Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[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 optical 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.

Content last modified 5/26/2009.

Strictly Confidential (F.R.) **March 13, 2003**
Class II–FOMC

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) With the probability of imminent war having increased, investors apparently shifted away from some aspects of risk taking, intensifying downward pressure on equity prices and interest rates over the intermeeting period. The fall in stock prices, which cumulated to about 3 percent for broad indexes, was amplified by lackluster earnings reports and disappointing data on auto sales, labor markets, and consumer confidence. Financial markets were quite sensitive to shifting perceptions of the likelihood of war. For instance, just today equity prices rallied sharply and bond yields rose markedly, on news of a possible delay in a new U.N. resolution on Iraq. On net, market participants seemed to interpret developments over the intermeeting period as suggesting that the onset of vigorous economic growth would be a little more delayed than previously expected. The term structure of money market futures rates tilted down, as investors appear to have once again put off the time at which policy is expected to begin tightening, shifting the date from mid-summer to late in the year, and reducing the expected amount of tightening by the middle of next year by 35 basis points.[1] (Additional detail about policy expectations is provided in the box on the next page.)

---

[1] Market participants had almost uniformly anticipated that the Committee would keep policy on hold at its January 28-29 meeting, so that there was little reaction when that expectation proved true. Over the intermeeting period, the effective federal funds rate averaged close to its 1-1/4 percent target. The Desk met reserve drains caused by strong currency growth with outright purchases of $9.4 billion (settlement basis), about evenly split between bills and coupons, using up all but $2.6 billion of its authorization to purchases securities outright (the "leeway"). The Desk met its additional needs through a $2 billion increase in long-term RPs, bringing their level to $16 billion.

Monetary Policy Expectations

Money market futures suggest that investors have trimmed their expected path of the federal funds rate as much as 3/8 percentage point over the intermeeting period (Chart 1). As for the upcoming FOMC meeting, the April federal funds futures contract is now trading about 8 basis points below the FOMC's intended rate of 1-1/4 percent, consistent with a one-in-three chance of a 1/4 percentage point easing on March 18. Market chatter seems to put the odds of action lower than this, suggesting that the futures rate embodies some possibility of a 1/2 percentage point move. Analysts are increasingly of the view that at this meeting the Committee will shift its assessment of the risks to its objectives from balanced to tilted toward economic weakness.

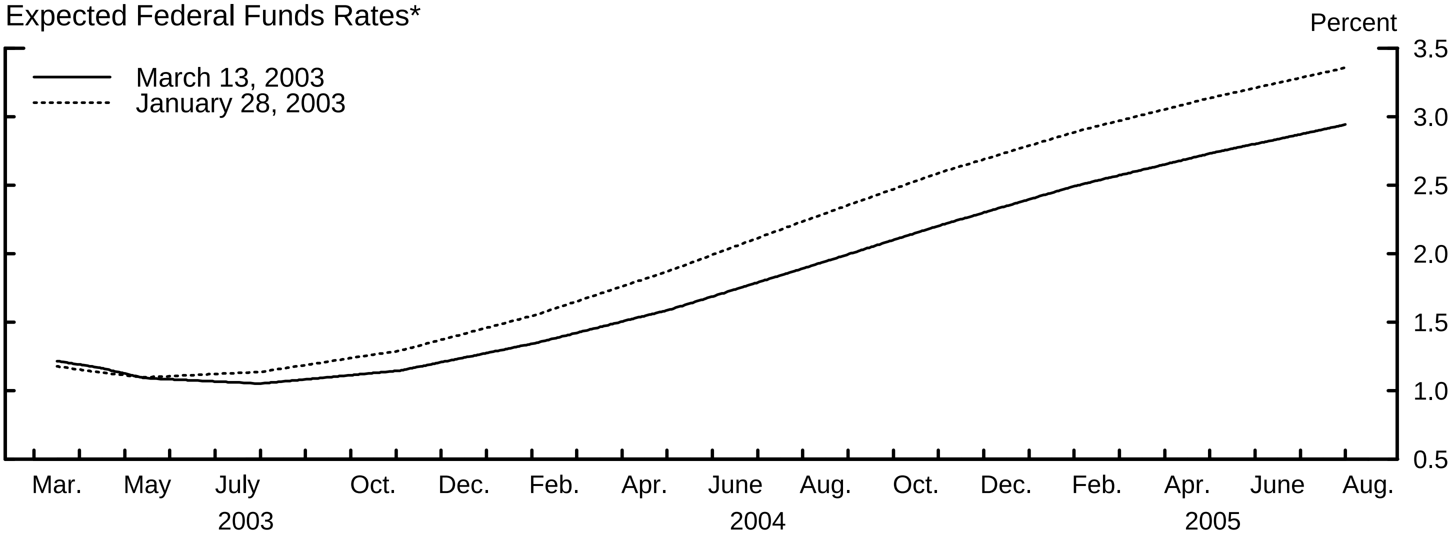
According to options prices, the implied probability distribution for the funds rate six months hence has become more skewed to the downside. Indeed, about 8 percent of the probability mass now rests at levels of the federal funds rate at or below 50 basis points.

(2) Treasury coupon yields dropped 10 to 30 basis points over the intermeeting period, on net, pulled down by lower policy rate expectations and perhaps by enhanced investor demands for safety (Chart 2). Much of these declines were accounted for by lower forward rates at the two- to seven-year maturities, consistent with the view that the level of economic activity would be on a lower track for some time. Indexed-debt yields declined by more than those on their nominal counterparts, implying an edging higher of implied inflation compensation. Survey measures of longer-term inflation expectations, in contrast, held steady.

(3) Despite the evident jitters about the possibility of war and increasing concerns about economic fundamentals, declines in rates on investment-grade private instruments somewhat exceeded those on comparable-maturity Treasuries. Risk spreads for lower tier instruments were about unchanged at high levels, and measures of implied volatility in stock and bond markets remained elevated. The term structure

Chart 1
Policy Expectations

Expected Federal Funds Rates*



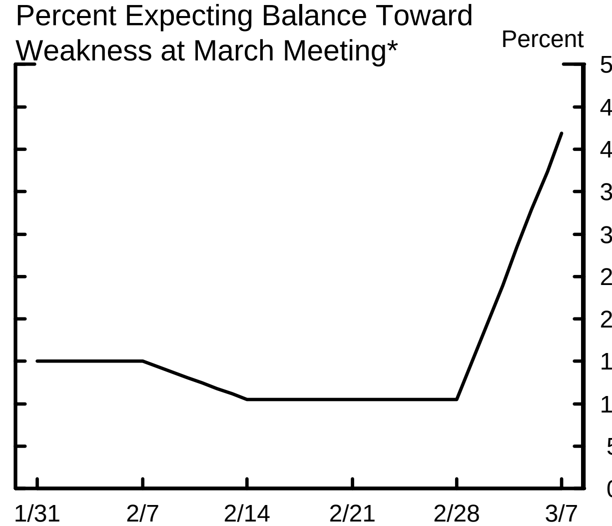
*Estimates from federal funds and eurodollar futures with an allowance for term premia and other adjustments.

Expected Balance of Risks*
(Percent of Respondents)

	March	May	June
Weakness	42	37	36
Neutral	58	63	62
Inflation	0	0	2

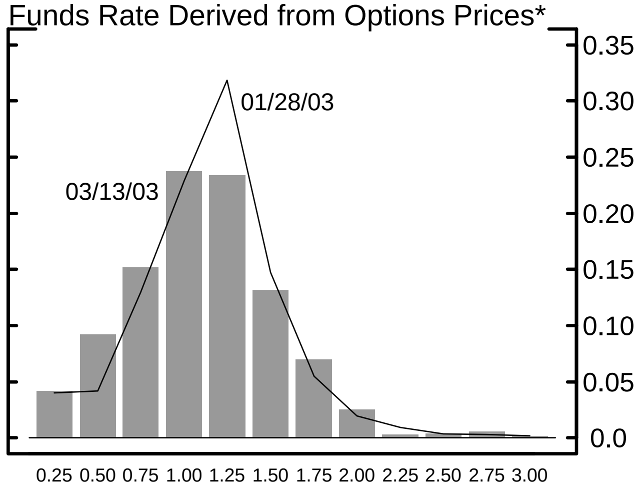
*From March 7, 2003 Money Market Services survey.

Percent Expecting Balance Toward
Weakness at March Meeting*



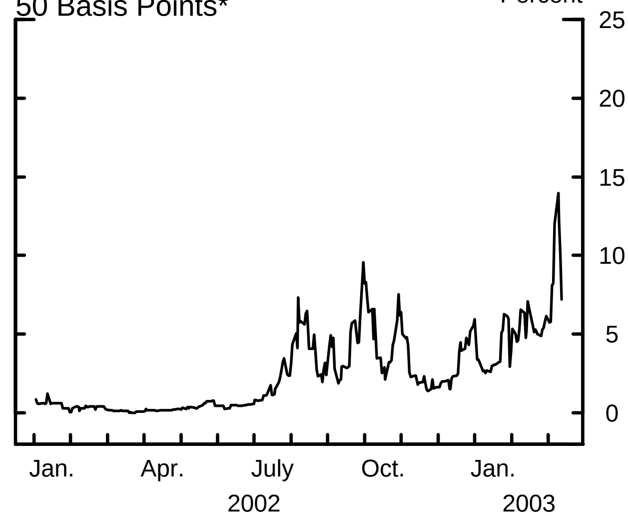
*Responses from Money Market Services surveys.

Implied Distribution of the Federal
Funds Rate Derived from Options Prices*



*Calculated from 150-day constant maturity eurodollar options.

