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# MONETARY POLICY ALTERNATIVES

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Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

August 16, 1996

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) By the time of the July 2-3 FOMC meeting, market participants had mostly become convinced that no action to tighten reserve market conditions would be taken at that meeting. As a result, the decision to keep the federal funds rate at 5-1/4 percent prompted only modest declines in rates at short maturities and no reaction further along the yield curve. Maintaining the funds rate at that intended level over the intermeeting period, however, proved difficult at times in light of unpredictably high demand for reserves at the end of July and in early August, and perhaps pressures spilling over from the financing market. As a consequence, the federal funds rate averaged a shade more than its intended level over the intermeeting period.<sup>1</sup>

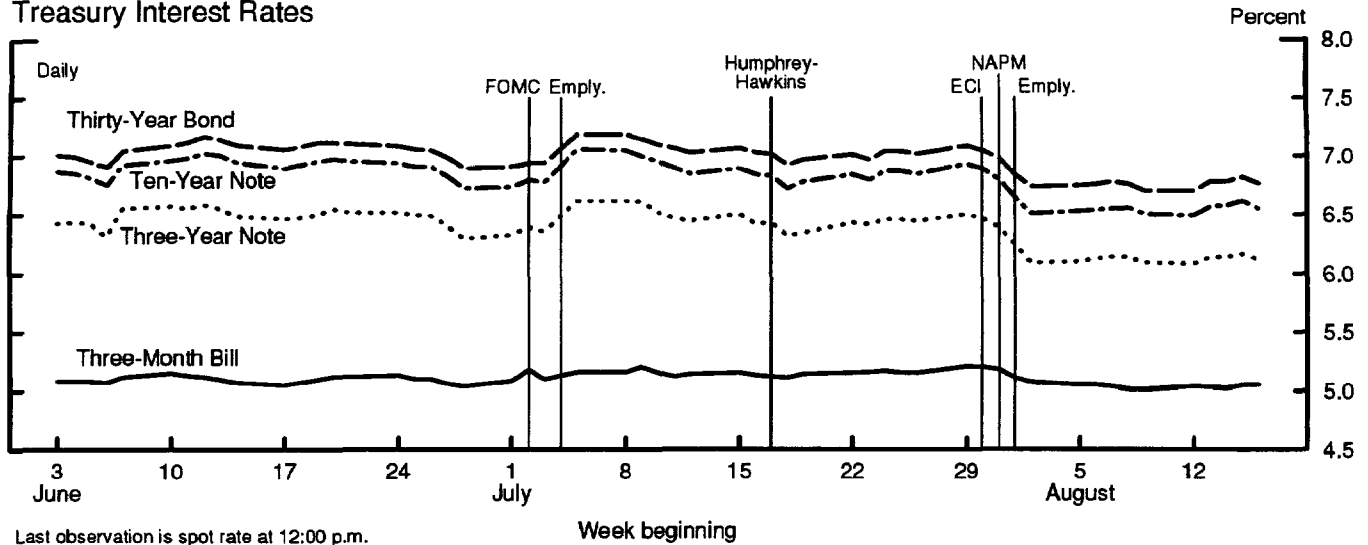
(2) Most market interest rates have declined 15 to 25 basis points, on net, over the intermeeting period (chart). Rates rose sharply in the days just after the July FOMC meeting as incoming data were read by market participants as indicating that the economy was straining its productive resources and pressures on labor costs were mounting. Futures quotes (chart) indicated a presumption that the funds rate would be hiked at the August FOMC meeting, and there was even some market chatter that an intermeeting move was a distinct possibility. While Chairman Greenspan's Humphrey-Hawkins' testimony

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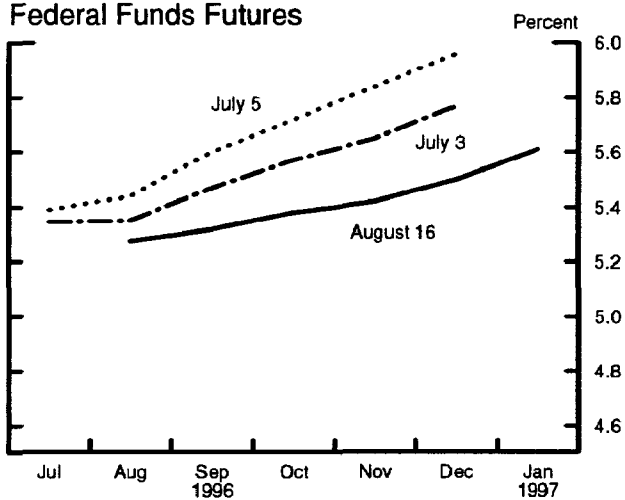
1. Reserve shortfalls--from the supply as well as the demand side--were met in part by borrowing at the discount window, so that adjustment plus seasonal borrowing averaged about \$30 million over its allowance in the four maintenance periods completed since the July meeting. The allowance was raised twice, to \$325 million, to reflect the normal upsurge in seasonal borrowing at this time of year.

