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[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).

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February 8, 1985

Strictly Confidential (FR) Class I FOMC

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

February 8, 1985

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The monetary aggregates expanded rapidly over the last two months. Growth in M1 was at a 10.4 percent annual rate in December and a 9 percent rate in January, above the growth path for November to March of 7 percent established by the Committee at its last meeting.[1] M2 and M3 over the past two months increased considerably more rapidly than their short-run objectives of 9 percent, rising on average by 14 and 13-1/2 percent at an annual rate, respectively. From the fourth quarter of 1983 to the fourth quarter of 1984 M1 is now estimated to have grown 5.2 percent, somewhat below the midpoint of the 4 to 8 percent growth range for the year while M2 expanded 7.7 percent, just above the midpoint of its 6 to 9 percent range; M3 grew by 10.5 percent, well above its 6 to 9 percent range.

(2) All of the major components of M1 contributed to its recent strength, which has reflected the decline in interest rates since late summer and the lift in economic activity in the fourth quarter. Growth of M2 and M3 continued to be boosted by the tendency for declines in rates on both MMDAs and MMMFs to lag the decrease in market rates. The reduction in the minimum balance for super NOW accounts and MMDAs apparently had little impact on either M1 or M2. Flows into these accounts picked up early in the year, but contacts with banks and examination of data suggest that any shifts to take advantage of the lower minimums came, in the case of super

1. These growth rates and all subsequent data on the monetary aggregates in this Bluebook incorporate annual benchmark and seasonal factor revisions. The revised series will be published on Thursday, February 14, along with seasonal factors for 1985. The revisions and their effects on growth in M1, M2, and M3 over recent years are described in the appendix. Data are confidential until that time.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	Nov.	Dec.	Jan.p	QIV '83 to QIV '84	Nov. to Jan.
Money and Credit Aggregates					
M1[1]	12.0	10.4	9.0	5.2	9.7
M2[1]	14.0	13.4	14.5	7.7	14.0
M3[1]	14.2	14.4	12.6	10.5	13.5
Domestic nonfinancial debt	14.9	14.0	n.a.	13.4	n.a.
Bank credit	12.8	9.2	6.7	10.7	8.2
Reserve Measures[2]					
Nonborrowed reserves[3]	17.4	25.8	39.0	5.7	32.8
Total reserves	11.3	19.1	31.0	5.7	25.3
Monetary base	4.0	6.0	12.9	6.9	9.5
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	780	582	342	—	—
Excess reserves	680	847	727	—	—

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months.

1. Incorporates benchmark revisions and new seasonal adjustment factors.
2. 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.
3. Includes "other extended credit" from the Federal Reserve.

p - Preliminary.

NOWs, preponderantly out of ordinary NOW accounts and, in the case of MMDAs, out of other components of M2.

(3) The debt of domestic nonfinancial sectors is estimated to have expanded at about a 14 percent annual rate in December, bringing growth for the year to 13.4 percent, considerably above the annual monitoring range of 8 to 11 percent for 1984. Unusual merger activity and share repurchases contributed about one percentage point to credit growth last year. In addition, growth was raised a little--perhaps 1/4 of a percentage point--by a rush of tax-exempt securities toward year-end in advance of a lightening of certain restrictions.

(4) Total reserves increased at an average annual rate of 25 percent over December and January, as transactions accounts expanded rapidly. With borrowing at the discount window declining over the two months, nonborrowed reserves increased somewhat more rapidly, at an average annual rate of 33 percent. The nonborrowed reserves path has been constructed over the entire intermeeting period on the assumption of seasonal plus adjustment borrowing of $300 million. In the first part of the period the Desk conducted operations in such a way as to tilt the odds toward a reserve provision consistent with borrowing of $300 million or somewhat less. More recently, with the aggregates running above the FOMC's short-run paths, open market operations have been conducted without such a tilt. Borrowing averaged $260 million in the first complete reserve period in January, following a bulge in both excess reserves and borrowing over the year-end statement date. In the following reserve period ending January 30 and during the first half of the current reserve period, borrowing has averaged $389 million, with excess reserves running somewhat stronger than anticipated.

(5) Federal funds have traded mostly in an 8 to 8-1/2 percent range over the intermeeting period, averaging just over 8-1/4 percent. During the last week of January and into the early days of February, trading was mostly near the upper end of this range, and for a few days above it. This development, taken together with the strength in money growth and the relatively good performance of the economy, worked to eliminate expectations in the market that the Federal Reserve would ease further and tended to raise concerns that the System might be seeking tighter reserve conditions. Since the previous Committee meeting, short-term rates have risen 20 to 40 basis points. Long-term rates fell sharply in late January when prospects for oil prices seemed to portend a more favorable inflation outlook; these rate declines have been largely reversed subsequently in response to rising short-term rates and a mid-quarter Treasury financing package that was a little larger than anticipated. On balance taxable bond yields are up about 5 to down about 10 basis points over the period.

(6) The dollar has appreciated by about 5-1/4 percent on a weighted average basis since the last Committee meeting to reach a new record high. Some of the dollar's recent strength may be attributable to indications that U.S. economic activity is more robust than had been anticipated two months ago. Lower than expected U.S. trade deficits for November-December may also have helped to boost the dollar.

The United States sold $321 million, of which $272 million was against marks and the remainder against yen.

Alternative monetary growth ranges for 1985

(7) Three alternative long-run growth ranges for the year 1985 (QIV to QIV basis) are shown below for Committee consideration, along with the tentative ranges for that year adopted in mid-1984.[1] Alternative II encompasses the growth ranges for the monetary aggregates adopted in July, but includes a higher range for credit. Alternatives I and III call for somewhat higher and somewhat lower rates of growth, respectively, in the monetary and credit aggregates.

	Alt. I	Alt. II	Alt. III	Adopted in mid-1984
M1	4 to 8	4 to 7	3-1/2 to 6-1/2	4 to 7
M2	6 to 9	6 to 8-1/2	5-1/2 to 8-1/2	6 to 8-1/2
M3	6-1/2 to 9-1/2	6 to 9	5-1/2 to 8-1/2	6 to 9
Total credit	9-1/2 to 12-1/2	9 to 12	8-1/2 to 11-1/2	8 to 11

(8) The growth ranges of alternative II were taken as the basis for the staff's projection of growth in nominal GNP for 1985 of 7-1/4 percent; it was assumed that growth of M1 would be in the upper part of its range, with interest rates expected to be around, or somewhat higher than, current levels. Growth in the other monetary aggregates may be close to the upper limits of their ranges, in part reflecting the strong expansion

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1. A number of background issues in connection with monetary targets and operating procedures in 1985 were discussed by the FOMC at its last meeting. At that time, the Committee considered, in terms of M1, questions about the appropriate base for the 1985 range--whether it should be the actual average level for the fourth quarter of 1984, as assumed in the presentation of the alternatives, or the fourth-quarter level that represents the midpoint of the 4 to 8 percent range for last year. With growth for 1984 on a QIV to QIV basis at 5.2 percent, the amount of "shortfall" from the 6 percent midpoint growth of last year's range seems moderate enough to be readily compensated, should the Committee wish, by encouraging growth in the upper part of whatever range for 1985 is adopted.

expected in the first quarter. To the degree that interest rates rose somewhat as the year progressed, M2 and M3 growth would more likely be held within the ranges.

