5.94	8.10	7.51	5.86
Jun 14 95	6.02	5.53	5.50	5.41	5.95	6.04	5.49	9.00	5.90	6.26	6.63	7.62	6.10	8.03	7.55	5.88
Jun 21 95	6.00	5.47	5.44	5.32	5.93	6.07	5.49	9.00	5.79	6.16	6.58	7.52	6.05	7.85	7.53	5.84
Jun 28 95	5.95	5.39	5.37	5.28	5.89	6.08	5.46	9.00	5.74	6.09	6.52	7.64	6.28	8.09	7.53	5.84
Daily																
Jun 23 95	5.94	5.38	5.37	5.25	5.86	6.06	--	9.00	5.69	6.06	6.51	--	--	--	--	--
Jun 29 95	5.96	5.50	5.41	5.43	5.89	6.11	--	9.00	5.95	6.28	6.65	--	--	--	--	--
Jun 30 95	6.30p	5.44	5.35	5.33	5.96	6.13	--	9.00	5.88	6.21	6.63	--	--	--	--	--

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

JULY 3, 1995

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt ¹		
	M1	M2	nontransactions components		M3	L	total loans and investments ¹	U. S. government ²	other 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)										
1992	14.3	2.0	-2.3	-6.3	0.5	1.5	3.7	10.7	2.8	4.8
1993	10.5	1.7	-1.9	-2.5	1.0	1.4	5.0	8.5	4.1	5.2
1994	2.3	1.0	0.4	3.5	1.4	2.5	6.8	5.7	4.8	5.1
Quarterly (average)										
1994-Q3	2.4	0.9	0.2	8.5	2.1	2.3	7.1	3.9	4.3	4.2
1994-Q4	-1.2	-0.3	0.1	12.7	1.7	3.3	4.0	5.9	5.0	5.2
1995-Q1	0.0	1.6	2.4	18.1	4.3	7.8	7.8	5.2	5.6	5.5
1995-Q2 pe	-¼	¼	⅝	20	⅝					
Monthly										
1994-JUNE	3.7	-1.1	-3.3	15.5	1.5	-0.4	3.9	4.9	3.3	3.8
JULY	5.4	3.6	2.8	11.6	4.8	5.7	13.3	1.1	2.9	2.4
AUG.	-1.5	-0.7	-0.3	1.6	-0.3	0.3	4.7	6.1	5.9	6.0
SEP.	0.2	-0.3	-0.5	12.0	1.6	1.3	4.8	6.0	5.2	5.4
OCT.	-3.0	-1.4	-0.7	18.9	1.7	4.2	3.4	5.4	4.0	4.4
NOV.	-0.6	0.4	0.9	8.2	1.7	2.0	2.4	8.5	5.7	6.5
DEC.	0.3	1.6	2.1	13.8	3.5	10.3	6.7	1.1	4.9	3.9
1995-JAN.	1.0	3.9	5.2	19.2	6.3	6.1	11.9	2.5	5.9	5.0
FEB.	-1.8	-1.5	-1.4	22.0	2.3	9.5	4.8	10.6	6.0	7.3
MAR.	0.7	2.5	3.2	23.8	6.0	9.9	8.3	7.4	4.6	5.4
APR.	2.0	4.1	5.2	14.7	5.9	9.9	14.1	0.7	6.1	4.6
MAY	-7.1	5.0	10.6	21.9	7.8		9.2			
JUNE pe	1	12	17	19	13					
Levels (\$billions):										
Monthly										
1995-JAN.	1148.8	3626.8	2477.9	699.0	4325.8	5319.7	3349.0	3504.7	9504.4	13009.0
FEB.	1147.1	3622.2	2475.1	711.8	4334.0	5361.6	3362.5	3535.8	9552.3	13088.1
MAR.	1147.8	3629.7	2481.8	725.9	4355.6	5405.8	3385.7	3557.5	9589.1	13146.6
APR.	1149.7	3642.2	2492.6	734.8	4377.0	5450.3	3425.5	3559.5	9638.0	13197.5
MAY	1142.9	3657.4	2514.6	748.2	4405.6		3451.8			
Weekly										
1995-MAY										
1	1149.4	3650.7	2501.3	741.7	4392.3					
8	1143.6	3648.4	2504.8	746.6	4395.0					
15	1143.2	3651.8	2508.6	747.0	4398.8					
22	1142.8	3659.2	2516.4	749.9	4409.1					
29	1141.2	3667.7	2526.4	749.7	4417.4					
JUNE										
5	1143.9	3678.1	2534.2	752.5	4430.6					
12 p	1143.8	3687.9	2544.1	758.5	4446.4					
19 p	1145.2	3696.6	2551.4	760.6	4457.2					