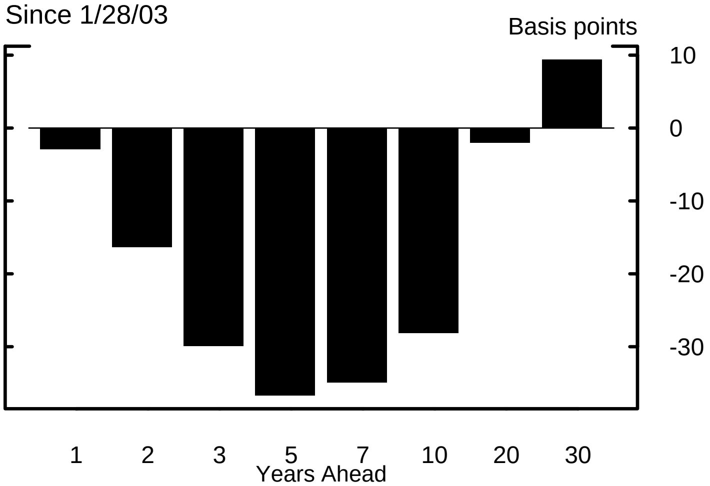
Probability of Federal Funds Rate Below
50 Basis Points*



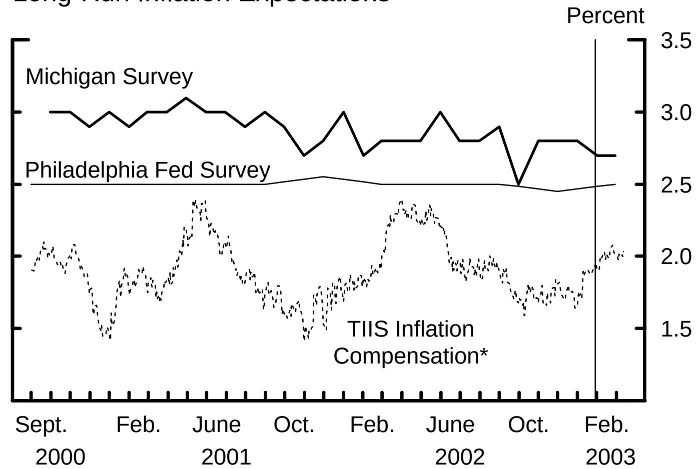
*Calculated from 150-day constant maturity eurodollar options.

Chart 2
Financial Market Indicators

Change in One-Year Treasury Forward Rates
Since 1/28/03

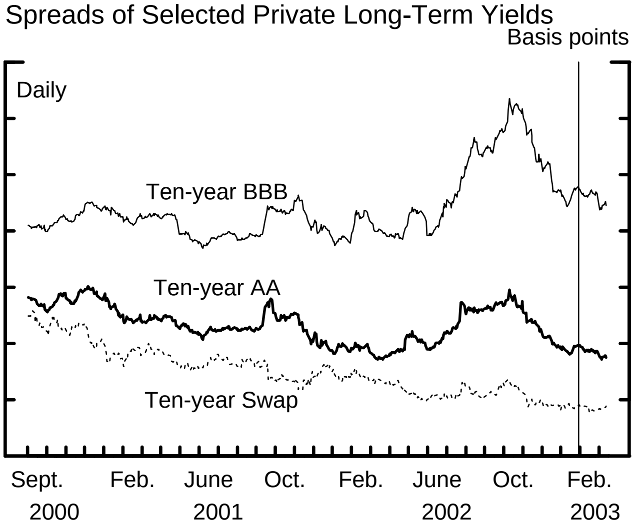


Long-Run Inflation Expectations



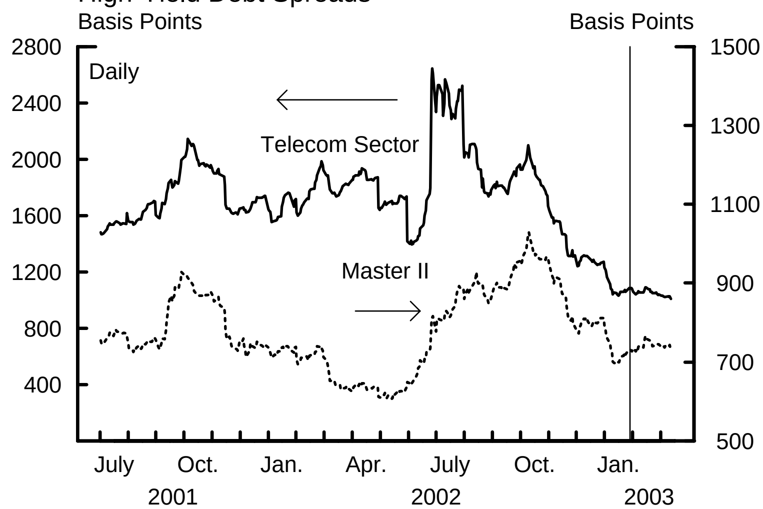
*The inflation rate that equalizes the price of the January 2012 TIIS and the value of a portfolio of nominal securities with the same payments.

Spreads of Selected Private Long-Term Yields



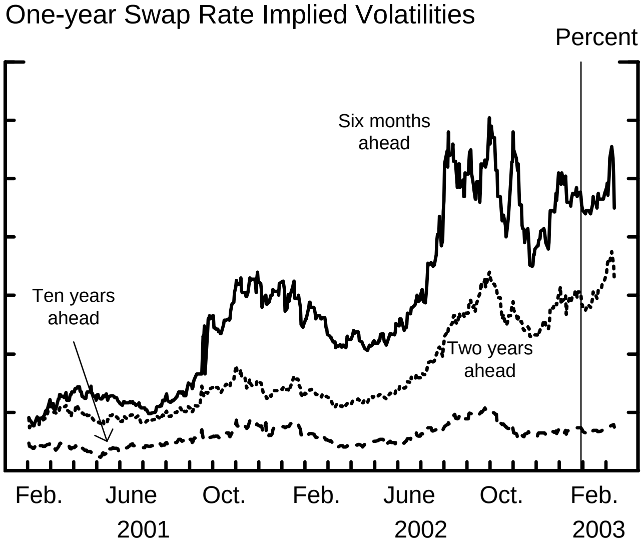
Note. Spreads measured over ten-year Treasury.

High-Yield Debt Spreads

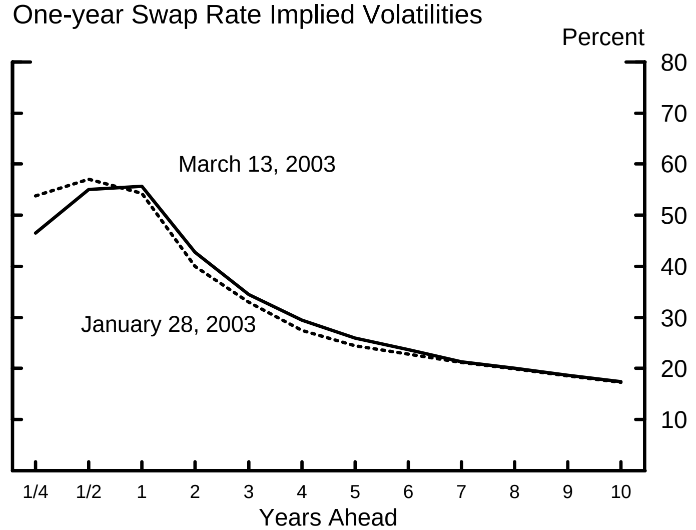


Note: Spreads measured over ten-year Treasury. Source: Merrill Lynch.

One-year Swap Rate Implied Volatilities



One-year Swap Rate Implied Volatilities



Note: Solid vertical lines indicate January 28, 2003.

of implied volatilities calculated from options on swap forwards suggest that much of that uncertainty pertains to the near-term outlook: Further out this term structure, those measures of volatility decline sharply. The reduction in stock prices and yields on fixed-income securities were accompanied by considerable flows out of equity mutual funds and into government and, especially, other bond mutual funds (Chart 3). Falling equity prices and interest rates further widened the spread between the forward earnings-price ratio and the real longer-term Treasury yield, a measure of the equity premium, to levels of the early 1990s.

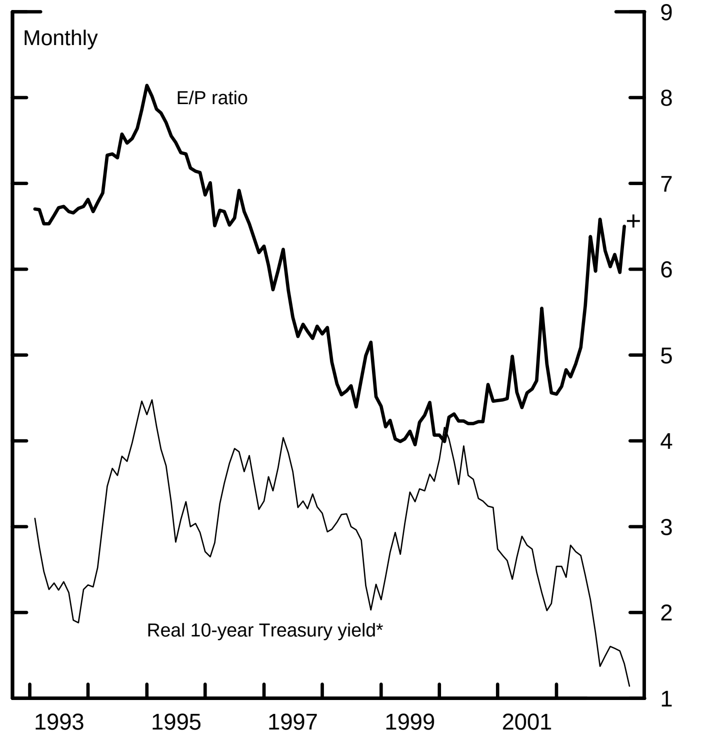
(4) After moving mostly sideways on balance against the major foreign currencies for the first part of the intermeeting period, the dollar has fluctuated in a wide range in recent days. On net, the foreign exchange value of the dollar has slipped 1 percent against a basket of major foreign currencies, losing 3-1/4 percent against the Canadian dollar and edging lower against the euro and the yen. Share prices have declined substantially in the major foreign markets, reaching multi-year lows in Japan and Europe before rebounding somewhat at the end of the period. Consistent with a global shift toward fixed-income assets, yields on long-term government securities also were down on net, although the declines were smaller abroad than in the United States. Additional signs of economic weakness in key euro-area countries – especially Germany – prompted the ECB to cut its key policy rates 25 basis points on March 6. Policy actions to counter downward pressures on activity were also taken in the United Kingdom and Switzerland. The Bank of England lowered its repo rate 25 basis points in early February, and the Swiss National Bank in early March cut further its already very low range for policy rates to counteract the deflationary effects of Swiss franc strength. In contrast, the Bank of Canada raised its target for the overnight rate by 25 basis points earlier this month to blunt inflationary pressures. In Japan, the announcement that Toshihiko Fukui will become the next