(9) The income velocity of M1 will probably increase much less this year than in 1984, falling to a rate of increase of perhaps one percent or so, to a degree reflecting a carry-through effect on the year of the expected contraction of M1 velocity in the first quarter (as a result of the lagged impact on money demand of late '84 interest rate declines). So low a rate of increase for the year in velocity would also be noticeably less than average experience in the third year of earlier expansions—a period, however, when short-term interest rates in the past rose on average by about one-third, a rise that is not now expected in the current expansion. The expected growth in M1 velocity over 1985 would be in the neighborhood of, probably on the low side of, its likely long-run trend. That trend may be currently estimated at 1 to 2 percent per year (abstracting from the impact of interest rate movements). However, uncertainties remain about the trend rate of increase of V1, as well as the velocity of other monetary aggregates, given still limited experience under varying economic circumstances in a deregulated environment. In light of the new conditions affecting the reaction of both the public in their asset preferences and depository institutions in their deposit pricing and overall liability management, it is problematic to rely heavily on past experience, and models of that experience, in estimating the interest and income elasticities of money demand as well as the pace of financial innovation.

(10) Credit growth under alternative II is expected to be just below the upper end of the range shown. The higher range for credit

growth in alternative II than had been tentatively adopted provides a greater chance of encompassing actual growth, but has the disadvantage of possibly signalling to the market a more accommodative posture by the Federal Reserve vis-a-vis the large federal budgetary deficit. Growth of federal debt is expected to decelerate some in 1985, but to remain quite high relative to historical experience, and to be faster than private debt growth. Expansion in private debt is likely to be lower this year, as growth of nominal GNP slows. But we still expect the rate of increase in total debt to exceed expansion in nominal GNP by about as much as last year. Debt growth is expected to be sustained by larger than normal merger financing, though less than last year; by the still rapid expansion of federal debt; a wider corporate financing gap; and by the continuing need to finance an expansion of spending by domestic sectors that is greater than the rise in nominal GNP (given the projected continued deterioration in our international balance on goods and services).

(11) The lessened rate of debt expansion should help restrain growth in the broad monetary aggregates, particularly M3. Given the portfolio quality problems faced by depository institutions, and the need to increase their capital, we do not expect them to be significantly more aggressive than last year in seeking to finance credit demands. Part of the increase in credit demands is also expected to continue to be met by net borrowings from abroad by banks, displacing issuance of CDs or other deposits that might appear in M3 (and possibly also M2). Nonetheless, as noted earlier, M2 and M3 are likely to grow close to the upper limits of the proposed alternative II ranges. Somewhat higher growth ranges for these aggregates would increase the odds of encompassing the actual outcome for the year, providing leeway should credit demands fall

more heavily than expected on depository institutions or should funding patterns change.

(12) Alternative I, which involves higher ranges than alternative II, might also be considered as consistent with the GNP projection, provided expansion of M1 were at, or a little above, the midpoint of the specified range. The approach of alternative I would also provide more leeway for greater M1 growth should the Committee believe that is needed to accommodate to a real GNP growth that is as rapid as, or more rapid than, projections. However, growth of M1 toward the upper end of the range may also generate stronger upward price pressures as it accommodates greater demands for goods and services in a period when inflationary expectations are not fully abated and when fiscal policy will probably remain expansive. Under those conditions, if progress is to continue to be made toward reasonable price stability, such an approach is likely to limit real growth if not later in 1985, at least in 1986.

(13) Alternative III, by contrast, would be more consistent than I or II with a policy tilted toward a slowing of M1 and M2 growth in 1985 relative to 1984 and encouraging a greater slowdown in growth of M3 and credit. The marked tightening of credit market conditions, at least for part of this year, that is probably consistent with this alternative would work toward slower growth in real GNP in 1985 than in the staff projection. However, this alternative would also foster more restraint on price increases than under either alternatives I or II, which do not entail a significant price deceleration this year or probably next. If the deceleration of inflation under alternative III occurred at the expense of a slower real GNP growth than currently projected, it would nonetheless lay the groundwork for a stronger real growth later consistent

with continued abatement of inflation and inflationary expectations and a lowering of interest rates over time.

(14) The preceding paragraphs have assumed that upward price pressures in 1985 would be essentially no less than in 1984. However, should they be less--because, for instance, oil and other commodity prices weakened significantly further, the dollar remained high on exchange markets, or the increase in labor costs was even smaller than expected--nominal interest rates could well have to fall to maintain satisfactory real GNP growth. As the decline in yields on bank deposits and money market funds lagged the decline in market rates, demand for monetary assets could be expected to increase, probably for a while more than offsetting the lessened growth in money demand associated with slower expansion in nominal GNP. Under such circumstances, the Committee might need to be prepared for relatively rapid growth in M2, and to a degree M1, for a time. For the year as a whole, growth would probably be near the upper end of, and possibly above, the ranges adopted, as the spread of market rates over yields on money assets remained narrower in some cases (such as demand deposits or NOW accounts) over the whole period and as some of the funds that had initially moved into nontransactions monetary assets remained there even as spreads returned to more normal proportions.

Prospective near-term developments

(15) The table below presents three alternative specifications for growth in the monetary aggregates from December to March, along with associated federal funds rate ranges. (More detailed data can be found on the table and charts on the following pages.) All the alternatives call for a slowing in money growth over the next two months, but given their rapid growth in December and January the aggregates in March would be at levels above the upper ends of cones encompassing any of the longer-term ranges discussed above.[1] (Growth implied for QIV to March for each alternative is given on the detailed table.)

