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.

Strictly Confidential (FR) Class I FOMC July 13, 1984

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

July 13, 1984

MONETARY POLICY ALTERNATIVES

Recent developments

(1) Growth in M1 accelerated to about a 12-1/4 percent annual rate on average in May and June. As a result, expansion over the March to June period, at about an 8-1/4 percent rate, was well above the Committee's specification for that period of 6-1/2 percent. In contrast to M1, growth in the broader monetary aggregates was about in line with anticipations, in the case of M3 in line with the upward revised expectations of the last Committee meeting. Over the March to June period, M2 grew at a 7-3/4 percent annual rate and M3 at a 10-1/4 percent rate. Compared with the longer-run ranges adopted at the February meeting, M1 by June was somewhat below its upper limit, M2 a little below the middle of the range, and M3 above the range.

(2) Domestic nonfinancial debt is estimated to have expanded at about a 13 percent annual rate over the past three months, with both federal and private borrowing continuing at about their advanced first-quarter pace. Borrowing related to mergers is estimated to have accounted for about one percentage point of total debt growth in the first half of the year.

(3) Total reserve growth accelerated to a 10-3/4 percent rate in May and further to a 26 percent annual rate in June, owing to a larger demand for excess reserves and rapid growth of required reserves in June which reflected especially strong demand deposits in that month and a surge in large time deposits that began in May. After adjustment for borrowing by Continental Illinois before it was formally classified

KEY MONETARY POLICY AGGREGATES
(Seasonally adjusted annual rates of growth)

	April	May	June	March to June	Q4 to June
Money and Credit Aggregates					
M1	0.2	12.8	11.5	8.2	7.5
M2	6.9	8.7	7.3	7.7	7.1
M3	10.6	11.3	8.6	10.3	9.8
Domestic nonfinancial debt	13.6	14.1	11.2[e]	13.1[e]	13.0[e]
Bank credit	5.8	14.9	2.2	7.7	11.6
Reserve Measures [1]					
Nonborrowed reserves [2]	-9.0	-49.4 (20.1)	83.2 (24.1)	7.0 (11.8)	6.3 (8.4)
Total reserves	0.0	10.7	26.3	12.4	9.5
Monetary base	6.0	10.1	11.3	9.2	8.5
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	1190	2952 (928)	1428 (1012)	—	—
Excess reserves	490	577	773	—	--

e--Estimated.

Note: Figures in parentheses treat all discount window borrowings by Continental Illinois after May 9 as extended credit and therefore as nonborrowed reserves; such borrowings were formally classified as extended credit on June 7.

1. Growth rates of reserve measures are adjusted to remove the effects of discontinuities resulting from phased changes in reserve ratios under the Monetary Control Act.
2. Includes "other extended credit" from the Federal Reserve.

as extended credit in early June, nonborrowed reserves rose at about a 22 percent rate over the last two months. Adjustment plus seasonal credit remained very close to $1 billion in each of the complete 2-week statement periods since the last Committee meeting. Thus far in the current statement period, borrowing has averaged $662 million.

(4) The federal funds rate has risen from the area of 10-1/2 percent at the time of the May meeting to an average of around 11 percent in June, with trading mostly in an 11 to 11-1/2 percent range thus far in July. Money market pressures were especially marked around the mid-June tax date and in the reserve maintenance period containing the quarter-end statement date and the July 4 holiday. Generally, over the whole period since the last Committee meeting, federal funds have traded at a higher rate than might have been expected relative to the average level of discount window borrowing, perhaps partly because large banks seem to have become somewhat more conservative in their reserve management (for example, more reluctant to use the discount window) in light of market concerns generated by Latin American debt problems. Given these concerns, the spread of CD over bill rates widened further and there were indications of tiering within the CD market. Spreads have narrowed somewhat in recent days, but over the intermeeting period 3-month CD and Euro-dollar rates rose around 50 basis points on balance, while the 3-month T-bill rate was about unchanged. Market concerns also appear to have affected private credits in general to some degree. The bond market has been quite volatile since the FOMC meeting, with Treasury bond yields currently about 15 to 40 basis points below levels at the time of the last FOMC meeting. Private longer-term market rates, on the other hand, are about unchanged on balance over the same period, while rates on conventional fixed-rate home mortgages have risen about 65 basis points.

(5) The dollar's exchange value has risen, net, about 4 percent on a weighted average basis since the last Committee meeting. Appreciations against major foreign currencies range from 3 percent against the Canadian dollar to almost 6 percent against sterling. The dollar weakened early in the period at the time of greatest concern about large banks, but the rise in U.S. short-term interest rates and indications of stronger than expected U.S. growth contributed to a sharp rise in the weighted average dollar to a new peak.

Longer-run ranges for 1984 and 1985

(6) The table below shows the 1984 growth ranges for the monetary and credit aggregates that are currently in place, an alternative set that might be considered, and actual growth through the first half of the year. The alternative encompasses somewhat higher growth ranges for M3 and credit than in the current set of ranges.

	Current	Alternative	Actual Growth QIV to QII	Actual Growth QIV to June
M1	4 to 8	4 to 8	6.7	7.5
M2	6 to 9	6 to 9	7.0	7.1
M3	6 to 9	6-1/2 to 9-1/2	9.7	9.8
Debt	8 to 11	9 to 12	13.0	13.0

(7) As may be seen from the table, the growth to date for M1 and M2 suggests little need to alter their longer-run ranges. Despite growth in nominal GNP over the first half of the year that has been about 2-1/2 percentage points faster than projected by the staff at the beginning of the year, expansion of these two aggregates has been within their ranges. Growth in their income velocities accelerated to annual rates of around 4-1/2 to 4-3/4 percent, in part reflecting the one to two percentage point rise in short rates since the fourth quarter, following velocity increases in the second half of last year in the neighborhood of 2-1/2 percent for both aggregates. The largest velocity increases for M1 and M2 occurred in the first quarter of this year, and velocity growth in the second quarter was more in line with experience in the second half of last year. Assuming that velocity continues to rise at a moderate pace, and also assuming some little further rise in short-term interest rates, M1 growth over the balance of the year is likely to remain in the upper half of its range and M2 growth around its midpoint, given the staff's GNP projection.

