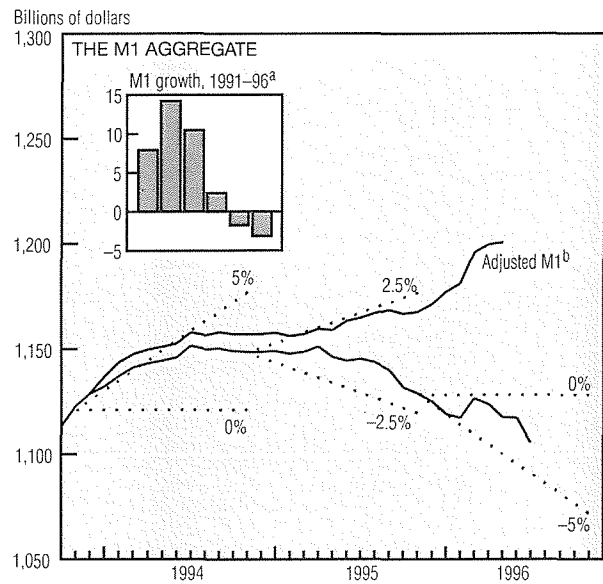
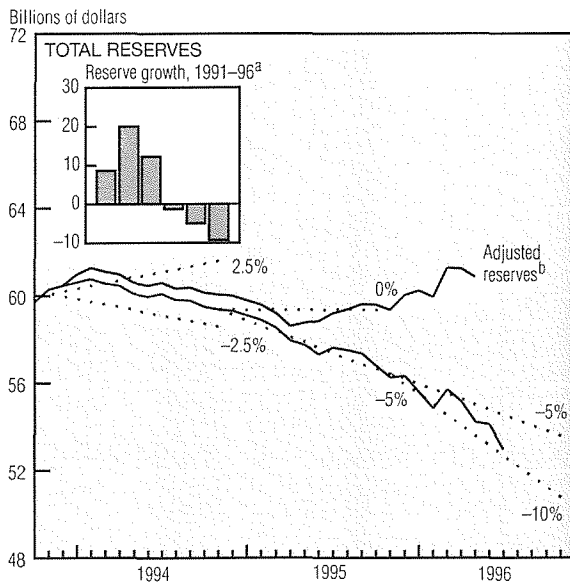
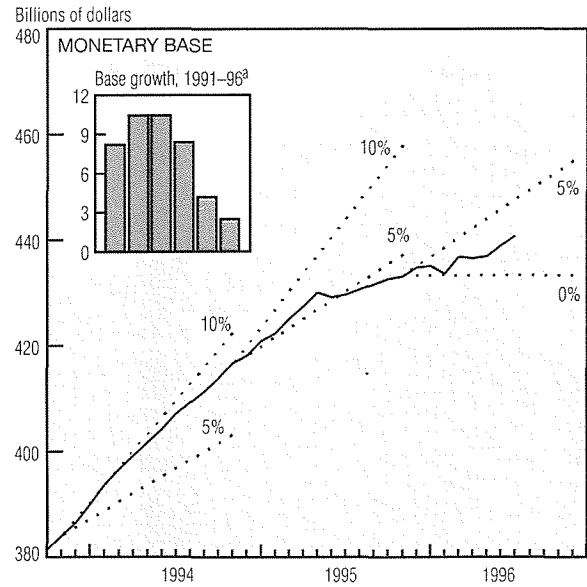
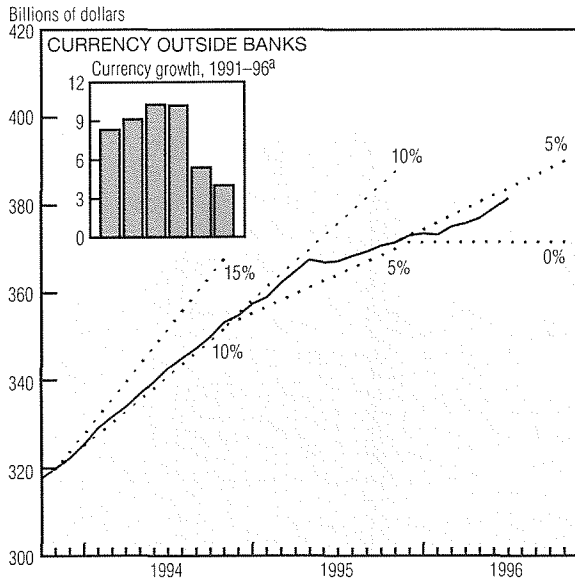


