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July 3, 1986

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

July 3, 1986

## MONETARY POLICY ALTERNATIVES

### Recent developments

(1) M1 continued to expand rapidly over the last two months, with growth surging to a 23-1/4 percent annual rate in May before decelerating to around 15 percent in June. As a result, the increase in narrow money from March to June, at an annual rate of almost 18 percent, substantially exceeded the Committee's short-run objective, and lifted growth from the fourth quarter of 1985 through June to 13 percent--far above its 3 to 8 percent long-run target cone. Given the second-quarter GNP forecast, M1 velocity is estimated to have declined at about an 11-1/2 percent annual rate last quarter. While there is considerable uncertainty about the cause of the extraordinary strength in both OCD and demand deposits, in large measure it appears to be related to the earlier declines in market interest rates and flattening of the yield curve. The growth in OCDs is part of a more general shift towards liquid forms of saving, given the marked narrowing of the opportunity cost of holding such instruments. Lower interest rates also have spurred demand deposit growth by raising compensating balance requirements for busineses and reducing incentives to manage cash as carefully. It may also be that the increased volume of financial transactions--especially heightened mortgage market activity--has contributed to increases in demand deposits.

(2) Growth of M2, while slowing in both May and June, was still somewhat above the FOMC's 8 to 10 percent short-run March-to-June objective, and brought this aggregate up to around the midpoint of its range for the year. Strength in its more liquid components--including savings, MMDAs,

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

| | April | May | June^p | March to June^p | QIV'85 to June^p | QIV '85 to QII '86 |
|---|---|---|---|---|---|---|
| Money and credit aggregates | | | | | | |
| M1 | 14.5 | 23.2 | 14.8 | 17.7 | 12.8 | 11.9 |
| M2 | 13.7 | 12.0 | 9.0 | 11.7 | 7.7 | 7.3 |
| M3 | 10.7 | 6.8 | 7.0 | 8.2 | 7.8 | 7.9 |
| Domestic nonfinancial debt | 9.8 | 10.0 | 10.0 | 10.0 | 12.7 | 13.0 |
| Bank credit | 2.0 | 5.4 | 3.7 | 3.7 | 7.8 | 8.4 |
| Reserve measures | | | | | | |
| Nonborrowed reserves[1] | 10.2 | 32.4 | 22.6 | 22.1 | 20.1 | 18.7 |
| Total reserves | 10.5 | 33.0 | 22.0 | 22.2 | 17.4 | 15.8 |
| Monetary base | 5.9 | 13.7 | 9.5 | 9.8 | 9.2 | 8.8 |
| Memo: (Millions of dollars) | | | | | | |
| Adjustment and seasonal borrowing | 258 | 292 | 272 | -- | -- | -- |
| Excess reserves | 801 | 838 | 964 | -- | -- | -- |

p -- preliminary
NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months. Data incorporate adjustments for discontinuities associated with implementation of the Monetary Control Act and other regulatory changes to reserve requirements.

1. Includes "other extended credit" from the Federal Reserve.

and MMMFs as well as M1--apparently represented in part shifts from small time deposits, which fell on balance over the quarter. M3 continued to increase at rates around the middle of its range in May and June. Banks ran off large CDs and other managed liabilities as loan demand remained weak while inflows to core deposits were substantial.

(3) The total debt of domestic nonfinancial sectors is estimated to have grown at a 10 percent annual rate in May and June, bringing growth from its fourth-quarter base to June to 12-3/4 percent at an annual rate, above the upper end of its 8 to 11 percent long-run range. Tax-exempt bond issuance by state and local entities has continued strong relative to its light first-quarter pace, as refinancing activity picked up and as legislative developments on proposed tax reform relieved some of the uncertainty about the eligibility of borrowing for certain types of projects. Partly reflecting sales of nonmarketable debt to state and local governments, Treasury borrowing was sizable over the second quarter relative to the usual seasonal pattern. Gross bond offerings by nonfinancial corporations, though tapering off over the course of the quarter, remained substantial, while business loans at banks and commercial paper outstanding contracted on balance. Issuance of equities picked up, but owing to mergers and restructurings, net share retirements were about the same as in the first quarter. Net mortgage borrowing is estimated to have rebounded sharply in the second quarter, reflecting strong residential construction and a higher volume of existing home sales.

