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 this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. 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 optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

MONETARY POLICY ALTERNATIVES

PREPARED FOR THE FEDERAL OPEN MARKET COMMITTEE
BY THE STAFF OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Market participants did not fully anticipate the FOMC's decision at its May meeting to raise the target funds rate by 50 basis points and retain a statement judging the balance of risks as weighted toward conditions that might generate higher inflation.[1] Accordingly, investors marked up their expectations a little for the path of the funds rate immediately following the announcement, and bond and stock prices generally edged down. Over the next couple of weeks, concerns about the potential need for aggressive policy tightening and its possible repercussions on future earnings growth and economic activity appeared to contribute to a sharp sell-off in the equity market and a widening of risk spreads on corporate bonds. However, later in the period, investors read a string of economic data releases as signaling a moderation in the growth of economic activity and relatively well-contained cost and price pressures, and they concluded that the Federal Reserve probably would be able to hold inflation in check without much additional policy firming.

(2) On balance, expectations for the trajectory of the funds rate have been revised down significantly over the intermeeting period, with current readings from futures markets suggesting that market participants, on average, do not expect a tightening at this meeting

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1. Federal funds traded close to 6-1/2 percent over the intermeeting period. To address longer-term reserve needs, the Desk purchased $4.1 billion of Treasury coupon securities for the SOMA portfolio and increased the outstanding quantity of long-term RPs by about $6 billion. (The final table in this bluebook, entitled "Changes in System Holdings of Securities," has been modified to show net changes in long-term RPs.)

and anticipate at most another quarter-point firming in coming months. This revised outlook for policy was accompanied by a reduction in uncertainty and a fairly broad-based easing in financial conditions, on net, over the period (Chart 1). The implied volatilities derived from options on interest rate and equity index futures contracts all moved down over the period, suggesting an appreciable decline in market uncertainty. Treasury coupon yields fell between 10 and 40 basis points, and, consistent with the change in monetary policy expectations, the declines were associated with especially large revisions to nearer-term forward rates.[2] The ten-year inflation-indexed Treasury yield dropped about half as much as the nominal ten-year Treasury yield, suggesting declines in both longer-term real interest rates and investors' required compensation for inflation. Thirty-year fixed-rate mortgage rates fell about in line with the decline in comparable Treasury yields, as did most investment-grade bond yields. Junk bond yields, however, were down only a touch, with rising defaults adding to investors' concerns about credit risk going forward. Lower interest rates helped support equity prices; most broad stock price indexes were little changed, although the Nasdaq recovered from its sharp sell-off early in the period to post a 6-1/2 percent gain. By contrast, regional and money center bank stocks fell considerably on worries about rising loan losses and shrinking underwriting income.

(3) Declines in U.S. interest rates, together with greater confidence of investors in the expansion of economic activity in major foreign industrial countries, contributed to a

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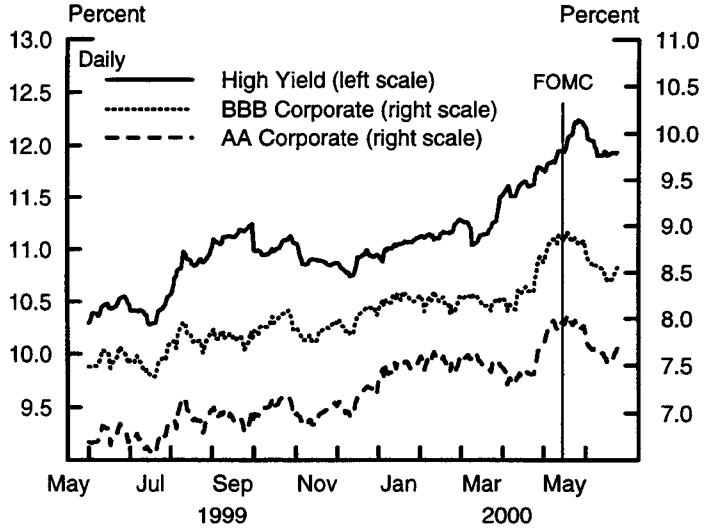
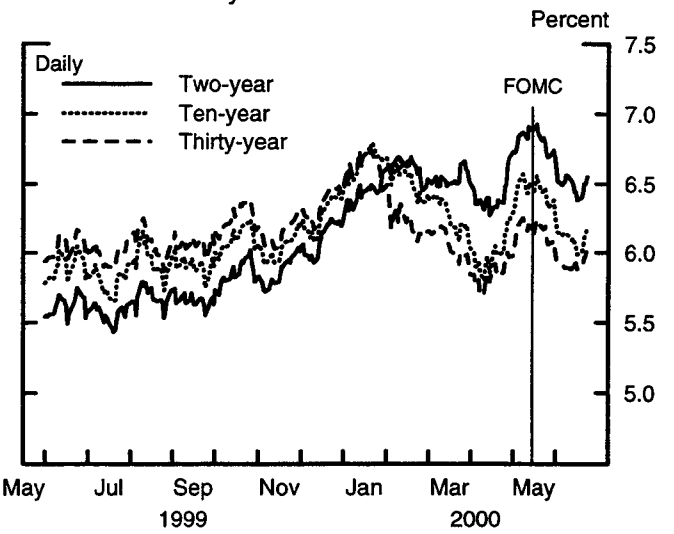
2. Spreads of "benchmark" agency yields over comparable Treasuries narrowed over the period, partly reflecting a growing sense among investors that chances had faded for any legislative changes that would affect the status of government-sponsored enterprises.

Chart 1
Financial Market Indicators

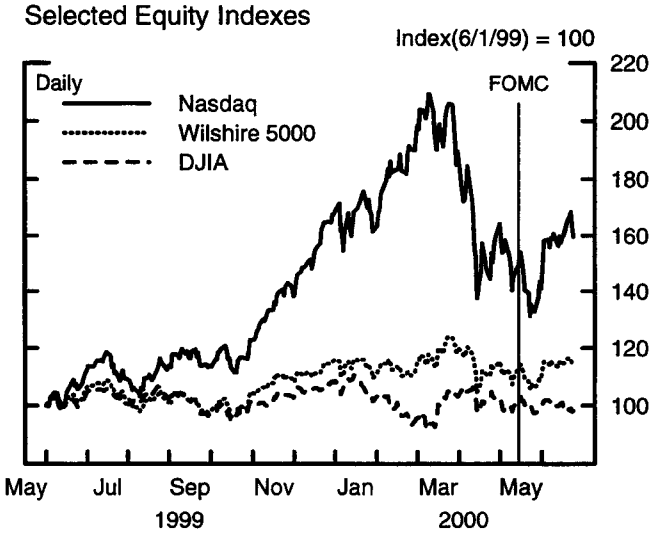
Selected Private Long-Term Yields



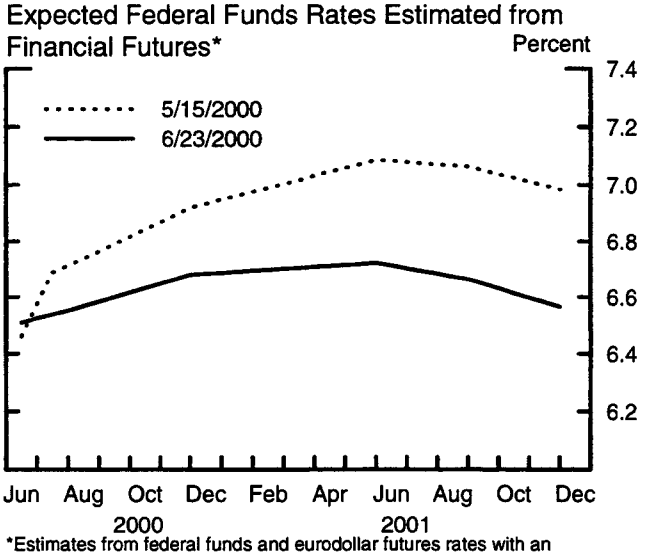
Selected Treasury Yields



Selected Equity Indexes

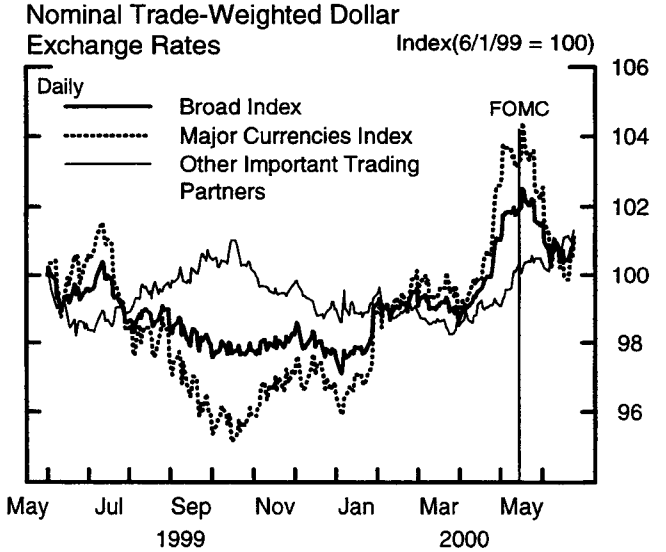


Expected Federal Funds Rates Estimated from Financial Futures*

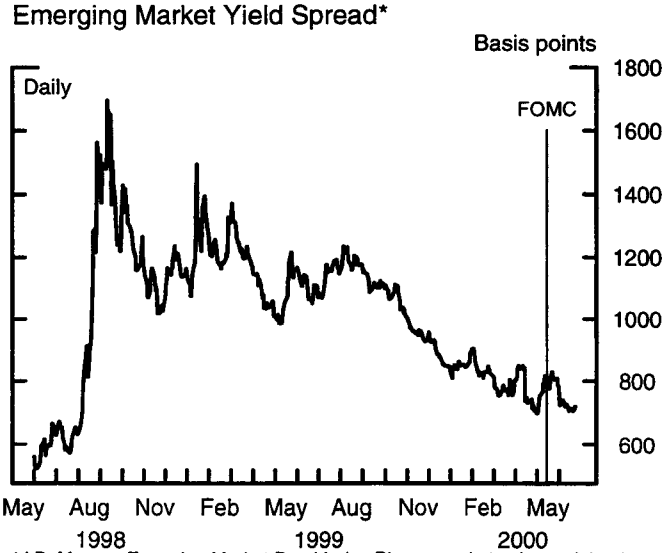


*Estimates from federal funds and eurodollar futures rates with an allowance for term premia and other adjustments.

Nominal Trade-Weighted Dollar Exchange Rates



Emerging Market Yield Spread*



*J.P. Morgan Emerging Market Bond Index Plus, a market-value-weighted average of spreads on dollar-denominated instruments over comparable Treasuries for sixteen emerging market countries.

MFMA:MJG

2-1/4 percent depreciation on net of the dollar's value against a basket of major currencies since the May FOMC meeting. Notable among the changes in the components of the major currencies index was a 2-1/2 percent drop in the dollar's value vis-à-vis the euro, abetted no doubt by the European Central Bank's decision to hike its policy rate 1/2 percentage point on June 8, a quarter point more than had been built into market prices. While the Bank of Japan kept its policy rate at zero, officials hinted frequently that some tightening was in the offing, and the dollar lost about 4-1/2 percent of its value against the yen on balance. Even so, Japanese longer-term yields were little changed.

. U.S. monetary authorities did not intervene.

(4) Concerns about a few emerging market countries have cropped up in recent weeks and appear mostly responsible for the modest appreciation of the dollar against an index of the currencies of our other important trading partners. Recent polls suggest the presidential race in Mexico is too close to call, heightening nervousness on the part of some investors about the potential for unsettled political and economic conditions after the election. On net, the dollar has gained 4-1/4 percent against the peso. Social unrest in Indonesia and a pickup in piracy in the Phillippines depressed their currencies and added to the risk premiums on their foreign debt. In contrast, yield spreads on Brazilian dollar-denominated debt over U.S. Treasury securities declined and the *real* appreciated 2 percent on favorable inflation news that allowed the central bank to ease policy late in the

intermeeting period. On net, average yield spreads of emerging market debt over U.S. Treasury securities narrowed over the intermeeting period.