Monetary Policy



a. Growth rates are percentage rates calculated on a fourth-quarter over fourth-quarter basis. Annualized growth rate for 1996 is calculated on an estimated July over 1995:IVQ basis.
 b. Adjusted for sweep accounts.
 NOTE: All data are seasonally adjusted. Last plot is estimated for July 1996. Dotted lines represent growth ranges and are for reference only.
 SOURCE: Board of Governors of the Federal Reserve System.

The semiannual Federal Reserve monetary policy testimony and report to Congress, delivered by Chairman Greenspan on July 18, summarizes the Fed's view of current economic conditions and its outlook for economic performance through 1997. The report also provides provisional ranges for monetary aggregates in 1997.

Chairman Greenspan reported that the economy performed well in

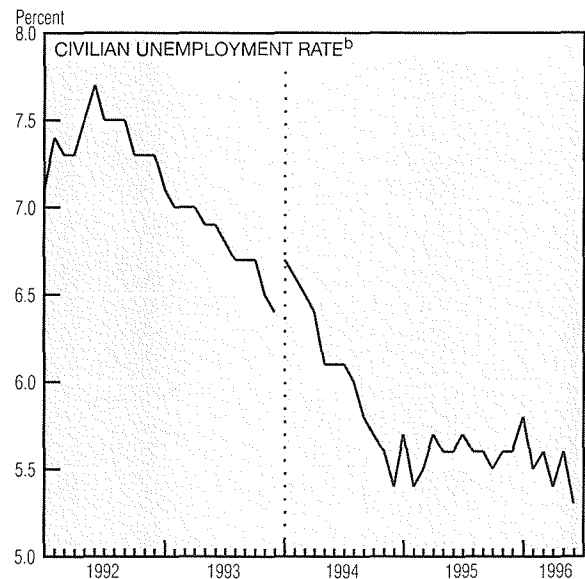
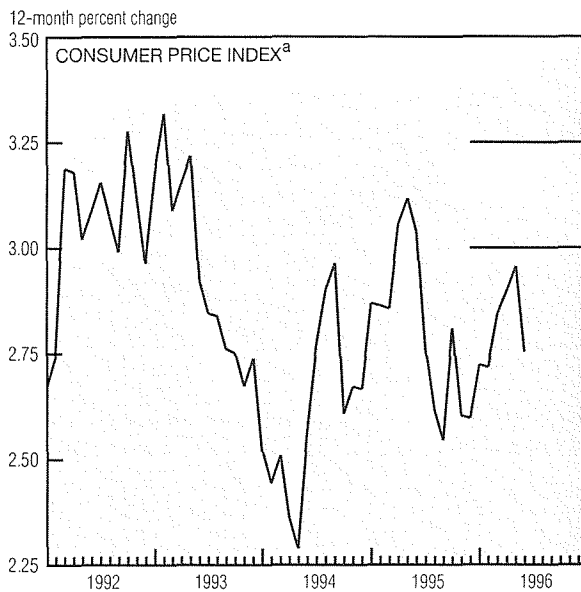
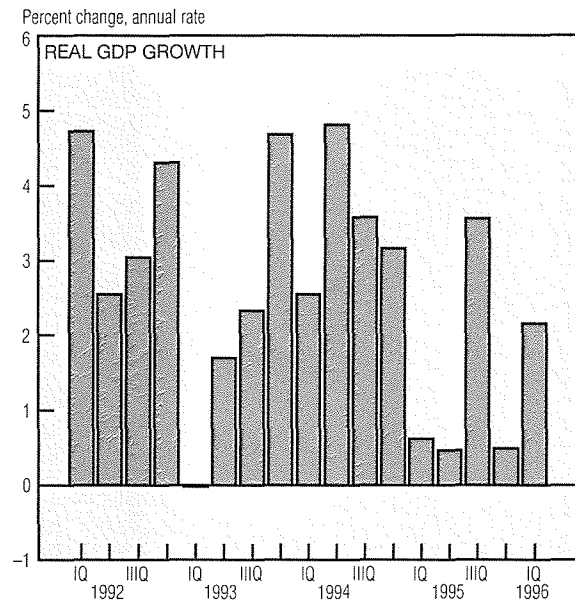
the first half of 1996. After rising only 0.5% in 1995:IVQ, real GDP increased at a 2.2% annual rate in 1996:IQ, and partial data for 1996:IIQ indicate significantly stronger growth since then. About 1.4 million workers were added to nonfarm payrolls in the first six months of 1996, and June's unemployment rate fell to 5.3%, a six-year low.