(4) Both total and nonborrowed reserves increased at around a 28 percent annual rate from April to June, mirroring the rapid growth in required reserves behind transactions deposits. Excess reserves averaged around $830 million in the first two maintenance periods following the May

FOMC meeting, before rising to $1.3 billion in the most recent period encompassing the quarter-end statement date. Throughout the intermeeting period the nonborrowed reserves path was constructed assuming $300 million in adjustment and seasonal borrowing. In the three complete maintenance periods since the last FOMC meeting borrowing averaged $285 million.

(5) Apart from some firming around the quarter-end, federal funds generally have traded in a narrow range around 6-7/8 percent since the last FOMC meeting. In other markets, interest rates rose early in the period, but subsequently backed off amidst indications of weakness in the economies of the United States and of some major trading partners, which rekindled expectations of a discount rate cut in the near future. On balance, most shortterm market rates have declined 10 to 45 basis points over the intermeeting period. In long-term markets, Treasury yields are down 3/8 to 5/8 of a percentage point, while rates on corporate bonds are about unchanged and those on fixed-rate mortgages have risen about one-half percentage point. The widening spread between rates on long-term private and Treasury instruments appears to reflect not so much quality concerns as strong foreign demands for recently issued long-term Treasuries, heavy issuance activity in private markets, and increased focus on the value of the greater call protection for Treasury issues.

(6) Since the last FOMC meeting, the weighted-average foreign exchange value of the dollar has declined 2-3/4 percent on balance, almost reaching its low of early May. A temporary rise of the dollar's value gave way in June to depreciation as German and Japanese officials expressed reluctance to foster lower interest rates and as U.S. economic data disappointed market expectations. On a bilateral basis, the dollar depreciated

on balance by 3 percent in terms of the mark and by 4-1/2 percent vis-à-vis the yen as the persistence of large U.S. trade deficits drew market attention particularly to the dollar/yen exchange rate.

Long-term targets

(7) The table below presents the current objectives for growth in money and credit from the fourth quarter of 1985 to the fourth quarter of 1986, along with two alternatives. The alternatives specify more rapid growth for M1 and, in alternative II, for the debt of nonfinancial sectors as well. M1 and debt have expanded through midyear at rates well above their current long-run ranges and a slowing in the second half sufficient to bring them within their current ranges is not likely to be consistent with expansion of the broad monetary aggregates within their ranges this year or with the moderately stronger GNP growth projected by the staff in the second half of this year and 1987.

Alternatives for 1986 Ranges

| | Current Ranges | Alt. I | Alt. II |
|---|---|---|---|
| M1 | 3 to 8 | 5 to 10 | 6 to 11 |
| M2 | 6 to 9 | 6 to 9 | 6 to 9 |
| M3 | 6 to 9 | 6 to 9 | 6 to 9 |
| Debt | 8 to 11 | 8 to 11 | 9 to 12 |

(8) Projections of the behavior of M1 are, of course, highly conjectural, given the uncertainties about the outlook for income and interest rates, as well as the relationship of M1 to these variables. The staff does expect M1 to slow in the second half of the year relative to the first. This would be consistent with the greenbook GNP forecast, which is expected to involve little change in short-term interest rates over the balance of the year. Despite the pickup in nominal income growth, flows into M1 could moderate as deposit holdings become more fully adjusted to the lower opportunity costs that now prevail, and as the unusual volume of

mortgage refinancing and other financial transactions tapers off in a more stable interest rate environment. However, should interest rates decline further, M1 growth could well remain quite rapid, considering its apparently considerable sensitivity to changes in market rates. In any case, it seems highly unlikely that M1 would decelerate enough to come within its current range by year-end, absent a sharp firming of money markets. As can be seen in the table below, the 8 percent upper end of that range implies growth at only a 4 percent annual rate from the second to the fourth quarters and at a little over a 1 percent annual rate from June to December.

M1 Growth Rates

| 1985:QIV to 1986:QIV | Implied for 1986:QII to 1986:QIV | Implied for June 1986 to Dec. 1986 |
|---|---|---|
| 7 | 2 | -1 |
| 8 | 4 | 1-1/4 |
| 9 | 5-3/4 | 3-1/2 |
| 10 | 7-3/4 | 5-1/2 |
| 11 | 9-1/2 | 7-3/4 |
| 12 | 11-1/2 | 10 |

(9) In light of the behavior of M1 so far this year and uncertainties surrounding the outlook for velocity over the second half of the year, the Committee could simply indicate that M1 growth is expected to exceed the current range, though by an unknown amount, with the outcome depending on the behavior of the economy, financial markets and the public's deposit preferences. In this context a large overshoot might be considered acceptable as long as the broad aggregates stayed within their ranges and inflation seemed to be remaining subdued. The current M1 range could be retained as a "benchmark" that would be expected to receive little, if any, weight in policy implementation.