(8) In contrast to M1 and M2, growth of M3 and total debt has been above their longer-run ranges thus far this year, as the velocities of these aggregates have not accelerated from their pace in the second half of last year. The alternative set of ranges for 1984 provides an option of raising growth of M3 and debt by 1/2 and one percentage points, respectively, while retaining the current M1 and M2 ranges. This could be considered as needed to reflect the impact of merger activity. Credit growth for the year might be above the upward adjusted range, though, given the strength of demands for goods and services in the staff's GNP forecast. On the other hand, there is also some, though small, probability that M3 and debt growth could come within their present longer-run ranges by year-end. This could occur if concerns about the fragility of financial institutions and markets were to intensify, making it more difficult for institutions to raise funds and leading to more conservative lending practices generally. It may also occur if for other reasons the economy were to slow more than currently projected and merger activity were to subside much more rapidly than assumed.

(9) Three alternative sets of tentative ranges for 1985 are shown in the table below for Committee consideration. Alternative I simply represents the current ranges. Alternative III reduces all of the ranges by 1/2 point--with an option shown in parentheses for narrowing the M1 range while retaining the alternative III midpoint should the Committee wish to indicate a little more confidence in M1 as a guide. Alternative II is in between. No alternative providing higher ranges is shown on the thought that would be inconsistent under existing economic circumstances--

particularly so in the market's view--with the Committee's intention to continue making progress toward reasonable price stability.

	I	II	III
M1	4 to 8	4 to 7-1/2	3-1/2 to 7-1/2 (or 4 to 7)
M2	6 to 9	6 to 8-1/2	5-1/2 to 8-1/2
M3	6 to 9	6 to 9	5-1/2 to 8-1/2
Debt	8 to 11	8 to 11	7-1/2 to 10-1/2

(10) How much, if any, reduction in growth of the aggregates the Committee might wish to consider for 1985 depends in part on assessment of the trend in velocity. It also depends on the desirability of a more or less gradual strategy of monetary growth rate reductions given price pressures, the need to sustain the economic expansion, and implications of various strategies for overall financial and economic stability.

(11) With regard to the underlying trend in the velocity of M1, that cannot be known with any real certainty, given the relative recentness of institutional changes affecting that aggregate. The trend since the Second World War after taking out the effect of the rise of interest rates over that period appears to be around 2 percent. The most probable outcome under current circumstances would seem to be under 2 percent, as the introduction of interest-bearing checkable accounts may well have increased the income elasticity of demand for M1 by making transactions accounts more attractive as savings instruments and also may have worked to reduce the pace of technological innovation in money substitutes. With regard to the trend velocity of M2, our best estimate continues to be around zero, although M2 velocity has proven to be quite variable. At the beginning of 1985, the minimum denomination on MMDAs and super-NOW accounts will fall from $2,500 to $1,000. We have assumed that this change will have only a minimal impact on M1 and M2.

(12) At this point monetary policy is expected to confront greater upward price pressures next year than this, as we go into the third year of economic expansion with relatively limited excess labor and plant capacity and assuming a drop in the dollar on exchange markets. If, as currently projected by the staff, price increases next year are on the order of 5 to 5-1/2 percent while economic growth decelerates to a pace more consistent with its potential, it seems probable that a slowing in M1 growth in 1985 to the area of 5-1/2 to 6 percent--as assumed for the GNP projection and consistent with alternatives II or III--might generate a little further upward pressure on short-term interest rates. In 1985, we would anticipate M1 velocity growth of 2 to 2-1/2 percent associated with the projected GNP increase of around 8 percent. The increases in velocity of M1 over the third year of four previous expansions that have lasted at least that long have averaged in the neighborhood of 4 percent, but they have generally been accompanied by rather sizable interest rate increases and occurred in an era when the underlying velocity trend was probably higher than can now be expected. Maintenance of an M1 range of 4 to 8 percent as in alternative I--and with actual M1 growth expected to remain above the midpoint--might involve no further upward interest rate pressures next year.

(13) The growth of debt is expected to moderate noticeably next year, on the assumption of reduced merger activity and in view of the impact on credit demands of the projected 2-1/4 percentage point slowing in growth of nominal GNP. As demands taper off, credit at banks and thrifts also is projected to grow more slowly, accompanied by more moderate M3 expansion. However, with both debt and M3 running above their ranges this year, even a substantial slowing may not allow scope for more than the one-half percent reduction in ranges suggested under alternative III, and

growth would be expected near the upper ends of these ranges. Under alternative II the current ranges for both credit and M3 are suggested to be retained, although this would of course represent a reduction if the Committee chose to adjust upward the existing 1984 range.

Short-run alternatives

(15) Shown below are three possible approaches to policy implementation for the period immediately ahead. Specifications for the monetary aggregates are presented for the June-to-September period, along with proposed federal funds rate ranges. (More detailed material can be found on the charts and table on the following pages.)

	Alt. A	Alt. B	Alt. C
Growth from June to September			
M1	7	5-1/2	4
M2	8	7-1/2	7
M3	9-1/2	9-1/4	9
Federal funds rate range	7-1/2 to 11-1/2	8 to 12	8-1/2 to 12-1/2

(16) All of the alternatives call for deceleration in growth of M1 and M3 over the next three months from their March-to-June pace; however, on a quarterly average basis growth in M1 would be stronger in the third than the second quarter because of the carryover effect on the averages of the rapid growth in money in the latter part of the second quarter. For M1, a deceleration over the third-quarter months is needed to keep long-run growth from the fourth quarter of 1983 base from moving closer to the upper limit of the Committee's current 4 to 8 percent range. In the case of M3 the contemplated deceleration would still leave that aggregate above its long-run range. In all cases, M2 remains at or a little below its midpoint.