# Chart 1

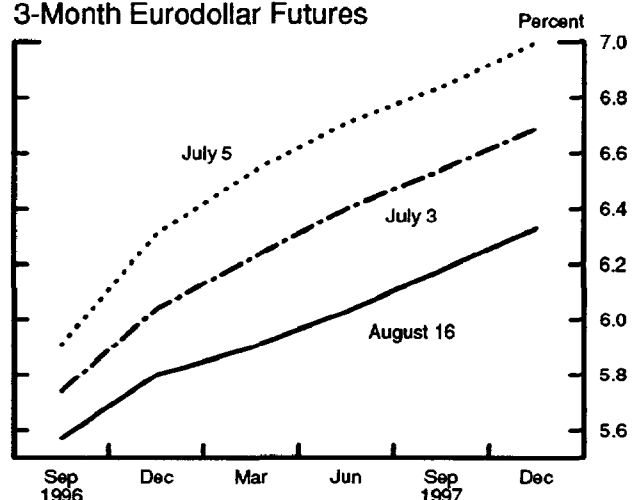
## Treasury Interest Rates



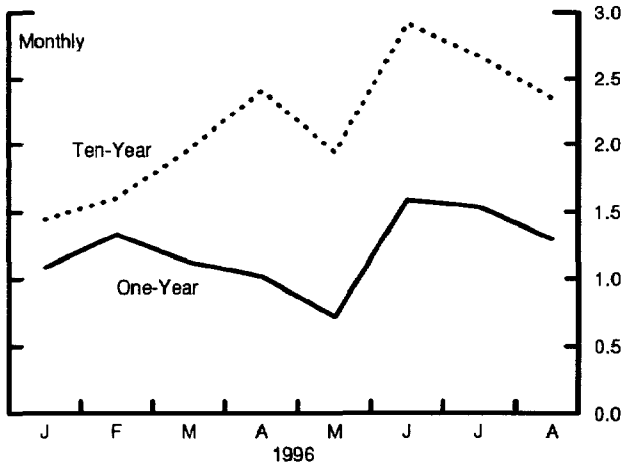
## Federal Funds Futures



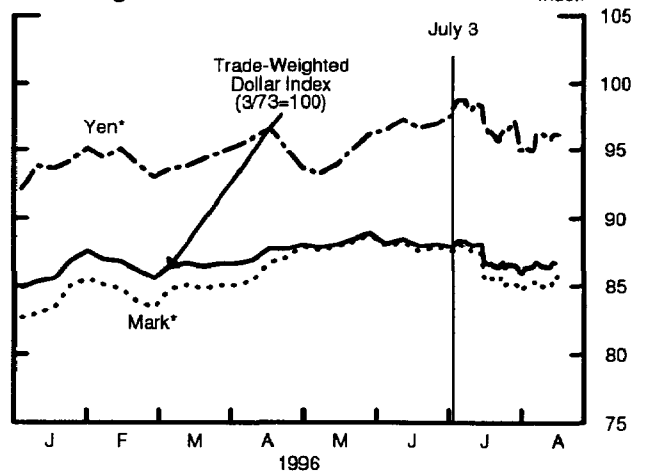
## 3-Month Eurodollar Futures



## Real Interest Rates\*



## Exchange Rates



conveyed to the market the notion that inflation risks were clearly tilted to the upside, it also raised the possibility that the economy could settle into a sustainable growth path without policy action and it flagged several upcoming data releases as important in assessing that possibility. As those reports became available, they were seen, by and large, to be pointing to a slowing in demand growth and only a mild upturn in labor compensation, and a considerable decline in interest rates ensued. Market participants have mostly discounted the possibility of action at the upcoming FOMC meeting, and further-ahead futures quotes seem consistent with high odds that policy would be on hold for a considerable stretch. Yields on Treasury coupon securities have declined 25 to 35 basis points since the Chairman's testimony. While some of this decline probably reflects an easing of inflation expectations, the sharp rebound in equity prices in recent weeks-- which were also helped by favorable earnings reports--and the easing of the dollar in foreign exchange markets support the assessment that much of the drop in interest rates represented a downward movement in real rates. The decline, reflecting a reassessment of the path of real rates needed to keep inflation pressures contained, likely reversed only a fraction of the run-up in long-term real rates since January.

(3) The dollar's foreign exchange value has decreased 1-1/4 percent on a weighted-average basis since the July FOMC meeting. The dollar moved down 2-1/4 percent against the mark and 2 percent against the yen. Japanese and German monetary policies remained on hold during the period, and short-term interest rates in Japan and Germany were little changed. Bond yields in Japan were also essentially unchanged. Surprising the market by failing to reduce its RP rate,

Bundesbank officials stated that above-target money growth is still a concern, although some of those officials apparently believe a further easing might still be possible. Despite disappointed expectations about German monetary policy, German bond yields decreased somewhat during the period, possibly reflecting a reduction in inflation and uncertainty premiums in German financial markets as doubts about the implementation of European Monetary Union resurfaced.

The Desk did not intervene.