Chart 3
Financial Market Indicators

Net Inflows to Mutual Funds
($ billions, at monthly rates)

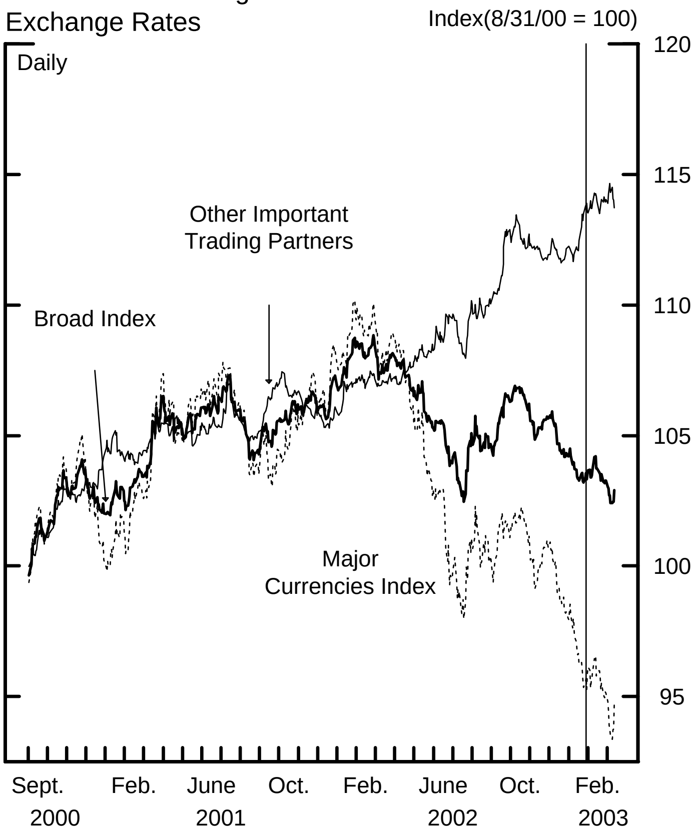
	Equity Funds	Bond Funds		
		Govt.	Other	Total
2001	2.8	2.3	4.0	6.4
2002	-2.2	5.0	5.4	10.4
2002 Q3	-23.9	10.9	6.1	17.0
2002 Q4	-3.0	2.6	4.9	7.5
2003 Jan.	-0.5	4.1	8.5	12.5
2003 Feb.	-14.3	6.8	13.1	19.9

12-Month Forward Earnings-Price Ratio for S&P 500 and 10-Year Treasury

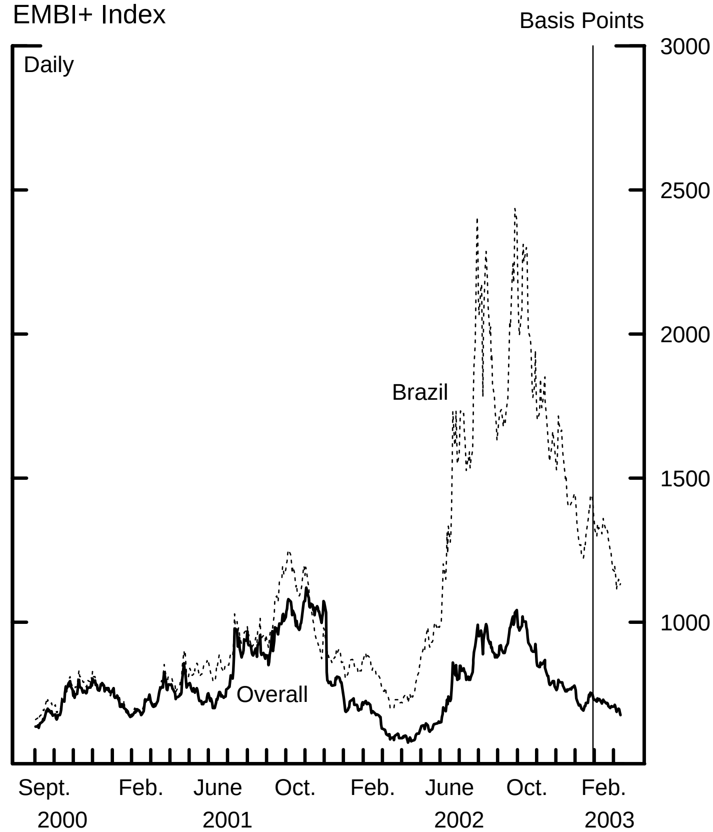


* 10-year Treasury yield minus Philadelphia Fed 10-year expected inflation.
+ Denotes the latest observation using daily prices and latest earnings data from I/B/E/S.

Nominal Trade-Weighted Dollar Exchange Rates



EMBI+ Index



Note: Solid vertical lines indicate January 28, 2003.

Governor of the Bank of Japan served to diminish expectations that monetary policy might become considerably more expansionary. Official yen sales continued as the dollar moved lower later in the period.[2]

(5) The dollar was about unchanged over the intermeeting period against an index of the currencies of our other important trading partners. The dollar rose about 6 percent against the Korean won, while Korean stocks declined more than 11 percent, largely in reaction to rising tensions in that part of the world. The Mexican central bank sought to bring inflation down with another round of tightening in early February, but uncertainties about the strength of the U.S. economic recovery weighed on the peso at times during the period. On balance, though, the exchange value of the peso firmed about 1 percent against the dollar. Brazilian financial markets continued to improve, even as the Brazilian central bank tightened policy another notch in February by raising its target overnight interest rate 1 percentage point. The *real* strengthened about 5-1/2 percent, and the spread over Treasury yields of Brazilian sovereign debt issued in dollars (Brazil's EMBI+ spread) narrowed about 320 basis points during the period.

(6) The pace of business borrowing receded in February from the brisker pace of January, but remained somewhat above that of the fourth quarter (Chart 4). Business borrowing continued to be concentrated in bond financing, as firms exploited the historically low level of longer-term interest rates by paying down outstanding short-term debt with the proceeds of bond issuance. Household debt growth continued to be dominated by heavy mortgage borrowing. Growth of

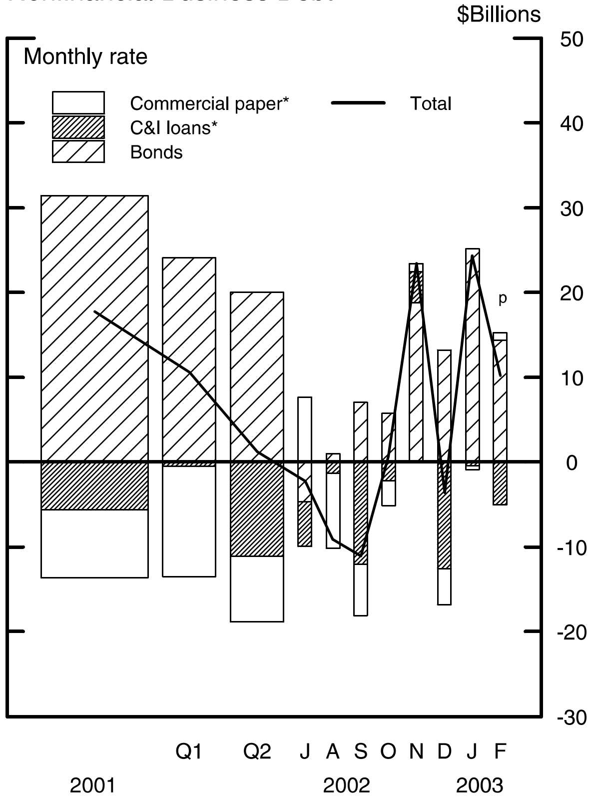
---

2

. The Desk did not intervene during the period for the accounts of the System or Treasury .