	Alt. A	Alt. B	Alt. C
Growth from Dec. to March			
M1	8-3/4	8	7-1/4
M2	11-1/2	10-1/2	9-1/2
M3	10-1/2	9-3/4	9
Federal funds rate range	5 to 9	6 to 10	7 to 11

(16) The specifications of alternative B, which are expected to involve continuation of about the existing degree of pressure on reserve positions, can be considered most consistent with growth over a longer period within the ranges of alternative II. Under the specifications of B, M1 growth would slow to around a 7-1/2 percent annual rate on average over February and March. Such a moderation of M1 is expected to develop without appreciable firming in money markets as the

1. All of the alternatives imply higher growth from November '84 to March '85 than adopted by the Committee at its last meeting. In terms of M1, attainment of the 7 percent November-March growth rate previously adopted would require growth from December to March of around 5-3/4 percent.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M1			M2			M3		
Monthly Levels	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1984--October	548.4	548.4	548.4	2318.7	2318.7	2318.7	2925.5	2925.5	2925.5
November	553.9	553.9	553.9	2345.8	2345.8	2345.8	2960.1	2960.1	2960.1
December	558.7	558.7	558.7	2372.0	2372.0	2372.0	2995.5	2995.5	2995.5
1985--January	562.9	562.9	562.9	2400.6	2400.6	2400.6	3027.0	3027.0	3027.0
February	567.0	566.7	566.3	2420.6	2418.6	2416.6	3051.7	3049.7	3047.7
March	570.9	569.9	568.8	2440.2	2434.3	2428.3	3074.1	3068.5	3062.9
Growth Rates Monthly									
1984--October	-6.7	-6.7	-6.7	5.4	5.4	5.4	9.9	9.9	9.9
November	12.0	12.0	12.0	14.0	14.0	14.0	14.2	14.2	14.2
December	10.4	10.4	10.4	13.4	13.4	13.4	14.4	14.4	14.4
1985--January	9.0	9.0	9.0	14.5	14.5	14.5	12.6	12.6	12.6
February	8.8	8.0	7.3	10.0	9.0	8.0	9.8	9.0	8.2
March	8.3	6.8	5.3	9.7	7.8	5.8	8.8	7.4	6.0
Nov. 84 to Mar. 85	9.2	8.7	8.1	12.1	11.3	10.6	11.6	11.0	10.4
Dec. 84 to Mar. 85	8.8	8.0	7.3	11.5	10.5	9.5	10.5	9.8	9.0
Q4 83 to Q4 84	5.2	5.2	5.2	7.7	7.7	7.7	10.5	10.5	10.5
Q4 84 to Mar. 85	9.3	8.8	8.2	12.1	11.4	10.6	11.5	11.0	10.4
Growth Rates Quarterly Average									
1984--Q1	6.2	6.2	6.2	7.2	7.2	7.2	9.2	9.2	9.2
Q2	6.5	6.5	6.5	7.1	7.1	7.1	10.5	10.5	10.5
Q3	4.5	4.5	4.5	6.9	6.9	6.9	9.5	9.5	9.5
Q4	3.4	3.4	3.4	9.0	9.0	9.0	11.0	11.0	11.0
1985--Q1	9.5	9.2	8.9	12.8	12.3	11.9	12.2	11.9	11.6