(4) The expansion of the monetary aggregates slowed more abruptly in July than the staff had anticipated at the last FOMC meeting. M2 grew at a 2-1/4 percent pace last month, down from a 5-1/2 percent rate in June, but still remained in the upper portion of its annual range. Much of the weakness in July was accounted for by an unexpected drop in demand deposits, which had posted unusually strong growth in the first half of this year. Offsetting part of the recent slowdown, currency growth has picked up some, apparently fueled by shipments abroad. Contacts with currency shippers have indicated that much of this cash is destined for Russia, but growing worldwide acceptance of the new hundred dollar bill also may have played a role.<sup>2</sup> M2 apparently has not benefitted much from investors' recent skittishness about long-term investments. Net inflows to stock and bond funds fell off substantially in July, but little of that financial capital

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2. M1 contracted at an 8-3/4 percent rate in July, but the initial effects of new sweep activity accounts for about all of that decline. Bolstered by strength in currency, the monetary base grew at a 7-1/2 percent rate last month and would have expanded at a 9-1/2 percent rate absent sweeps.

appears to have been redirected toward money market mutual funds or retail deposits.<sup>3</sup>

(5) The weaker growth of M2 showed through to M3, which expanded at a 3-3/4 percent rate in July, about a percentage point slower than in the previous month. This slower growth opened a little room between M3 and the upper end of its annual range. Bank funding needs apparently were weak, with bank credit growing at only a 1 percent rate in July. Banks ran off their securities holdings at a 6-1/2 percent pace, even as lending diminished. The growth rates of both real estate and consumer loans edged lower, but the former seems to have been pulled down by a step-up in the pace of securitization. Banks continue to pull back from their aggressive stance in seeking consumer loans: In a recent survey, about half of the banks said that they tightened their standards for approving credit card applications and about a quarter tightened standards for other consumer installment loans.

(6) Data on credit flows for July and early August, apart from those provided by commercial banks, are sparse. The available information suggests that the expansion of debt of nonfederal sectors has slowed in recent months. In the household sector, consumer credit growth fell off to around a 8-3/4 percent rate in the second quarter, and mortgage borrowing remained moderate. Net bond issuance by non-financial firms in July was a touch above its second-quarter rate, but most of this reflected lessened reliance on shorter-term borrowing. Credit continues to be readily available to business borrowers, with spreads in securities markets still narrow and banks continuing to

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3. With inflows to capital market funds estimated to be weak and equity prices, on average, lower, M2 plus stock and bond funds likely was at a standstill in July, putting that measure about 7 percent above its level in the fourth quarter of 1995.

offer accommodative loan terms. The runoff of the debt of state and local governments persisted, with particularly hefty retirements bunched at the beginning of July. Surprisingly strong tax inflows allowed the Treasury to slash its borrowing in the second quarter, but borrowing has since picked up. Overall, domestic nonfinancial debt grew at a 4-3/4 percent pace in the second quarter. From the fourth quarter to June, debt of the nonfinancial sectors expanded a 4-3/4 percent pace, putting the aggregate a tad below the midpoint of its 3 to 7 percent annual range.



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

	May	June	July	QIV to July <sup>1</sup>
<u>Money and credit aggregates</u>				
M1	-6.8	-0.5	-8.8	-2.7
Adjusted for retail sweeps	2.0	7.9	-0.5	6.0
M2	-1.7	5.5	2.3	4.4
M3	3.0	4.7	3.7	5.8
Domestic nonfinancial debt	3.7	3.8	--	4.7
Federal	1.8	2.5	--	3.7
Nonfederal	4.4	4.3	--	5.0
Bank credit	1.3	1.5	1.0	3.3
<u>Reserve measures</u>				
Nonborrowed reserves <sup>2</sup>	-21.6	-8.3	-20.0	-9.2
Total reserves	-20.8	-2.5	-20.3	-8.8
Adjusted for retail sweeps	-2.2	13.9	-2.8	8.3
Monetary base	1.0	5.7	7.6	2.8
Adjusted for retail sweeps	3.2	7.9	9.4	5.1
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	127	386	368	--
Excess reserves	860	1150	1066	--

1. QIV to June 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.

Policy Alternatives

(7) Reports since the last FOMC meeting have suggested that, on balance, aggregate measures of spending, production, and inflation are coming in fairly close to staff projections. Wage and total labor compensation figures, though, have seemed more clearly to point to an acceleration in recent quarters. Even with economic expansion projected by the staff to slow to around the growth rate of potential output over the next year and a half, resource utilization would remain high. Moreover, the just-passed federal minimum wage hike, not previously assumed in the staff forecast, will add to future labor-cost pressure on prices. As a result, the staff envisions that an uptrend in core CPI inflation will become apparent over the coming year, even after methodological improvements in that price measure. The increase in the CPI for 1997 in the staff forecast would be a little above the central tendency range of FOMC members in the Humphrey-Hawkins' report, even though the real growth and unemployment outcomes for 1997 would be consistent with the central tendencies for these measures.