(17) Alternative B--which underlies the staff's GNP projection--contemplates a marked slowing in M1 growth to around a 5-1/2 percent annual rate over the June-to-September period in the process of bringing

Chart 1

Actual and Targeted M1

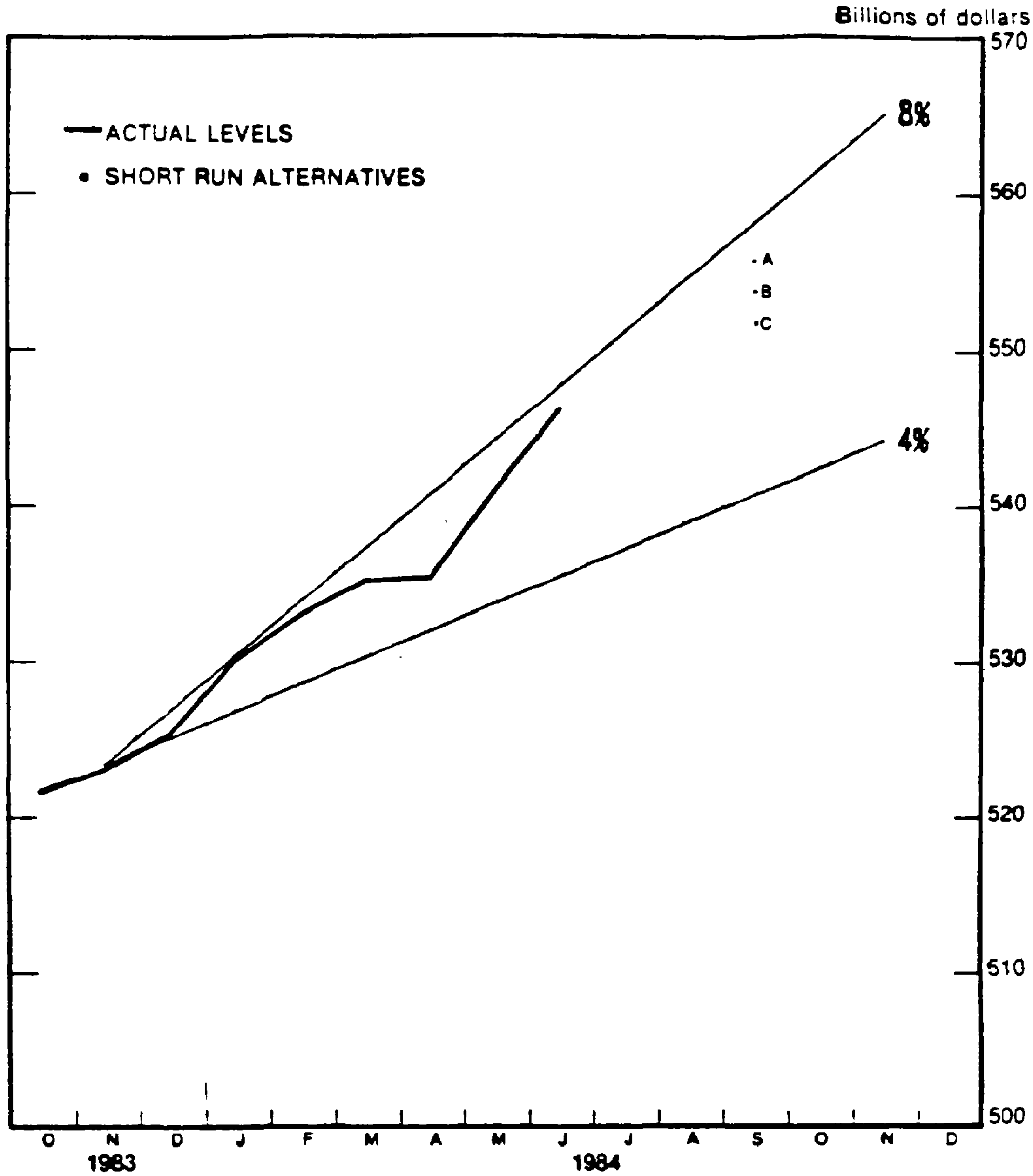


Chart 2

Actual and Targeted M2

CONFIDENTIAL (FR)
CLASS II-FOMC

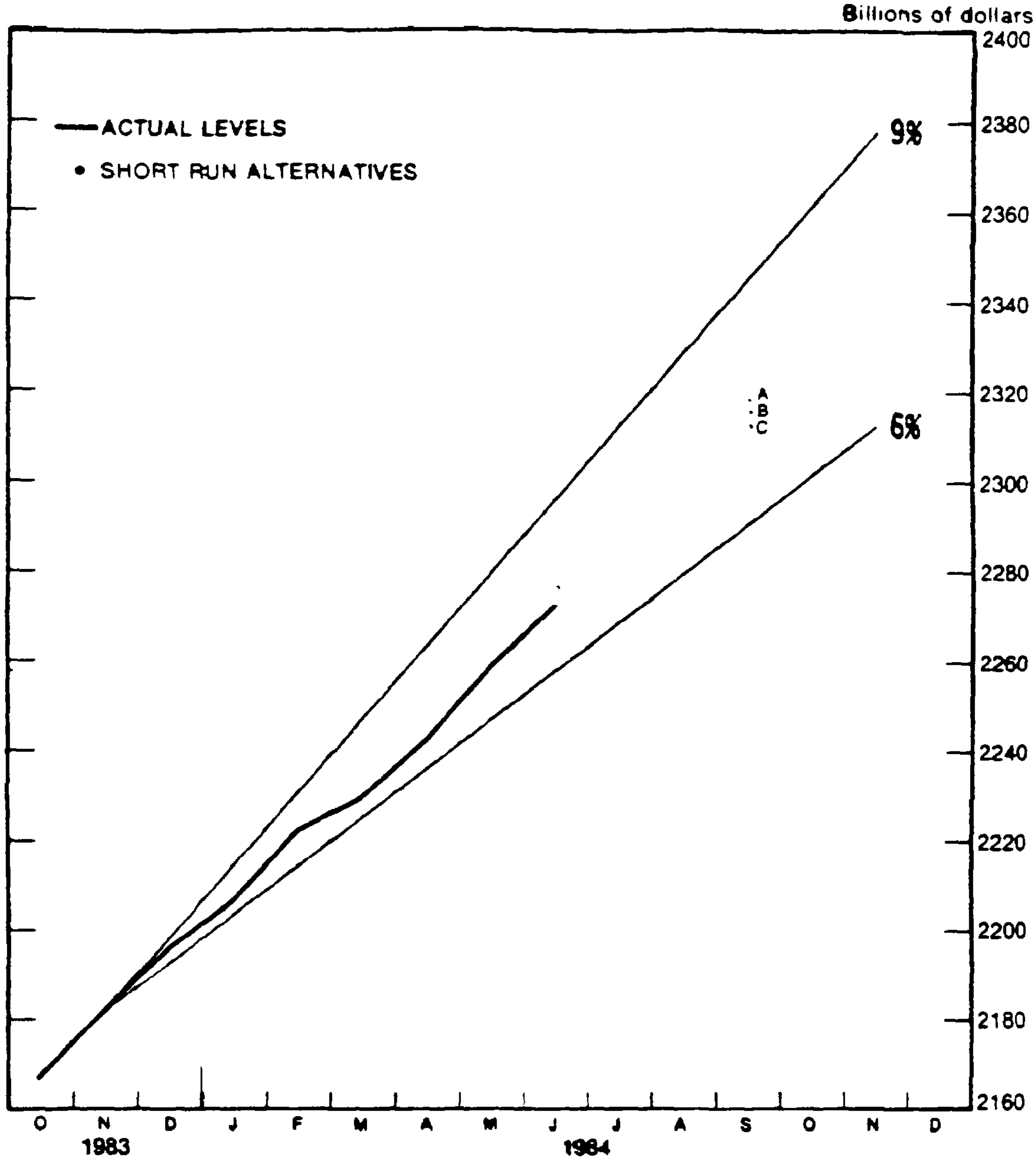
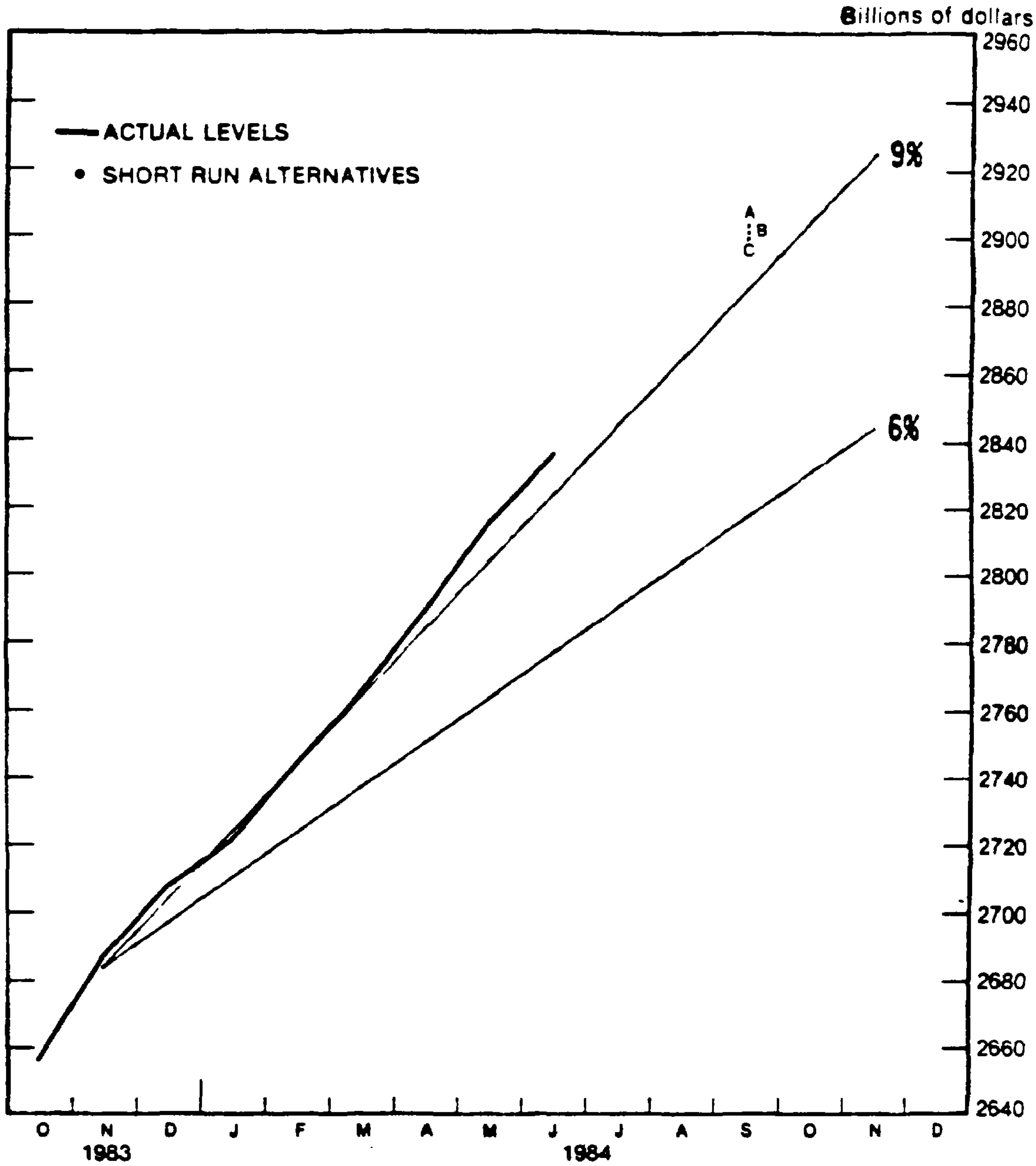