Chart 1

Actual and Targeted M1

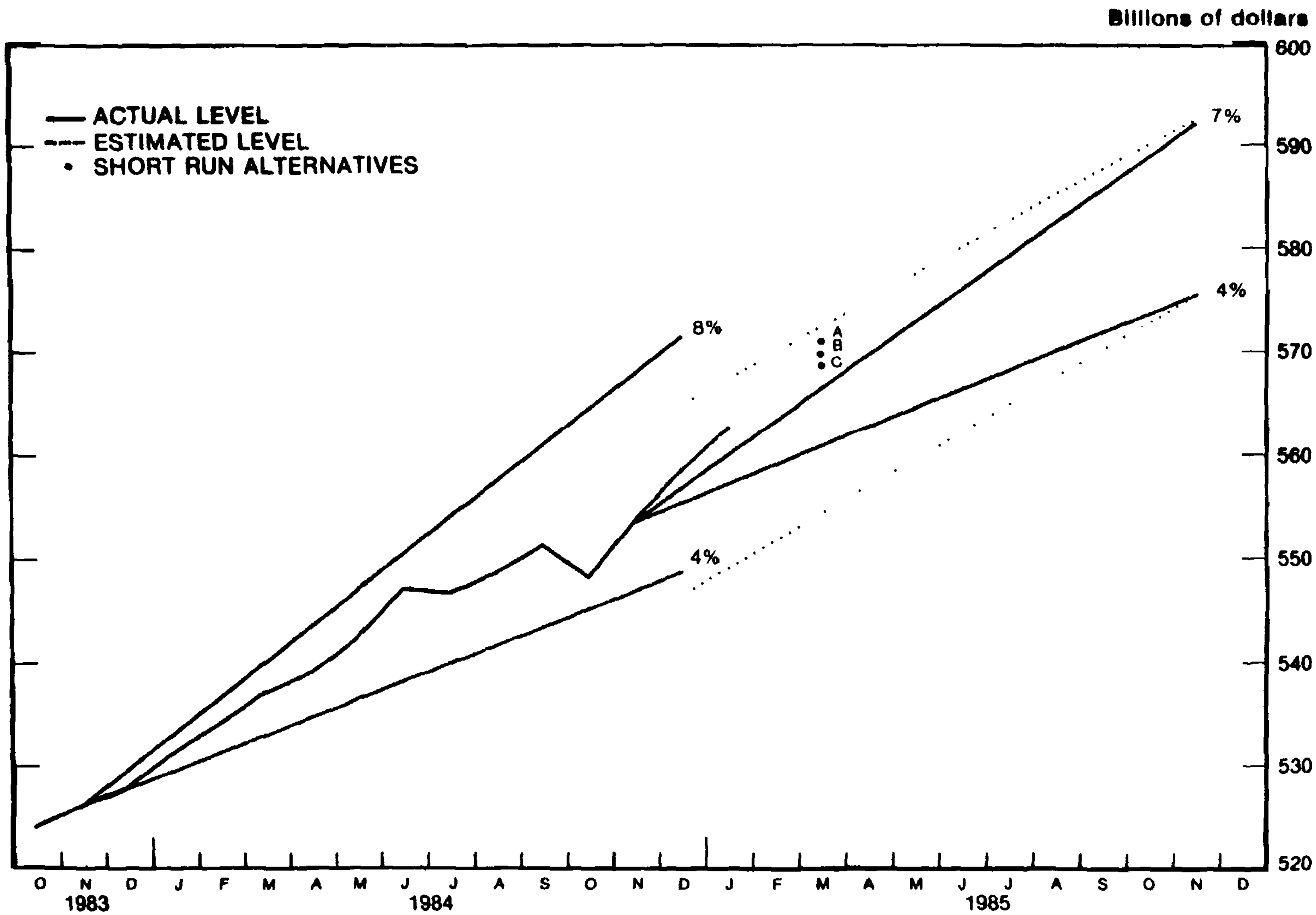


Chart 2

Actual and Targeted M2

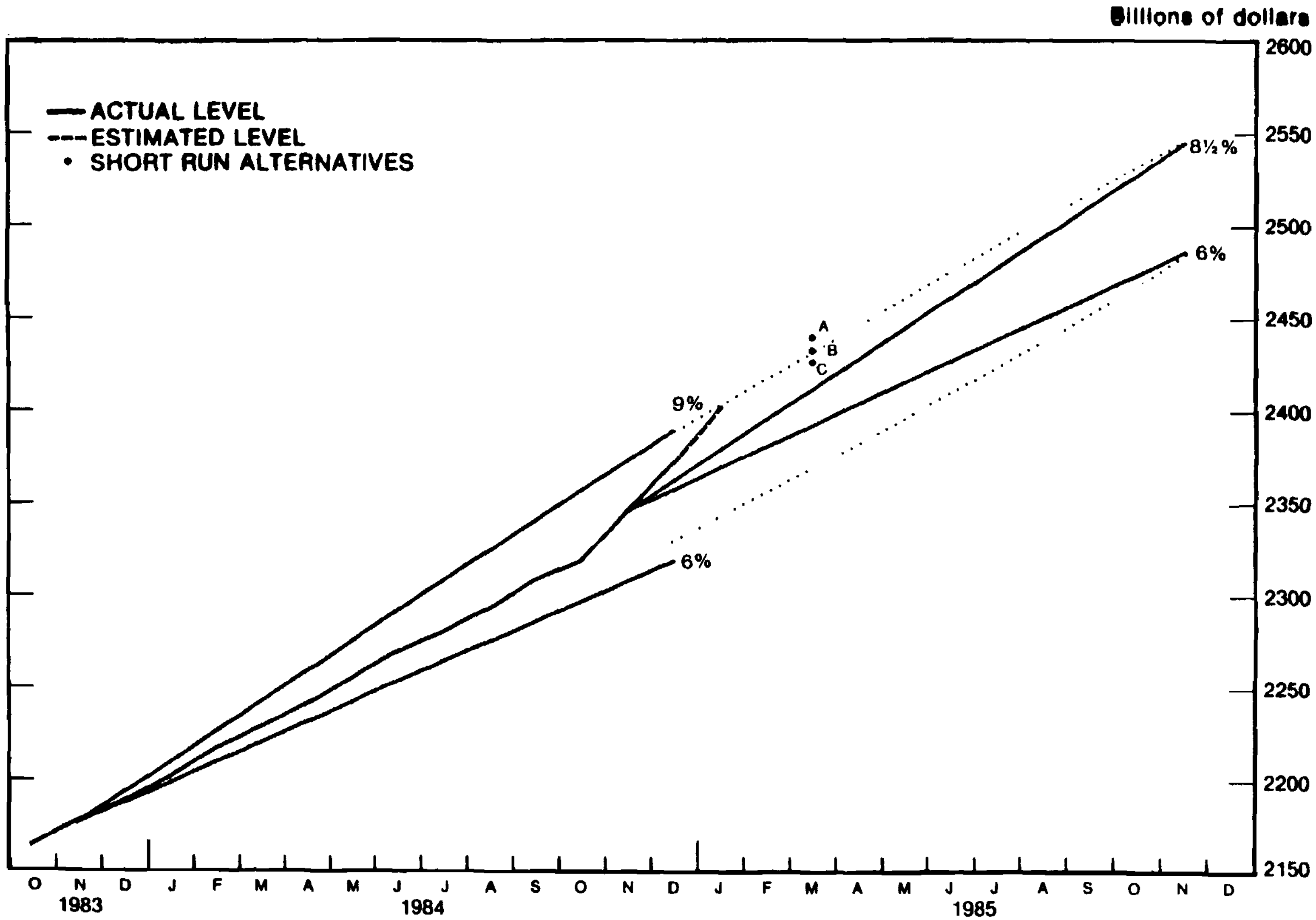
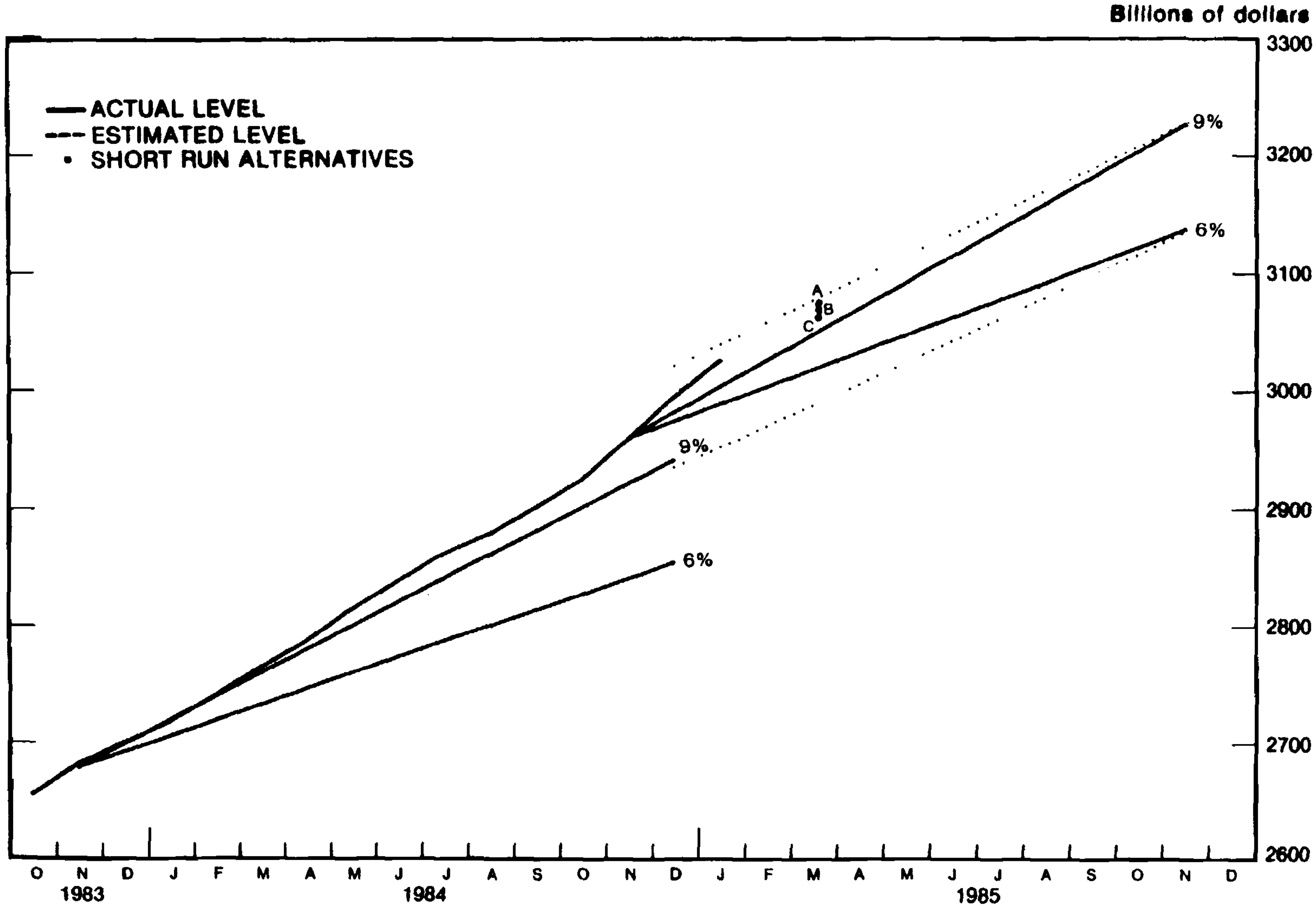