(8) Nonetheless, the Committee may well feel that it can afford to wait, as in alternative B, for additional data to accumulate to allow a more confident judgment concerning whether an underlying process of rising inflation seems to be taking hold. Arguably, the upturn in the compensation trend is not firmly established in a statistical sense, leaving questions about the level of the NAIRU. And even if wages have begun to accelerate, the profit share may be sufficiently high to cushion the extent to which faster increases in labor compensation are passed through to prices for a time. Even if the staff assessment of emerging price pressures is confirmed, with

the economy still close to its potential, the pickup in inflation would be gradual. Consequently, as long as a slowdown in real GDP growth of the dimension foreseen by the staff still appears to be in train, the case for an immediate policy tightening may not be seen as compelling. While keeping policy on hold for a time in these circumstances might imply the need for a greater tightening later to reverse the pickup in inflation, so long as the action were not postponed too long, a wrenching adjustment to output should be avoidable.

(9) The decision at this FOMC meeting to leave the policy stance unchanged would accord with the current market consensus. Still, the elimination of the small perceived chance of a tightening at this FOMC meeting could cause interest rates to slip off, but only a bit, and the exchange value of the dollar would remain around recent levels. Over the next few weeks, when new information on the economy will be relatively sparse, market interest rates probably would be little changed. Subsequently, markets could be quite volatile in response to the heavier flow of economic news, as participants sort out its implications against the background of a Federal Reserve characterized by Chairman Greenspan as "especially vigilant to incipient inflation pressures." A partial retracing of the recent bond market rally cannot be ruled out, if, consistent with the staff forecast, incoming indicators suggest prospective inflation pressures.

(10) The Committee instead may wish to implement the 25 basis point increase in the intended federal funds rate involved in alternative C. Especially in light of the recent low level of initial claims and the upside potential for inventory stocking, the Committee may question the staff forecast that economic activity is likely to downshift in the near term by enough to stabilize resource utilization.

Alternatively, even if the Committee does expect growth in real aggregate demand soon to line up with that of potential output, it may be troubled by the strains on resource availability and the uptrend in core inflation embodied in the staff forecast. Particularly with the upward pressure on prices from the minimum wage hike, a rise in the nominal funds rate would be necessary at some point just to keep the real rate from falling and thus the stance of policy from effectively easing, unless the economy is appreciably weaker or output-price tradeoffs considerably more favorable than the staff predicts. An immediate tightening of 1/4 percentage point would increase the likelihood of holding the line against an upcreep in core inflation by better ensuring an eventual relief of pressures on resources. Such a tightening might be viewed as a fairly typical policy reaction to the revision to the outlook since the Committee last eased at the end of January. From the February monetary policy report to that in July, the members' central tendencies for real GDP growth and CPI inflation for 1996 were revised up by 1/2 and 1/4 points, respectively. In light of these revisions and their implications for the longer-term outlook, an immediate 25 basis point tightening, or perhaps one of 50 basis points, would be even more warranted if the Committee were seeking to move policy over time to a stance restrictive enough to put a downward tilt to the inflation rate in 1997 and beyond.

(11) Given the recent adjustment to their expectations for monetary policy, market participants would be somewhat surprised by a Committee decision to raise its intended federal funds rate by 25 basis points, as under alternative C. Other short-term market rates would immediately adjust upward by a like amount. Because the likely

trajectory of short-term interest rates would be higher over the intermediate run than previously expected by the market, some increases in longer-term interest rates and in the exchange value of the dollar would occur. The size of the upward adjustments would depend in part on whether the market saw the policy firming as an isolated event or the first of a series of policy tightenings. Some market participants apparently sense that the Committee may require extra evidence to change direction in monetary policy, and hence might assume that Committee members now see the potential inflationary situation as having worsened appreciably and may be contemplating more than one small move. In that regard, the announcement accompanying the policy tightening presumably could provide some guidance to the market on these matters.

(12) The debt of domestic nonfinancial sectors is projected by the staff to expand at about a 4-1/4 percent rate over the second half of this year, slower than the first-half pace and leaving growth for the year a little below the midpoint of its annual range. The moderation is concentrated in the household sector. Still-high fixed-rate mortgage costs should begin to bite more into residential housing activity and mortgage lending. Consumer credit should also decelerate over the second half in keeping with diminished growth in outlays on durables and a more cautious approach to such credit by both households and banks. Meanwhile, credit for business should remain available on favorable terms both from banks and in securities markets. Business borrowing should continue to be moderate, supported by large equity retirements and inventory restocking.

(13) The staff has revised down its projection of the growth of M2 and M3 for this year under the unchanged funds rate of the

greenbook forecast by 1/4 percentage point each to 4-3/4 percent and 5-3/4 percent, respectively (see table). The slight downward revisions primarily reflect weaker than expected money growth in July. The recent lull in M2 growth is not expected to persist, however. For one thing, demand deposits should return to a more normal pace of expansion. More fundamentally, M2 growth will be buoyed by moderate growth in nominal GDP while opportunity costs experience little further change. The projected strengthening in M2 is expected to show through to M3, but the pickup in M3 growth likely will be restrained to a degree by a sluggish projected advance in bank credit. M1 will continue to be depressed by additional sweeps; M1 adjusted for the initial effects of such sweeps is projected to grow at a 6-1/2 percent pace this year.<sup>4</sup>

Growth Rates of Money and Debt  
(percent, annual rates)

	July to <u>December</u> <sup>1</sup>	1995-Q4 to <u>1996-Q4</u>
M2	5	4-3/4
M3	5-1/2	5-3/4
M1	-3	-2-3/4
Adjusted for sweeps	7	6-1/2
Debt	4-1/4	4-1/2

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1. June to December for domestic nonfinancial debt.