(10) Alternatively, the Committee could choose a new range for M1 that it thought would encompass growth consistent with its objectives for the broader aggregates in 1986 and for the economy and inflation in 1986 and into 1987. This approach is embodied in alternatives I and II. The 10 percent upper end of the alternative I range would allow around 7-3/4 percent growth over the second half (and 5-1/2 percent from June to December), implying a further decline in velocity of around 2-1/2 percent at an annual rate, given the staff's GNP forecast. While such a slowing in M1, or even somewhat lower growth, seems quite possible at around current interest rates--especially if some of the unusual factors recently boosting M1 growth abate--the 11 percent upper end of the alternative II range would seem to offer better odds of encompassing M1 growth over the second half of the year. M1 expansion would be required to decelerate to a 9-1/2 percent annual rate over the second half (7-3/4 percent from June to December) to come within the upper end of this alternative, generating a 4 percentage point decline in velocity at an annual rate. Such a decline in velocity might be consistent with some small further easing in money markets, but even the higher upper end of the alternative II range might well not be adequate to support economic expansion along the lines of the staff forecast should interest rates need to drop substantially further. Under these circumstances very little M1 deceleration would be expected, and growth for the year could be around 12 percent.

(11) Specification of a revised target range, as in alternatives I or II, would tend to suggest somewhat less uncertainty about the behavior of M1 over the second half of the year and perhaps a greater willingness on the part of the Committee FOMC to react to growth outside that range. This possibility could be downplayed somewhat if the new range were

designated a "monitoring" range. The base for a new range could be kept as the fourth quarter of 1985, as in the alternatives presented above, or shifted forward to the second quarter of 1986. A rebasing would essentially "forgive" the growth of the first half of the year on the thought that it represented relatively permanent additions to cash balances as interest rates fell to levels more consistent with reduced inflation and sustainable economic growth. Rebasing might also be considered appropriate if the period of unusual M1 growth were thought to be past and more normal velocity relationships were expected to re-emerge. All the alternatives assume slower growth over the second half, and therefore imply lower growth rates from a second-quarter base than from a fourth-quarter base. For example, the 10 and 11 percent upper ends of the alternative I and II ranges imply 7-3/4 and 9-1/2 percent growth, respectively, from the second to the fourth quarters of 1986.[1]

(12) The current ranges for M2 and M3 of 6 to 9 percent for 1986 would be retained under all the alternatives. Both M2 and M3 are now around the middle of their ranges, and would be expected to remain well within these ranges over the balance of the year. Growth of M2 around the midpoint of the range for the second half (and therefore for the year) implies that its velocity would continue to decline, although at a rate slightly below the 2-1/2 percent pace of the first half of the year. M2 growth in the upper portion of the range would be more likely if interest rates were to drop substantially or, if interest rates remain near current levels, shifts of assets to bond and stock mutual funds slow substantially. M3 is expected

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1. Simply moving the base for the current 3 to 8 percent M1 range forward to the second quarter would encompass growth for the year from 7-1/2 percent to a little over 10 percent.

to continue to grow around the midpoint of its range. Bank credit growth should continue near the reduced pace of the first half of the year, as businesses continue to concentrate borrowing in bond markets and consumer credit demands remain subdued.

(13) Debt growth in the second half of the year is expected to run around the pace of recent months, buoyed by large federal deficits and strong net flows into home mortgages. Borrowing by business is projected to moderate a bit; the pace of share retirements is expected to slow, while underlying business needs for external funds may rise somewhat in the second half.[1] In the aggregate, debt is expected to remain above the upper end of its current range in 1986. In recognition of this, alternative II incorporates a one point increase in this range, though debt expansion may still run around the top of, or even a bit above, this higher range.

(14) The table below presents for Committee consideration two alternatives for tentative growth ranges for money and credit for 1987. Under alternative I the current 1986 ranges would be carried over into 1987. Alternative II specifies reductions of one half of a percentage point in both the upper and lower bounds of the ranges for the broad money aggregates and debt. The current M1 range, which already embodies a considerable slowing from growth anticipated this year, would also be retained in alternative II. The approach to the M1 range and its tentative place in policy implementation in 1987 might depend in part on the Committee's decision concerning the treatment of this aggregate over the balance of 1986.