(5) Changes in financial conditions have affected funding patterns in recent months, but overall private credit flows have remained substantial. Through April and much of May, tight conditions in long-term capital markets prompted businesses to rely more heavily on bank loans and commercial paper, but more recently bond issuance has picked up, even among junk bond issuers. Borrowing by businesses has been supported by strength in investment spending relative to internal funds and by substantial net retirements of equities. In the household sector, based on fragmentary data, the pace of borrowing is estimated to have slowed a little recently, consistent with the projected slight decline in nominal spending on consumer durables and housing in the current quarter. Federal debt continues on a steep downward trend, with unexpectedly large tax receipts contributing to a huge paydown in the current quarter. Looking over a longer period, from the fourth quarter of last year to May, total domestic nonfinancial debt expanded at a 5-1/2 percent rate (Chart 2), well short of the projected growth in nominal GDP over the first half of the year.[3] Over the same period, federal debt is estimated to have contracted at a 6-1/2 percent pace while nonfederal debt has expanded at an 8-3/4 percent rate.

(6) M2 fell in May as this year's unusually large tax payments cleared, but it has rebounded in June. Growth over both months likely has been held down by rising money

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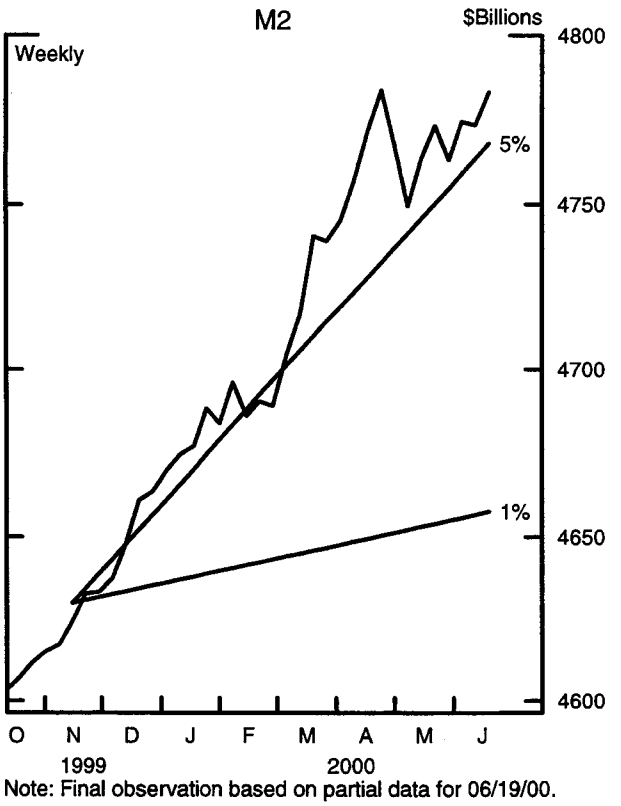
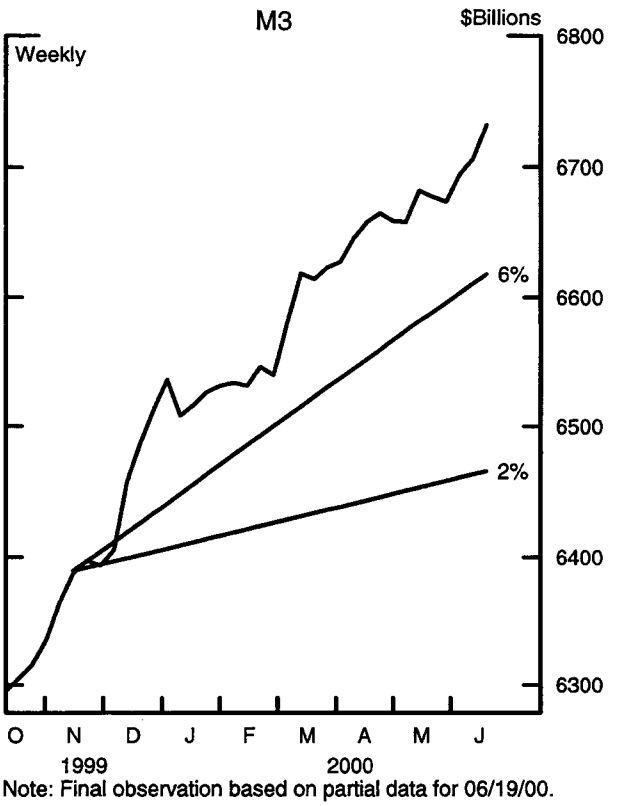
3. In May, total domestic nonfinancial debt was a little above the midpoint of its 3-to-7 percent annual range.

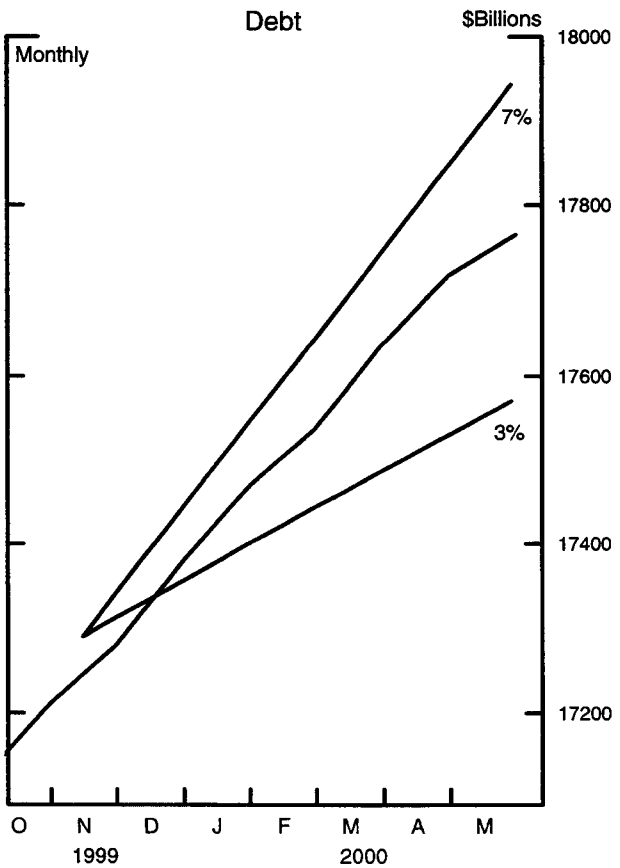
Chart 2
Money and Credit Aggregates

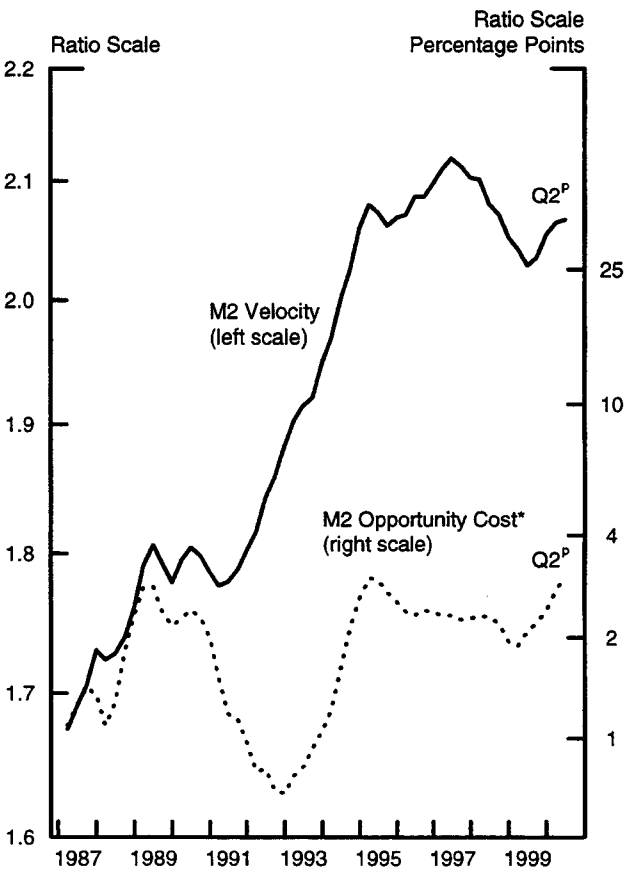


Note: Final observation based on partial data for 06/19/00.



Note: Final observation based on partial data for 06/19/00.





* Two-quarter moving average.
p Preliminary.

market interest rates and the associated increase in the opportunity cost of M2. Over the first half of the year, M2 velocity is estimated to have risen at about a 1-1/4 percent rate, roughly consistent with the pace that would be expected based on the historical relationship between M2 velocity and opportunity cost. Nonetheless, boosted by rapid growth in nominal income, M2 is estimated to have expanded at a 5-1/2 percent rate from the fourth quarter of 1999 to June of this year.[4] M3 growth over the same period is currently estimated at about a 9 percent rate, buoyed by the strong growth of depository credit.[5] The gap between the growth rates of M3 and M2 so far this year is well above the historical average, but it is consistent with patterns observed during past episodes of brisk depository credit growth and rising interest rates.

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4. This expansion places M2 in June somewhat above its 1-to-5 percent annual range.

5. M3 in June significantly exceeds its 2-to-6 percent annual range.

MONEY, CREDIT, AND RESERVE AGGREGATES

(Seasonally adjusted annual percentage rates of growth)

	Apr.	May.	Jun.	1999:Q4 to Jun.[2]
Money and Credit Aggregates				
M1	4.4	-12.3	-5.4	-1.8
Adjusted for sweeps	7.4	-6.2	-1.9	1.3
M2	10.3	-1.0	4.0	5.6
M3	7.8	3.7	8.3	8.9
Domestic nonfinancial debt	5.4	3.2	n.a.	5.5
Federal	-5.5	-18.6	n.a.	-6.5
Nonfederal	8.2	8.7	n.a.	8.7
Bank credit	11.4	16.1	5.9	10.9
Adjusted[1]	12.8	13.9	8.4	11.4
Reserve Measures				
Nonborrowed reserves	10.2	11.1	-46.1	-7.7
Total reserves	13.8	12.8	-44.0	-7.1
Adjusted for sweeps	15.1	11.9	-18.5	1.3
Monetary base	2.7	2.1	2.1	0.5
Adjusted for sweeps	3.6	2.6	2.5	1.1
Memo: (millions of dollars)				
Adjustment plus seasonal plus SLF borrowing	304	362	420	--
Excess reserves	1152	965	990	--

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.

1. Adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FASB 115).
2. For nonfinancial debt and its components, 1999:Q4 to May.

Longer-Term Strategies

(7) This section examines some of the implications of the path for the economy presented in the Greenbook for subsequent developments and considers alternative longer-run policy strategies. It also discusses the effects of alternative possibilities for the NAIRU and for domestic and foreign productivity growth.

(8) The analysis is built around an extension of the staff's judgmental outlook presented in the Greenbook. The extension is constructed using the FRB/US model, while preserving the key qualitative characteristics of the economy embodied in the judgmental forecast. With regard to fiscal policy, the federal budget is assumed to remain in surplus, although by less than recently, and government saving declines from a peak of about 2 percent of GDP at the end of 2001 to close to 1 percent by the end of 2010. On the international side, foreign economies are expected to grow in real terms at about the same rate as the United States.[6] At current exchange rates, the U.S. current account deficit would tend to widen further as a share of GDP because of the larger income elasticity of U.S. imports relative to U.S. exports. The associated rapid rise in dollar assets in global portfolios puts downward pressure on the foreign exchange value of the dollar, whose rate of decline picks up from a 3 percent pace over the Greenbook interval to a 5 percent rate

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6. In the baseline, foreign countries participate only in a limited way in the productivity boom that has characterized the U.S. economy recently. The implications of a faster rise in trend productivity abroad are examined in paragraph 15 below.

thereafter. This more rapid depreciation stabilizes the current account deficit at about 6 percent of GDP in the latter half of the decade.

(9) The dollar's decline has implications for the supply side assumptions in the baseline. In particular, because of its persistent upward effect on inflation, the steeper fall of the dollar means that the NAIRU rises from 5-1/4 percent in the Greenbook to about 5-1/2 percent in the period beyond. Potential output growth tapers off from 4-1/4 percent over the next several years to just under 4 percent near the end of the period, as a slowdown in the torrid pace of computer and communications equipment accumulation reduces the rate of capital deepening.