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4. From July to December, the monetary base is projected to grow at a 6 percent annual rate. Abstracting from sweeps, the growth rate would be 8-1/2 percent.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2		M3		M1	
	Alt. B	Alt. C	Alt. B	Alt. C	Alt. B	Alt. C
Levels in Billions						
May-96	3730.7	3730.7	4705.1	4705.1	1117.2	1117.2
Jun-96	3747.8	3747.8	4723.5	4723.5	1116.7	1116.7
Jul-96	3755.0	3755.0	4738.2	4738.2	1108.5	1108.5
Aug-96	3769.4	3769.1	4759.1	4758.9	1102.8	1102.7
Sep-96	3785.1	3783.8	4780.2	4779.4	1100.4	1099.9
Oct-96	3800.9	3798.3	4801.3	4799.7	1098.5	1097.5
Nov-96	3817.0	3813.3	4822.9	4820.6	1096.6	1095.0
Dec-96	3833.2	3828.6	4844.6	4841.8	1095.2	1092.8
Monthly Growth Rates						
May-96	-1.7	-1.7	3.0	3.0	-6.8	-6.8
Jun-96	5.5	5.5	4.7	4.7	-0.5	-0.5
Jul-96	2.3	2.3	3.7	3.7	-8.8	-8.8
Aug-96	4.6	4.5	5.3	5.3	-6.2	-6.3
Sep-96	5.0	4.7	5.3	5.2	-2.6	-3.0
Oct-96	5.0	4.6	5.3	5.1	-2.1	-2.7
Nov-96	5.1	4.7	5.4	5.2	-2.1	-2.7
Dec-96	5.1	4.8	5.4	5.3	-1.5	-2.4
Quarterly Averages						
96 Q1	5.9	5.9	7.2	7.2	-2.7	-2.7
96 Q2	4.1	4.1	5.4	5.4	-0.6	-0.7
96 Q3	3.4	3.3	4.4	4.4	-5.5	-5.5
96 Q4	5.0	4.7	5.4	5.2	-2.6	-3.1
Growth Rate						
From	To					
Dec-95	Jul-96		4.3	4.3	6.1	6.1
Jul-96	Dec-96		5.0	4.7	5.4	5.2
95 Q4	Jul-96		4.4	4.4	5.8	5.8
94 Q4	95 Q4		4.0	4.0	5.9	5.9
95 Q4	96 Q4		4.7	4.6	5.7	5.7
1996 Target Ranges:			1.0 to 5.0		2.0 to 6.0	

Directive Language

(14) Presented below is draft wording for the operational paragraph that includes the usual options for Committee consideration.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE (SOMEWHAT/SLIGHTLY)/ maintain/INCREASE (SOMEWHAT/SLIGHTLY) 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 slightly (SOMEWHAT) 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.



