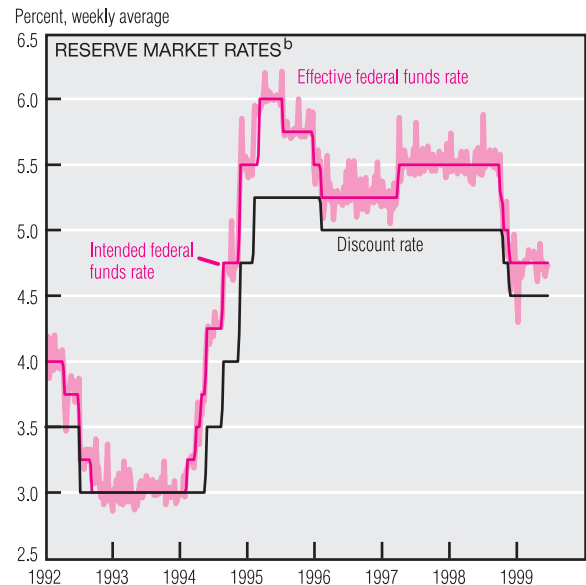
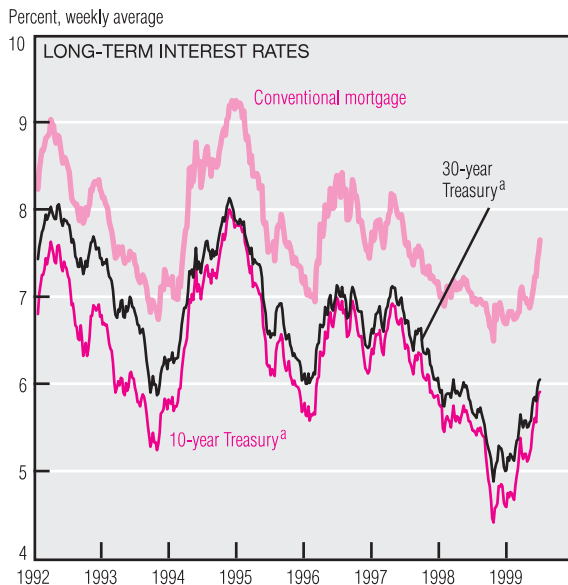
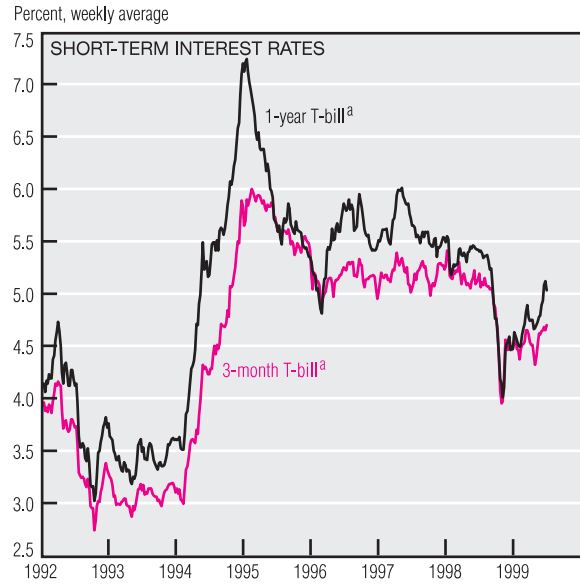
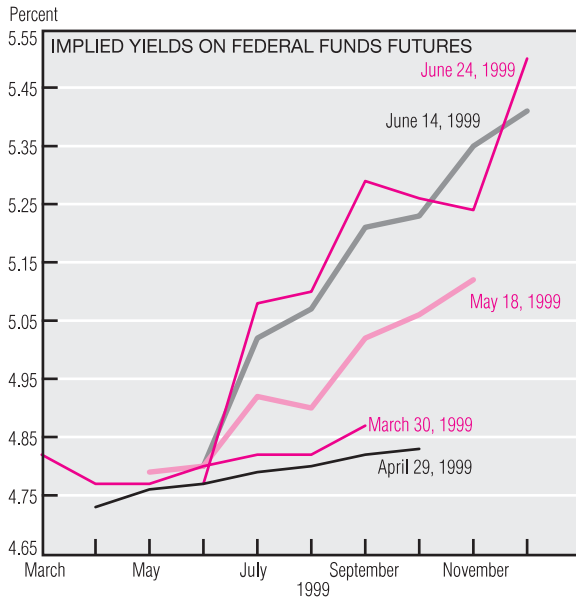


Monetary Policy



a. Constant maturity.

b. Last data plotted for the week ending June 25, 1999.