Chart 3

Actual and Targeted M3



upward effects on money demand of the steep decline of interest rates over recent months abate. Moreover, given the rapid growth of money late in the fourth quarter and in January, a slowing in growth would still be consistent with the expected increase in spending on goods and services in the first quarter. On a quarterly average basis, M1 would increase at a 9-1/4 percent annual rate in the first quarter under alternative B, and velocity would decline at about a 1-1/4 percent annual rate, given the staff's GNP projection. By March, M1 under this alternative would have increased by about 8-3/4 percent from the QIV '84 long-run base.

(17) A less rapid expansion in the nontransactions components of M2 and M3 is also expected to contribute to a slowdown in growth in the broader monetary aggregates under alternative B. Weakness in inflows to MMMFs is already evident in the most recent data, as yields on these assets have declined into fairly close alignment with the lower level of market interest rates; a similar pattern for MMDAs can be expected as their offering rates continue to drop in response to previous declines in other yields. As more normal rate alignments are restored, M2 growth should slow considerably. However, M2 velocity in the first quarter would decline at around a 4 percent annual rate under alternative B, owing mostly to the surge in growth of this aggregate around year-end. M3 growth is expected to be held down by continued moderate bank CD issuance as well as weakness in institution-only money funds.

(18) The debt of nonfinancial sectors is projected to expand at around a 12-1/4 percent annual rate in the first quarter--still in excess of GNP growth, but significantly below the very rapid pace of borrowing in the fourth quarter. Growth in both private and federal debt is expected to decelerate from the exceptionally rapid fourth-quarter

pace. Borrowing by state and local governments is anticipated to slow sharply following its temporary surge at the end of last year, returning to a pace more in line with the average of recent years. Household credit usage may also ease off from its fourth-quarter pace, although expansion of both mortgage and consumer debt is projected to continue to outpace growth of disposable income. Borrowing to finance mergers and stock repurchases is expected to continue at about the rate of second half of last year, but underlying demands for funds by businesses may strengthen, reflecting an increase in capital and inventory investment while internal funds remain close to fourth-quarter levels. Federal debt issuance is expected to be relatively large over the balance of the quarter.

(19) The specifications of alternative B are expected to involve reserve conditions consistent with borrowing at the discount window remaining around $300 million. With borrowing remaining a little above its frictional level, federal funds should trade in the neighborhood of 8-1/4 percent. Nonborrowed and total reserves would increase at 12-1/4 and 11-1/2 percent annual rates, respectively, over the February-March period.

(20) Short-term interest rates could decline a little over the intermeeting period under this alternative, as continuation of the funds rate and borrowing levels assumed allay some of the current concerns in markets about a possible tightening of reserve positions over the weeks ahead. The rate on 3-month Treasury bills could drop back to around 8 percent, while 3-month CDs fall to about 8-1/4 percent. Bond prices could improve somewhat following their recent drop. However, increases are likely to be limited by still pervasive uncertainties about the

federal budget, by strength in money relative to long-run target ranges, and an economic outlook that is not at the moment weakening.

(21) Alternative A, which contemplates that M1 growth will slow relatively little from the December-January average to around an 8-1/2 percent annual rate over February and March, seems most consistent with long-run alternative I. Borrowing at the discount window might be reduced to its frictional level--about $100-200 million at present. However, a further reduction in the discount rate, or provision of above average excess reserves through open market operations at least for a while, may also be needed if the federal funds rate is to drop nearer to the 7-1/2 percent area that seems more consistent with the reserve growth needed to attain the money specifications of this alternative. Nonborrowed reserves would be expected to grow at about a 20 percent annual rate over the February-March period.

(22) Market interest rates would be expected to drop fairly sharply in the near term under alternative A, especially if it was accompanied by a lower discount rate. The Treasury bill rate might decline to around 7-1/4 percent and CDs to about 7-1/2 percent, putting the prime rate under considerable downward pressure. Such yield declines would probably lead to continued strong growth of M2 and M3, particularly of their nontransactions components. In long-term markets, yields would also fall, though the extent of such declines might be reduced by the very heavy volume of corporate and state and local bond issuance that would probably ensue. In addition, rate declines in long-term markets could be limited by concerns that such an approach might lead to an intensification of inflationary pressures, or in any event to a tightening of market conditions later in the year to avert such pressures and to

constrain growth in the aggregates to within the long-term ranges adopted. In exchange markets, the dollar would be likely to come under downward pressure.

(23) Alternative C specifies a sharper slowing of money growth in February and March, consistent with a more rapid return of the aggregates toward their longer-run ranges, an approach that may be particularly in line with a Committee choice of long-run alternative III. M1 growth of around 6-1/4 percent over February and March under this alternative would require restraining growth in total reserves to a 7 percent annual rate. This may be consistent with growth of nonborrowed reserves of 2-1/2 percent, and a rise in borrowing to the $600-700 million area. The federal funds rate would probably rise to around 9 percent.

(24) Other interest rates would also be expected to rise substantially under alternative C, with the Treasury bill rate increasing to around 8-3/4 percent. Long-term rates are also likely to advance significantly in the short run. Upward pressures on the dollar on foreign exchange markets would intensify, and U.S. trading partners also would be under pressure to raise short-term rates.

Directive language

(25) 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 (26) below). Suggested deletions from the current directive are shown in strike-through form with proposed additions in caps and certain alternatives in brackets. The considerable uncertainties that still remain in interpreting M1 and the other aggregate given ongoing adaptation to institutional changes by banks and the public, appear to be clearly encompassed by the language of the second paragraph below. With regard to M1, the lagnuage in brackets is suggested should the Committee wish to indicate an expectation that M1 may be in the upper part of its range.