**SELECTED INTEREST RATES**  
(percent)

		Short-Term								Long-Term							
		federal funds	Treasury bills secondary market			CDs secondary market	comm. paper 1-month	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	fixed-rate	fixed-rate	ARM			
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
95	-- High	6.21	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
	-- Low	5.40	4.89	5.05	4.98	5.55	5.73	5.16	8.50	5.36	5.68	6.06	6.98	5.65	7.40	7.11	5.53
96	-- High	5.61	5.18	5.37	5.61	5.57	5.73	5.15	8.50	6.59	7.02	7.16	8.23	6.34	8.72	8.42	6.01
	-- Low	5.08	4.79	4.71	4.57	5.13	5.28	4.73	8.25	4.95	5.59	5.97	7.00	5.63	7.35	6.94	5.19
Monthly																	
	Aug 95	5.74	5.40	5.41	5.43	5.77	5.85	5.27	8.75	6.10	6.49	6.86	7.84	6.37	8.24	7.86	5.93
	Sep 95	5.80	5.28	5.30	5.31	5.73	5.82	5.24	8.75	5.89	6.20	6.55	7.55	6.18	8.01	7.64	5.81
	Oct 95	5.76	5.28	5.32	5.28	5.79	5.81	5.20	8.75	5.77	6.04	6.37	7.36	6.05	7.88	7.48	5.74
	Nov 95	5.80	5.36	5.27	5.14	5.74	5.80	5.26	8.75	5.57	5.93	6.26	7.30	5.89	7.79	7.38	5.64
	Dec 95	5.60	5.14	5.13	5.03	5.62	5.84	5.20	8.65	5.39	5.71	6.06	7.10	5.74	7.53	7.20	5.57
	Jan 96	5.56	5.00	4.92	4.82	5.39	5.56	5.05	8.50	5.20	5.65	6.05	7.09	5.72	7.45	7.03	5.44
	Feb 96	5.22	4.83	4.77	4.69	5.15	5.29	4.85	8.25	5.14	5.81	6.24	7.31	5.73	7.51	7.08	5.31
	Mar 96	5.31	4.96	4.96	5.06	5.29	5.39	4.76	8.25	5.79	6.27	6.60	7.75	6.07	8.07	7.62	5.51
	Apr 96	5.22	4.95	5.06	5.23	5.36	5.40	4.75	8.25	6.11	6.51	6.79	7.90	6.20	8.32	7.93	5.73
	May 96	5.24	5.02	5.12	5.33	5.36	5.38	4.74	8.25	6.27	6.74	6.93	8.02	6.22	8.46	8.07	5.77
	Jun 96	5.27	5.09	5.25	5.48	5.46	5.45	4.76	8.25	6.49	6.91	7.06	8.13	6.25	8.59	8.32	5.92
	Jul 96	5.40	5.15	5.30	5.52	5.53	5.44	4.81	8.25	6.45	6.87	7.03	8.07	6.15	8.56	8.25	5.98
Weekly																	
	Apr 24 96	5.24	4.92	5.04	5.20	5.35	5.38	4.73	8.25	6.11	6.54	6.80	7.90	6.16	8.26	7.92	5.74
	May 1 96	5.30	4.99	5.06	5.28	5.35	5.39	4.75	8.25	6.15	6.61	6.85	8.22	6.32	8.56	7.99	5.76
	May 8 96	5.22	5.00	5.13	5.37	5.38	5.40	4.73	8.25	6.36	6.85	7.06	8.01	6.32	8.43	8.24	5.80
	May 15 96	5.26	5.00	5.10	5.30	5.36	5.39	4.74	8.25	6.24	6.72	6.91	7.92	6.17	8.37	8.08	5.78
	May 22 96	5.22	5.02	5.12	5.26	5.35	5.37	4.74	8.25	6.20	6.65	6.84	7.90	6.10	8.38	8.01	5.75
	May 29 96	5.19	5.04	5.13	5.33	5.34	5.37	4.74	8.25	6.25	6.69	6.88	8.08	6.17	8.54	8.03	5.76
	Jun 5 96	5.33	5.06	5.17	5.44	5.39	5.41	4.76	8.25	6.42	6.84	6.98	8.12	6.20	8.64	8.30	5.86
	Jun 12 96	5.24	5.12	5.29	5.51	5.47	5.43	4.75	8.25	6.52	6.94	7.07	8.20	6.34	8.64	8.39	5.91
	Jun 19 96	5.45	5.08	5.26	5.47	5.47	5.44	4.77	8.25	6.50	6.95	7.10	8.20	6.27	8.59	8.30	5.93
	Jun 26 96	5.21	5.11	5.25	5.51	5.48	5.48	4.78	8.25	6.52	6.94	7.09	7.97	6.20	8.48	8.29	5.98
	Jul 3 96	5.53	5.09	5.21	5.43	5.47	5.49	4.81	8.25	6.36	6.78	6.94	8.23	6.15	8.72	8.14	5.94
	Jul 10 96	5.26	5.17	5.37	5.61	5.57	5.47	4.81	8.25	6.59	7.02	7.16	8.09	6.24	8.56	8.42	6.01
	Jul 17 96	5.23	5.13	5.29	5.49	5.55	5.45	4.78	8.25	6.45	6.86	7.04	8.01	6.10	8.44	8.23	5.97
	Jul 24 96	5.25	5.15	5.29	5.51	5.52	5.41	4.80	8.25	6.40	6.80	6.98	8.06	6.10	8.53	8.19	6.01
	Jul 31 96	5.53	5.18	5.30	5.54	5.54	5.42	4.82	8.25	6.45	6.87	7.04	7.76	6.02	8.20	8.23	5.98
	Aug 7 96	5.38	5.06	5.12	5.32	5.43	5.41	4.87	8.25	6.14	6.56	6.77	7.73	5.92	8.21	7.88	5.89
Daily																	
	Aug 9 96	5.10	5.01	5.11	5.27	5.41	5.38	--	8.25	6.09	6.50	6.70	--	--	--	--	--
	Aug 13 96	4.89	5.03	5.11	5.31	5.39	5.38	--	8.25	6.14	6.57	6.78	--	--	--	--	--
	Aug 14 96	5.22	5.02	5.10	5.29	5.39	5.39	--	8.25	6.14	6.58	6.78	--	--	--	--	--

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.