SOURCES: Board of Governors of the Federal Reserve System; and Chicago Board of Trade.

The Federal Open Market Committee (FOMC) changed the federal funds rate target at its June 29 meeting to 5.00%, an increase of 25 basis points. The discount rate remained unchanged at 4.5%. The change in the federal funds rate target was the first since last fall, when the FOMC lowered rates 75 basis points in response to threatening financial market conditions.

Financial market participants generally anticipated the increase in the federal funds rate. Implied yields on

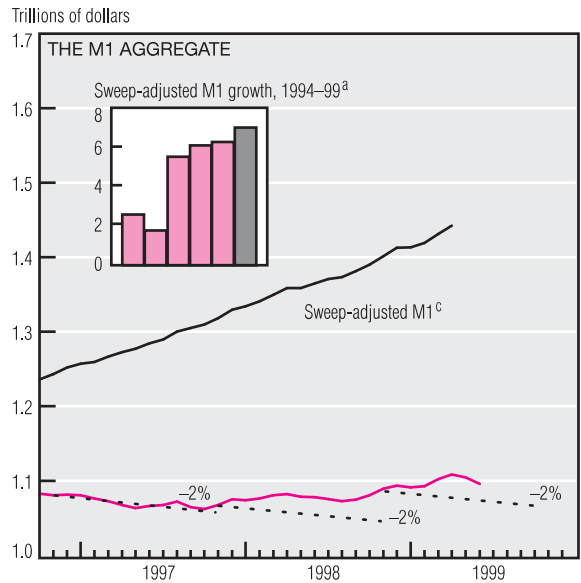
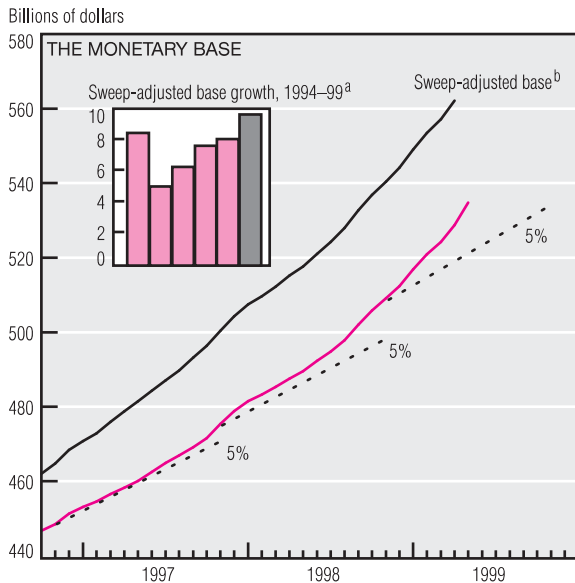
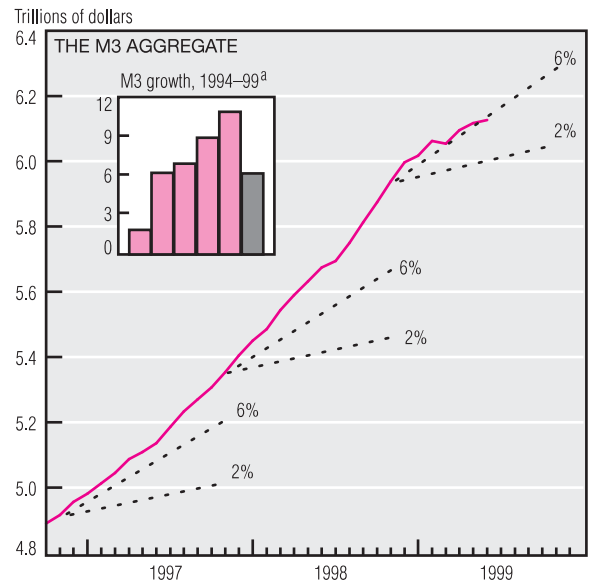
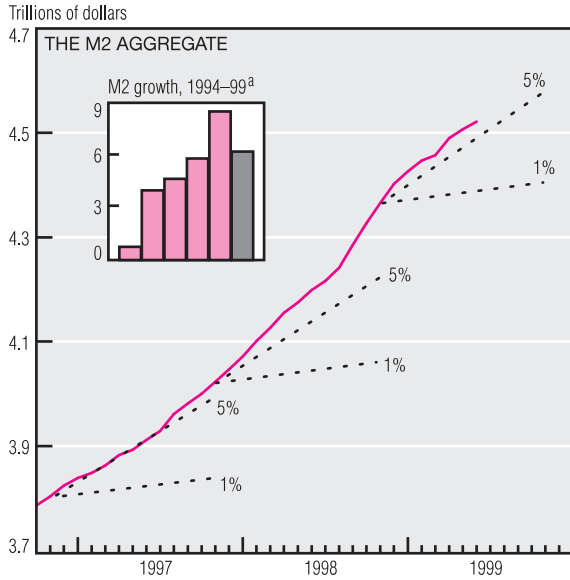
federal funds futures had steepened substantially between the end of April and the June meeting. These yields indicate the direction that market participants believe the federal funds rate will take in the coming months. As of April 29, these futures were trading at about 4.85% for October 1999. By June 24, the October 1999 futures rate had increased to about 5.25%. Based on these yields, the federal funds rate is now expected to climb to 5.5% by the end of this year, indicating that further rate increases are anticipated.