1. Adjusted for breaks caused by reclassifications.

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

p preliminary
pe preliminary estimate

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

JULY 3, 1995

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Euro-dollars NSA ¹	Savings deposits ²	Small denomination time deposits ³	Money market mutual funds		Large denomination time deposits ⁴	Term RP's NSA ⁵	Term Euro-dollars NSA ⁵	Savings bonds	Short-term Treasury securities	Commercial paper ¹	Bankers acceptances
							general purpose and broker/dealer ⁴	Institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Levels (\$billions):															
Annual (Q4)															
1992	290.1	336.5	380.0	83.0	1177.5	882.2	359.2	205.8	358.4	81.8	46.7	154.5	331.0	365.5	20.6
1993	319.8	381.2	412.6	95.1	1211.7	790.4	357.8	196.9	334.2	96.9	46.5	170.8	330.2	383.8	15.5
1994	352.5	382.9	404.0	114.5	1157.7	809.5	383.9	180.7	357.8	103.3	53.2	179.9	364.4	411.6	11.0
Monthly															
1994-MAY	337.3	385.6	412.4	102.5	1214.8	770.8	373.5	177.5	332.4	97.8	47.7	175.7	359.1	392.6	11.6
JUNE	340.0	386.3	412.5	106.9	1206.8	772.9	370.7	177.9	335.0	102.4	50.3	176.7	351.7	392.7	10.8
JULY	342.8	388.0	413.1	109.5	1201.2	776.0	376.1	178.7	338.2	103.0	51.0	177.7	358.1	392.8	10.9
AUG.	345.1	386.6	410.8	110.9	1192.6	782.2	377.0	177.4	341.5	101.2	51.2	178.5	364.2	387.7	11.4
SEP.	347.2	386.5	408.9	111.8	1183.7	789.0	377.4	176.3	347.3	101.9	52.1	179.1	359.1	391.7	11.9
OCT.	350.0	384.4	405.4	113.7	1171.0	799.0	379.5	180.8	353.0	101.9	52.7	179.5	358.5	404.2	11.8
NOV.	353.0	382.3	403.8	113.0	1157.8	809.8	383.3	180.5	357.7	102.9	54.5	179.9	362.2	404.0	11.0
DEC.	354.5	382.0	402.9	116.7	1144.2	819.8	389.0	180.8	362.7	105.2	52.4	180.3	372.6	426.5	10.2
1995-JAN.	357.7	383.4	399.3	123.4	1129.8	835.1	392.1	186.3	363.0	109.1	53.1	180.5	375.0	428.7	9.8
FEB.	358.8	384.0	395.9	117.8	1111.9	854.9	391.5	180.4	371.4	112.7	56.3	180.4	391.6	445.7	9.9
MAR.	362.5	383.2	393.3	117.6	1094.9	877.7	390.9	189.0	377.8	112.5	58.3	180.5	405.2	454.1	10.4
APR.	365.7	381.2	393.6	114.8	1082.4	896.2	396.0	192.9	378.8	115.6	59.8	180.9	406.8	475.2	10.3
MAY	368.1	380.6	385.0	114.9	1081.5	909.8	405.3	194.8	384.3	120.6	60.7				

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

p preliminary