## Money and Credit Aggregate Measures

Seasonally adjusted

AUGUST 19, 1996

Period	Money stock measures and liquid assets					Bank credit	Domestic nonfinancial debt <sup>1</sup>			
	M1	M2	nontransactions components		M3	L	total loans and investments <sup>1</sup>	U. S. government <sup>2</sup>	other <sup>2</sup>	total <sup>2</sup>
			In M2	In M3 only						
	1	2	3	4	5	6	7	8	9	10
<b>Annual growth rates(%):</b>										
Annually (Q4 to Q4)										
1993	10.5	1.4	-2.4	-0.5	1.0	1.4	5.0	8.4	4.1	5.2
1994	2.4	0.6	-0.3	6.2	1.6	2.6	6.8	5.7	5.1	5.2
1995	-1.8	4.0	6.8	14.5	5.9	7.3	8.7	4.4	6.1	5.6
Quarterly(average)										
1995-Q3	-1.5	6.9	10.9	12.1	7.9	9.1	6.6	4.6	5.0	4.9
1995-Q4	-5.1	4.1	8.3	6.3	4.5	5.9	4.8	2.3	5.5	4.7
1996-Q1	-2.7	5.9	9.7	12.6	7.2	5.1	5.3	2.7	5.4	4.7
1996-Q2	-0.6	4.1	6.1	10.6	5.4		2.5	5.2	4.7	4.8
Monthly										
1995-JULY	0.9	6.3	8.8	12.3	7.5	10.7	5.7	4.3	3.1	3.4
AUG.	-1.7	6.6	10.5	10.3	7.3	7.8	5.2	2.0	5.9	4.8
SEP.	-3.8	4.3	8.1	9.6	5.4	9.9	7.7	0.8	5.1	3.9
OCT.	-8.8	2.5	7.6	10.4	4.1	5.8	3.6	2.9	5.2	4.6
NOV.	-3.0	4.0	7.1	-0.1	3.2	1.4	4.0	4.4	6.8	6.2
DEC.	-4.4	5.7	10.3	-3.7	3.8	5.4	3.7	-0.4	4.5	3.2
1996-JAN.	-6.1	4.8	9.7	18.0	7.5	4.0	9.6	-2.0	5.2	3.3
FEB.	-2.0	5.4	8.6	28.6	10.1	4.4	4.6	7.6	6.2	6.6
MAR.	10.0	11.7	12.4	9.0	11.1	12.6	-2.0	11.2	4.3	6.1
APR.	-3.2	1.9	4.1	1.5	1.8	4.5	5.9	3.6	4.8	4.5
MAY	-6.8	-1.7	0.6	21.2	3.0	-1.0	1.3	1.8	4.4	3.7
JUNE	-0.5	5.5	8.1	1.5	4.7		1.5	2.5	4.3	3.8
JULY p	-8.8	2.3	7.0	9.3	3.7		1.0			
<b>Levels (\$billions):</b>										
Monthly										
1996-MAR.	1126.6	3729.9	2603.3	956.3	4686.2	5785.4	3641.4	3696.0	10384.4	14080.4
APR.	1123.6	3735.9	2612.3	957.5	4693.4	5807.2	3659.3	3707.0	10425.9	14132.9
MAY	1117.2	3730.7	2613.5	974.4	4705.1	5802.5	3663.4	3712.6	10464.4	14177.0
JUNE	1116.7	3747.8	2631.2	975.6	4723.5		3668.1	3720.2	10502.1	14222.4
JULY p	1108.5	3755.0	2646.5	983.2	4738.2		3671.3			
Weekly										
1996-JULY 1	1118.0	3749.4	2631.4	972.4	4721.8					
8	1106.0	3753.9	2647.9	983.2	4737.1					
15	1102.6	3747.5	2645.0	984.1	4731.6					
22	1107.1	3754.0	2646.9	984.1	4738.1					
29 p	1111.3	3756.3	2645.0	983.7	4740.0					
AUG. 5 p	1108.0	3766.2	2658.2	982.4	4748.6					

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

AUGUST 19, 1996

Period	Currency	Demand deposits	Other checkable deposits	Savings deposits <sup>1</sup>	Small denomination time deposits <sup>2</sup>	Money market mutual funds		Large denomination time deposits <sup>4</sup>	RP's <sup>5,6</sup>	Eurodollars <sup>5,6</sup>	Savings bonds	Short-term Treasury securities <sup>1</sup>	Commercial paper <sup>6</sup>	Bankers acceptances <sup>3</sup>
						Retail <sup>6</sup>	Institution-only							
						1	2							
<b>Levels (\$billions):</b>														
<b>Annual (Q4)</b>														
1993	320.0	381.6	412.1	1215.1	792.3	356.5	196.3	334.8	155.3	66.1	170.7	339.5	382.4	15.7
1994	352.8	383.3	404.2	1162.7	812.2	383.1	182.9	358.9	175.9	81.7	179.8	381.2	401.5	13.8
1995	371.9	388.7	359.2	1123.8	934.6	460.1	225.2	414.3	184.3	91.6	184.5	468.7	438.2	12.6
<b>Monthly</b>														
1995-JULY	367.3	388.5	380.8	1096.2	919.3	431.7	218.6	393.9	188.4	92.6	183.0	434.0	429.0	12.1
AUG.	368.5	389.3	377.2	1101.6	923.6	443.6	218.5	396.6	192.9	93.1	183.5	437.4	433.3	12.4
SEP.	369.5	389.4	372.4	1108.4	926.8	450.3	221.7	400.5	192.5	93.7	183.9	457.1	438.6	12.8
OCT.	370.8	388.1	364.1	1116.1	930.2	455.0	223.7	409.8	190.0	92.9	184.2	465.9	440.5	13.4
NOV.	371.6	388.2	360.4	1120.6	935.5	460.1	224.8	415.5	185.3	90.7	184.5	464.5	437.1	12.6
DEC.	373.2	389.8	353.0	1134.6	938.1	465.1	227.2	417.5	177.6	91.2	184.8	475.6	437.1	11.9
<b>1996-</b>														
JAN.	373.6	393.5	343.2	1151.8	937.8	468.6	230.6	416.6	184.4	95.6	185.0	466.0	437.2	11.7
FEB.	373.3	397.4	337.8	1164.5	937.4	474.7	243.9	422.4	186.2	96.6	185.0	444.8	442.3	10.2
MAR.	375.2	407.1	335.4	1183.0	932.6	487.6	248.3	429.7	184.1	94.2	185.2	459.1	445.1	9.8
APR.	376.0	406.3	332.4	1193.2	930.4	488.7	245.6	432.2	182.9	96.8	185.6	456.9	461.0	10.3
MAY	377.1	409.6	321.7	1197.5	928.6	487.4	243.5	437.6	195.1	98.2	186.0	427.7	473.0	10.7
JUNE	379.4	413.7	315.0	1206.9	928.2	496.0	249.4	443.6	183.6	99.1				
JULY p	382.6	410.6	306.8	1214.6	930.0	501.8	252.9	452.0	180.8	97.5				