At the same time, the core inflation rate, measured by the Consumer

Price Index (CPI) less food and energy prices, increased at a 2.8% annual rate over the first half of 1996, about 0.6 percentage point lower than the same period a year earlier. The coexistence of moderate inflation and a low unemployment rate contradicts the traditional supposition that low unemployment rates and/or high capacity utilization rates necessarily lead to higher inflation.

(continued on next page)

	Change, fourth quarter to fourth quarter, percent		
	February central tendency for 1996	July central tendency for 1996	July central tendency for 1997
Nominal GDP	4.25-4.75	5-5.5	4.25-5
Real GDP	2-2.25	2.5-2.75	1.75-2.25
CPI	2.75-3	3-3.25	2.75-3
	Average level, fourth quarter, percent		
Civilian unemployment rate	5.5-5.75	About 5.5	5.5-5.75



a. Shaded area represents the FOMC's central tendency for 1996, set in July 1996.

b. Vertical line indicates break in data series due to survey redesign.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System.

Looking ahead, the report finds "good reasons to believe that economic growth will moderate some, although the timing and extent of the downturn are uncertain." The projections of the Federal Reserve Governors and Reserve Bank Presidents "reflect the view that sustainable economic growth is likely in store." Their forecasts for real GDP growth center around 2.5% for 1996 and 2.0% for 1997. Unemployment

rates are expected to remain around 5.50% to 5.75% through 1997.