(10) In recent years, the long-run equilibrium real federal funds rate--the rate that would eventually bring aggregate demand into line with the economy's long-run potential--has risen, as the effect of accelerating productivity has more than offset that of rising government saving. The policy firming over the past year and a half has lifted the real federal funds rate--defined as the federal funds rate less the four-quarter change in the core PCE price index--to the neighborhood of its higher long-run equilibrium value as estimated in FRB/US. Keeping the real federal funds rate near its equilibrium level would ultimately raise the unemployment rate to the NAIRU. However, owing to the current imbalance between demand and potential supply as seen by the Greenbook and the model, inflation would stabilize at a much higher level than the Committee would likely find acceptable. The **baseline scenario** delivers better inflation performance by raising the real federal funds rate above its equilibrium level for a time, pushing the unemployment rate more promptly

towards the long-run NAIRU. As a result, core PCE inflation stabilizes at a 3 percent rate by the middle of the decade. To achieve this outcome, the Committee must tighten about 1 percentage point in real terms--about 1-3/4 percentage points on the nominal funds rate--before allowing the real funds rate to drop to its long-run equilibrium value. The process is begun by taking the actions assumed in the Greenbook and continues with roughly an additional percentage point of firming in the years immediately following.

(11) To keep inflation at about its current level of 2 percent, as in the **stable inflation scenario** shown by the ball and chain lines in Chart 3, the Committee must tighten policy enough to put some slack in the economy--that is, to raise the unemployment rate above the NAIRU for a time. To keep inflation from accelerating significantly given the pressure already in train from the unusually tight labor markets, increases in the real federal funds rate must be larger and more prompt than in the baseline scenario, totaling nearly 1-1/2 percentage points by early next year.[7] Inflation is held down in the initial phases of this tightening by a stronger dollar and then by the effects of slower growth and reduced pressures on resources. Achieving **price stability**, shown by the dotted lines, requires even higher interest rates to create more slack in labor markets for a longer period

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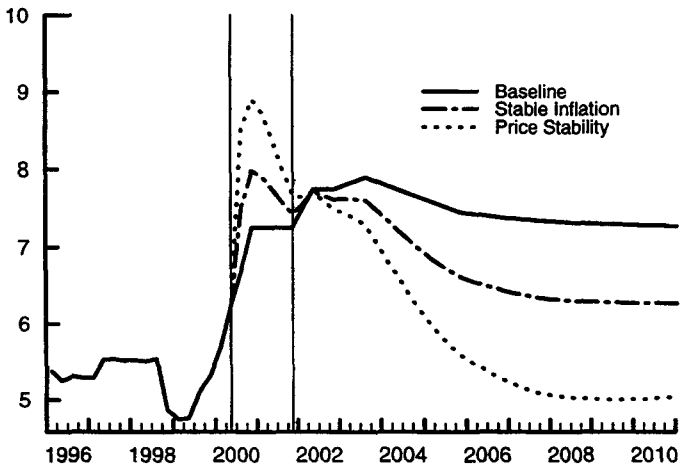
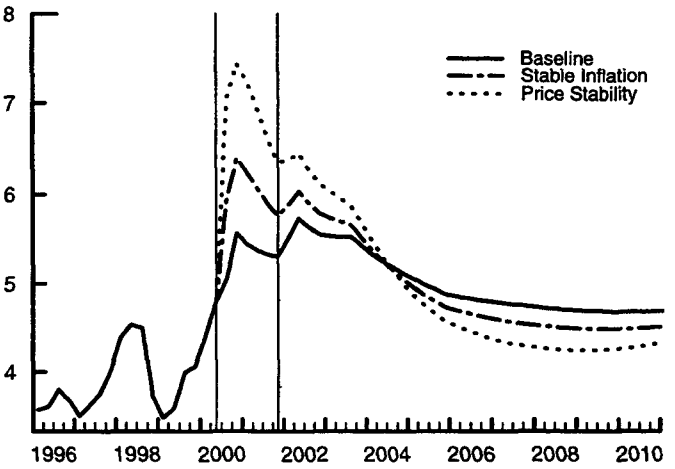
7. The federal funds rate in this scenario is set according to the prescriptions of a Taylor-type interest rate rule with an inflation target of 2 percent and an aggressive inflation-fighting coefficient on inflation deviations from target of 0.85. In the original Taylor rule, the funds rate depended on a coefficient of 0.5 on the deviation of inflation from its target, the inflation gap. Such a coefficient on the inflation gap is too small for the rule to achieve the long-run objectives of stable inflation or price stability within the ten-year horizon. The weight on the output gap is 0.5, the same as in the original Taylor rule.

Chart 3
Alternative Strategies for Monetary Policy*

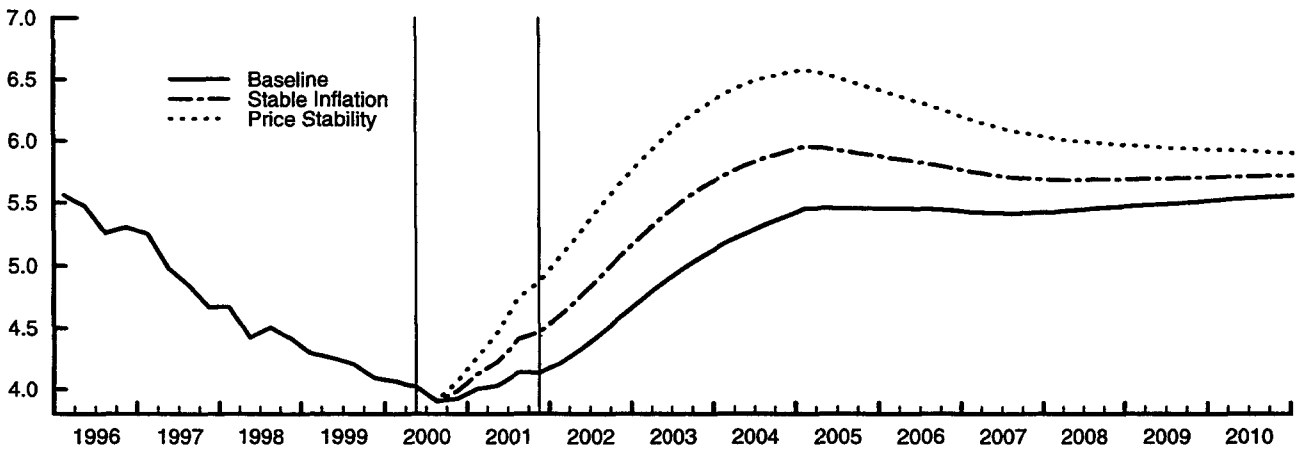
Nominal Federal Funds Rate



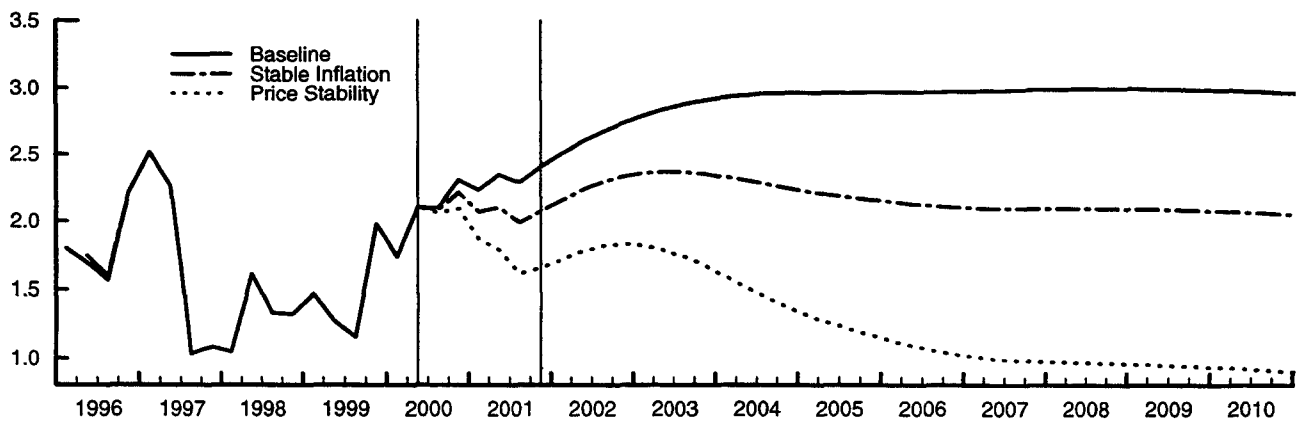
Real Federal Funds Rate



Civilian Unemployment Rate



PCE Inflation (ex. food and energy)
(Four-quarter percent change)



*Vertical lines mark the beginning and end of the Greenbook forecasts.

of time. Still, economic activity continues to expand, albeit at a modest pace. Credibility for the new, lower inflation target builds gradually, helping to hold down output losses over time.

(12) The three alternative paths depicted in Chart 3 show the predictions for key variables assuming that the model is properly specified, its parameter values are correct, the data are measured without error, and no shocks will hit the economy in the future. Of course, none of these conditions holds in practice, rendering forecasts quite uncertain. Unfortunately, it would be very difficult to quantify the combined effect of these sources of uncertainty. A sense of the magnitude of some of the uncertainties attendant in model simulations can be obtained by examining the behavior of key variables when the model is hit by many different sequences of shocks of the same magnitude as its historical residuals. Using the resulting distribution of simulated outcomes, one can trace out confidence bands, which indicate how likely it is to observe an outcome that would lie within this range of the forecasted value.[8]

(13) Chart 4 displays approximately 70 percent confidence bands--plus or minus one standard deviation of the shocks--for unemployment, inflation, and the nominal and real

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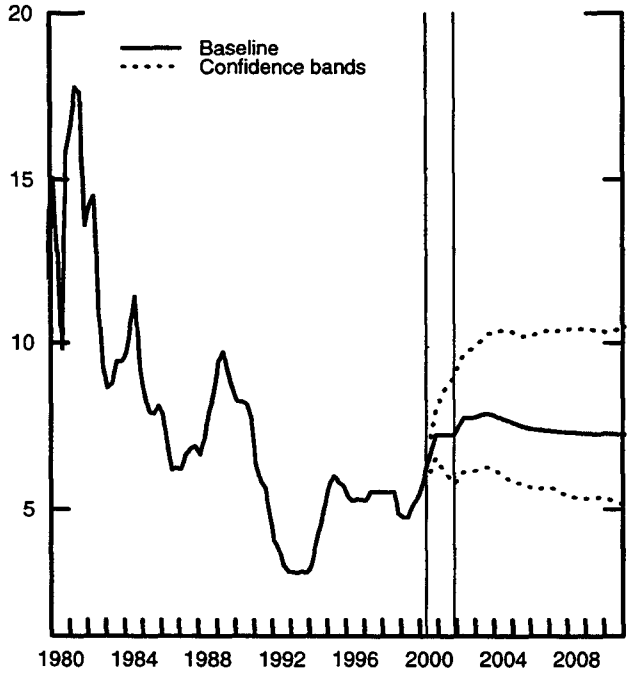
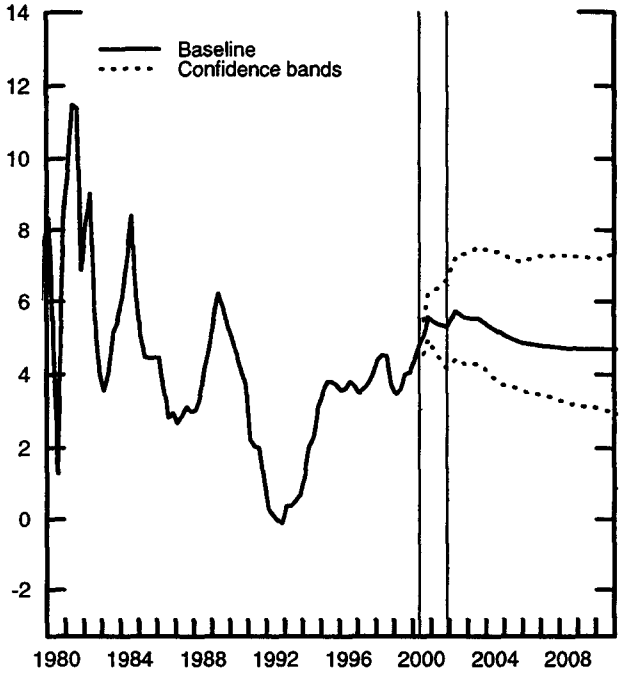
8. Although these confidence bands do not explicitly take into account specification, parameter, or data uncertainty, one can argue that the magnitude and correlations of the historical residuals of the FRB/US model equations that were used as shocks are related to possible misspecifications of the model or to measurement error. For example, if the NAIRU identified within the model is not the true NAIRU, this misspecification would show up in the historical model residuals. But omissions arising from specification, parameter, or data uncertainty are generally likely to impart bias to the forecasts so that the bands, even when they are about the right width, may be placed in the wrong location around the forecast.

