

**REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE
PUBLIC SECURITIES ASSOCIATION**

February 5, 1997

Dear Mr. Secretary:

Since the Committee's last meeting on October 30, 1996, the pace of economic activity has been brisk. The mid-year slowdown in consumer spending proved temporary, as robust gains in employment and income led to renewed vigor. Significant improvement in net exports, although somewhat exaggerated, also contributed to the fourth quarter rebound. Despite above-trend growth, and aside from energy prices, inflation has remained remarkably well behaved. On a more cautious note, wage and salary gains are trending higher and may well rise further amid persistent labor market tightness.

Interest rates on Treasury securities are currently little changed from the levels which prevailed at our last meeting. Monetary policy has remained unchanged since January of last year, while market expectations presently seem tilted in the direction of somewhat tighter credit in the coming months. Foreign demand for Treasury securities continues to be supportive of the market, reflecting strength in the dollar as well as relatively attractive U.S. yield levels.

Within this context, to refund the \$18.0 billion of privately-held notes maturing on February 15, 1997 and to raise \$21.75 billion of cash, the Committee recommends that the Treasury auction \$39.75 billion of the following securities:

- \$17.75 billion 3-year notes due February 15, 2000;
- \$12.0 billion 10-year notes due February 15, 2007;
- \$10.0 billion re-opened 6 1/2 percent bonds due November 15, 2026.

The Committee unanimously supported a modest reduction in the size of the 3-year note to \$17.75 billion from the \$18.5 billion level in the prior refunding. This recommendation is consistent with the Treasury's recent tendency to modestly reduce offering amounts of shorter-term coupon issues, in connection with more frequent offerings of longer-term securities. The Committee also took into account the new cash raised through the Treasury's initial offering of inflation-indexed securities. In that context, this recommendation further contributes to recent efforts to reduce reliance on short-term financing.

Eleven of the thirteen members present voted to recommend that the Treasury issue \$12.0 billion 10-year notes, up from the \$10.0 billion level in the prior refunding. Two of the members