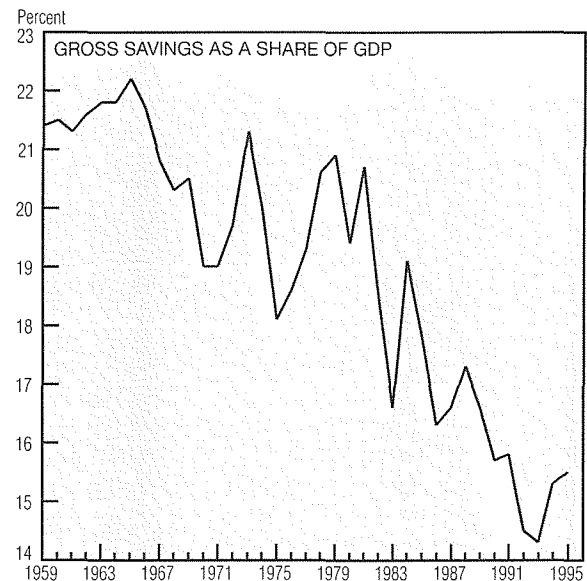
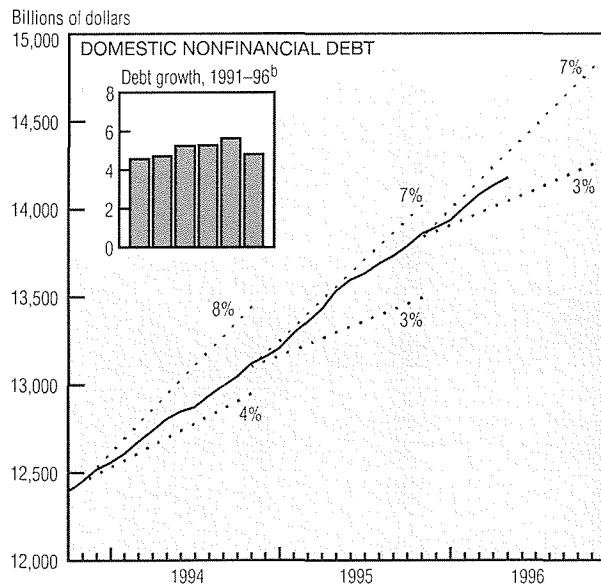
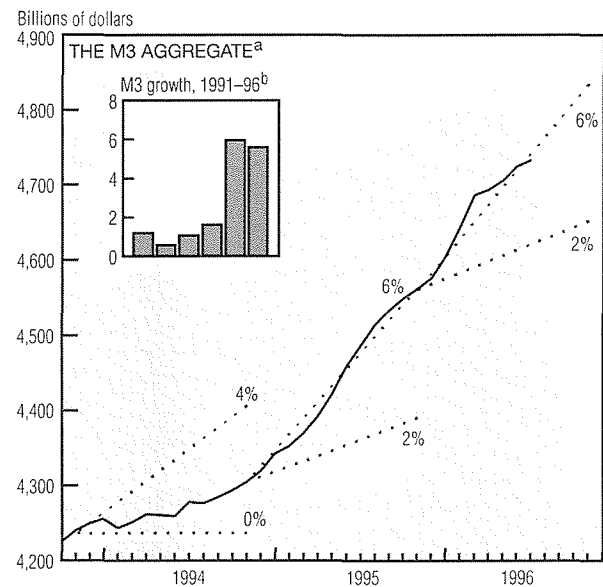
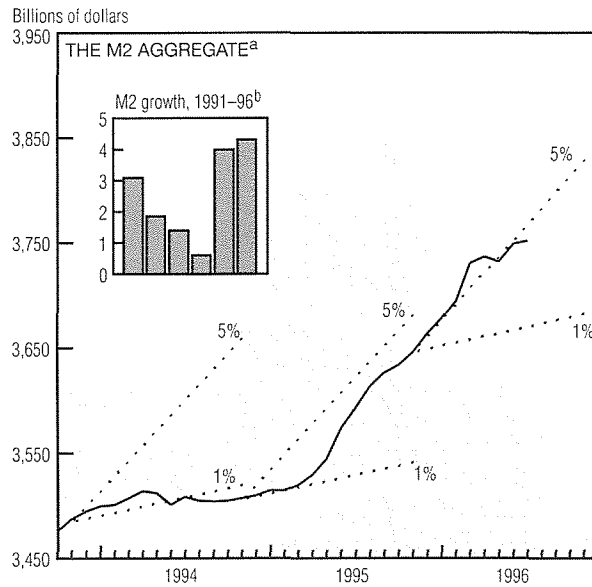
The forecasts for inflation, measured by the four-quarter change in the CPI, are for 3% to 3.25% in 1996 and 2.75% to 3% in 1997. These forecasts are consistent with 1991-95 inflation rates.

While there is little evidence of an imminent inflation spike, the report cites "mounting pressures in the labor market" that must be closely

monitored. It emphasizes that the Federal Reserve has become "especially vigilant to incipient inflationary pressures that could ultimately threaten the health of the expansion." In pursuit of low inflation, "the Federal Reserve remains committed to preventing a sustained pickup in inflation and ultimately achieving and preserving price stability."

(continued on next page)

Monetary Policy (cont.)



a. Data for July 1996 are estimated.

b. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. Annualized growth rates for 1996 are calculated on a July over 1995:IVQ basis for M2 and M3, and on a May over 1995:IVQ basis for domestic nonfinancial debt.

NOTE: All data are seasonally adjusted. Dotted lines are target ranges.

SOURCES: Board of Governors of the Federal Reserve System; and U.S. Department of Commerce, Bureau of Economic Analysis.

The report includes the Federal Open Market Committee's (FOMC) provisional ranges for debt and the monetary aggregates in 1997: 1% to 5% for M2 and 2% to 6% for M3, along with 3% to 7% for debt in the domestic nonfinancial sectors. The same ranges were set for 1996. In the first half of that year, M2 and M3 growth rates were at the upper end of their ranges, while the growth rate for debt was near its midpoint.

The FOMC's forecasts of inflation and real GDP growth suggest that it would not be surprising to see M2 and M3 growth rates at the upper ends of their ranges throughout 1996 and 1997.

Chairman Greenspan once again emphasized "the critical importance to our nation's economic welfare of continuing to reduce our federal budget deficit." He noted that further efforts at deficit reduction will

inevitably require Congress to address the increase in entitlement spending that will result from shifts in the age composition of the nation's adult population. He stated that "lower budget deficits are the surest and most direct way to increase national saving," which in turn will lower real interest rates, increase investment, and strengthen Americans' ability "to compete even more effectively in world markets."