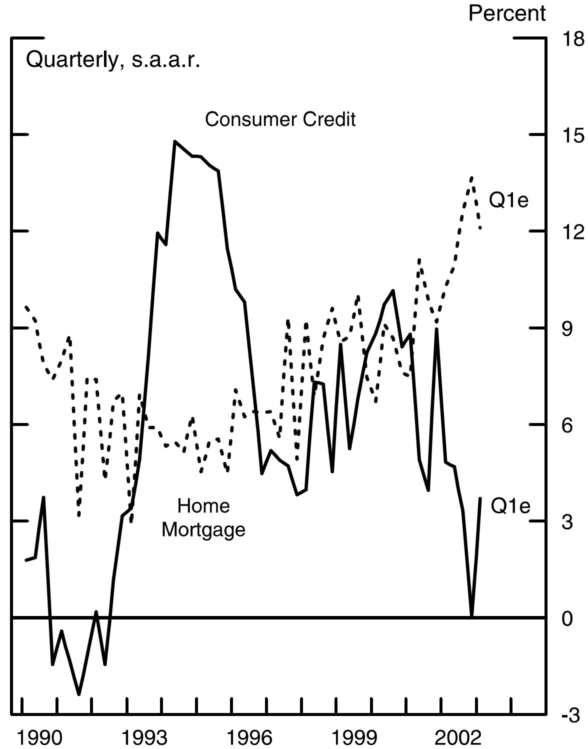
Chart 4
Debt and Money Growth

Growth of Components of Nonfinancial Business Debt



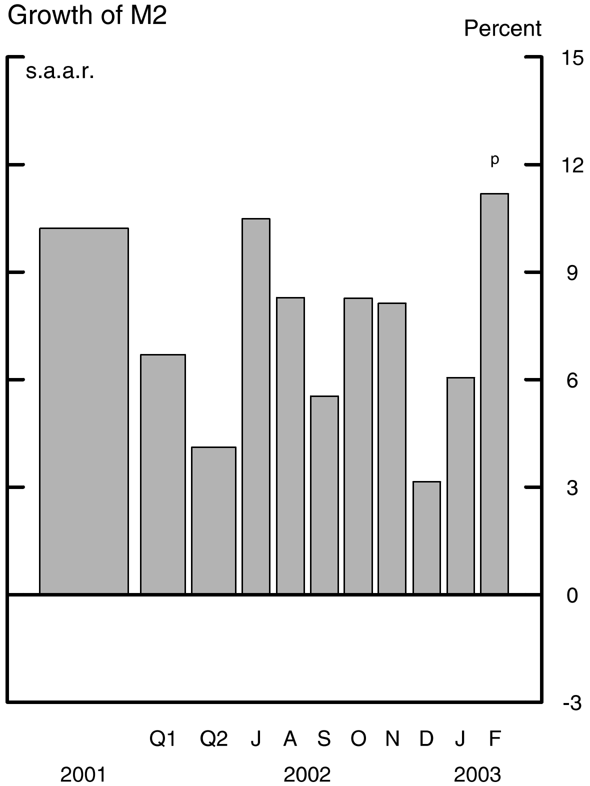
* Seasonally adjusted.
p Preliminary.

Growth of Household Debt



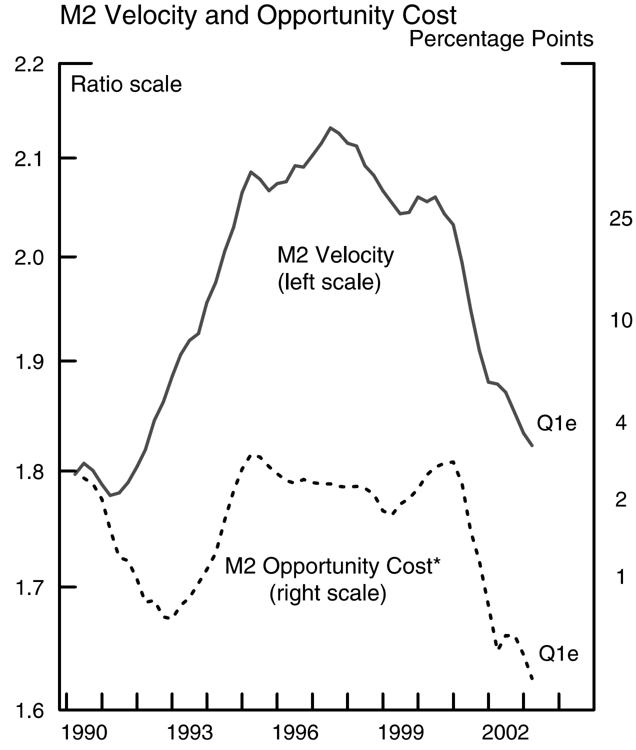
e Estimated.

Growth of M2



p Preliminary.

M2 Velocity and Opportunity Cost



* Two-quarter moving average.
e Estimated.

MARA:HW

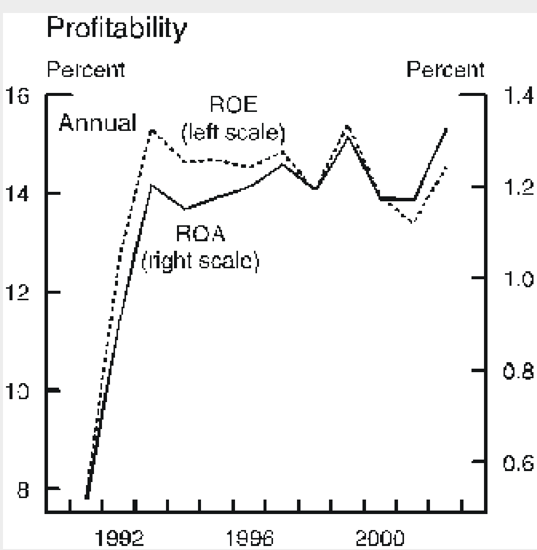
consumer credit, after stalling in the fourth quarter, jumped at banks in January and February, in part owing to tax refund anticipation loans. The pace of federal borrowing picked up in the first quarter, and federal debt outstanding reached its statutory limit in mid-February. However, the Treasury has been able to use accounting devices to allow its regular auctions to go forward. Although down from the high level of late last year, issuance of state and local bonds has remained strong this year. Backward-looking measures of corporate asset quality–bond default rates and C&I loan delinquency rates–are showing signs of stabilization or even some improvement. With equity prices in a downdraft, gross equity issuance has remained subdued and net issuance negative.

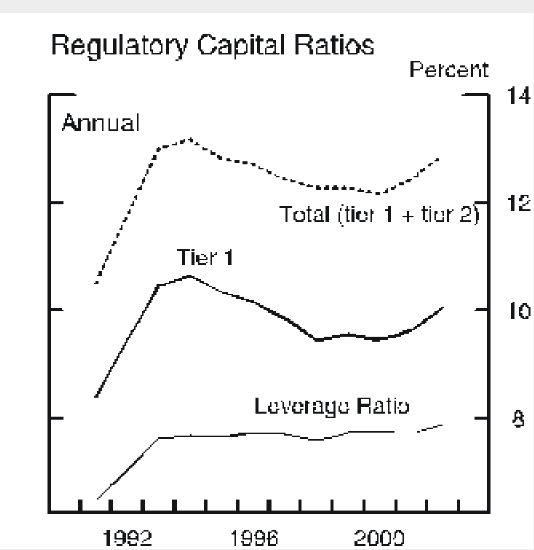
(7) M2 growth was exceptionally strong in February, owing mainly to robust inflows to liquid deposits. Rapid money growth appeared to reflect earlier tax refunds (owing to greater use of electronic filing) and hefty mortgage prepayments as record low interest rates spurred refinancing activity. Money growth may also have benefitted from the ongoing retreat from equity markets. The expansion of liquid deposits additionally reflected shifts from other components of M2, including retail money funds–whose yields have fallen to about the same level as MMDA rates–and small time deposits. The ample availability of low-cost deposit funds over the past year has facilitated wide net interest margins at commercial banks, to the benefit of their profitability, the subject of the box on the next page.

Bank Profitability in 2002

Banks' returns on assets and equity both moved up smartly last year, the former to a three-decade high. A major contributor to the rise in profitability was a large drop in noninterest expense, an important part of which appears to be attributable to a regulatory change that eliminated the requirement to amortize goodwill unless it is impaired. A low level of bank mergers last year also likely held down noninterest expense. Salaries and benefits, however, which had been falling for several years as a share of revenue, edged up in 2002. Profitability also benefitted considerably from a large widening of interest rate spreads, which in turn importantly reflected a surge in low-cost transaction and savings deposits as investors responded to the very low opportunity cost of holding liquid assets and adverse developments in equity markets. In addition, falling longer-term interest rates allowed banks to realize sizable capital gains on securities holdings for the second consecutive year in 2002. Finally, loan-loss provisioning, which had risen sharply in 2000 and 2001, held steady last year, albeit at twice the pace of the mid-1990s.

Although banks began last year with very comfortable capital levels, they chose to boost them further by retaining income at somewhat above the pace of the preceding two years. The rise in risk-based capital measures was particularly large, reflecting the shift in banks' portfolios away from full risk-weight business loans toward lower risk-weight residential mortgages and mortgage-backed securities. With the cushion of additional capital, commercial banks appear relatively resilient going forward.