Chart 4
Baseline Scenario with Confidence Bands*

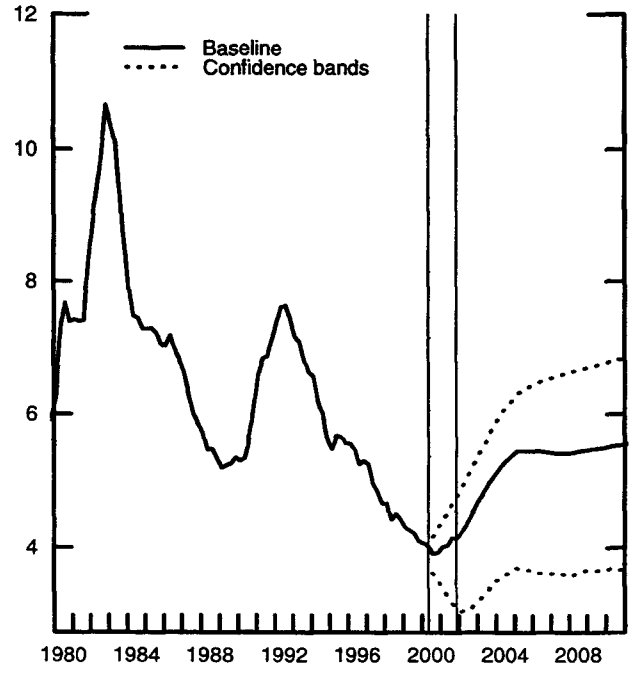
Nominal Federal Funds Rate



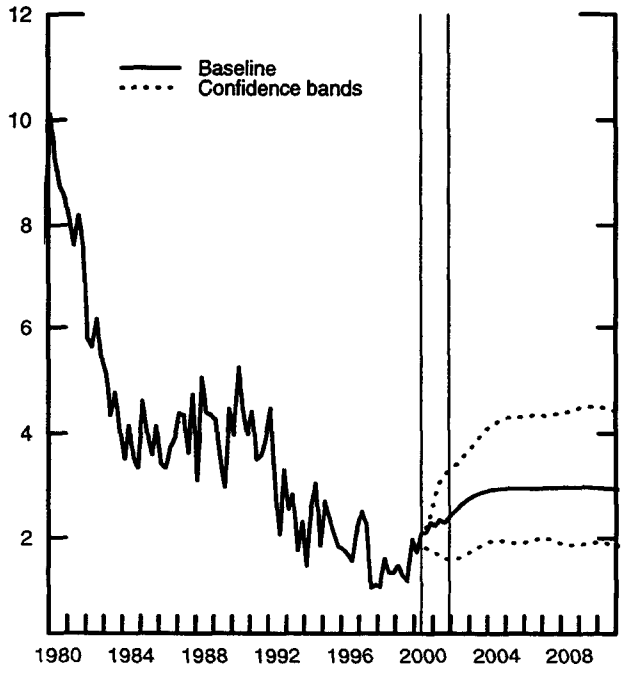
Real Federal Funds Rate



Civilian Unemployment Rate



Core PCE Inflation (Q4/Q4)



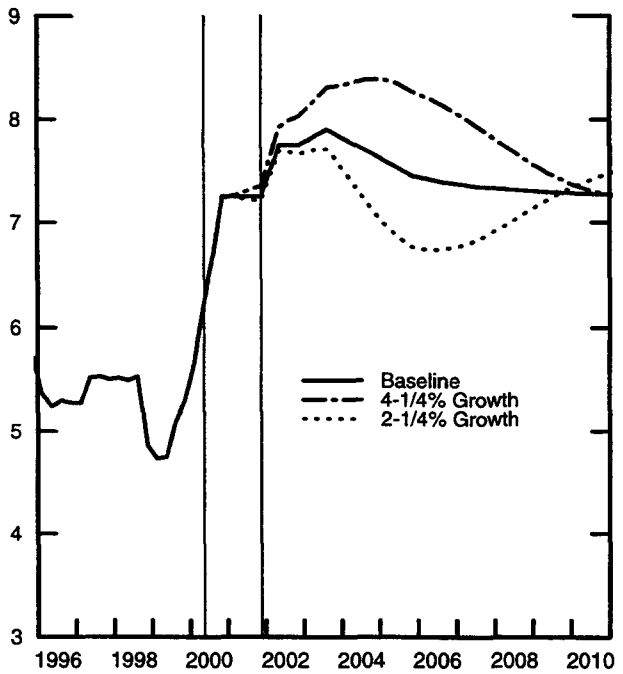
*Vertical lines mark the beginning and end of the Greenbook forecasts.

funds rates in the baseline scenario. In this exercise, as shocks accumulate and drive inflation away from target or output away from potential, policy in the form of the modified Taylor rule responds by moving interest rates to limit fluctuations in output and inflation that would ensue if policy were left on hold. The bands eventually become fairly wide, about 2-1/2 percentage points for core inflation and about 3-1/2 percentage points for the unemployment rate. In the long-run, the width of the bands should reflect the historical degree of variation in those variables and, for this reason, Chart 4 includes the last two decades of data, which is the period over which the residuals were drawn.

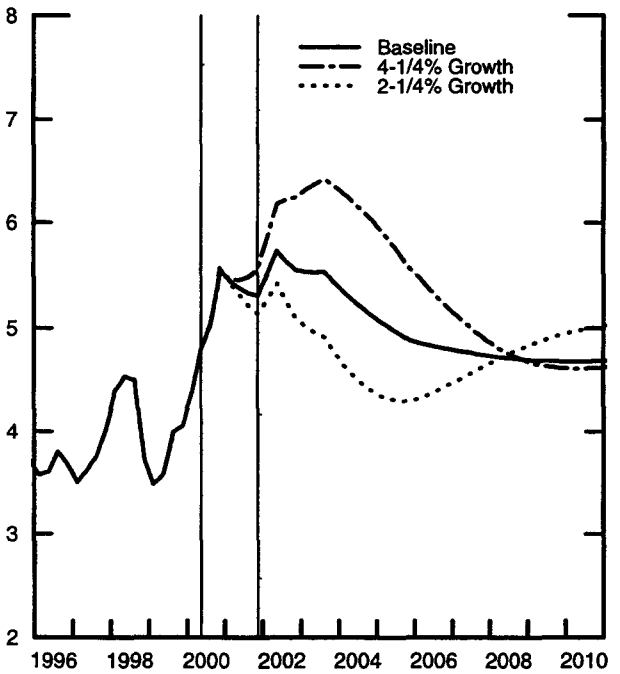
(14) Because one of the key uncertainties in the forecast is the behavior of productivity in the United States, Chart 5 considers the possibility of both faster and slower productivity growth. In the former case (ball-and-chain lines), trend productivity growth gradually increases an additional percentage point, so that the growth of potential output is 5-1/4 percent by the middle of 2003 and 1 percentage point above baseline thereafter. The further pickup in productivity implies improved income prospects that boost aggregate demand, keeping the unemployment rate below 4 percent for another three years, despite rising real interest rates. Improved productivity growth facilitates cost containment, initially countering incipient inflation pressures. However, unlike the situation in the second half of the 1990s, this scenario is not accompanied by a fiscal contraction or foreign developments that help to mitigate inflation pressures. Moreover, the unemployment rate is currently at a

Chart 5
Faster and Slower Productivity Growth*

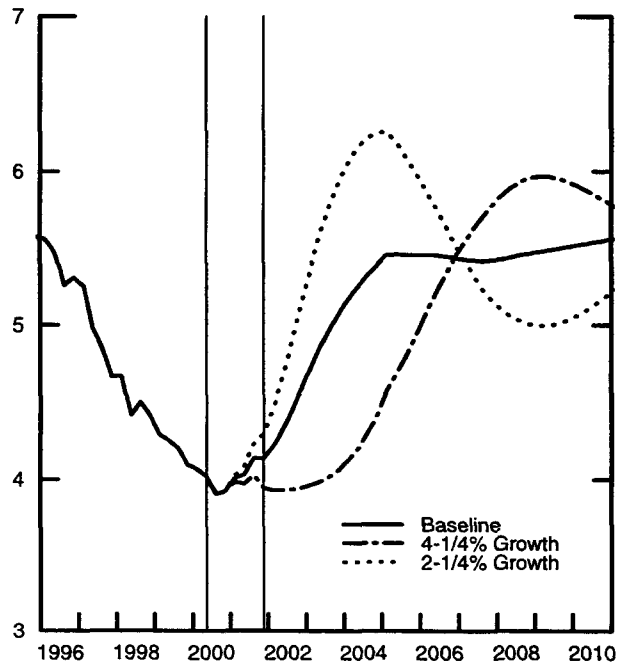
Nominal Federal Funds Rate



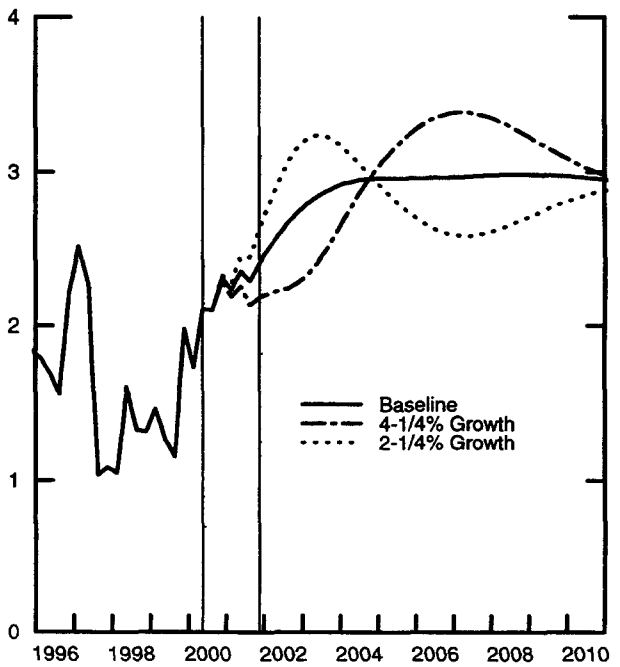
Real Federal Funds Rate



Civilian Unemployment Rate



Four-quarter Growth in PCE Prices
(ex. Food and Energy)



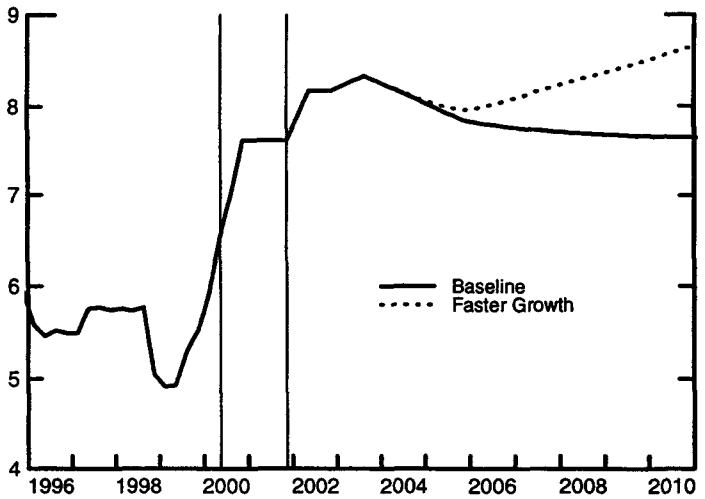
*Vertical lines mark the beginning and end of the Greenbook forecasts.

much lower level. Consequently, it takes only about two years for inflation to accelerate sharply. The improvement in productivity further raises the equilibrium real interest rate. Ultimately, a policy tightening of 1-3/4 percentage points in real terms is necessary in order to stabilize inflation at a 3 percent rate. In the slower productivity scenario (dotted lines), the fall in trend growth puts downward pressure on aggregate demand, in part through a major correction in the stock market, and leads to a rapid increase in the unemployment rate, which rises beyond the NAIRU within two years. At the same time, inflation moves rapidly above the 3 percent baseline target rate. Nominal rates stay close to baseline for several years owing to the offsetting effects of higher unemployment and higher inflation. When the unemployment rate exceeds the natural rate, inflation slows and interest rates decline.