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1. For the year as a whole, borrowing to finance the unusual volume of share retirements is projected to account for about one percentage point of debt growth.

Alternatives for 1987 Ranges

| | Alt. I | Alt. II |
|---|---|---|
| M1 | 3 to 8 | 3 to 8 |
| M2 | 6 to 9 | 5-1/2 to 8-1/2 |
| M3 | 6 to 9 | 5-1/2 to 8-1/2 |
| Debt | 8 to 11 | 7-1/2 to 10-1/2 |

(15) Both alternatives encompass growth rates in money and credit that appear consistent with the staff's GNP projection of a pickup in nominal GNP growth to 6-1/2 percent in 1987. Interest rates are not expected to change much from current levels in this forecast. M2 is likely to grow roughly in line with income, as it has historically. M3 velocity also might remain around recent levels or drop only slightly; asset expansion at depository institutions is expected to remain quite moderate, reflecting the effects of capital guidelines and relatively subdued loan demands at banks. Overall, growth of the debt of nonfinancial sectors is expected to decelerate substantially in 1987 to about a 9-1/2 percent rate, owing importantly to reductions in federal budget deficits. Growth in the debt of nonfederal sectors also is projected to slow, although continuing to outpace the expansion of income. The behavior of M1 velocity, of course, is especially difficult to predict. The long-run trend in M1 velocity, abstracting from interest rate effects, may be on the order of one percent, or perhaps less, now that a larger portion of this aggregate pays returns close to market yields, reducing incentives to innovate. If this trend should begin to emerge over 1987, with interest rates moving in a relatively narrow band and given the staff's GNP forecast, M1 growth could be around 7 percent. In light of the various uncertainties, both alternatives would retain the current wide, 5 percentage point range for M1.

(16) The choice between the two alternatives in these circumstances depends on an assessment of the risks to velocity behavior and to the outlook for the economy and inflation. The higher upper limits of the alternative I ranges allow some greater scope for the possibility of continued declines in the velocities of the monetary aggregates. This could occur should interest rates need to move lower to maintain satisfactory economic growth, owing for example to unanticipated effects of tax reform on investment or on the stance of fiscal policy, or weaker than expected performance of net exports, perhaps as economic expansion abroad remained sluggish. M1 velocity, in particular, might continue to fall sharply under these circumstances, and growth of this aggregate well in excess of the proposed 8 percent upper limit might be needed to support satisfactory economic expansion. With a decline in interest rates, the associated growth of M2 might be in the upper part of its range.[1] While the long-run interest elasticity of this aggregate probably is now small, M2 remains sensitive in the shorter run to rate movements, owing in part to the lags in adjustment of deposit offering rates. Growth close to the upper limits of the alternative I ranges also might be appropriate if the Committee wished to foster somewhat faster economic growth than in the staff forecast, on the view that the risks to inflation would not be excessive.

(17) Alternative II embodies a reduction in the ranges for growth in the broad aggregates and credit, more clearly indicating the Committee's intention to achieve a gradual reduction in money growth in

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1. A significant reduction in the tax advantages of IRAs under tax reform legislation might also boost M2 growth a little in 1987 as a portion of funds that would otherwise be placed in IRAs were allocated to M2 components.

the process of promoting a return to price stability. In the event that income growth is considerably more rapid than expected--for example, if the risk of a more substantial acceleration of inflation is realized--this alternative would imply a somewhat less accommodative stance of monetary policy. The restraint on money growth under this alternative in the face of upward price pressures would be more likely to entail some rise in interest rates, and perhaps slower growth in the economy over the short term, but the odds would be reduced that price increases in 1987 would affect longer-run inflation expectations and get built into the underlying wage and price process. The greater interest rate pressures that might be felt under this alternative should prices or the economy tend to surge would have a particularly restraining effect on M1; in these circumstances M1 might tend to grow in the lower part of its range even as M2 and M3 were expanding near the upper bounds of their respective ranges.