Both short- and long-term interest rates have increased steadily over the past six months, and that trend continued during June. For the week ending June 18, yields on 3-month and 1-year Treasury bills averaged 4.68% and 5.02%, respectively; these were higher than the 4.48% yield on both maturities six months ago, and up slightly from a month earlier.

Long-term interest rates have increased more noticeably. The rate on

(continued on next page)

Monetary Policy (cont.)



a. Growth rates are percentage rates calculated on a fourth-quarter over fourth-quarter basis. The 1999 growth rate for adjusted M1 and the adjusted base are calculated on an April over 1998:IVQ basis. The 1999 growth rates for M2 and M3 are calculated on an estimated June over 1998:IVQ basis.
 b. The sweep-adjusted base includes an estimate of required reserves saved when balances are temporarily shifted from reservable to nonreservable accounts.
 c. Sweep-adjusted M1 includes an estimate of balances temporarily shifted from reservable M1 accounts to non-M1 accounts.
 NOTE: Data are seasonally adjusted. The last plots are June for M1, M2, and M3; May for the base; and April for the adjusted base and adjusted M1. Dotted lines for M2 and M3 are FOMC-determined provisional ranges. All other dotted lines represent growth in levels and are for reference only.
 SOURCE: Board of Governors of the Federal Reserve System.

conventional home mortgages stood at 7.65% for the week ending June 18, an increase of roughly 40 basis points from a month earlier and almost 100 basis points over the past six months. Similarly, the 30-year Treasury constant-maturity yield of 6.05% is up 20 basis points from a month earlier and more than 100 basis points from six months earlier.

The increase in market interest rates over the past six months suggests that by holding the federal

funds rate constant over this period, the Federal Reserve has implicitly eased monetary policy. In this light, the recent increase in the federal funds rate may be viewed as a neutral policy response.

Growth rates of the broad monetary aggregates have shown signs of slowing. Year-to-date M2 and M3 growth through May continues at or above the upper limit of the provisional range set by the FOMC. However, growth rates in these aggregates are substantially lower than

the strong rates experienced in 1998, and data for early June suggest that growth rates continue to slow.

In contrast to the broad monetary aggregates, growth in the narrow aggregates remains strong. Year-to-date growth in the sweep-adjusted monetary base and in M1 is faster than that experienced in 1998. If the current growth rates in these narrow aggregates continue throughout 1999, this will be their fourth consecutive year of acceleration.