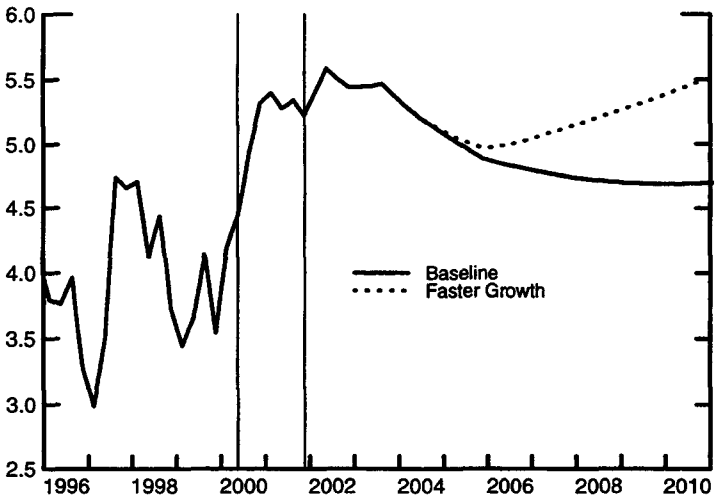
(15) To the extent that the U.S. productivity improvements in the second half of the 1990s were due to innovations in information technology and their productivity-enhancing application to other sectors, it seems likely that other industrial countries will eventually experience similar developments. Chart 6 depicts a scenario in which labor productivity growth in several developed countries rises gradually beginning in early 2002, eventually stabilizing at 1 percentage point above baseline by early 2004. The simulation is conducted in the FRB/Global version of the staff's model, which incorporates a more detailed treatment of the foreign sector. As a result of the productivity shock in these countries, output in U.S. export markets, on average, grows about 1/2 percentage point per year faster than in the baseline scenario. The rise in foreign output increases demand for

Chart 6
Faster Foreign Productivity Growth*

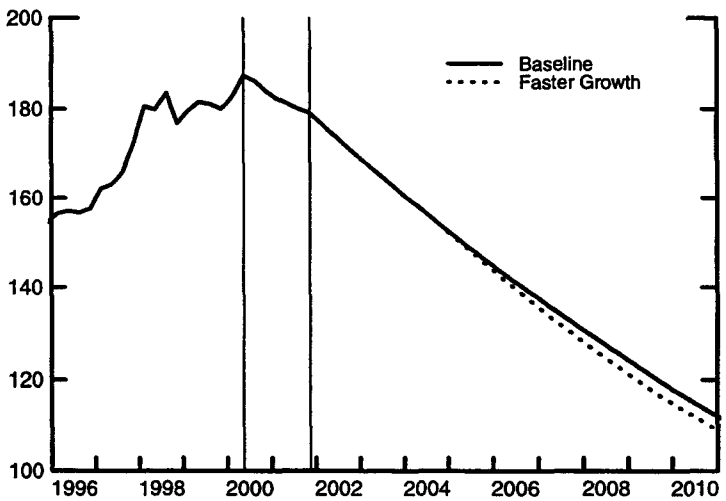
Nominal Federal Funds Rate



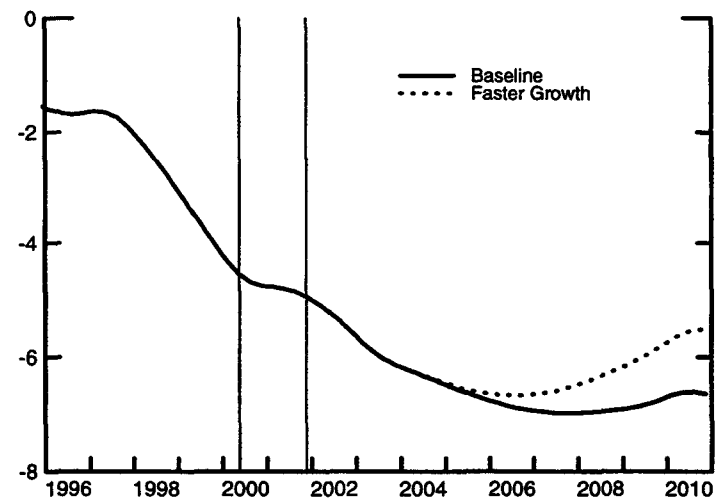
Real Federal Funds Rate



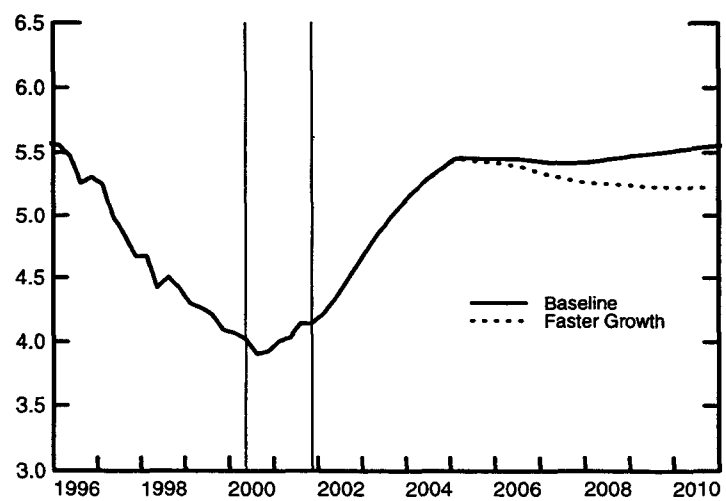
Real Exchange Rate



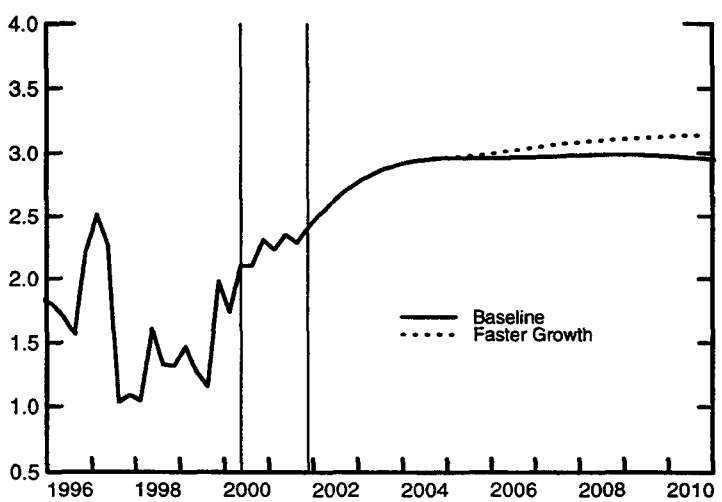
Current Account/GDP



Unemployment Rate



Core PCE Inflation Rate



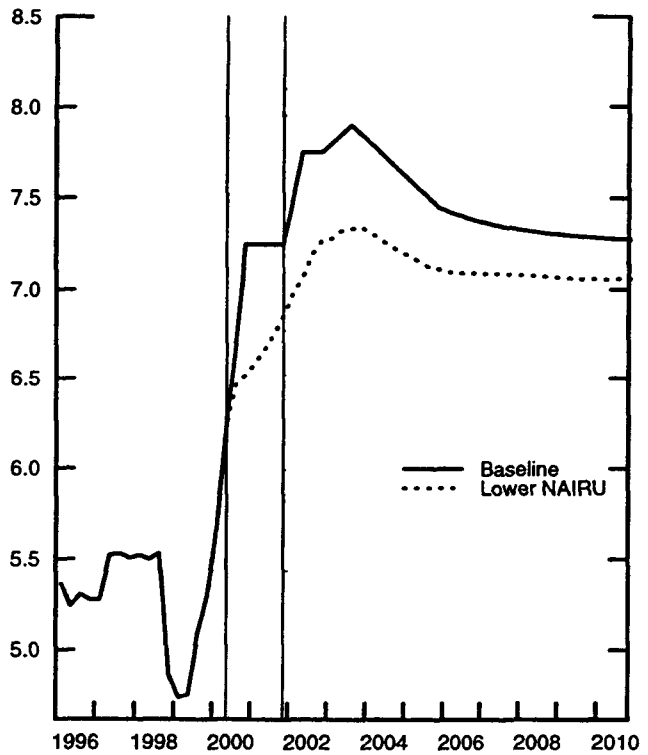
*Vertical lines mark the beginning and end of the Greenbook forecasts.

U.S. exports, inducing a slight fall in the U.S. unemployment rate and an edging higher of consumer price inflation by 2010 compared to the baseline. The real federal funds rate rises about 1 percentage point, reflecting the combined effects of the rise in the inflation and output gaps and the perceived increase in the equilibrium real rate. Since foreign real interest rates, on balance, are increased by a larger amount than U.S. real rates in response to the shock, the real exchange value of the dollar declines slightly relative to baseline. The depreciation reinforces the effect of faster foreign growth in contributing to a nearly 1-1/2 percentage points improvement in the U.S. current account deficit as a share of GDP.

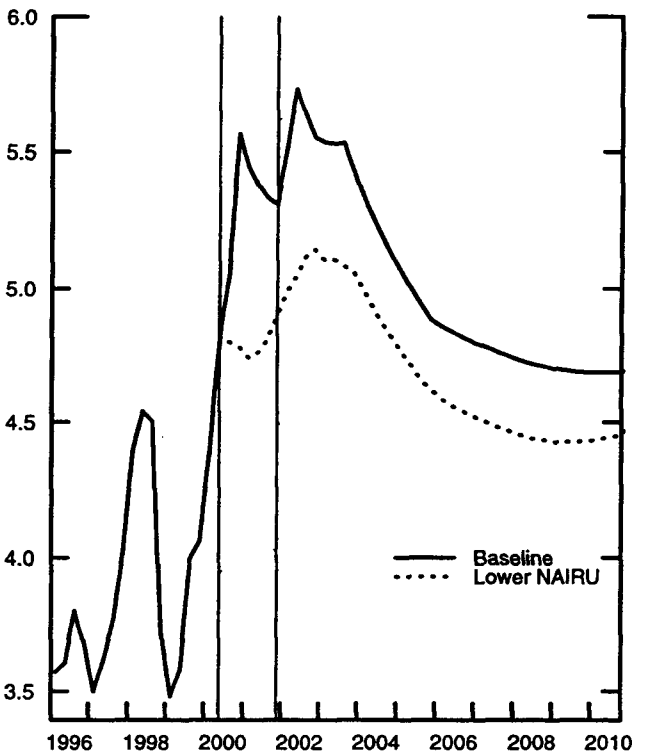
(16) Inflation has increased only modestly in the last few years, even in the face of a sharp run-up in energy prices and a remarkably low level of unemployment. The baseline scenario interprets this performance as a manifestation of fortuitous shocks temporarily offsetting strong underlying inflation pressure. An alternative explanation is that the NAIRU has been substantially lower than the staff estimate in the Greenbook. Chart 7 shows the implications of assuming that the NAIRU has been, and will continue to be, 1 percentage point below the staff estimate. Even in this case, inflation pressures are at hand, but less so than in the baseline because the level of potential output is higher. The nominal funds rate rises gradually for nearly three years. However, the level of the funds rate stays about 1/2 percentage point below baseline for most of the decade. Moreover, the real funds rate is essentially flat for the first few years and rises only slightly thereafter.