> 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 ~~the July~~ meeting to ESTABLISH ~~reaffirm~~ ranges for monetary growth OF ~~that it had established in January: 4 to 8~~ ___ TO ___ percent for M1, ~~and 6 to 9~~ ___ TO ___ percent for ~~both~~ M2, and ___ TO ___ PERCENT FOR M3 for the period from the fourth quarter of ~~1983~~ 1984 to the fourth quarter of ~~1984~~ 1985. The associated range for total domestic nonfinancial debt was SET ~~also reaffirmed~~ at ~~8 to 11~~ ___ TO ___ percent for the year ~~1984~~ 1985. [THE COMMITTEE AGREED THAT GROWTH OF M1 IN THE UPPER PART OF ITS RANGE FOR 1985 MAY BE APPROPRIATE, GIVEN GROWTH OF THAT AGGREGATE IN THE LOWER PORTION OF ITS RANGE OVER THE PREVIOUS YEAR.] ~~It was~~

~~anticipated-that-M3-and-nonfinancial-debt-might-increase-at-rates somewhat-above-the-upper-limits-of-their-1984-ranges,-given developments-in-the-first-half-of-the-year,-but-the-Committee-felt that-higher-target-ranges-would-provide-inappropriate-benchmarks for-evaluating-longer-term-trends-in-M3-and-credit-growth.--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-4-to-7-percent-for-M1,-6-to-8-1/2-percent-for-M2, and-6-to-9-percent-for-M3.--The-associated-range-for-nonfinancial debt-was-set-at-8-to-11-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 evaluations of conditions in domestic credit and foreign exchange markets.

OPERATIONAL PARAGRAPH

(26) In the implementation of policy in the short run, the Committee seeks to reduce SOMEWHAT (ALT. A)/MAINTAIN (ALT. B)/ INCREASE SOMEWHAT (ALT. C) pressures on reserve positions. THIS ACTION IS EXPECTED TO BE consistent with growth of M1, M2, and M3 at annual rates of around ~~7,-9,-and-9~~ ___, ___, AND ___ percent, respectively, during the period from ~~November~~ DECEMBER to March. LESSER RESTRAINT ON RESERVE POSITIONS ~~somewhat-more-rapid-growth of-M1~~ would [MIGHT] be acceptable IN THE EVENT OF SUBSTANTIALLY SLOWER GROWTH IN THE MONETARY AGGREGATES, EVALUATED ~~in-light-of the-currently-estimated-shortfall-in-growth-for-the-fourth-quarter relative-to-the-Committee's-expectations-at-the-beginning-of-the~~

~~period,-particularly~~ in the context of sluggish growth in economic activity and continued strength of the dollar in FOREIGN exchange markets. Greater restraint on reserve positions might [WOULD] be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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 ~~6-to-10~~ ___ TO ___ percent.

Appendix I

Money Stock Revisions

Measures of the money stock have been revised to incorporate annual seasonal and benchmark adjustments. This appendix discusses the revisions and presents tables comparing growth rates of the old and new series. These revisions are to be regarded as strictly confidential until their release planned for Thursday, February 14.

Benchmark Revisions

Deposits have been benchmarked to recent call reports; call reports used for commercial banks span the period from mid-1983 to mid-1984 while those used for thrift institutions begin at an earlier date. In addition, a new survey has been used to benchmark RPs. The net impact of benchmark revisions has been to raise growth of the aggregates by relatively small amounts in 1984 and also in 1983. In the case of M3, where benchmark revisions are largest, the most important source of revision was term RPs at thrifts, which now incorporate information from the new RP survey.

Seasonal Revisions

Revisions to seasonal factors were based on an X-11 ARIMA procedure used in recent years. Following the practice introduced last year, nontransactions M2 has been seasonally adjusted as a whole--instead of being built up from seasonally adjusted savings and small time deposits--to reduce distortions caused by sizable portfolio shifts in recent years; a similar procedure has been used to seasonally adjust the non-M2 portion of M3.

Revisions to seasonal factors had a greater impact on the pattern of M1 growth last year than on growth in the broader aggregates, a typical occurrence. On a quarterly average basis, M1 growth was reduced about 1-1/4 percent at an annual rate in the first quarter of 1984 and boosted in the fourth quarter by a similar amount.

Table I-1

COMPARISON OF REVISED AND OLD M1 GROWTH RATES
(percent changes at annual rates)

	Revised M1 (1)	Old M1 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1983--Oct.	8.1	6.2	1.9	0.2	1.7
Nov.	5.0	3.2	1.8	0.2	1.6
Dec.	4.1	5.3	-1.2	0.1	-1.3
1984--Jan.	7.7	10.7	-3.0	0.1	-3.1
Feb.	6.3	6.6	-0.3	0.4	-0.7
Mar.	7.0	5.2	1.8	0.6	1.2
Apr.	4.2	0.4	3.8	0.1	3.7
May	7.3	12.8	-5.5	0.0	-5.5
June	10.6	11.3	-0.7	-0.1	-0.6
July	-0.9	-1.1	0.2	0.2	0.0
Aug.	4.4	1.8	2.6	-0.2	2.8
Sept.	5.7	5.0	0.7	-0.1	0.8
Oct.	-6.7	-7.4	0.7	0.2	0.5
Nov.	12.0	8.6	3.4	0.6	2.8
Dec.	10.4	11.1	-0.7	0.1	-0.8
1985--Jan.	9.0	9.5	-0.5	0.3	-0.8
Quarterly					
1983--QIV	6.3	4.8	1.5	0.3	1.2
1984--QI	6.2	7.2	-1.0	0.3	-1.3
QII	6.5	6.2	0.3	0.2	0.1
QIII	4.5	4.5	0.0	0.0	0.0
QIV	3.4	2.0	1.4	0.2	1.2
Semi-Annual					
1984--QIV '83 to QII '84	6.4	6.7	-0.3	0.2	-0.5
QII '84 to QIV '84	3.9	3.3	0.6	0.1	0.5
Annual (QIV to QIV)					
1983	10.4	10.0	0.4	0.3	0.1
1984	5.2	5.0	0.2	0.2	0.0

Table I-2

COMPARISON OF REVISED AND OLD M2 GROWTH RATES
(percent changes at annual rates)