Chart 3

Actual and Targeted M3



Alternative Levels and Growth Rates for Key Monetary Aggregates

	M1			M2			M3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Monthly Levels									
1984--April	535.3	535.3	535.3	2242.8	2242.8	2242.8	2789.8	2789.8	2789.8
May	541.0	541.0	541.0	2259.1	2259.1	2259.1	2816.0	2816.0	2816.0
June	546.2	546.2	546.2	2272.8	2272.8	2272.8	2836.3	2836.3	2836.3
July	548.6	548.4	548.2	2286.3	2286.1	2285.9	2859.9	2859.9	2859.9
August	552.6	551.6	550.6	2302.3	2301.0	2299.6	2881.4	2880.9	2880.4
September	555.8	553.7	551.7	2318.3	2315.3	2312.6	2903.7	2901.9	2900.1
Growth Rates Monthly									
1984--April	0.2	0.2	0.2	6.9	6.9	6.9	10.6	10.6	10.6
May	12.8	12.8	12.8	8.7	8.7	8.7	11.3	11.3	11.3
June	11.5	11.5	11.5	7.3	7.3	7.3	8.7	8.7	8.7
July	5.3	4.8	4.4	7.1	7.0	6.9	10.0	10.0	10.0
August	8.7	7.0	5.3	8.4	7.8	7.2	9.0	8.8	8.6
September	6.9	4.6	2.4	8.3	7.5	6.8	9.3	8.7	8.2
1984 June to Sept.	7.0	5.5	4.0	8.0	7.5	7.0	9.5	9.3	9.0
Growth Rates Quarterly Average									
1984--Q1	7.2	7.2	7.2	7.0	7.0	7.0	9.0	9.0	9.0
Q2	6.1	6.1	6.1	6.9	6.9	6.9	10.2	10.2	10.2
Q3	8.5	7.7	7.0	7.8	7.5	7.3	9.6	9.5	9.4
Memo:									
'83 Q4 to Sept.'84	7.4	7.0	6.5	7.5	7.3	7.2	9.8	9.8	9.7

growth of that aggregate closer to the midpoint of its longer-run range by the end of the year. Such June-to-September growth, distributed fairly evenly over the quarter, would entail a 7-3/4 percent quarterly average increase in M1. That growth in money may not involve much, if any, further rise of interest rates over the summer, assuming nominal GNP grows no faster than the 9-1/2 percent annual rate currently projected for the third quarter and given the rise of interest rates that has already taken place.

(18) The deceleration of M1 growth under alternative B is not expected to be accompanied by any significant slowing of M2 from its rate of growth of the previous three months. Growth of the latter aggregate is likely to be sustained, given the projected reasonably strong growth in personal income and assuming little change in the personal savings rate. Somewhat more rapid expansion in the nontransactions component is expected, partly reflecting a lagged response of the public to the increased rate attractiveness of time deposits and MMDAs relative to demand deposits and regular NOW accounts. However, expansion of M3 over the summer might well slow from its unusually rapid second-quarter pace. Banks may have less need to issue CDs as merger-related financing demands are reduced, and in any event the recent tightening of markets and widening of yield spreads against banks might encourage a somewhat less aggressive posture by banks in credit markets. Even so, with the economy and underlying credit demands expected to be fairly strong, M3 growth would probably be high relative to its long-run range.

(19) Growth of domestic nonfinancial debt is expected to decelerate moderately in the months ahead, but credit demands seem likely

to be strong enough to generate growth at around an 11-1/2 percent annual rate pace over the third quarter, with only a small further falling off in prospect later in the year. Although the pace of borrowing by businesses is expected to slow, this reduction reflects only the assumed abatement of merger activity. Underlying demands for funds by business are expected to strengthen in the third quarter as the financing gap (the excess of capital spending over internal funds) widens, and to be even stronger in the fourth quarter. Federal government credit demands are expected to moderate slightly between the second and third quarters, but to remain relatively large over the balance of the year. The more fundamental slowing in credit growth in prospect is in the household sector and depends on a weakening in spending for homes and durables.

(20) Expansion in the aggregates as specified in alternative B would probably entail growth of nonborrowed reserves at about an 8 percent annual rate from June to September, with borrowing continuing to average around $1 billion. If recent experience is any guide, the federal funds rate would probably average in the 11 to 11-1/4 percent area. However, should investors gain more confidence in banks, and should bank attitudes toward reserve management and the discount window become less cautious, the funds rate could well trade consistently below 11 percent for $1 billion in borrowing. If that occurred, it might entail greater expansion over time in nonborrowed reserves--as banks more willingly lend and add to deposits--and hence more money growth than assumed for this alternative.

(21) Interest rates generally might show little net change under alternative B, though probably edging higher from the most recent levels if funds traded consistently around 11-1/4 percent. Speculation about a discount rate increase could become more widespread in markets,

and this could itself add to upward pressures, at least temporarily, on federal funds and other rates. The dollar may well remain generally firm on exchange markets.

(22) The degree of tightness in bank reserve positions under this alternative would also work to restrain money and credit growth later in the year. Thus, alternative B may be consistent with growth in M1 over the year 1984 in the area of 6-1/2 percent with only a little further upward movement of interest rates. Growth of M3 and credit for the year would probably be somewhat above the upper limits of their current longer-run ranges, though expanding somewhat more slowly in the second half than in the first half of the year. Growth of M2 would be expected to be around the midpoint of its long-run range.

(23) Alternative A involves a policy approach that keeps M1 growth nearer the upper end of its longer-run range. The 7 percent annual growth rate for this aggregate from June to September would bring growth from QIV '83 to September to just under 7-1/2 percent. Such money growth, when translated to a quarterly average basis for the third quarter, implies only a small rise in the income velocity of M1 over the months ahead and is probably consistent with some drop in money market rates from recent levels under existing circumstances, particularly considering the lingering restraining effects on money demand of the rise of interest rates over recent months. Nonborrowed reserves are likely to expand at a 14 percent annual rate under this alternative, with borrowing about $750 million. Borrowing in that area might involve a federal funds rate of around 10-1/2 percent—unless the recent relative reluctance of banks to borrow from the discount window abates, in which case the funds rate could be lower for such a level of borrowing.

(24) Such reserve and money market conditions appear to be on the easy side of current market expectations. Should they be sustained, bond prices might be expected to rise, assuming the economy does not unexpectedly strengthen, no major disappointments occur with respect to the budget, and M1 does not grow much faster than specified. The 3-month Treasury bill rate may drop about 25 basis points to around 9-3/4 percent; private short-term rates, particularly for CDs, may decline by more in such a market atmosphere. Whether these rate levels would be sustainable or reversed later in the year or in 1985, depends in part on the likelihood that the rate declines themselves help generate a strengthening of money and credit growth inconsistent with the Committee's long-run objectives. A reversal of the rate declines and a further rise seems most likely, given the projected overall strength of money and credit demands, if such objectives encompass M1 growth in 1984 and 1985 in the 6-1/2 and 6 percent areas, respectively.