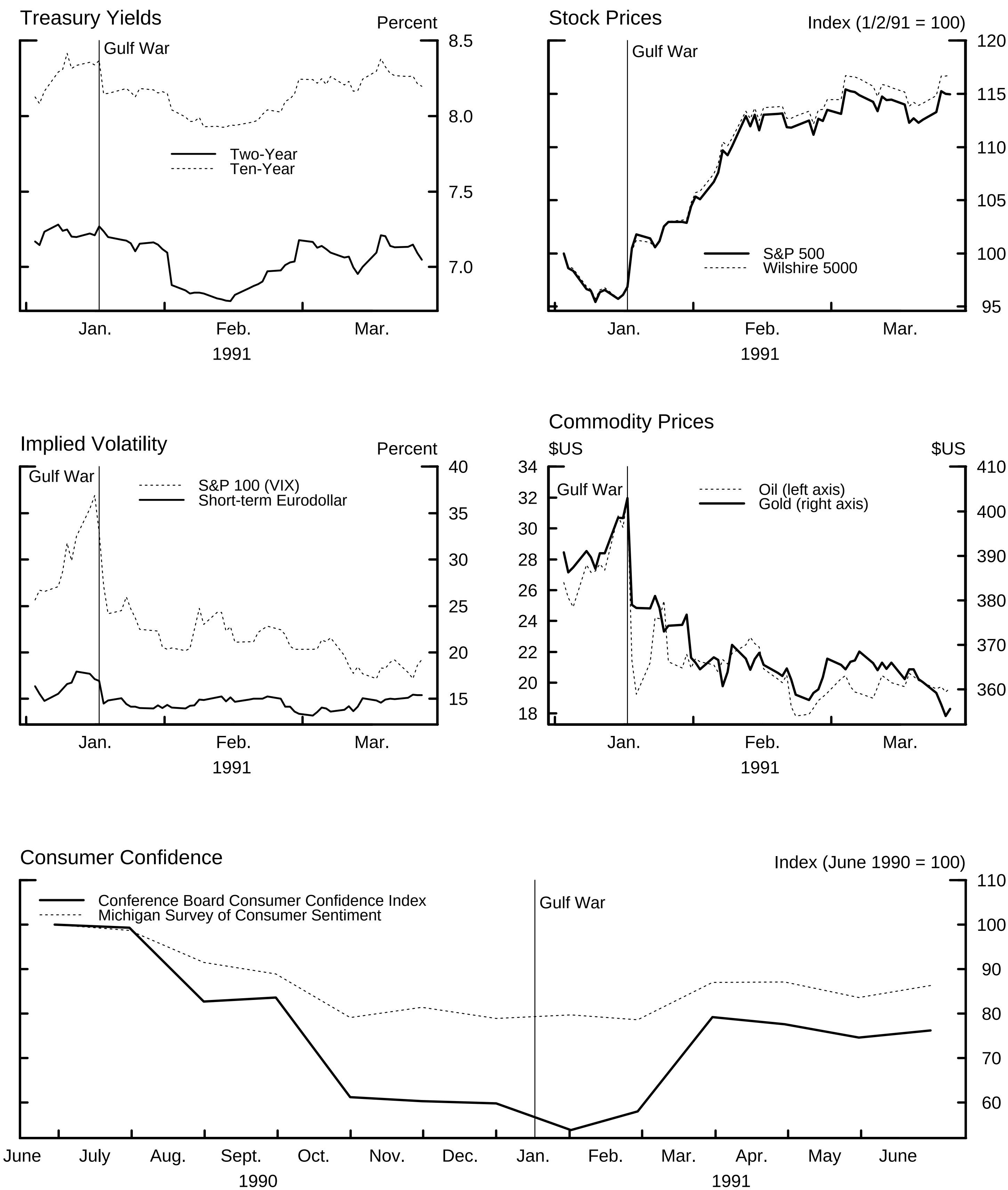
Policy Alternatives

(8) The broad contours of the staff forecast remain similar to those of the January Greenbook, with moderate growth of activity giving way to robust expansion in the second half of this year. However, recently some sour economic releases–particularly indicators of labor market conditions and consumer sentiment–and lower equity prices and higher oil prices in the baseline forecast have led the staff to write down somewhat weaker growth of real GDP this year and next as well as a higher unemployment rate at the end of the Greenbook forecast interval. Partly as a result, this forecast assumes that the intended federal funds rate will hold at 1-1/4 percent throughout the forecast period, rather than turning upward in the second half of 2004 as in the prior Greenbook. As was true in the January Greenbook, the current forecast does not embody a specific scenario for resolution of the conflict with Iraq. Rather, the forecast is premised on financial assumptions that are guided by current market quotes that appear to be consistent with a high likelihood of a relatively short and successful war but that also encompass a range of potential resolutions of that conflict. This is most evident for oil prices, which the staff assumes will fall substantially in coming quarters in line with the current configuration of oil price futures. Equity prices are assumed to increase from their current level over the forecast period at a rate that provides investors with a risk-adjusted return comparable to that on longer-term bonds. Corporate bond yields are pulled lower over the forecast period as a gradual improvement in the economic outlook and a partial lifting of uncertainty spur a narrowing in risk spreads. With these assumptions, GDP growth, after running below that of potential over the first half of this year, begins to pick up smartly as falling oil prices, improving sentiment, accommodative monetary policy, and tax cuts provide a lift to household and business spending. However, even with an acceleration in GDP in 2004 to a 4-1/2 percent pace, output at the end of the forecast

period remains about 3/4 percent below the staff's estimate of potential GDP and the unemployment rate is 5-1/2 percent, about 1/2 percentage point above its estimated natural rate. The persistent slack in resource usage is large enough to offset the effect on core inflation of higher oil prices and a weaker dollar; core PCE prices are projected to rise about 1-1/4 and 1 percent in 2003 and 2004, respectively.

(9) If the Committee remains of the view that the current setting of the federal funds rate likely would provide enough stimulus to redress the existing amount of resource slack over time while maintaining low inflation, it may wish to **keep the target rate unchanged**. To be sure, global tensions have escalated in recent weeks, and the uncertainties associated with developments in Iraq and the attendant rise in oil prices seem to be weighing heavily on financial markets and restraining economic activity. But the Committee may believe that a significant portion of these fundamental uncertainties will be resolved before long and–as was the case following the onset of the Gulf War in 1991–lead to a notable improvement in financial market conditions (Chart 5). Moreover, although many observers have worried that higher oil prices may continue to depress spending, as discussed in the Greenbook, it is persistent increases in oil prices that have materially adverse implications for activity. In fact, futures and options data suggest that market participants do not expect the currently elevated level and uncertainty about oil prices to persist (Chart 6). Moreover, while the nominal price of oil has approached historical highs, the recent spike does not appear outsized in real terms. Even if the Committee is concerned that the pace of economic growth could remain subpar once some of the current uncertainties have been resolved, it still may see a considerable advantage to deferring policy action at this time in order to await more information about geopolitical developments. Indeed, inaction at this meeting might seem especially attractive if the Committee wants to preserve the option of easing forcefully if events turn unexpectedly adverse in coming weeks.

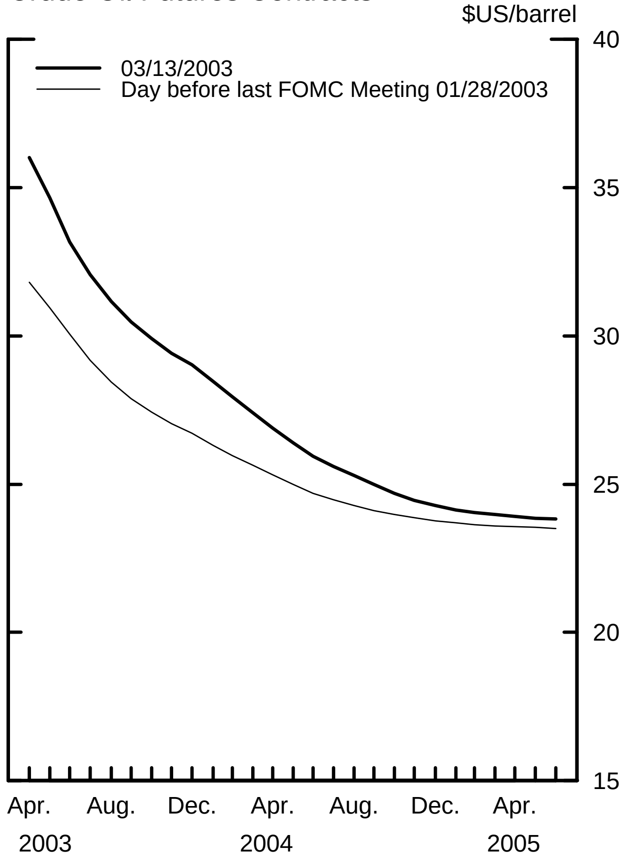
Chart 5
Gulf War Impact on Selected Financial and Economic Variables



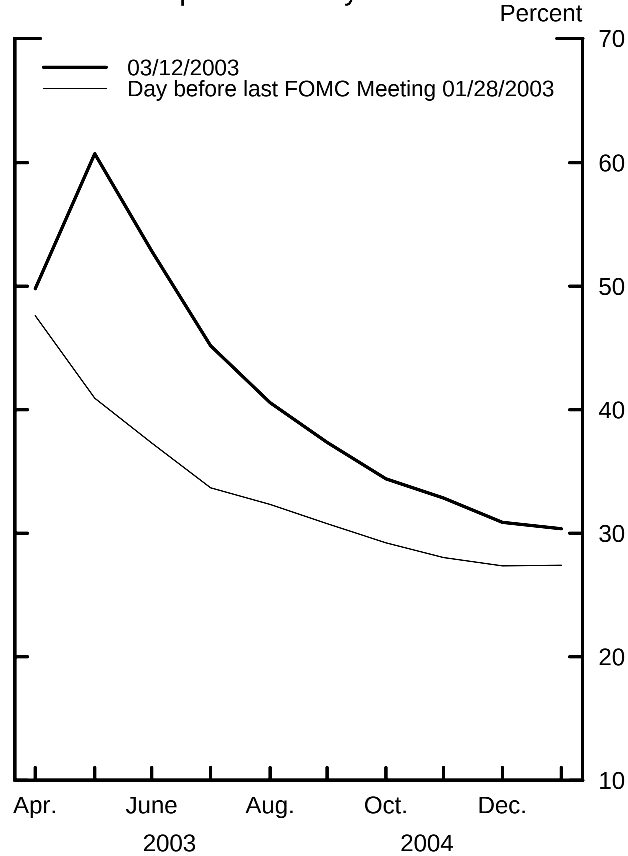
Note: Solid vertical lines indicate the start of the Persian Gulf War on January 16, 1991.