	Revised M2 (1)	Old M2 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1983--Oct.	10.7	10.8	-0.1	0.1	-0.2
Nov.	7.7	8.2	-0.5	0.2	-0.7
Dec.	5.9	7.8	-1.9	0.1	-2.0
1984--Jan.	7.3	5.7	1.6	0.1	1.5
Feb.	8.0	8.6	-0.6	0.2	-0.8
Mar.	6.6	4.0	2.6	0.5	2.1
Apr.	6.5	6.9	-0.4	0.1	-0.5
May	7.5	8.4	-0.9	0.1	-1.0
June	7.5	7.2	0.3	0.3	0.0
July	5.8	5.2	0.6	0.2	0.4
Aug.	6.6	4.8	1.8	0.3	1.5
Sept.	8.1	7.6	0.5	0.2	0.3
Oct.	5.4	6.0	-0.6	-0.1	-0.5
Nov.	14.0	15.1	-1.1	-0.2	-0.9
Dec.	13.4	15.3	-1.9	0.1	-2.0
1985--Jan.	14.5	12.5	2.0	-0.2	2.2
Quarterly					
1983--QIV	8.4	8.5	-0.1	0.2	-0.3
1984--QI	7.2	6.9	0.3	0.2	0.1
QII	7.1	6.9	0.2	0.2	0.0
QIII	6.9	6.2	0.7	0.3	0.4
QIV	9.0	9.4	-0.4	0.0	-0.4
Semi-Annual					
1984--QIV '83 to QII '84	7.2	7.0	0.2	0.2	0.0
QII '84 to QIV '84	8.0	7.9	0.1	0.1	0.0
Annual (QIV to QIV)					
1983	12.2	12.1	0.1	0.2	-0.1
1984	7.7	7.5	0.2	0.2	0.0

Table I-3

COMPARISON OF REVISED AND OLD M3 GROWTH RATES
(percent changes at annual rates)

	Revised M3 (1)	Old M3 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1983--Oct.	8.4	9.0	-0.6	-0.2	-0.4
Nov.	12.4	13.7	-1.3	-0.7	-0.6
Dec.	8.2	9.4	-1.2	-0.3	-0.9
1984--Jan.	7.8	5.6	2.2	0.7	1.5
Feb.	9.9	10.2	-0.3	0.6	-0.9
Mar.	10.4	9.1	1.3	1.1	0.2
Apr.	9.8	10.8	-1.0	0.1	-1.1
May	11.7	11.6	0.1	0.1	0.0
June	10.1	9.6	0.5	0.8	-0.3
July	9.8	8.9	0.9	0.9	0.0
Aug.	7.1	4.6	2.5	0.4	2.1
Sept.	9.3	7.4	1.9	1.0	0.9
Oct.	9.9	10.1	-0.2	0.6	-0.8
Nov.	14.2	15.3	-1.1	-0.3	-0.8
Dec.	14.4	14.8	-0.4	0.1	-0.5
1985--Jan.	12.6	10.6	2.0	-0.1	2.1
Quarterly					
1983--QIV	9.8	9.9	-0.1	0.0	-0.1
1984--QI	9.2	8.8	0.4	0.4	0.0
QII	10.5	10.5	0.0	0.5	-0.5
QIII	9.5	8.3	1.2	0.7	0.5
QIV	11.0	10.7	0.3	0.5	-0.2
Semi-Annual					
1984--QIV '83 to QII '84	10.0	9.8	0.2	0.4	-0.2
QII '84 to QIV '84	10.4	9.6	0.8	0.5	0.3
Annual (QIV to QIV)					
1983	10.0	9.7	0.3	0.3	0.0
1984	10.5	9.9	0.6	0.5	0.1

Selected Interest Rates

Percent

February 11, 1985

Period	Short-Term: federal funds (1)	Treasury bills secondary market: 3 month (2)	Treasury bills secondary market: 6-month (3)	Treasury bills secondary market: 1-year (4)	CDs secondary market 3-month (5)	comm paper 1-month (6)	money market mutual fund (7)	bank prime loan (8)	Long-Term: U S government constant maturity yields: 3-year (9)	U S government constant maturity yields: 10-year (10)	U S government constant maturity yields: 30-year (11)	corporate A utility recently offered (12)	municipal Bond Buyer (13)	home mortgages: conventional at S&Ls (14)	home mortgages: FHA/VA ceiling (15)	home mortgages: FNMA 1-year ARM (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	8.01	7.71	10.50	9.40	10.18	10.32	11.64	9.21	12.55	11.50	10.49
1984--High	11.77	10.65	10.76	11.09	11.71	11.35	10.72	13.00	13.44	13.84	13.81	15.30	11.44	14.68	14.00	13.70
Low	7.95	7.71	8.01	8.39	8.24	8.04	8.38	11.00	10.39	11.30	11.36	12.70	9.86	13.14	12.50	10.55
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	9.92	12.60	13.18	13.56	13.44	15.00	11.07	14.42	14.00	13.45
July	11.23	10.12	10.52	10.89	11.56	11.06	10.30	13.00	13.08	13.36	13.21	14.93	10.84	14.67	14.00	13.59
Aug.	11.64	10.47	10.61	10.71	11.47	11.19	10.58	13.00	12.50	12.72	12.54	14.12	10.40	14.47	13.70	13.27
Sept.	11.30	10.37	10.47	10.51	11.29	11.11	10.62	12.97	12.34	12.52	12.29	13.86	10.54	14.35	13.50	13.15
Oct.	9.99	9.74	9.87	9.93	10.38	10.05	10.16	12.58	11.85	12.16	11.98	13.52	10.77	14.13	13.38	12.58
Nov.	9.43	8.61	8.81	9.01	9.18	9.01	9.34	11.77	10.90	11.57	11.56	12.98	10.69	13.64	12.75	11.46
Dec.	8.38	8.06	8.28	8.60	8.60	8.39	8.55	11.06	10.56	11.50	11.52	12.88	10.40	13.18	12.50	10.88
1985--Jan.	8.35	7.76	8.00	8.33	8.14	7.99	8.07p	10.61	10.43	11.38	11.45	12.78	9.96	13.05	12.50	10.54
1984--Dec. 5	8.83	8.43	8.60	8.84	8.87	8.64	8.85	11.25	10.77	11.52	11.53	13.01	10.47	13.20	12.50	11.05
12	8.70	8.36	8.55	8.82	8.92	8.68	8.69	11.25	10.78	11.62	11.63	12.98	10.44	13.20	12.50	11.10
19	7.99	7.98	8.16	8.47	8.54	8.33	8.60	11.25	10.45	11.48	11.49	12.70	10.36	13.18	12.50	10.80
26	7.95	7.71	8.01	8.39	8.24	8.04	8.38	10.75	10.39	11.37	11.41	12.79	10.33	13.14	12.50	10.55
1985--Jan. 2	8.75	7.77	8.12	8.47	8.31	8.16	8.31	10.75	10.51	11.54	11.55	12.96	10.31	13.10	12.50	10.55
9	8.27	7.78	8.05	8.37	8.19	8.04	8.21	10.75	10.52	11.54	11.57	12.92	10.11	13.12	12.50	10.60
16	8.23	7.73	7.99	8.36	8.12	7.95	8.04	10.68	10.54	11.53	11.60	12.82	9.95	13.12	12.50	10.50
23	8.19	7.71	7.94	8.28	8.08	7.89	7.93	10.50	10.35	11.34	11.45	12.51	9.60	12.96	12.50	10.50
30	8.45	7.73	7.96	8.25	8.12	7.99	7.85	10.50	10.25	11.09	11.27	12.59	9.81	12.93	12.50	10.50
1985--Feb. 6	8.59	8.14	8.25	8.46	8.44	8.34	7.79	10.50	10.42	11.30	11.43	12.68	9.96	n.a.	12.50	10.50
13																
20																
27																
Daily--Feb. 1	8.74	8.19	8.29	8.50	8.48	8.41	--	10.50	10.48	11.29	11.32	--	--	--	--	--
7	8.41	8.17	8.29	8.49	8.49	8.32	--	10.50	10.44	11.41	11.29	--	--	--	--	--
8	8.52p	8.23	8.30	8.46	8.77	8.49	--	10.50	10.40p	11.37p	11.29p	--	--	--	--	--