Near-term policy alternatives

(18) The table below gives three alternative specifications for the monetary aggregates for the June-to-September period along with associated federal funds rate ranges. (More detailed data, including implied growth from the fourth quarter of 1985 to September, are given on the table and charts on the following pages.) All the alternatives specify a considerable slowing of M1 growth from the second quarter, though this aggregate in September would remain far above the upper bound of its 1986 range set in February. M2 and M3 would remain reasonably near the center of their annual ranges under all the alternatives.

| | Alt. A | Alt. B | Alt. C |
|---|---|---|---|
| Growth from June to September | | | |
| M1 | 10 | 8 | 6 |
| M2 | 8-3/4 | 7-1/2 | 6-1/4 |
| M3 | 7-3/4 | 7 | 6-1/4 |
| Associated federal funds rate | 4 to 8 | 5 to 9 | 6 to 10 |

(19) M1 growth under alternative B, which assumes reserve pressures remain unchanged, would average 8 percent at an annual rate over the next three months. Adjustment plus seasonal borrowing at the discount window would continue around $300 million and federal funds trading would stay in an area around 6-7/8 percent. Demand deposit expansion would be expected slow markedly, as the effects of lower interest rates on growth in corporate compensating balances and of heavy refinancing activity begin to ebb. Even if depository institutions do not reduce NOW account offering

## 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 |
| **Levels in billions** | | | | | | | | | |
| 1986-April | 646.1 | 646.1 | 646.1 | 2620.8 | 2620.8 | 2620.8 | 3288.6 | 3288.6 | 3288.6 |
| May | 658.6 | 658.6 | 658.6 | 2647.0 | 2647.0 | 2647.0 | 3307.2 | 3307.2 | 3307.2 |
| June | 666.7 | 666.7 | 666.7 | 2666.9 | 2666.9 | 2666.9 | 3326.4 | 3326.4 | 3326.4 |
| July | 672.1 | 671.7 | 671.3 | 2684.7 | 2683.6 | 2682.5 | 3346.9 | 3346.1 | 3345.2 |
| August | 677.7 | 676.2 | 674.7 | 2704.6 | 2700.4 | 2696.1 | 3367.8 | 3365.1 | 3362.2 |
| September | 683.4 | 680.1 | 676.7 | 2724.8 | 2716.9 | 2709.0 | 3391.2 | 3384.6 | 3378.0 |
| **Monthly Growth Rates** | | | | | | | | | |
| 1986-April | 14.5 | 14.5 | 14.5 | 13.7 | 13.7 | 13.7 | 10.7 | 10.7 | 10.7 |
| May | 23.2 | 23.2 | 23.2 | 12.0 | 12.0 | 12.0 | 6.8 | 6.8 | 6.8 |
| June | 14.8 | 14.8 | 14.8 | 9.0 | 9.0 | 9.0 | 7.0 | 7.0 | 7.0 |
| July | 9.7 | 9.0 | 8.3 | 8.0 | 7.5 | 7.0 | 7.4 | 7.1 | 6.8 |
| August | 10.0 | 8.0 | 6.1 | 8.9 | 7.5 | 6.1 | 7.5 | 6.8 | 6.1 |
| September | 10.1 | 6.9 | 3.6 | 9.0 | 7.3 | 5.7 | 8.3 | 7.0 | 5.6 |
| **Quarterly Ave. Growth Rates** | | | | | | | | | |
| 1985-Q4 | 10.7 | 10.7 | 10.7 | 6.0 | 6.0 | 6.0 | 6.5 | 6.5 | 6.5 |
| 1986-Q1 | 7.7 | 7.7 | 7.7 | 4.3 | 4.3 | 4.3 | 7.4 | 7.4 | 7.4 |
| Q2 | 15.8 | 15.8 | 15.8 | 10.2 | 10.2 | 10.2 | 8.2 | 8.2 | 8.2 |
| Q3 | 12.5 | 11.5 | 10.4 | 9.0 | 8.4 | 7.7 | 7.4 | 7.0 | 6.6 |
| Mar. 86 to June 86 | 17.7 | 17.7 | 17.7 | 11.7 | 11.7 | 11.7 | 8.2 | 8.2 | 8.2 |
| June 86 to Sept.86 | 10.0 | 8.0 | 6.0 | 8.7 | 7.5 | 6.3 | 7.8 | 7.0 | 6.2 |
| July 86 to Sept.86 | 10.1 | 7.5 | 4.8 | 9.0 | 7.4 | 5.9 | 7.9 | 6.9 | 5.9 |
| Q4 85 to June 86 | 12.8 | 12.8 | 12.8 | 7.7 | 7.7 | 7.7 | 7.8 | 7.8 | 7.8 |
| Q4 85 to Sept.86 | 12.2 | 11.6 | 10.9 | 8.1 | 7.8 | 7.4 | 7.9 | 7.7 | 7.4 |
| Q2 86 to Sept.86 | 12.0 | 10.5 | 8.9 | | | | | | |
| 1986 Target Ranges: | | 3 to 8 | | | 6 to 9 | | | 6 to 9 | |