Chart 6
Crude Oil Outlook

Crude Oil Futures Contracts

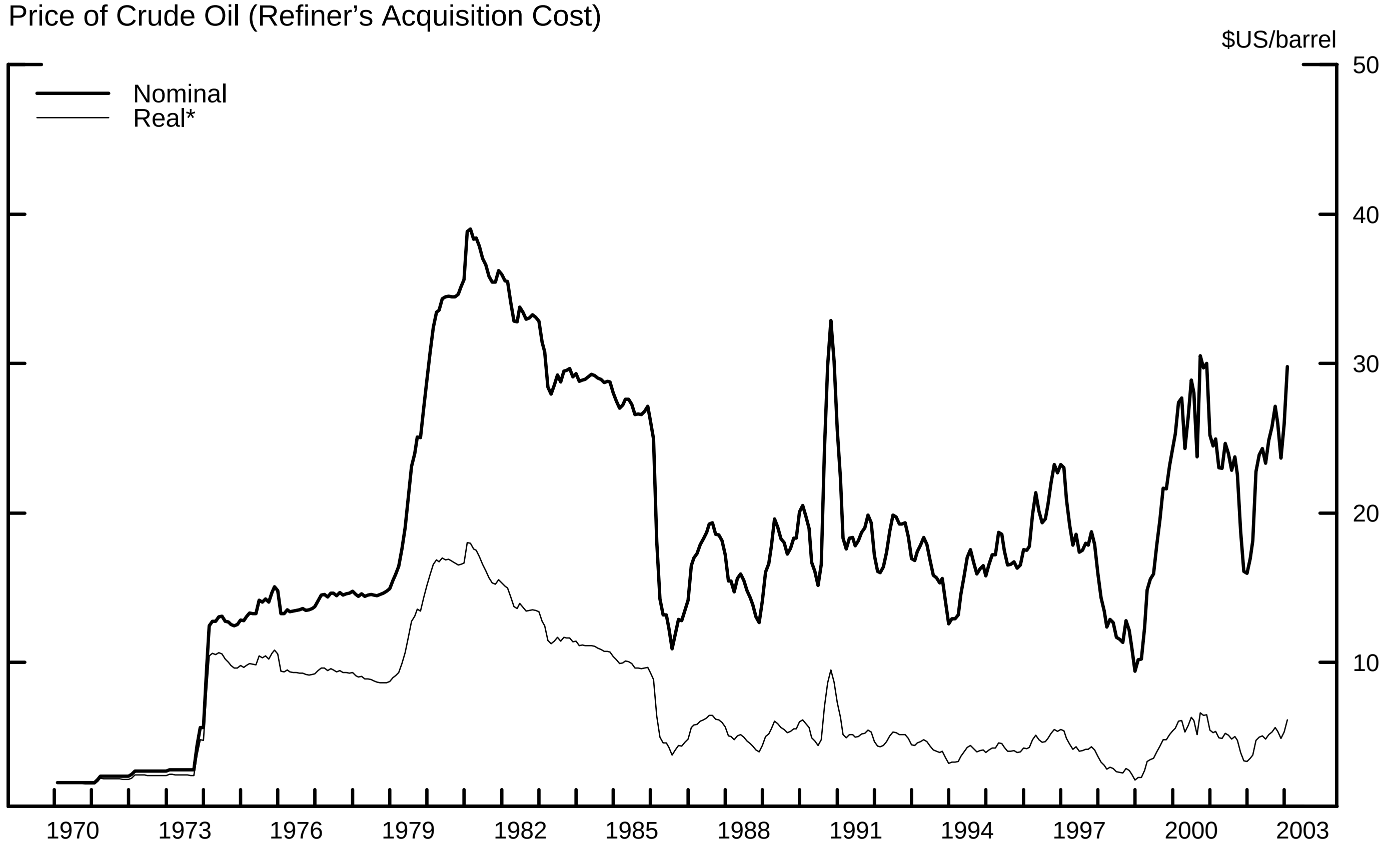


Crude Oil Implied Volatility*



*Derived from options on crude oil futures.

Price of Crude Oil (Refiner's Acquisition Cost)



*Deflated by core CPI (January, 1970 = 1).

Moreover, in the current environment, the response of the economy to policy action at this meeting might be viewed as quite uncertain, and models of optimal monetary policy under uncertainty would counsel gradualism in adjusting policy.

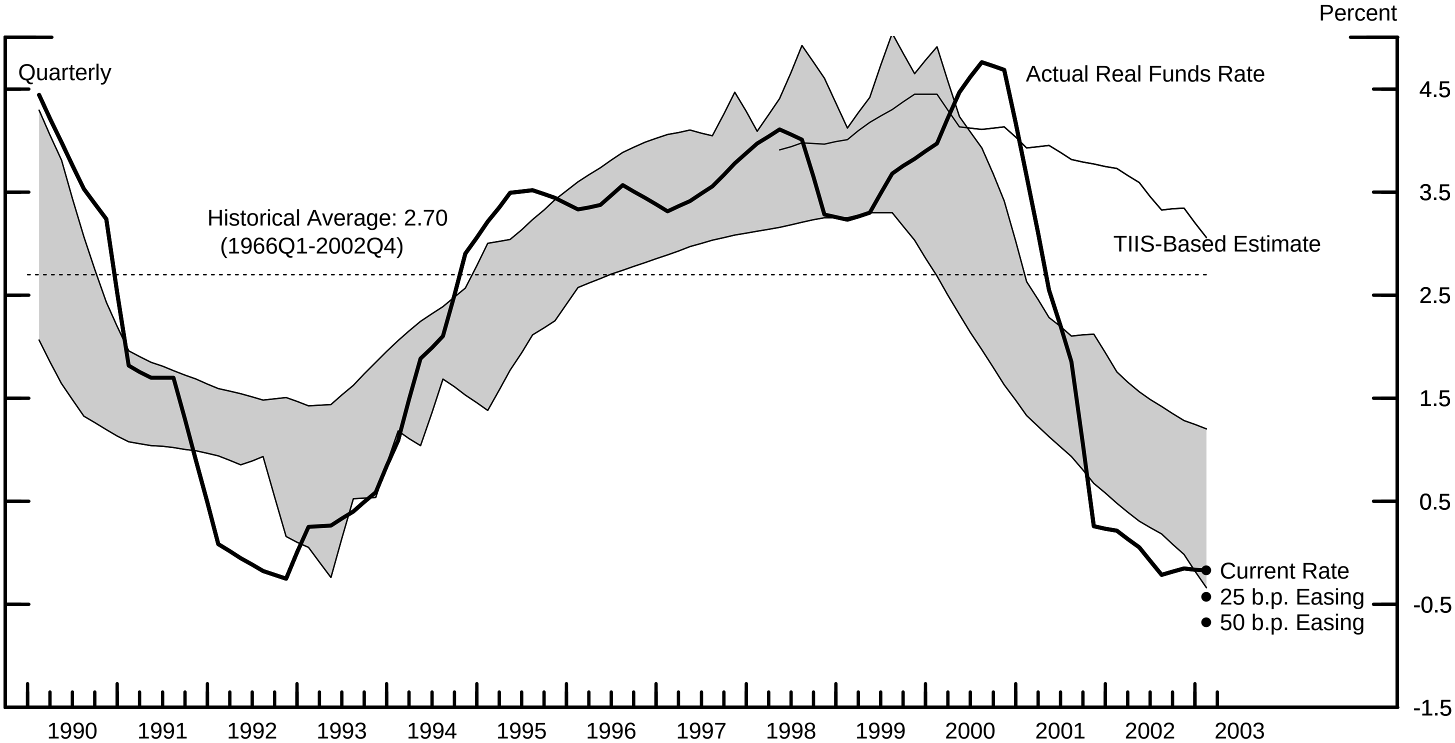
(10) If the Committee viewed the range of possible outcomes for the economy over the foreseeable future as fairly symmetric around its forecast, it might also choose to retain **a balanced risks assessment** at this meeting. While some economic data have proved disappointing of late, a successful prosecution of a war in Iraq could trigger a substantial rally in equity markets and prompt a sharp rebound in confidence, suggesting that upside risks may be significant. The Committee might also favor a neutral balance of risks if it regarded the risks as unusually difficult to assess and subject to rapid change. If, instead, the Committee judges that the distribution of possible outcomes for economic activity is appreciably skewed toward more downbeat scenarios, it might be inclined to shift the **balance of risks toward economic weakness**, although it may be concerned that markets could see such a decision as a signal of more conviction about the outlook than it actually has.

(11) Because current futures quotes put some odds on an easing at this meeting, a decision to leave the target rate unchanged and the risk assessment balanced would likely prompt an increase in market yields and a corresponding downtick in stock prices. However, in light of the unusual geopolitical aspect to the uncertainties about the near-term outlook and the prospect that they may be partly resolved sometime soon, market participants are not likely to extrapolate this monetary policy combination very far forward in revising their expectations, which would work to mute the likely market reaction. In principle, keeping policy unchanged but shifting the balance of risks toward economic weakness would come closer to matching current market expectations, and their heightened expectation of more imminent easing would tend to offset disappointment about the lack of immediate action. In practice, though,

market participants may infer from the Committee's decision to alter the risks assessment that the economic outlook was bleaker than previously expected, pulling bond yields and stock prices lower.

(12) The Committee might interpret some of the recent data, particularly the February employment report, as pointing to a weaker trend in economic activity than it previously thought–and one that might well persist even if global tensions were to diminish markedly in the weeks ahead. Against this backdrop, the Committee might conclude that a **policy easing** at this meeting is appropriate. Indeed, the current setting of the real federal funds rate no longer lies below the lower bound of the range of staff estimates of equilibrium real rates (Chart 7). As a result, members might conclude that a cut in the nominal funds rate would be necessary just to maintain the effective stance of policy established at the November meeting. The Committee might consider a **quarter-point policy easing** as a measured response to a projected shortfall of economic growth below that of potential this year. However, the Committee might instead favor a more aggressive **half-point policy easing** if the possibility of especially adverse shocks and the constraints on policy posed by the zero bound to nominal interest rates loomed large in its thinking. The apparent stability of inflation expectations in the face of higher oil prices and a weaker dollar along with the Greenbook projection for further declines in core inflation from already low levels might be viewed as arguing for the more aggressive policy action, inasmuch as its potential cost in terms of higher risks of inflation pressures would appear to be minimal. Indeed, the Committee might even welcome a small uptick in projected inflation. Moreover, the market response to a successful prosecution of war in Iraq is not entirely clear. In contrast to the experience around the Gulf War in 1991, concerns about geopolitical tensions may not be punctured by decisive military victory, as

Chart 7
Actual Real Federal Funds Rate and Range of Estimated Equilibrium Real Rates



Note: The shaded range represents the maximum and the minimum values each quarter of four estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2003Q1.