(25) Alternative C contemplates a very considerable deceleration in M1 growth--as more consistent with growth around the midpoint of its longer-run range over the year as a whole--and greater restraint on growth of the broader money and credit aggregates. The 4 percent annual rate of growth in M1 from June to September would bring expansion of this aggregate from QIV '83 to September to 6-1/2 percent at an annual rate. Growth at a 3-1/4 percent annual rate from September to December would be needed to hit 6 percent for the year as a whole.

(26) Such a deceleration of money growth over the next three months would probably require a sharp slowing of nonborrowed reserve growth to a one percent annual rate, assuming a rise in borrowing to $1-1/4 to $1-1/2 billion. The federal funds rate would probably rise to

around 12 percent, and other rates would adjust sharply upwards. Quality rate spreads--such as between bills and CDs, or high grade industrial and bank holding company commercial paper--would probably widen. Large banks may be viewed as coming under even more pressure because of increasing difficulties many borrowers would have in meeting higher debt service payments. In addition, thrift institutions--which still have a sizable portion of their portfolio in fixed-rate mortgages--would be moving into a negative earnings position. The dollar may rise further on exchange markets, but this could prove to be temporary should the market come to the view that the financial system is coming under excessive strain.

Directive language

(27) Given below is draft directive language related to the Committee's decisions on the longer-run ranges (draft language for the operating paragraph is shown in paragraph (28)). Suggested deletions from the current directive are shown in strike-through form with proposed additions in caps and certain alternatives bracketed. Deletion of the two full sentences concerning M1 is suggested on the ground that behavior of that aggregate over recent quarters has been somewhat more "normal" in relation to GNP and other economic variables. The considerable uncertainties that still remain in interpreting M1 and the other aggregates, given ongoing adaptation to institutional changes by banks and the public and the potential for financial market disturbances, appear to be clearly encompassed by the language of the second paragraph below.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. IN FURTHERANCE OF THESE OBJECTIVES the Committee AGREED AT THIS MEETING TO REAFFIRM THE RANGES FOR MONETARY GROWTH THAT IT HAD ESTABLISHED IN JANUARY: ~~established growth ranges for the broader aggregates of~~ 4 TO 8 PERCENT FOR M1 AND 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. [WITH REGARD TO ________, THE COMMITTEE CHANGED THE RANGE(S) FOR 1984 TO ____________.]

~~The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight.~~ The associated range for total domestic nonfinancial debt was ALSO REAFFIRMED ~~set~~ at (RAISED TO) 8 to 11 (__ TO __) percent for the year 1984. FOR 1985 THE COMMITTEE AGREED ON TENTATIVE RANGES OF MONETARY GROWTH, MEASURED FROM THE FOURTH QUARTER OF 1984 TO THE FOURTH QUARTER OF 1985, OF ___ TO ___ PERCENT FOR M1, ___ TO ___ PERCENT FOR M2, AND ___ TO ___ PERCENT FOR M3. THE ASSOCIATED RANGE FOR NONFINANCIAL DEBT WAS SET AT ___ TO ___ PERCENT.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

(28) Given below is suggested language for the operating paragraph of the directive. The specifications adopted at the meeting on May 22 are shown in strike-through form.

In the short run, the Committee seeks to DECREASE SLIGHTLY (ALT. A)/ maintain (ALT. B)/INCREASE SLIGHTLY (ALT. C) existing pressures on ~~bank~~ reserve positions. This ACTION is expected to be consistent with growth in M1, M2, and M3 at annual rates of around ~~6-1/2, 8, and 10~~ ___, ___, AND ___ percent, respectively, during the period from ~~March to~~ June TO SEPTEMBER. Somewhat greater reserve restraint might be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of ~~7-1/2 to 11-1/2~~ ___ TO ___ percent.