Chart 7
Lower NAIRU*

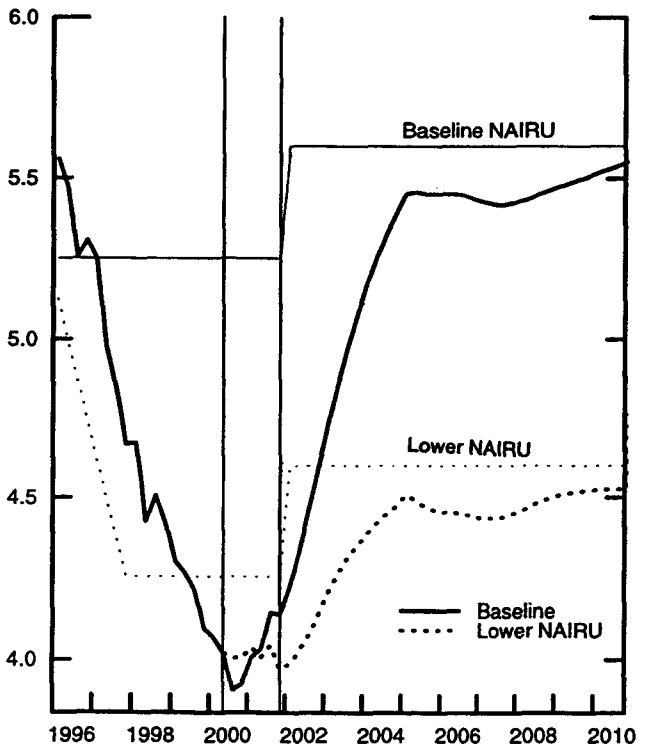
Nominal Federal Funds Rate



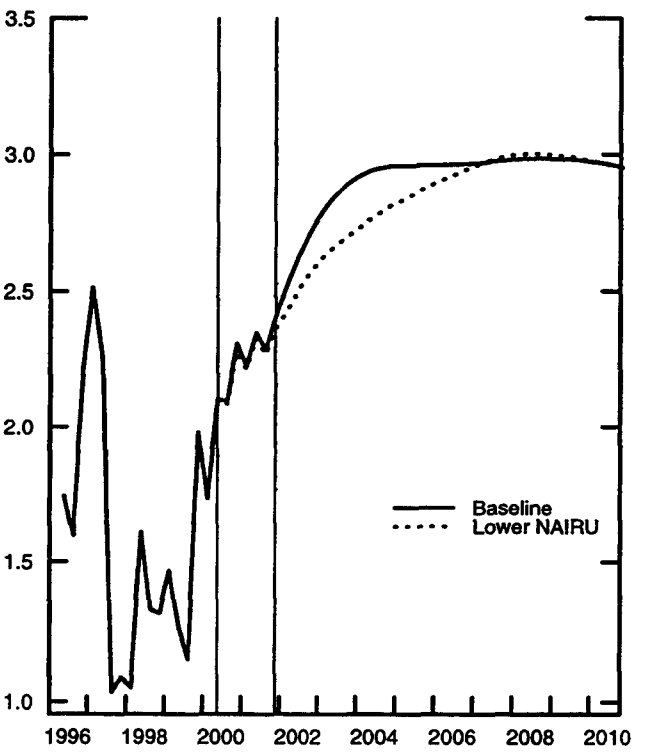
Real Federal Funds Rate



Civilian Unemployment Rate



Four-quarter Growth in PCE Prices
(Excluding Food and Energy)



*Vertical lines mark the beginning and end of the Greenbook forecasts.

Short-Run Policy Alternatives

(17) In the staff's view, data on economic activity, spending, and prices, although a tad softer of late than anticipated, have not signaled a fundamental shift in the forces at work in the U.S. economy. The economy is expected to continue producing appreciably beyond the level of its potential, fueling an acceleration in core prices that is augmented by a projected depreciation of the dollar. Accordingly, the staff again assumes in the Greenbook that policymakers will raise the federal funds rate to 7-1/4 percent by the end of this year. This policy firming, which is greater than expected by market participants, contributes to a substantial rise in private long-term interest rates and keeps broad equity indexes in their recent ranges. These financial conditions help hold growth of real GDP a bit below that of its potential over the next year and a half and leave the unemployment rate near its current reading--well below the staff's estimate of its sustainable level. The persistence of these labor market pressures, along with the pass through of the recent surge in the price of oil and further increases in non-oil import prices, is expected to push core PCE inflation from 1-1/2 percent over the last four quarters to 2-1/4 percent in 2001 and higher thereafter.

(18) If the Committee is not sure that inflation pressures will intensify going forward, then it might want to consider leaving the stance of monetary policy unchanged at this meeting, as under **alternative B**. Economic growth in the second quarter appears to have slowed to a rate roughly consistent with its potential even though the full effects of the earlier rise in interest rates and flattening of equity prices have not yet worked their way through the pipeline. Moreover, as noted, market participants have interpreted the incoming

data as suggesting that very little further tightening might be necessary to contain inflation. In these circumstances, the Committee might wish to wait for more evidence on the likely extent of the slowdown in aggregate demand before taking further action. In addition, the Committee may be less convinced than the staff that the economy is producing beyond the level of its potential. Recent data are giving conflicting signals about the acceleration of labor compensation, and, in any case, the growth of structural productivity has picked up. In view of the resulting uncertainty regarding unit labor costs, the Committee may have significant doubts that an upswing of inflation is in train. Judging by survey evidence, longer-term inflation expectations have not been particularly sensitive to short-run fluctuations in measured inflation. As a result, the Committee might anticipate that those expectations will not rise much in the near term, even if the incoming data tend to confirm the staff's forecast, and might view the costs of waiting for additional information as rather low.

(19) Market participants fully expect the Federal Reserve to stay its hand at this meeting and repeat the warning that the risks are tilted toward inflation. Thus, financial market prices probably would not respond initially to a Committee decision that conforms to those expectations. However, the subsequent accumulation of information over the intermeeting period that is consistent with the Greenbook forecast is likely to suggest more inflation pressure than now foreseen by market participants. Bond and equity prices would be expected to fall as investors came to anticipate additional Federal Reserve tightening.

(20) If the Committee is instead concerned that the odds of rising inflation are still elevated, as in the staff forecast, a further firming of policy of 25 basis points at this meeting

could be warranted, as under **alternative C**. Indications of slower expansion are still tentative, the level of resource utilization remains quite high, and some of the earlier financial restraint has been unwound by the recent rally in bond and equity markets. In this environment, the Committee may want more assurance that growth in aggregate demand will not rebound than is provided by the likely additional effects of previous tightening actions. The argument for tightening would be even more compelling if the Committee believed that the growth of aggregate demand has to be restrained to substantially below the pace of potential output for a while to lessen the intensity of resource use. Accelerating productivity has held down the growth in unit labor costs, and thereby has helped to restrain inflation for some time. However, its depressing effect on inflation may be running its course, as intense competitive pressures in labor markets allow real compensation to catch up to the higher level of productivity. If so, the unemployment rate consistent with stable inflation would be rising, even if productivity is continuing to accelerate.

(21) Market participants would be surprised by the 25 basis point tightening of alternative C. Short-term interest rates would rise immediately by almost 1/4 percentage point. Especially if the Committee were to retain its existing statement about the balance of risks, some increase in intermediate- and long-term yields also could be anticipated. The dollar probably would firm some on foreign exchange markets, while stock prices likely would decline. An announcement of balanced risks, by contrast, could well be taken by the public as a signal that the Committee believes it may be finished tightening. Although the rate hike would move forward in time the tightening that markets have essentially priced in, a

statement of balanced risks could prompt a rally in capital markets as market participants mark down the odds they place on aggressive further tightening.

(22) In the Greenbook forecast, the debt of domestic nonfinancial sectors grows at a 4-1/4 percent rate from May to December. Over this period, the contraction in federal debt is expected to pick up to a 9 percent annual rate. The expansion of nonfederal debt is anticipated to slow somewhat, to a 7-1/2 percent pace, but still to exceed the growth of nominal spending. Business debt growth is projected to edge lower, but this moderation is limited by a widening in the financing gap, as heavy capital expenditures increasingly outstrip internal funds, and by continued substantial net equity retirements associated with brisk merger-and-acquisition activity. For households, mortgage and consumer credit borrowing is likely to edge down in light of the moderation in the growth of spending on housing and consumer durables. The anticipated slowdown in the economic expansion and upturn in business credit problems should induce lenders to tighten terms somewhat, but not by enough to affect borrowing significantly. Over 2001, nonfederal debt is projected to grow 7-1/2 percent, which, combined with a forecasted paydown of federal debt of 8-1/2 percent, implies that overall domestic nonfinancial debt will advance 4-1/2 percent next year, down a bit from this year's 5 percent increase.

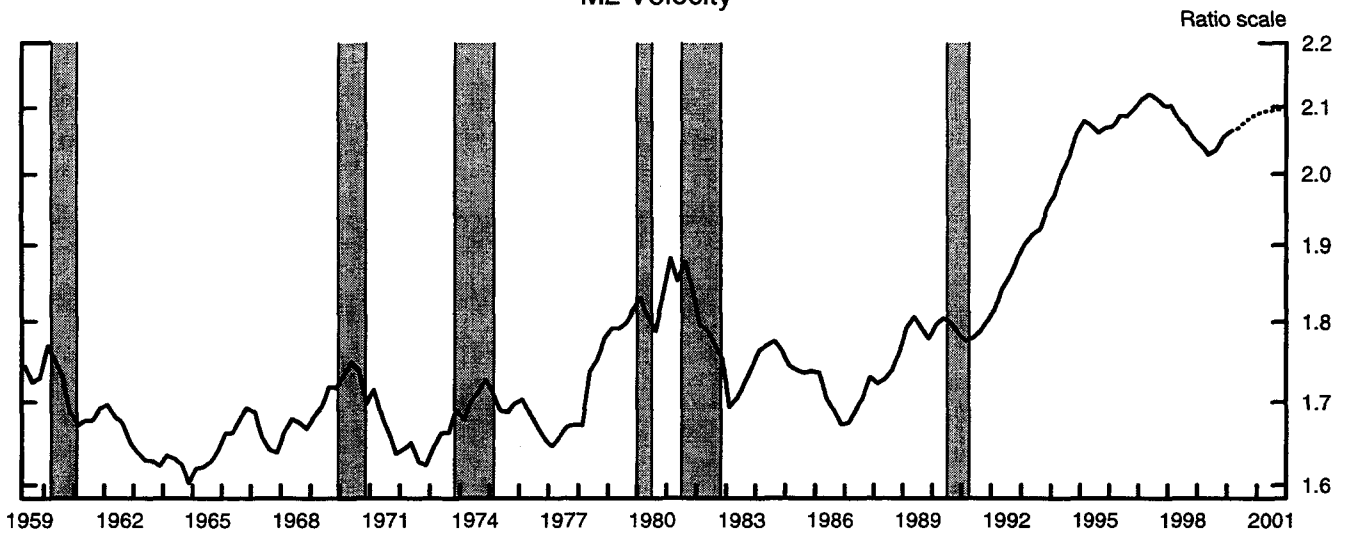
(23) The marked slowing of nominal GDP growth in the second half of 2000 in the staff forecast, and the effects of past and projected policy tightenings on the spread between market and deposit interest rates should prompt a moderation in M2 growth from the average pace over the first half of the year. M2 is expected to expand at a 4-1/4 percent

rate over the June-to-December period, bringing growth over the four quarters of this year to 5 percent. With short-term interest rates increasing, M2 velocity is projected to rise 1-1/2 percent this year, about in line with the estimate of the staff's standard M2 demand model (Chart 8). Over the second half of the year, M3 growth slows appreciably as depository credit decelerates and the effects of higher interest rates damp the growth of institutional money funds. M3 should advance at the relatively moderate pace of about 6 percent over the next six months, placing its four-quarter growth for 2000 as a whole at 7-3/4 percent.