Equilibrium Real Funds Rate Estimates (Percent)

	2001	2002H1	2002H2	2003Q1
Statistical Filter				
- Two-sided:				
Based on historical data and the staff forecast	1.0	0.4	0.2	0.2
January Bluebook	*1.1*	*0.4*	*0.3*	*0.3*
- One-sided:				
Based on historical data*	2.2	1.2	0.2	-0.3
January Bluebook	*2.3*	*1.3*	*0.1*	*-0.3*
FRB/US Model				
- Two-sided:				
Based on historical data and the staff forecast	2.2	1.7	1.3	1.2
January Bluebook	*2.4*	*1.9*	*1.7*	*1.5*
- One-sided:				
Based on historical data**	2.1	1.2	0.7	0.2
January Bluebook	*2.2*	*1.4*	*0.7*	*0.4*
Treasury Inflation-Indexed Securities	3.9	3.7	3.3	3.1
January Bluebook	*3.9*	*3.7*	*3.3*	*3.2*

* Also employs the staff projection for the current and next quarters.

** Also employs the staff projection for the current quarter.

questions could still linger about the formulation of a new government in Iraq, the prospect for terrorist acts, and the situation in other trouble spots.

(13) As noted, market prices can be interpreted as incorporating some odds on a policy move at this meeting, but a quarter-point easing is far from fully priced in. As a result, either a quarter-point or half-point easing at this meeting would have a substantial element of surprise. Bond and stock prices would tend to climb in either case, but the market reaction could be significantly influenced by the choice of the balance-of-risks assessment and the wording of the announcement. A balanced risks assessment would likely be taken by market participants as a sign that the FOMC would be reluctant to ease more anytime soon, while a balance of risks tilted toward economic weakness would lead them to place higher odds on further policy easings.

(14) Under the Greenbook assumptions, growth of domestic nonfinancial debt is expected to run at about a 7 percent pace this year and next. In the business sector, the projected recovery in investment spending is associated with a notable increase in the financing gap, which in turn, leads to an upturn in business borrowing. With credit spreads contracting, the forecast anticipates that much of this increased demand for financing will be met by firms tapping capital markets. Businesses are projected to continue to rely heavily on the bond market, while commercial paper and bank loans, after running off sharply over the past two years, are expected to be about unchanged this year and register a modest advance in 2004. A gradual relaxation in bank terms and standards may well also to contribute to the projected rise in business loans. In contrast, households should rein in the growth of mortgage debt in response to the assumed leveling off of mortgage rates, which reduces the incentives for cashout refinancings. The expansion of consumer credit probably will dip this year, largely reflecting a moderation in the pace of spending on motor vehicles. Federal borrowing is expected to rise over the forecast period, propelled by rising military expenditures

and by tax cuts that trim receipts. State and local debt growth is forecasted to taper off, with state and local governments anticipated to scale back advance refunding issuance and also to take steps to restore balanced budgets. The staff projects M2 to advance at a 6-1/2 percent pace this year–somewhat faster than nominal GDP growth. The anticipated decline in M2 velocity this year is attributable to the lagged effects of the policy easing last November and to a further boost to money growth from mortgage refinancing.

M2 Growth Under Alternative Policy Actions

		No Change	25 bp Ease
Monthly Growth Rates			
	Nov-02	8.1	8.1
	Dec-02	3.2	3.2
	Jan-03	6.1	6.1
	Feb-03	11.2	11.2
	Mar-03	6.5	6.7
	Apr-03	4.0	4.6
	May-03	10.0	10.8
	Jun-03	8.0	8.7
Quarterly Growth Rates			
	2002 Q2	4.1	4.1
	2002 Q3	9.1	9.1
	2002 Q4	7.1	7.1
	2003 Q1	6.9	6.9
	2003 Q2	7.2	7.7
Annual (Q4/Q4) Growth Rates			
	2001	10.2	10.2
	2002	6.9	6.9
Growth From	To		
2002 Q4	Mar-03	7.2	7.2
2002 Q4	Jun-03	7.3	7.7
Dec-03	Mar-03	5.7	6.2
Dec-03	Jun-03	5.1	5.5
Feb-03	Jun-03	7.2	7.8

* This forecast is consistent with nominal GDP and interest rates in the Greenbook forecast.

Directive and Balance-of-Risks Language

(15) Presented below for the members' consideration is draft wording for (1) the directive and (2) the "balance of risks" sentence to be included in the press release issued after the meeting (not part of the directive).

(1) Directive Wording

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee in the immediate future seeks conditions in reserve markets consistent with maintaining/INCREASING/REDUCING the federal funds rate at/TO an average of around ___~~1-1/4~~ percent.

(2) "Balance of Risks" Sentence

Against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the Committee believes that the risks [ARE WEIGHTED MAINLY TOWARD CONDITIONS THAT MAY GENERATE ECONOMIC WEAKNESS] [are balanced with respect to prospects for both goals] [ARE WEIGHTED MAINLY TOWARD CONDITIONS THAT MAY GENERATE HEIGHTENED INFLATION PRESSURES] in the foreseeable future.

SELECTED INTEREST RATES
(percent)

	Short-term						Long-term									
	Federal funds	Treasury bills secondary market			CDs secondary market	Comm. paper	Off-the-run Treasury yields				Indexed yields		Moody's Baa	Municipal Bond Buyer	Conventional home mortgages primary market	
		4-week	3-month	6-month	3-month	1-month	2-year	5-year	10-year	30-year	5-year	10-year			Fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
02 -- High	1.80	1.80	1.85	2.12	1.97	1.79	3.69	4.94	5.69	6.00	3.31	3.54	8.18	5.67	7.18	5.26
-- Low	1.23	1.13	1.18	1.26	1.34	1.28	1.69	2.79	4.01	4.91	1.62	2.17	7.37	5.02	5.93	4.01
03 -- High	1.28	1.23	1.22	1.25	1.31	1.28	1.80	3.13	4.36	5.20	1.77	2.38	7.44	5.20	5.97	4.06
-- Low	1.20	1.15	1.10	1.09	1.18	1.18	1.45	2.62	3.86	4.84	0.78	1.66	6.90	5.06	5.61	3.68
Monthly																
Mar 02	1.73	1.79	1.82	2.05	1.91	1.78	3.52	4.80	5.60	5.93	2.94	3.36	8.11	5.61	7.01	5.06
Apr 02	1.75	1.72	1.75	1.97	1.87	1.76	3.40	4.69	5.49	5.87	2.64	3.16	8.03	5.59	6.99	4.96
May 02	1.75	1.74	1.76	1.91	1.82	1.75	3.24	4.54	5.40	5.82	2.50	3.10	8.09	5.54	6.81	4.79
Jun 02	1.75	1.71	1.73	1.83	1.81	1.74	2.97	4.24	5.16	5.71	2.46	3.08	7.95	5.44	6.65	4.65
Jul 02	1.73	1.72	1.71	1.74	1.79	1.74	2.52	3.86	4.90	5.60	2.39	2.92	7.90	5.34	6.49	4.51
Aug 02	1.74	1.68	1.65	1.64	1.73	1.72	2.12	3.37	4.54	5.27	2.11	2.51	7.58	5.30	6.29	4.38
Sep 02	1.75	1.67	1.66	1.64	1.76	1.73	1.98	3.01	4.16	4.97	1.80	2.25	7.40	5.10	6.09	4.29
Oct 02	1.75	1.62	1.61	1.59	1.73	1.72	1.92	3.02	4.25	5.13	1.90	2.40	7.73	5.16	6.11	4.27
Nov 02	1.34	1.26	1.25	1.30	1.39	1.34	1.94	3.13	4.33	5.16	2.00	2.44	7.62	5.25	6.07	4.16
Dec 02	1.24	1.20	1.21	1.27	1.34	1.31	1.84	3.09	4.31	5.12	1.89	2.41	7.45	5.20	6.05	4.12
Jan 03	1.24	1.17	1.19	1.22	1.29	1.25	1.76	3.07	4.30	5.14	1.64	2.26	7.35	5.19	5.92	3.99
Feb 03	1.26	1.20	1.19	1.20	1.27	1.24	1.64	2.92	4.14	5.01	1.21	1.95	7.06	5.15	5.84	3.86
Weekly																
Jan 10 03	1.21	1.17	1.20	1.25	1.31	1.25	1.80	3.13	4.36	5.20	1.77	2.38	7.44	5.20	5.95	4.03
Jan 17 03	1.25	1.17	1.19	1.23	1.30	1.25	1.77	3.12	4.35	5.18	1.69	2.29	7.39	5.20	5.97	4.03
Jan 24 03	1.24	1.16	1.17	1.20	1.28	1.25	1.69	2.97	4.21	5.08	1.53	2.16	7.30	5.17	5.91	3.93
Jan 31 03	1.26	1.17	1.18	1.19	1.27	1.24	1.73	3.03	4.25	5.08	1.52	2.15	7.21	5.20	5.90	3.89
Feb 7 03	1.26	1.17	1.17	1.19	1.27	1.23	1.71	3.04	4.22	5.03	1.42	2.08	7.10	5.20	5.88	3.89
Feb 14 03	1.24	1.18	1.18	1.19	1.26	1.24	1.65	2.97	4.19	5.05	1.30	2.00	7.09	5.16	5.86	3.89
Feb 21 03	1.28	1.19	1.19	1.20	1.27	1.25	1.63	2.89	4.12	5.02	1.17	1.92	7.06	5.14	5.84	3.81
Feb 28 03	1.27	1.23	1.21	1.20	1.27	1.25	1.57	2.78	4.01	4.93	0.95	1.78	6.97	5.10	5.79	3.83
Mar 7 03	1.26	1.20	1.17	1.18	1.26	1.23	1.47	2.63	3.88	4.85	0.84	1.70	6.90	5.06	5.67	3.76
Mar 14 03	--	1.15	1.10	1.09	1.18	1.18	1.45	2.62	3.86	4.84	0.78	1.66	--	--	5.61	3.68
Daily																
Feb 25 03	1.28	1.25	1.20	1.20	1.27	1.24	1.57	2.79	4.04	4.96	0.96	1.79	6.99	--	--	--
Feb 26 03	1.28	1.26	1.21	1.20	1.26	1.24	1.57	2.77	4.00	4.93	0.96	1.79	6.96	--	--	--
Feb 27 03	1.31	1.24	1.21	1.20	1.26	1.25	1.57	2.76	3.99	4.91	0.94	1.78	6.96	--	--	--
Feb 28 03	1.33	1.21	1.20	1.19	1.27	1.28	1.53	2.71	3.94	4.86	0.89	1.72	6.92	--	--	--
Mar 3 03	1.33	1.20	1.20	1.21	1.27	1.23	1.52	2.67	3.91	4.85	0.88	1.72	6.91	--	--	--
Mar 4 03	1.20	1.23	1.19	1.20	1.27	1.24	1.49	2.64	3.89	4.85	0.85	1.71	6.90	--	--	--
Mar 5 03	1.22	1.21	1.18	1.18	1.26	1.22	1.46	2.61	3.86	4.84	0.84	1.70	6.88	--	--	--
Mar 6 03	1.23	1.20	1.18	1.18	1.26	1.23	1.48	2.65	3.90	4.87	0.84	1.69	6.91	--	--	--
Mar 7 03	1.20	1.16	1.12	1.11	1.22	1.22	1.41	2.59	3.86	4.84	0.79	1.66	6.89	--	--	--
Mar 10 03	1.23	1.14	1.08	1.06	1.18	1.19	1.36	2.54	3.81	4.83	0.74	1.63	6.88	--	--	--
Mar 11 03	1.21	1.15	1.10	1.07	1.17	1.19	1.39	2.56	3.82	4.83	0.73	1.62	6.88	--	--	--
Mar 12 03	1.23	1.15	1.10	1.08	1.16	1.16	1.45	2.60	3.82	4.80	0.74	1.64	6.86	--	--	--
Mar 13 03	--	1.15	1.12	1.13	1.20	--	1.62	2.78	3.97	4.91	0.91	1.76	--	--	--	--