Selected Interest Rates

Percent

July 16, 1984

Period	Short Term								Long Term							
	federal funds	Treasury bills secondary market			CDs secondary market 3 month	comm paper 1 month	money market mutual fund	bank prime loan	U S government constant maturity yields			corporate A utility recently offered	muni cipal Bond Buyer	home mortgages		
		3-month	6-month	1-year					3-year	10 year	30 year			conven tional at S&Ls	FHA/VA ceiling	FNMA 1 year ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1983--High	10.21	9.49	9.64	9.79	9.93	9.85	8.79	11.50	11.57	12.14	12.11	13.42	10.56	13.89	13.50	12.50
Low	8.42	7.63	7.72	7.82	8.15	8.02	7.71	10.50	9.40	10.18	10.32	11.64	9.21	12.55	11.50	10.49
1984--High	11.49	10.03	10.56	11.09	11.71	11.15	10.21	13.00	13.44	13.84	13.81	15.30p	11.44	14.68	14.00	13.70
Low	9.41	8.84	8.94	9.01	9.35	9.16	8.70	11.00	10.87	11.62	11.69	12.83	9.86	13.19	12.50	11.25
1983--May	8.63	8.19	8.22	8.23	8.49	8.36	7.83	10.50	9.66	10.38	10.53	11.92	9.56	12.63	11.63	10.68
June	8.98	8.79	8.89	8.87	9.20	8.97	8.01	10.50	10.32	10.85	10.93	12.40	10.07	12.87	11.88	11.36
July	9.37	9.08	9.26	9.34	9.50	9.15	8.34	10.50	10.90	11.38	11.40	12.79	10.06	13.42	12.30	11.93
Aug.	9.56	9.34	9.51	9.60	9.77	9.41	8.69	10.89	11.30	11.85	11.82	13.16	10.25	13.81	13.38	12.16
Sept.	9.45	9.00	9.15	9.27	9.39	9.19	8.77	11.00	11.07	11.65	11.63	12.98	10.20	13.73	13.00	11.86
Oct.	9.48	8.64	8.83	8.98	9.18	9.03	8.67	11.00	10.87	11.54	11.58	12.89	10.14	13.54	13.00	11.40
Nov.	9.34	8.76	8.93	9.08	9.36	9.10	8.55	11.00	10.96	11.69	11.75	13.14	10.22	13.44	12.50	11.40
Dec.	9.47	9.00	9.17	9.24	9.69	9.56	8.69	11.00	11.13	11.83	11.88	13.29	10.40	13.42	12.50	11.56
1984--Jan.	9.56	8.90	9.02	9.07	9.42	9.23	8.80	11.00	10.93	11.67	11.75	12.99	10.03	13.37	12.50	11.45
Feb.	9.59	9.09	9.18	9.20	9.54	9.35	8.72	11.00	11.05	11.84	11.95	13.05	10.00	13.23	12.50	11.38
Mar.	9.91	9.52	9.66	9.67	10.08	9.81	8.91	11.21	11.59	12.32	12.38	13.63	10.37	13.39	12.70	11.91
Apr.	10.29	9.69	9.84	9.95	10.41	10.17	9.29	11.93	11.98	12.63	12.65	13.96	10.26	13.65	13.00	12.30
May	10.32	9.83	10.31	10.57	11.11	10.38	9.52	12.39	12.75	13.41	13.43	14.79	10.88	13.94	13.94	12.83
June	11.06	9.87	10.51	10.93	11.34	10.82	N.A.	12.60	13.18	13.56	13.44	15.56	11.07	14.42	14.00	13.45
May 2	10.70	9.67	9.88	10.08	10.52	10.24	9.35	12.00	12.16	12.79	12.83	14.40	10.34	13.78	13.00	12.45
9	10.46	9.90	10.22	10.37	10.85	10.34	9.40	12.14	12.45	13.08	13.11	14.77	10.61	13.87	13.50	12.70
16	10.52	9.94	10.27	10.55	11.39	10.66	9.58	12.50	12.73	13.44	13.48	14.87	10.82	14.04	13.50	13.00
23	9.75	9.85	10.35	10.65	11.14	10.24	9.51	12.50	12.83	13.50	13.52	15.15	11.21	14.08	13.50	13.15
30	10.30	9.69	10.52	10.89	11.27	10.27	9.60	12.50	13.19	13.84	13.81	15.02	11.44	14.29	14.00	13.35
June 6	10.72	9.78	10.48	10.81	11.17	10.44	9.74	12.50	13.04	13.57	13.52	14.82	11.16	14.33	14.00	13.35
13	10.85	9.94	10.56	10.91	11.16	10.72	9.87	12.50	13.11	13.51	13.41	14.78	10.97	14.47	14.00	13.40
20	11.49	9.91	10.45	10.83	11.21	10.86	10.00	12.50	13.06	13.38	13.27	15.21	10.94	14.49	14.00	13.40
27	11.27	9.81	10.55	11.09	11.67	11.06	10.04	12.71	13.44	13.75	13.56	15.28	11.19	14.50	14.00	13.60
July 4	10.91	9.87	10.45	11.08	11.71	11.11	10.05	13.00	13.44	13.83	13.59	15.30	11.11	14.66	14.00	13.70
11	11.25	10.03	10.48	10.97	11.69	11.15	10.21	13.00	13.29	13.62	13.40	14.88	10.88	14.68	14.00	13.60
18																
25																
Daily--July 6	11.13	10.00	10.45	11.00	11.74	11.13	--	13.00	13.38	13.75	13.55	--	--	--	--	--
12	11.03	10.03	10.50	10.96	11.23	11.12	--	13.00	13.19	13.42	13.20	--	--	--	--	--
13	10.95p	9.96p	10.44	10.85	11.45	11.03	--	13.00	13.04p	13.30p	13.11p	--	--	--	--	--

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 and 13 are 1 day quotes for Friday and Thursday, respectively, following the end of the statement week Column 13 is the *Bond Buyer* revenue index Column 14 is an average of contract interest rates on new commitments for conventional first mortgages with 80 percent loan to value ratios at a sample of savings and loan associations on the Friday following the end of the statement week After November 30, 1983, column 15 refers only to VA guaranteed loans Column 16 is the initial gross yield posted by FNMA, on the Friday following the end of the statement week, in its purchase program for adjustable rate home mortgages having rate and payment adjustments once a year