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

p preliminary

**NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES<sup>1</sup>**  
Millions of dollars, not seasonally adjusted

August 16, 1996

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total <sup>4</sup>	Net RPs <sup>5</sup>
	Net purchases <sup>2</sup>	Redemptions (-)	Net change	Net purchases <sup>3</sup>				Redemptions (-)	Net Change			
				within 1 year	1-5	5-10	over 10					
1993	17,717	---	17,717	1,223	10,350	4,168	3,457	767	18,431	774	35,374	5,974
1994	17,484	---	17,484	1,238	9,168	3,818	3,606	2,337	15,493	1,002	31,975	-7,412
1995	10,932	900	10,032	390	4,966	1,239	3,122	1,476	8,241	1,303	16,970	-1,023
1995 ---Q1	---	---	---	---	---	---	---	621	-621	229	-850	-4,083
---Q2	4,470	---	4,470	---	2,549	839	1,138	370	4,156	312	8,314	10,395
---Q3	842	---	842	---	100	---	100	---	200	501	541	-15,979
---Q4	5,621	900	4,721	390	2,317	400	1,884	485	4,506	261	8,965	8,644
1996 ---Q1	---	---	---	---	---	---	---	1,228	-1,228	108	-1,336	-8,879
---Q2	3,399	---	3,399	35	1,899	479	1,065	787	2,691	138	5,952	10,133
1995 August	433	---	433	---	---	---	---	---	---	122	311	-2,984
September	409	---	409	---	100	---	100	---	200	46	563	608
October	1,350	900	450	---	---	---	---	485	-485	83	-118	-427
November	4,271	---	4,271	---	---	400	---	---	400	120	4,551	2,404
December	---	---	---	390	2,317	---	1,884	---	4,591	58	4,533	6,666
1996 January	---	---	---	---	---	---	---	1,228	-1,228	---	-1,228	-12,623
February	---	---	---	---	---	---	---	---	---	---	---	-1,689
March	---	---	---	---	---	---	---	---	---	108	-108	5,433
April	88	---	88	35	1,899	479	1,065	787	2,691	82	2,697	-505
May	---	---	---	---	---	---	---	---	---	16	-16	4,174
June	3,311	---	3,311	---	---	---	---	---	---	40	3,271	6,463
July	---	---	---	---	---	---	---	---	---	52	-52	7,118
Weekly												
May 1	---	---	---	---	---	---	---	---	---	47	-47	-15,158
8	---	---	---	---	---	---	---	---	---	---	---	2,610
15	---	---	---	---	---	---	---	---	---	---	---	-1,895
22	---	---	---	---	---	---	---	---	---	---	---	5,194
29	---	---	---	---	---	---	---	---	---	16	-16	-4,427
June 5	---	---	---	---	---	---	---	---	---	---	---	2,584
12	3,311	---	3,311	---	---	---	---	---	---	40	3,271	-6,784
19	---	---	---	---	---	---	---	---	---	---	---	17,726
26	---	---	---	---	---	---	---	---	---	---	---	-8,919
July 3	---	---	---	---	---	---	---	---	---	---	---	5,399
10	---	---	---	---	---	---	---	---	---	37	-37	476
17	---	---	---	---	---	---	---	---	---	---	---	5,130
24	---	---	---	---	---	---	---	---	---	---	---	-12,007
31	---	---	---	---	---	---	---	---	---	15	-15	12,371
August 7	---	---	---	---	---	---	---	---	---	---	---	-9,379
14	---	---	---	---	1,279	297	900	---	2,476	---	2,476	160
Memo: LEVEL (bil. \$) <sup>6</sup>												
August 14			198.9	218.4	93.9	34.1	39.5		385.9		400.2	-12.1

1. Change from end-of-period to end-of-period.  
2. Outright transactions in market and with foreign accounts.  
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.

4. Reflects net change in redemptions (-) of Treasury and agency securities.  
5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).  
6. The levels of agency issues were as follows:

within 1 year	1-5	5-10	over 10	total
1.4	0.5	0.5	0.0	2.4