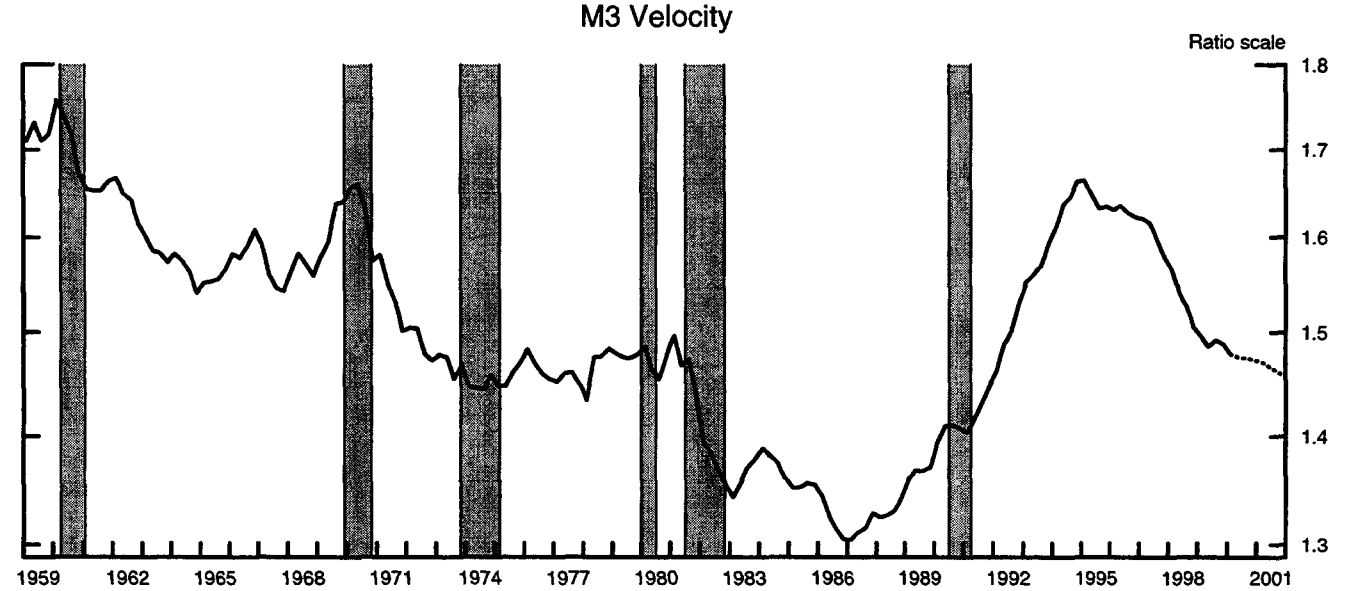
(24) With short-term market interest rates flat next year in the staff forecast, the opportunity cost of holding M2 assets should about level off. Still, the lagged effect of the previous widening of opportunity cost boosts M2 velocity 1/2 percent in 2001. Despite the smaller rise in velocity next year, M2 remains on a 5 percent growth pace owing to the weaker growth of nominal income. In this environment, the need for financing by depositories lessens, and M3 growth is expected to moderate to 6-1/2 percent. M3 velocity falls 1 percent next year, slightly faster than its average rate of decline over the last four decades.

Chart 8

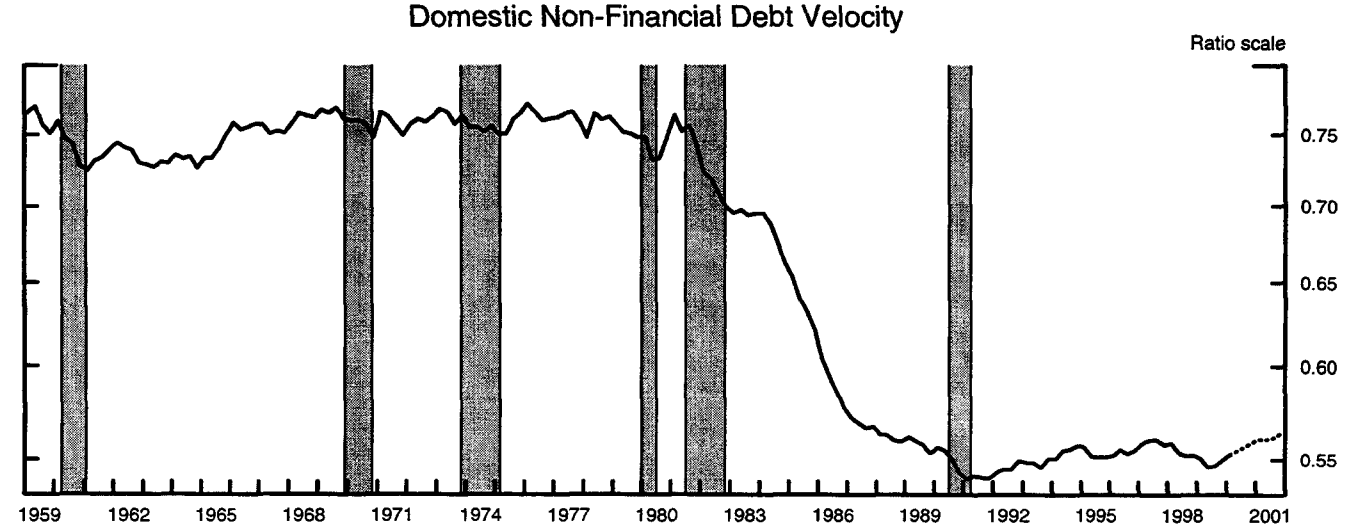
M2 Velocity



M3 Velocity



Domestic Non-Financial Debt Velocity



MARA:RJ

Directive and Balance of Risks Language

(25) 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/ DECREASING the federal funds rate AT/to an average of around ___ ~~6-1/2~~ 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 [balanced with respect to prospects for both goals] [weighted mainly toward conditions that may generate heightened inflation pressures] [weighted mainly toward conditions that may generate economic weakness] in the foreseeable future.

Alternative Growth Rates for Key Monetary and Credit Aggregates

	M2		M3		M2	M3	Debt
	Alt. B	Alt. C	Alt. B	Alt. C	Greenbook Forecast*		
Monthly Growth Rates							
Apr-2000	10.3	10.3	7.8	7.8	10.3	7.8	5.4
May-2000	-1.0	-1.0	3.7	3.7	-1.0	3.7	3.2
Jun-2000	4.0	4.0	8.3	8.3	4.0	8.3	4.6
Jul-2000	4.5	4.1	6.0	5.8	4.5	6.0	5.1
Aug-2000	4.4	3.6	6.0	5.6	4.4	6.0	5.3
Sep-2000	5.1	4.3	6.4	6.0	4.3	6.0	4.5
Oct-2000	5.9	5.2	6.8	6.5	4.0	5.8	2.9
Nov-2000	6.3	5.8	6.9	6.7	4.0	5.8	2.6
Dec-2000	6.2	5.8	6.8	6.6	4.0	5.8	4.1
Quarterly Averages							
1999 Q2	6.0	6.0	6.0	6.0	6.0	6.0	7.1
1999 Q3	5.3	5.3	5.0	5.0	5.3	5.0	6.2
1999 Q4	5.1	5.1	10.1	10.1	5.1	10.1	6.4
2000 Q1	6.0	6.0	10.5	10.5	6.0	10.5	5.9
2000 Q2	6.1	6.1	7.7	7.7	6.1	7.7	5.1
2000 Q3	3.8	3.4	6.3	6.1	3.8	6.3	4.8
2000 Q4	5.7	5.0	6.7	6.4	4.1	5.9	3.6
Growth Rate							
From To							
Sep-1999 Jun-2000	5.5	5.5	9.9	9.9	5.5	9.9	5.5
Dec-1999 Jun-2000	5.4	5.4	7.5	7.5	5.4	7.5	5.2
May-2000 Dec-2000	5.3	4.7	6.9	6.6	4.2	6.3	4.2
Jun-2000 Dec-2000	5.5	4.8	6.6	6.3	4.2	6.0	4.1
1998 Q4 Sep-1999	6.3	6.3	6.3	6.3	6.3	6.3	6.9
1999 Q4 Sep-2000	5.4	5.2	8.2	8.1	5.3	8.1	5.3
1998 Q4 1999 Q3	6.4	6.4	6.5	6.5	6.4	6.5	6.8
1998 Q4 1999 Q4	6.1	6.1	7.5	7.5	6.1	7.5	6.8
1999 Q4 2000 Q4	5.5	5.3	8.0	7.9	5.1	7.8	4.9
1999 Q4 Jun-2000	5.6	5.6	8.9	8.9	5.6	8.9	5.4
2000 Annual Ranges:	1 to 5		2 to 6				3 to 7

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

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)[2,3]	6 - 9	(9.8)	6.5 - 9.5	(9.9)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3)[2,4]	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	(5.2)	6 - 9	(7.7)	6 - 9	(10.5)	8 - 11	(13.4)
QIV 1984 - QIV 1985	3 - 8[9]	(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	(3.1)	1 - 5	(1.3)	4.5 - 8.5	(4.5)
QIV 1991 - QIV 1992	n.s.	(14.3)	2.5 - 6.5	(1.9)	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	n.s.	(-1.8)	1 - 5	(4.2)	2 - 6[13]	(6.1)	3 - 7	(5.3)
QIV 1995 - QIV 1996	n.s.	(-4.5)	1 - 5	(4.6)	2 - 6	(6.8)	3 - 7	(5.4)
QIV 1996 - QIV 1997	n.s.	(-1.2)	1 - 5	(5.7)	2 - 6	(8.8)	3 - 7	(5.2)
QIV 1997 - QIV 1998	n.s.	(1.8)	1 - 5	(8.5)	2 - 6	(10.9)	3 - 7	(6.7)
QIV 1998 - QIV 1999	n.s.	(1.9)	1 - 5	(6.2)	2 - 6	(7.5)	3 - 7	(6.6)
QIV 1999 - QIV 2000 [14]	n.s.	(-1.8)	1 - 5	(5.6)	2 - 6	(8.9)	3 - 7	(5.4)

NOTE: Numbers in parentheses are actual growth rates as reported at end of policy period in the 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 percentage point.

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. At the February 1995 FOMC meeting, the FOMC specified a range of 0 to 4 percent. This range was raised to 2 to 6 percent at the July 1995 meeting.

14. Growth rates in parentheses for the monetary aggregates are from 1999 QIV to June 2000 and for nonfinancial debt are from 1999 QIV to May 2000.

6/23/00 (MRA)

SELECTED INTEREST RATES
(percent)

