

2013 Federal Reserve Note Print Order

The Board of Governors (the Board), as the issuing authority for Federal Reserve notes, approved and submitted its fiscal year (FY) 2013 order for 7.8 billion Federal Reserve notes, valued at \$472.9 billion, to the U.S. Treasury Department's Bureau of Engraving and Printing (BEP) on July 24, 2012.¹

The 7.8 billion notes included in the FY 2013 order reflect the Board's estimate of net demand for currency from domestic and international customers. The print order is determined, by denomination, based on historical payments to and receipts from circulation, destruction rates, and also to build inventories of new-design notes before issuance. Historically, most of the notes that the Board orders each year replace unfit currency that Reserve Banks receive from circulation.² The estimated number of notes that Reserve Banks will destroy account for nearly 90 percent of the FY 2013 print order (excluding the quantity of new-design \$100 notes); the expected growth of Reserve Bank payments to circulation accounts for the remainder of notes in the FY 2013 print order. The table below reflects the denominational breakdown of the Board's FY 2013 order.³

Denomination	Number of Notes ^a (000s of pieces)	Dollar Value (000s of dollars)
\$1	1,792,000	\$1,792,000
\$2 ^b	0	\$0
\$5	480,000	\$2,400,000
\$10	313,600	\$3,136,000
\$20	518,400	\$10,368,000
\$50	246,400	\$12,320,000
Current-Design \$100	1,926,400	\$192,640,000
New-Design \$100	2,502,400	\$250,240,000
Total	7,779,200	\$472,896,000

^a The FY 2013 order includes a small quantity of half sheets and low-serial number notes of all denominations that the BEP has requested to make available for sale in the BEP Store[®] and to meet special requests from the Secretary of the Treasury and U.S. Treasurer.

^b The FY 2013 order does not include any \$2 notes because the Board included a sufficient quantity of notes in the FY 2012 order to meet estimated demand for two years. Small-volume note orders are inefficient given the significant fixed costs and production constraints at the BEP.

The Board's FY 2013 order, excluding the quantity of new-design \$100 notes, is 28 percent *lower* than the FY 2012 print order for Federal Reserve notes. The FY 2013 order reflects a policy change (misfaced notes policy) implemented by the Federal Reserve Banks that

¹ The BEP operates on a fiscal year that begins on October 1 and ends on September 30. The Board submits its annual order for Federal Reserve notes at least 60 days before the beginning of the BEP's fiscal year.

² Unfit notes are notes received in deposits from depository institutions that are destroyed because they do not meet the Federal Reserve's quality criteria for recirculation.

³ Charts 1 and 2 in the appendix show the Federal Reserve's print orders between FY 2005 and FY 2013 and the number of notes produced by the BEP and delivered to the Board to meet those orders.

reduced the premature destruction of \$1 - \$20 notes (transactional denominations).⁴ The lower 2013 order reflects the effects of this policy change, not a decline in demand for currency.⁵

\$1 - \$20 Notes

The FY 2013 order for the transactional denominations represents over 40 percent of the total order and is considerably lower than the FY 2012 order primarily because the Reserve Banks will end FY 2012 with significant inventories. Through June, Reserve Banks destroyed fewer notes than Board staff estimated when it prepared the FY 2012 print order in July 2011. At that time, the misfaced notes policy had recently been implemented and Board staff had only two months of data to inform its estimates for destruction rates during FY 2012. With only limited data, Board staff based the FY 2012 order on a conservative destruction rate estimate to avoid possible inventory shortages at Reserve Banks caused by too low an order. Actual destruction rates in FY 2012 for all transactional denominations were lower than estimated, and Reserve Banks have accumulated inventories. Reserve Banks will use the inventory to meet demand during FY 2013, thereby reducing the number of notes the Board ordered from the BEP in FY 2013.

\$50 Notes

The order for \$50 notes represents approximately three percent of the total order and is equivalent to the FY 2012 order for \$50 notes. Reserve Bank payments of new \$50 notes have remained relatively flat during FY 2012, and Board staff assumed that customers will demand approximately the same quantity of new \$50 notes in FY 2013 as in FY 2012.

Current-Design \$100 Notes

The order for 1.9 billion current-design \$100 notes (NCD) represents approximately 25 percent of the FY 2013 order. During FY 2012, Reserve Bank payments of \$100 notes have increased over 11 percent from FY 2011. Nearly all of this increase in \$100 note payments has been to international markets. Ongoing economic and political instability in many parts of the world continue to drive international demand.

New-Design \$100 Notes

The order for 2.5 billion new-design \$100 notes (NXG) comprises the remaining 32 percent of the FY 2013 order. Given the lower order for the transactional denominations, Board staff believes that, with proper production planning, the BEP is capable of producing this quantity of new-design \$100 notes during FY 2013. When full production of the new-design