NOTE: Weekly data for columns 1 through 13 are week-ending averages. Columns 2 through 4 are on a coupon equivalent basis. Data in column 6 are interpolated from data on certain commercial paper trades settled by the Depository Trust Company. Column 14 is the Bond Buyer revenue index, which is a 1-day quote for Thursday. 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.

MFMA

Money Aggregates

Seasonally adjusted

Period	M1	M2	nontransactions components		M3
			In M2	In M3 only	
	1	2	3	4	5
Annual growth rates(%):					
Annually (Q4 to Q4)					
2000	-1.7	6.0	8.5	17.3	9.2
2001	6.8	10.2	11.2	18.3	12.7
2002	3.2	6.9	8.0	5.3	6.4
Quarterly(average)					
2002-Q1	5.7	6.7	7.0	3.8	5.8
Q2	-0.6	4.1	5.4	4.2	4.1
Q3	3.1	9.1	10.8	4.5	7.7
Q4	4.5	7.1	7.8	8.2	7.5
Monthly					
2002-Feb.	6.5	8.4	9.0	6.1	7.7
Mar.	2.0	0.2	-0.4	5.5	1.8
Apr.	-14.5	-2.6	0.7	6.9	0.4
May	10.9	14.4	15.3	-0.9	9.5
June	5.9	6.9	7.1	2.1	5.4
July	7.3	10.5	11.4	0.3	7.3
Aug.	-11.1	8.3	13.5	14.3	10.2
Sep.	6.3	5.5	5.3	7.5	6.2
Oct.	11.2	8.3	7.5	-15.3	0.8
Nov.	-0.9	8.1	10.5	37.2	17.2
Dec.	7.8	3.2	1.9	16.9	7.5
2003-Jan.	1.8	6.1	7.2	-15.2	-0.7
Feb. p	19.2	11.2	9.1	0.1	7.7
Levels ($billions):					
Monthly					
2002-Oct.	1203.6	5742.4	4538.8	2596.5	8338.9
Nov.	1202.7	5781.3	4578.6	2677.0	8458.3
Dec.	1210.5	5796.5	4586.0	2714.6	8511.1
2003-Jan.	1212.3	5825.8	4613.5	2680.2	8506.0
Feb. p	1231.7	5880.1	4648.3	2680.5	8560.6
Weekly					
2003-Feb. 3	1239.6	5856.3	4616.7	2698.1	8554.3
10	1217.6	5866.9	4649.3	2680.2	8547.1
17	1234.1	5897.5	4663.4	2670.6	8568.1
24p	1232.6	5877.7	4645.1	2686.9	8564.5
Mar. 3p	1248.4	5894.1	4645.7	2671.8	8565.9

p preliminary

March 13, 2003

Changes in System Holdings of Securities[1]
(Millions of dollars, not seasonally adjusted)

	Treasury Bills			Treasury Coupons						Federal Agency	Net change total	Net RPs[5]		
	Net Purchases[2]	Redemptions (-)	Net Change	Net Purchases[3] < 1	Net Purchases[3] 1-5	Net Purchases[3] 5-10	Net Purchases[3] Over 10	Redemptions (-)	Net Change	Redemptions (-)	outright holdings[4]	Short-Term[6]	Long-Term[7]	Net Change
2000	8,676	24,522	-15,846	8,809	14,482	5,871	5,833	3,779	31,215	51	15,318	-2,163	7,133	4,970
2001	15,503	10,095	5,408	15,663	22,814	6,003	8,531	16,802	36,208	120	41,496	3,492	636	4,128
2002	21,421	---	21,421	12,720	12,748	5,074	2,280	---	32,822	---	54,242	-5,366	517	-4,850
2001 QIV	4,659	---	4,659	5,761	2,577	982	1,632	473	10,479	---	15,138	-4,223	10,847	6,624
2002 QI	6,827	---	6,827	4,349	6,153	971	1,927	---	13,401	---	20,228	-1,961	-2,191	-4,152
QII	8,227	---	8,227	5,535	2,580	2,471	210	---	10,796	---	19,023	-2,644	-4,563	-7,207
QIII	6,117	---	6,117	2,835	3,676	1,318	143	---	7,972	---	14,089	-3,067	-5,225	-8,291
QIV	250	---	250	---	339	314	---	---	653	---	903	4,892	-304	4,588
2002 Jul	4,838	---	4,838	1,104	1,755	577	63	---	3,499	---	8,336	-2,434	-1,296	-3,730
Aug	529	---	529	445	1,921	690	80	---	3,136	---	3,665	-527	-4,645	-5,172
Sep	750	---	750	1,286	---	51	---	---	1,337	---	2,087	1,084	-1,026	59
Oct	---	---	---	---	---	---	---	---	---	---	---	2,779	-4,716	-1,937
Nov	250	---	250	---	---	---	---	---	---	---	250	2,910	4,616	7,526
Dec	---	---	---	---	339	314	---	---	653	---	653	-1,097	10,706	9,610
2003 Jan	---	---	---	---	---	---	---	---	---	---	---	1,342	-3,581	-2,239
Feb	4,161	---	4,161	478	2,127	769	---	---	3,374	---	7,534	1,736	-2,262	-526
2002 Dec 18	---	---	---	---	---	---	---	---	---	---	---	2,534	2,000	4,534
Dec 25	---	---	---	---	---	---	---	---	---	---	---	363	6,000	6,363
2003 Jan 1	---	---	---	---	---	---	---	---	---	---	---	3,829	---	3,829
Jan 8	---	---	---	---	---	---	---	---	---	---	---	-5,383	-2,000	-7,383
Jan 15	---	---	---	---	---	---	---	---	---	---	---	416	-4,000	-3,584
Jan 22	---	---	---	---	---	---	---	---	---	---	---	7,193	-5,000	2,193
Jan 29	---	---	---	---	---	---	---	---	---	---	---	-5,723	-1,000	-6,723
Feb 5	---	---	---	---	---	---	---	---	---	---	---	4,163	---	4,163
Feb 12	556	---	556	478	520	---	---	---	998	---	1,554	-7,574	2,000	-5,574
Feb 19	323	---	323	---	---	---	---	---	---	---	323	11,807	---	11,807
Feb 26	3,045	---	3,045	---	995	701	---	---	1,696	---	4,740	-7,559	1,000	-6,559
Mar 5	455	---	455	---	612	68	---	---	680	---	1,135	3,474	---	3,474
Mar 12	244	---	244	1,318	---	---	---	---	1,318	---	1,562	-7,176	-1,000	-8,176
2003 Mar 13	77	---	77	---	---	---	---	---	---	---	77	3,255	---	3,255
Intermeeting Period														
Jan 29-Mar 13	4,700	---	4,700	1,796	2,127	769	---	---	4,692	---	9,392	-2,451	2,000	-451
Memo: LEVEL (bil. $)														
Mar 13			231.4	95.7	180.2	51.7	79.8		407.4	0.0	638.8	-11.9	16.0	4.1

1. Change from end-of-period to end-of-period. Excludes changes in compensation for the effects of inflation on the principal of inflation-indexed securities.
2. Outright purchases less outright sales (in market and with foreign accounts).
3. Outright purchases less outright sales (in market and with foreign accounts). Includes short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues, except the rollover of inflation compensation.
4. Includes redemptions (-) of Treasury and agency securities.
5. RPs outstanding less reverse RPs.
6. Original maturity of 15 days or less.
7. Original maturity of 16 to 90 days.