Security Dealer Positions

Millions of dollars

July 16, 1984

Period	Net[1] Total	Cash Positions: Treasury bills	Cash Positions: Treasury coupons[2] under 1 year	Cash Positions: Treasury coupons[2] over 1 year	Cash Positions: federal agency	Cash Positions: private short-term	Forward and Futures Positions: Treasury bills	Forward and Futures Positions: Treasury coupons under 1 year	Forward and Futures Positions: Treasury coupons over 1 year	Forward and Futures Positions: federal agency	Forward and Futures Positions: private short-term
1983--High	20,858	13,273	1,579	8,778	12,088	17,005	1,654	14	1,516	-907	-4,411
Low	-296	-3,461	-687	-3,148	4,013	8,839	-11,307	-95	-3,270	-8,001	-9,564
1984--High	19,053	6,765	1,310	2,477	17,554	14,861*	8,272	22	2,272*	-7,223	5*
Low	5,047	12,140	843*	-4,785	11,086	11,263	-13,048	-109	-933	-10,402	-9,819
1983--June	12,133	6,756	1,084	436	5,748	9,787	-914	-23	-722	-1,595	-8,423
July	7,992	4,076	956	140	6,976	10,275	-2,635	-6	-1,282	-1,836	-8,673
Aug.	13,669	5,929	748	2,639	8,093	10,361	-1,861	-3	-2,706	-3,634	-5,899
Sept.	16,971	8,011	223	6,344	9,285	13,138	-7,309	-2	-2,613	-5,018	-5,090
Oct.	14,672	9,694	609	3,390	10,255	14,242	-9,132	-12	-1,667	-5,909	-6,798
Nov.	15,981	10,762	934	325	9,451	15,302	-7,993	-2	-1,022	-5,445	-6,331
Dec.	18,172	8,653	1,165	-831	11,568	15,449	-5,549	-2	669	-7,354	-5,596
1984--Jan.	12,470	10,815	1,083	667	11,398	12,786	-10,846	-15	-116	-7,474	-5,829
Feb.	9,266	9,658	953	-1,543	12,530	13,336	-8,784	-38	23	-8,192	-8,677
Mar.	15,956	4,627	811	-2,626	16,164	12,763	-1,027	-10	1,045	-9,552	-6,239
Apr.	14,463	2,929	-32	-1,643	16,649	13,063	2,108	-13	476	-9,406	-5,453
May	14,191	-7,091	-291	-1,754	16,852	12,525	5,489	-10	359	-9,650	-2,237
June	16,515*	-2,628*	-595*	-3,224*	16,003*	14,475*	2,204*	-14*	1,422*	-9,934*	-1,193*
1984--May 2	11,392	-2,812	-295	-1,137	16,729	13,659	-213	-3	236	-9,685	-5,088
9	11,221	-7,601	-284	-1,674	17,016	14,119	3,234	-8	378	-10,400	-3,459
16	16,016	-8,251	-1	187	16,875	12,190	6,262	-15	-51	-9,709	-1,472
23	15,105	-6,019	-263	-2,986	16,390	11,263	6,423	-5	387	-9,014	-1,085
30	14,699	-8,202	-541	-2,715	16,723	11,703	8,272	-17	766	-9,091	-2,381
June 6	19,053	-4,432	-427	2,207	17,285	14,147	6,029	-37	1,033	-10,257	-2,082
13	18,627	-1,350	-365	-3,391	16,547	14,318	4,987	-41	1,088	-10,402	-2,766
20	15,970*	-712*	-647*	-3,419*	15,714*	14,861*	-149*	-2*	364*	-9,862*	-178*
27	14,023*	-4,085*	-843*	-2,832*	14,995*	14,307*	-604*	-8*	2,272*	-9,183*	5*
July 4	13,554*	-2,904*	-1,038*	-5,451*	15,961*	14,868*	596*	42*	3,265*	-10,470*	-1,315*
11	10,660*	-4,368*	-669*	-3,023*	16,887*	15,236*	-2,326*	-10*	2,391*	-10,576*	-2,877*
18											
25											

NOTE: Government securities dealer cash positions consist of securities already delivered, commitments to buy (sell) securities on an outright basis for immediate delivery (5 business days or less), and certain "when-issued" securities for *delayed delivery (more than 5 business days)*. Futures and forward positions include all other commitments involving delayed delivery; futures contracts are arranged on organized exchanges.

1. Cash plus forward plus futures positions in Treasury, federal agency, and private short-term securities.

2. Adjusted for reverses to maturity and related transactions.

*Strictly confidential.

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

July 16, 1984

Period	Treasury bills net change[2]	Treasury coupons net purchases[3]					Federal agencies net purchases[4]					Net change outright holdings total[5]	Net RPs[6]
		within 1-year	1-5	5-10	over 10	total	within 1-year	1-5	5-10	over 10	total		
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1980	-3,052	912	2,138	703	811	4,564	217	298	29	24	668	2,035	2,462
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1982	5,698	312	1,794	388	307	2,803	--	--	--	--	--	8,312	1,461
1983	13,068	484	1,896	890	383	3,653	--	--	--	--	--	16,342	-5,445
1983--QTR. II	5,116	173	595	326	108	1,203	--	--	--	--	--	6,208	-793
III	4,617	156	481	215	124	975	--	--	--	--	--	5,439	9,412
IV	4,738	155	820	349	151	1,474	--	--	--	--	--	6,120	-10,739
1984--QTR. I	-1,168	--	--	-300	--	-300	--	--	--	--	--	-1,555	-286
II	491	198	808	200	277	1,484	--	--	--	--	--	1,918	70
1984--Jan.	-3,267	--	--	-300	--	-300	--	--	--	--	--	-3,607	1,253
Feb.	-1,060	--	--	--	--	--	--	--	--	--	--	-1,098	-8,347
Mar.	3,159	--	--	--	--	--	--	--	--	--	--	3,149	6,807
Apr.	3,283	198	808	200	277	1,484	--	--	--	--	--	4,764	7,286
May	-3,593	--	--	--	--	--	--	--	--	--	--	-3,633	-3,643
June	801	--	--	--	--	--	--	--	--	--	--	786	-3,572
1984--APR. 4	1,633	--	--	--	--	--	--	--	--	--	--	1,633	3,724
11	321	--	--	--	--	--	--	--	--	--	--	321	-375
18	652	198	808	200	277	1,484	--	--	--	--	--	2,136	2,300
25	1,937	--	--	--	--	--	--	--	--	--	--	1,937	1,660
MAY 2	278	--	--	--	--	--	--	--	--	--	--	278	4,978
9	-1,214	--	--	--	--	--	--	--	--	--	--	-1,214	-5,962
16	-1,980	--	--	--	--	--	--	--	--	--	--	-2,020	-5,689
23	-959	--	--	--	--	--	--	--	--	--	--	-959	2,691
30	385	--	--	--	--	--	--	--	--	--	--	385	2,163
JUNE 6	497	--	--	--	--	--	--	--	--	--	--	483	-1,402
13	458	--	--	--	--	--	--	--	--	--	--	456	386
20	--	--	--	--	--	--	--	--	--	--	--	--	5,938
27	72	--	--	--	--	--	--	--	--	--	--	72	-6,737
JULY 4	--	--	--	--	--	--	--	--	--	--	--	--	904
11	--	--	--	--	--	--	--	--	--	--	--	-1	1,978
LEVEL--JULY 12	70.4	17.0	35.5	14.3	19.1	85.9	2.3	4.5	1.3	.4	8.5	164.9	-32

1 Change from end-of-period to end-of-period.
2 Outright transactions in market and with foreign accounts, and redemptions (–) in bill auctions.
3 Outright transactions in market and with foreign accounts, and short term notes acquired in exchange for maturing bills. Excludes redemptions, maturity shifts, rollovers of maturing coupon issues, and direct Treasury borrowing from the System.
4 Outright transactions in market and with foreign accounts only. Excludes redemptions and maturity shifts.
5 In addition to the net purchases of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions ( ) of agency and Treasury coupon issues.
6 Includes changes in RPs (+), matched sale purchase transactions (–), and matched purchase sale transactions (+).