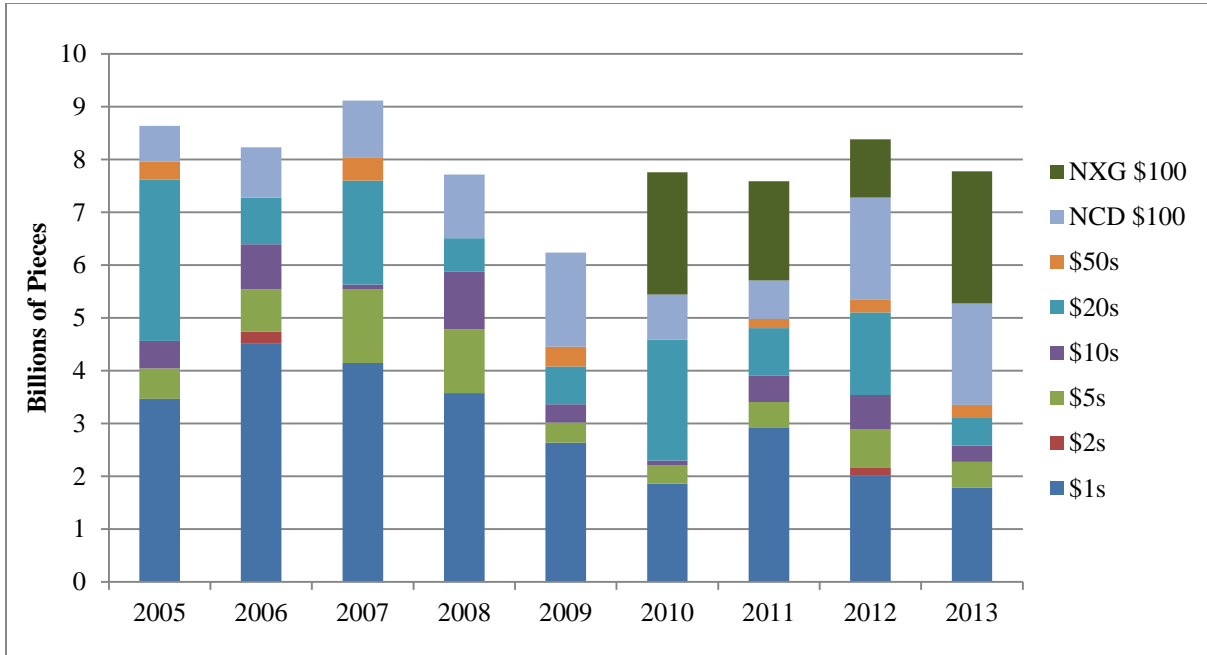
⁴ Misfaced notes are notes that are reverse-side up rather than portrait-side up. Before April 2011, for operational reasons, misfaced notes were destroyed during Reserve Bank processing even if they were otherwise fit for recirculation. During 2010 and 2011, the Reserve Banks installed new sensors on their high-speed processing equipment, which enabled them to authenticate notes regardless of facing. Beginning in April 2011, at the recommendation of the Reserve's Bank Cash Product Office (CPO) and following endorsement by the Reserve Banks' Cash Advisory Group and Board staff, Reserve Banks began to pay out "misfaced" notes for transactional denominations to depository institutions and accept misfaced notes for transactional denominations in deposits from depository institutions. This policy has reduced the number of notes prematurely destroyed during processing and reduced the quantity of new notes the Board needs to order from the BEP. The policy does not include \$50 and \$100 notes because the CPO determined that there were no significant cost savings associated with including \$50 and \$100 notes.

⁵ The number of pieces of currency in circulation has increased over four percent over the past year, although the value of currency in circulation has increased over eight percent; driven by demand for \$100 notes.

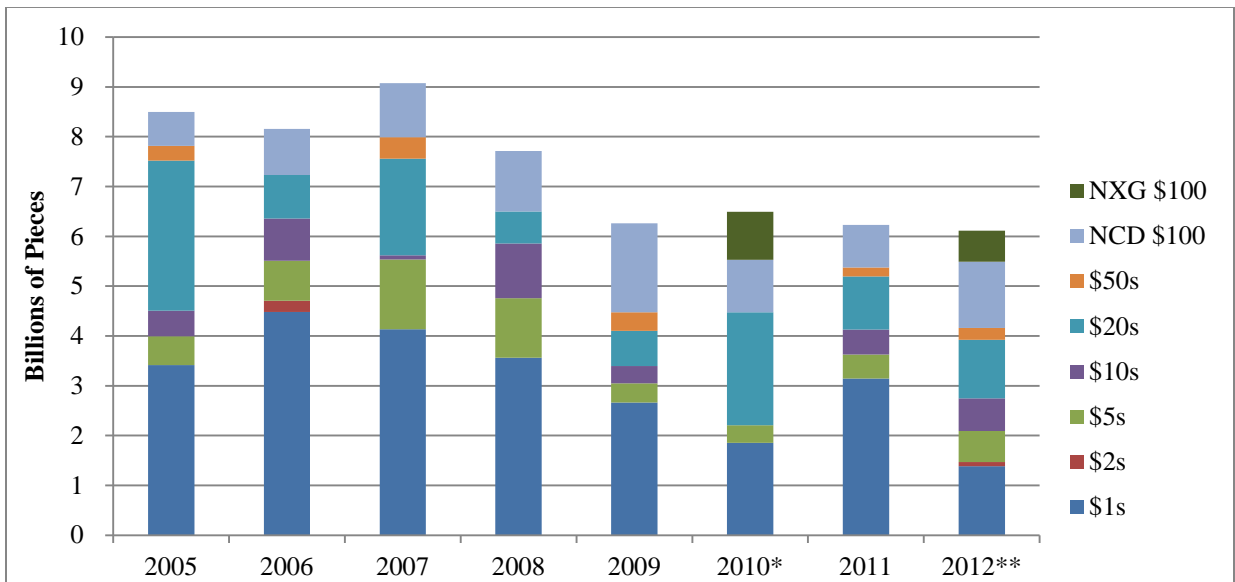
\$100 note resumes and the Board is confident that the BEP can sustain production of notes that meet agreed-upon quality standards, the Board will evaluate production throughput and announce a new day of issue.

Appendix

**Chart 1
Fiscal Year Print Orders**



**Chart 2
Notes Produced by the BEP
(by Fiscal Year)**



* FY 2010 volume includes 1.1 billion NXG \$100 notes that the BEP produced, but the Board did not accept because the BEP cannot verify that the notes meet quality standards.

** FY 2012 data are through the third quarter.