June 26, 2000

	Short-term						Long-term									
	Federal funds	Treasury bills secondary market			CDs secondary market	Comm. paper	U.S. government constant maturity yields				Indexed yields		Moody's Baa	Municipal Bond Buyer	Conventional home mortgages primary market	
		3-month	6-month	1-year	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
99 -- High	5.59	5.38	5.56	5.62	6.16	6.33	6.23	6.33	6.41	6.46	4.03	4.33	8.44	6.23	8.15	6.64
-- Low	4.42	4.20	4.30	4.29	4.86	4.76	4.59	4.56	4.67	5.12	3.61	3.76	7.24	5.17	6.74	5.56
00 -- High	6.55	5.94	6.17	6.01	6.80	6.54	6.89	6.76	6.77	6.73	4.09	4.39	9.02	6.35	8.64	7.25
-- Low	5.05	5.26	5.43	5.68	5.93	5.54	6.34	6.18	5.89	5.78	3.63	3.96	8.22	5.98	8.12	6.56
Monthly																
Jun 99	4.76	4.57	4.82	4.82	5.13	4.95	5.62	5.81	5.90	6.04	3.78	3.94	8.02	5.53	7.55	5.91
Jul 99	4.99	4.55	4.58	4.75	5.24	5.06	5.55	5.68	5.79	5.98	3.94	4.01	7.95	5.61	7.63	5.99
Aug 99	5.07	4.72	4.87	4.91	5.41	5.18	5.68	5.84	5.94	6.07	3.96	4.03	8.15	5.81	7.94	6.18
Sep 99	5.22	4.68	4.88	4.96	5.50	5.28	5.66	5.80	5.92	6.07	3.89	4.05	8.20	5.92	7.82	6.20
Oct 99	5.20	4.86	4.98	5.12	6.13	5.28	5.86	6.03	6.11	6.26	3.85	4.12	8.38	6.12	7.85	6.27
Nov 99	5.42	5.07	5.20	5.24	6.00	5.37	5.86	5.97	6.03	6.15	3.87	4.10	8.15	6.10	7.74	6.36
Dec 99	5.30	5.20	5.44	5.51	6.05	5.97	6.10	6.19	6.28	6.35	3.99	4.25	8.19	6.18	7.91	6.53
Jan 00	5.45	5.32	5.50	5.75	5.95	5.59	6.44	6.58	6.66	6.63	4.06	4.36	8.33	6.31	8.21	6.61
Feb 00	5.73	5.55	5.72	5.84	6.01	5.76	6.61	6.68	6.52	6.23	4.05	4.28	8.29	6.29	8.33	6.72
Mar 00	5.85	5.69	5.85	5.86	6.14	5.93	6.53	6.50	6.26	6.05	3.86	4.15	8.37	6.15	8.24	6.72
Apr 00	6.02	5.66	5.81	5.80	6.28	6.02	6.40	6.26	5.99	5.85	3.67	3.98	8.40	6.01	8.15	6.80
May 00	6.27	5.79	6.10	5.94	6.71	6.40	6.81	6.69	6.44	6.15	3.94	4.14	8.90	6.23	8.52	7.07
Weekly																
Apr 21 00	6.03	5.65	5.76	5.75	6.27	6.01	6.34	6.24	6.01	5.88	3.63	3.96	8.45	6.00	8.16	6.76
Apr 28 00	5.98	5.62	5.79	5.82	6.36	6.06	6.53	6.42	6.15	5.95	3.67	3.97	8.51	6.07	8.13	6.77
May 5 00	6.05	5.74	5.96	5.89	6.57	6.24	6.76	6.66	6.40	6.10	3.72	3.99	8.74	6.15	8.28	6.90
May 12 00	5.99	5.94	6.15	6.01	6.69	6.37	6.86	6.74	6.50	6.20	3.93	4.14	8.93	6.23	8.52	6.96
May 19 00	6.28	5.86	6.17	6.01	6.75	6.47	6.89	6.74	6.49	6.19	4.04	4.21	9.02	6.28	8.64	7.15
May 26 00	6.49	5.73	6.11	5.89	6.77	6.48	6.77	6.65	6.42	6.14	4.01	4.21	8.95	6.27	8.62	7.25
Jun 2 00	6.55	5.59	6.04	5.89	6.80	6.50	6.64	6.49	6.26	6.00	4.01	4.15	8.76	6.20	8.54	7.25
Jun 9 00	6.48	5.76	6.01	5.87	6.72	6.51	6.53	6.35	6.13	5.90	4.00	4.10	8.51	6.07	8.32	7.24
Jun 16 00	6.52	5.68	5.96	5.80	6.72	6.52	6.45	6.27	6.06	5.91	3.97	4.07	8.42	6.01	8.22	7.21
Jun 23 00	6.48	5.66	5.93	5.81	6.71	6.54	6.48	6.29	6.09	5.95	3.97	4.07	--	5.99	8.14	7.22
Daily																
Jun 7 00	6.50	5.75	6.02	5.87	6.71	6.50	6.52	6.35	6.13	5.89	4.01	4.09	8.49	--	--	--
Jun 8 00	6.54	5.74	6.00	5.87	6.73	6.50	6.56	6.37	6.13	5.89	4.00	4.10	8.48	--	--	--
Jun 9 00	6.47	5.75	6.01	5.88	6.73	6.51	6.56	6.36	6.13	5.89	3.98	4.09	8.47	--	--	--
Jun 12 00	6.54	5.69	5.99	5.85	6.74	6.52	6.52	6.33	6.09	5.88	3.97	4.08	8.44	--	--	--
Jun 13 00	6.46	5.72	5.97	5.82	6.73	6.53	6.49	6.32	6.11	5.94	3.95	4.06	8.47	--	--	--
Jun 14 00	6.54	5.66	5.95	5.79	6.72	6.51	6.44	6.26	6.06	5.91	3.97	4.08	8.41	--	--	--
Jun 15 00	6.70	5.67	5.96	5.79	6.70	6.53	6.44	6.26	6.05	5.93	4.00	4.06	8.41	--	--	--
Jun 16 00	6.46	5.66	5.94	5.75	6.71	6.52	6.38	6.19	5.99	5.88	3.96	4.06	8.36	--	--	--
Jun 19 00	6.51	5.64	5.95	5.77	6.70	6.53	6.40	6.20	6.00	5.89	3.97	4.06	8.38	--	--	--
Jun 20 00	6.49	5.63	5.92	5.79	6.71	6.54	6.43	6.23	6.03	5.90	3.97	4.06	8.39	--	--	--
Jun 21 00	6.47	5.65	5.92	5.82	6.71	6.54	6.50	6.32	6.11	5.96	3.96	4.07	8.46	--	--	--
Jun 22 00	6.52	5.67	5.90	5.82	6.71	6.54	6.50	6.32	6.12	5.98	3.97	4.07	8.49	--	--	--
Jun 23 00	6.46 p	5.69	5.94	5.84	6.72	--	6.55	6.37	6.19	6.04	3.98	4.07	--	--	--	--

NOTE: Weekly data for columns 1 through 13 are week-ending averages. As of September 1997, data in column 6 are interpolated from data on certain commercial paper trades settled by the Depository Trust Company; prior to that, they reflect an average of offering rates placed by several leading dealers. 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.

p - preliminary data

MFMA:IXA

Money and Debt Aggregates

Seasonally adjusted

Period	Money stock measures					Domestic nonfinancial debt		
	M1	M2	nontransactions components		M3	U. S. government[1]	other[1]	total[1]
			In M2	In M3 only				
	1	2	3	4	5	6	7	8
Annual growth rates(%):								
Annually (Q4 to Q4)								
1997	-1.2	5.7	8.4	19.9	8.9	0.8	7.0	5.4
1998	2.2	8.5	10.8	18.3	10.9	-1.1	9.5	6.9
1999	1.8	6.1	7.6	11.3	7.5	-2.5	9.6	6.8
Quarterly(average)								
1999-Q2	2.1	6.0	7.3	5.9	6.0	-2.3	9.8	7.1
Q3	-1.8	5.3	7.6	4.0	5.0	-0.3	8.0	6.2
Q4	4.8	5.1	5.3	23.7	10.1	-4.3	9.4	6.4
2000-Q1	0.4	6.0	7.8	22.4	10.5	-4.4	8.7	5.9
Monthly								
1999-May	-6.0	6.0	10.0	7.3	6.4	-5.1	8.3	5.3
June	-1.7	4.8	6.8	9.6	6.0	0.3	7.2	5.6
July	-0.7	5.8	7.9	1.3	4.6	1.4	7.1	5.9
Aug.	-0.9	4.7	6.4	0.3	3.5	1.0	8.6	6.9
Sep.	-2.8	5.1	7.7	5.2	5.2	-4.2	10.6	7.4
Oct.	5.7	4.4	4.1	24.2	9.7	-5.8	9.7	6.3
Nov.	8.9	5.3	4.1	41.0	14.9	-7.6	8.1	4.7
Dec.	14.5	7.3	5.0	43.8	17.3	0.9	8.6	7.0
2000-Jan.	-3.7	6.2	9.3	13.4	8.2	-4.4	8.9	6.1
Feb.	-14.7	3.1	8.6	3.8	3.3	-12.1	8.9	4.5
Mar.	6.9	9.4	10.2	23.5	13.4	3.1	8.1	7.1
Apr.	4.4	10.3	12.1	1.5	7.8	-5.5	8.2	5.4
May p	-12.3	-1.0	2.5	15.4	3.7			
Levels ($billions):								
Monthly								
2000-Jan.	1119.4	4679.3	3559.9	1841.9	6521.2	3646.2	13823.7	17469.9
Feb.	1105.7	4691.2	3585.5	1847.7	6538.9	3609.4	13926.6	17536.0
Mar.	1112.1	4728.1	3615.9	1883.9	6611.9	3618.8	14020.4	17639.2
Apr.	1116.2	4768.5	3652.3	1886.3	6654.8	3602.3	14116.4	17718.7
May p	1104.8	4764.7	3659.8	1910.5	6675.2			
Weekly								
2000-May 1	1112.9	4767.9	3655.0	1891.1	6659.0			
8	1094.2	4749.4	3655.3	1908.5	6658.0			
15	1104.0	4763.5	3659.6	1918.6	6682.1			
22	1109.1	4773.1	3664.0	1904.5	6677.6			
29	1109.1	4763.2	3654.1	1910.6	6673.7			
June 5p	1104.5	4774.4	3670.0	1919.4	6693.8			
12p	1089.1	4773.3	3684.1	1932.6	6705.8			

1. 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

Strictly Confidential
Class II FOMC

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

June 23, 2000

	Treasury Bills			Treasury Coupons						Federal Agency Redemptions (-)	Net change total outright holdings [4]	Net RPs [5]		
				Net Purchases [3]				Redemptions (-)	Net Change					
	Net Purchases [2]	Redemptions (-)	Net Change	< 1	1-5	5-10	Over 10					Short-Term [6]	Long-Term [7]	Net Change
1997	9,147	---	9,147	5,549	20,080	3,449	5,897	1,996	32,979	1,540	40,586	2,393	---	2,393
1998	3,550	2,000	1,550	6,297	12,901	2,294	4,884	2,676	23,699	322	24,902	-7,242	463	-6,779
1999	---	---	---	11,895	19,731	4,303	9,428	1,429	43,928	157	43,771	2,035	8,347	10,382
1999 QI	---	---	---	3,163	5,180	681	3,019	492	11,551	27	11,524	1,410	265	1,675
QII	---	---	---	3,978	8,751	2,594	3,152	726	17,749	52	17,697	-23	-2,103	-2,126
QIII	---	---	---	2,341	1,272	447	1,075	41	5,094	21	5,073	-34	1,487	1,453
QIV	---	---	---	2,414	4,528	581	2,182	170	9,535	57	9,478	553	29,921	30,474
2000 QI	---	198	-198	---	900	1,298	1,399	390	3,207	31	2,978	-1,886	-8,174	-10,060
1999 Jun	---	---	---	880	948	65	---	---	1,893	52	1,841	-2,276	---	-2,276
Jul	---	---	---	951	---	---	---	41	910	10	900	1,289	---	1,289
Aug	---	---	---	429	1,272	447	1,075	---	3,223	11	3,212	211	276	487
Sep	---	---	---	960	---	---	---	---	960	---	960	1,975	3,999	5,974
Oct	---	---	---	---	---	---	---	170	-170	50	-220	-2,612	7,476	4,864
Nov	---	---	---	964	1,014	---	925	---	2,903	7	2,896	1,133	16,392	17,525
Dec	---	---	---	1,450	3,514	581	1,257	---	6,802	---	6,802	3,001	26,082	29,083
2000 Jan	---	---	---	---	160	809	1,069	390	1,648	6	1,642	-6,055	-12,915	-18,970
Feb	---	---	---	---	---	---	---	---	---	25	-25	4,604	-29,095	-24,490
Mar	---	198	-198	---	740	489	330	---	1,559	---	1,361	-3,635	3,250	-385
Apr	2,294	779	1,515	---	1,723	930	---	568	2,085	10	3,590	-490	46	-443
May	---	2,297	-2,297	164	890	---	528	---	1,582	---	-715	3,184	-4,445	-1,262
2000 Mar 29	---	---	---	---	740	489	330	---	1,559	---	1,559	-4,088	879	-3,210
Apr 5	---	198	-198	---	---	---	---	---	---	---	-198	305	3,181	3,487
Apr 12	2,294	---	2,294	---	1,713	---	---	---	1,713	10	3,997	-564	-2,578	-3,142
Apr 19	---	---	---	---	10	930	---	568	372	---	372	1,688	-2,578	-889
Apr 26	---	---	---	---	---	---	---	---	---	---	---	2,458	1,126	3,585
May 3	---	779	-779	---	---	---	---	---	---	---	-779	8,086	-2,036	6,050
May 10	---	---	---	---	---	---	---	---	---	---	---	-7,953	-367	-8,321
May 17	---	---	---	---	---	---	528	---	528	---	528	1,850	-4,475	-2,625
May 24	---	---	---	---	---	---	---	---	---	---	---	-5,851	1,886	-3,964
May 31	---	2,297	-2,297	164	890	---	---	---	1,054	---	-1,243	7,884	2,557	10,442
Jun 7	---	---	---	---	---	---	---	---	---	---	---	-5,996	1,366	-4,629
Jun 14	---	---	---	---	---	---	599	---	599	---	599	-812	-105	-917
Jun 21	---	---	---	1,055	---	---	552	---	1,607	---	1,607	-237	101	-136
Memo: LEVEL (bil. $)														
Jun 21			214.7	63.0	125.5	53.4	68.7		310.6	0.1	525.5	-9.8	14.0	4.1

1. Change from end-of-period to end-of-period.
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.
4. Includes redemptions (-) of Treasury and agency securities.
5. RPs outstanding less matched sale-purchases.
6. Original maturity of 15 days or less.
7. Original maturity of 16 to 90 days.

MRA:KRM