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 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

Security Dealer Positions

Millions of dollars

February 11, 1985

Period	Net[1] Total	Cash Positions					Forward and Futures Positions				
		Treasury bills	Treasury coupons		federal agency	private short term	Treasury bills	Treasury coupons		federal agency	private short-term
			under 1 year	over 1 year				under 1 year	over 1 year		
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	32,076	15,653	1,296	6,834	19,525	21,046	8,272	131	3,381	-7,223	-4
Low	5,107	-8,251	-1,038	-5,664	11,086	11,263	-14,456	-327	-986	-10,679	-13,053
1984--Jan.	12,472	10,815	1,083	667	11,398	12,788	-10,846	-15	-116	-7,474	-5,829
Feb.	9,287	9,658	949	-1,547	12,532	13,349	-8,774	-38	23	-8,192	-8,673
Mar.	15,936	4,619	811	-2,626	16,151	12,764	-1,026	-10	1,042	-9,552	-6,236
Apr.	14,408	2,929	-32	-1,643	16,649	13,065	-2,140	-13	476	-9,422	-5,462
May	14,163	-7,105	-291	-1,754	16,849	12,525	5,511	-10	347	-9,676	-2,233
June	16,483	-2,631	-596	-3,248	15,999	14,457	2,207	-21	1,448	-9,937	-1,195
July	12,353	-2,382	-604	-3,393	16,040	14,751	-2,528	-89	2,800	-9,650	-2,592
Aug.	11,497	4,542	-89	-1,186	16,098	15,556	-7,312	-240	2,504	-9,073	-9,304
Sept.	17,978	10,316	310	623	14,063	17,695	-9,771	-122	2,156	-8,332	-8,960
Oct.	21,990	11,675	116	2,658	13,168	16,285	-9,867	-72	2,154	-8,815	-5,312
Nov.	19,130	9,770	-487	5,089	16,108	17,950	-8,546	-76	547	-9,229	-11,994
Dec.	26,239	13,845	-414	4,761	18,468	19,167	-11,711	59	-376	-8,309	-9,249
1985--Jan.	24,083*	11,596*	-115*	2,503*	19,429*	19,980*	-13,306*	31*	733*	-7,047*	-9,659*
1984--Dec. 5	18,089	10,887	-647	3,357	17,524	17,747	-8,586	68	-986	-8,222	-13,053
12	21,948	13,517	-244	3,880	18,540	17,542	-9,862	131	-178	-8,950	-12,428
19	24,491	13,585	-419	3,592	18,438	18,580	-12,247	-10	-199	-8,308	-8,522
26	32,076	15,653	-662	6,834	18,602	21,046	-14,456	18	-708	-7,761	-6,487
1985--Jan. 2	34,848	14,017	-253	6,483	19,163	21,404	-12,738	3	16	-7,678	-5,570
9	31,283	12,876	-209	6,053	19,136	21,625	-13,020	-53	-287	-7,774	-7,064
16	19,281*	9,598*	-389*	2,591*	18,287*	19,238*	-14,926*	-39*	290*	-7,600*	-7,769*
23	21,240*	11,431*	-16*	427*	18,806*	18,383*	-13,705*	-12*	1,144*	-4,774*	-10,444*
30	23,665*	12,425*	93*	540*	20,941*	19,969*	-12,519*	-28*	1,892*	-6,244*	-13,404*
Feb. 6	24,391*	12,434*	425*	-462*	21,354*	21,059*	-9,739*	-18*	1,874*	-7,879*	-14,657*
13											
20											
27											

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

* Strictly confidential

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

February 11, 1985

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		
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
1984	3,779	826	1,938	236	441	3,440	--	--	--	--	--	6,964	1,450
1983--QTR. 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
III	-424	600	--	--	--	600	--	--	--	--	--	169	1,982
IV	4,880	28	1,130	335	164	1,657	--	--	--	--	--	6,432	-316
1984--Aug.	-2,104	--	--	--	--	--	--	--	--	--	--	-2,110	4,951
Sept.	3,178	600	--	--	--	600	--	--	--	--	--	3,777	-2,312
Oct.	-2,993	-300	300	--	--	--	--	--	--	--	--	-3,007	-3,805
Nov.	4,463	146	830	335	164	1,475	--	--	--	--	--	5,848	3,612
Dec.	3,410	182	--	--	--	182	--	--	--	--	--	3,591	-123
1985--Jan.	-4,268	--	-100	--	--	-100	--	--	--	--	--	-4,368	-2,315
1984--Nov. 7	15	--	--	--	--	--	--	--	--	--	--	15	2,410
14	1,693	--	--	--	--	--	--	--	--	--	--	1,603	814
21	110	146	830	335	164	1,475	--	--	--	--	--	1,585	-503
28	2,299	--	--	--	--	--	--	--	--	--	--	2,299	-1,319
Dec. 5	476	--	--	--	--	--	--	--	--	--	--	476	-2,356
12	2,389	--	--	--	--	--	--	--	--	--	--	2,389	2,680
19	371	112	--	--	--	112	--	--	--	--	--	482	351
26	234	--	--	--	--	--	--	--	--	--	--	234	2,059
1985--Jan. 2	285	70	--	--	--	70	--	--	--	--	--	355	4,791
9	--	--	--	--	--	--	--	--	--	--	--	--	-5,865
16	-931	--	--	--	--	--	--	--	--	--	--	-931	3,528
23	-2,158	--	-100	--	--	-100	--	--	--	--	--	-2,258	-5,120
30	-630	--	--	--	--	--	--	--	--	--	--	-630	18
Feb. 6	-584	--	--	--	--	--	--	--	--	--	--	-584	727
LEVEL-Feb. 7	66.8	16.8	37.1	14.0	20.2	155.6	2.5	4.3	1.2	.4	8.4	166.5	-.1

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 (+).