Chart 1

ACTUAL AND TARGETED M1

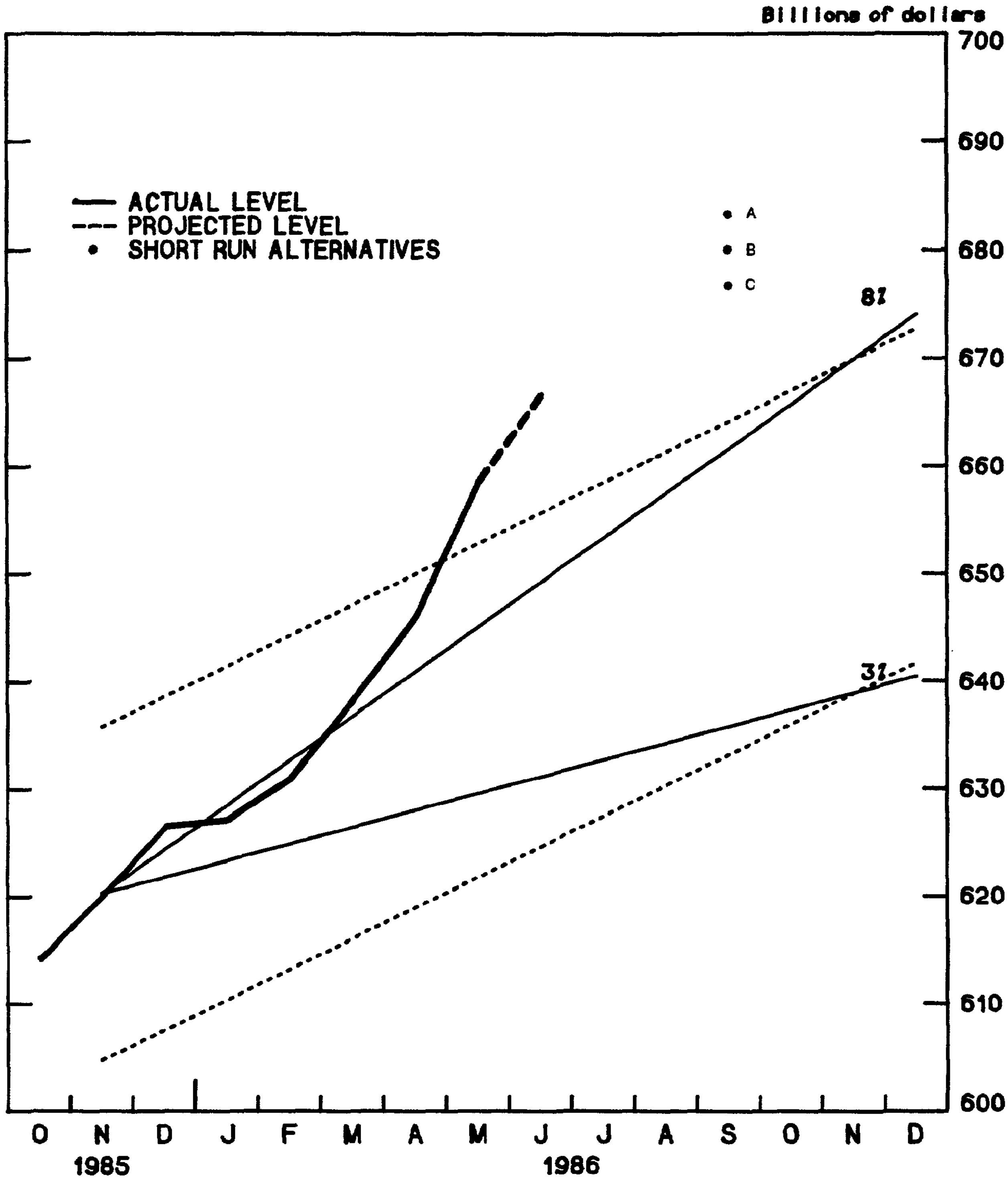


Chart 2
# ACTUAL AND TARGETED M2

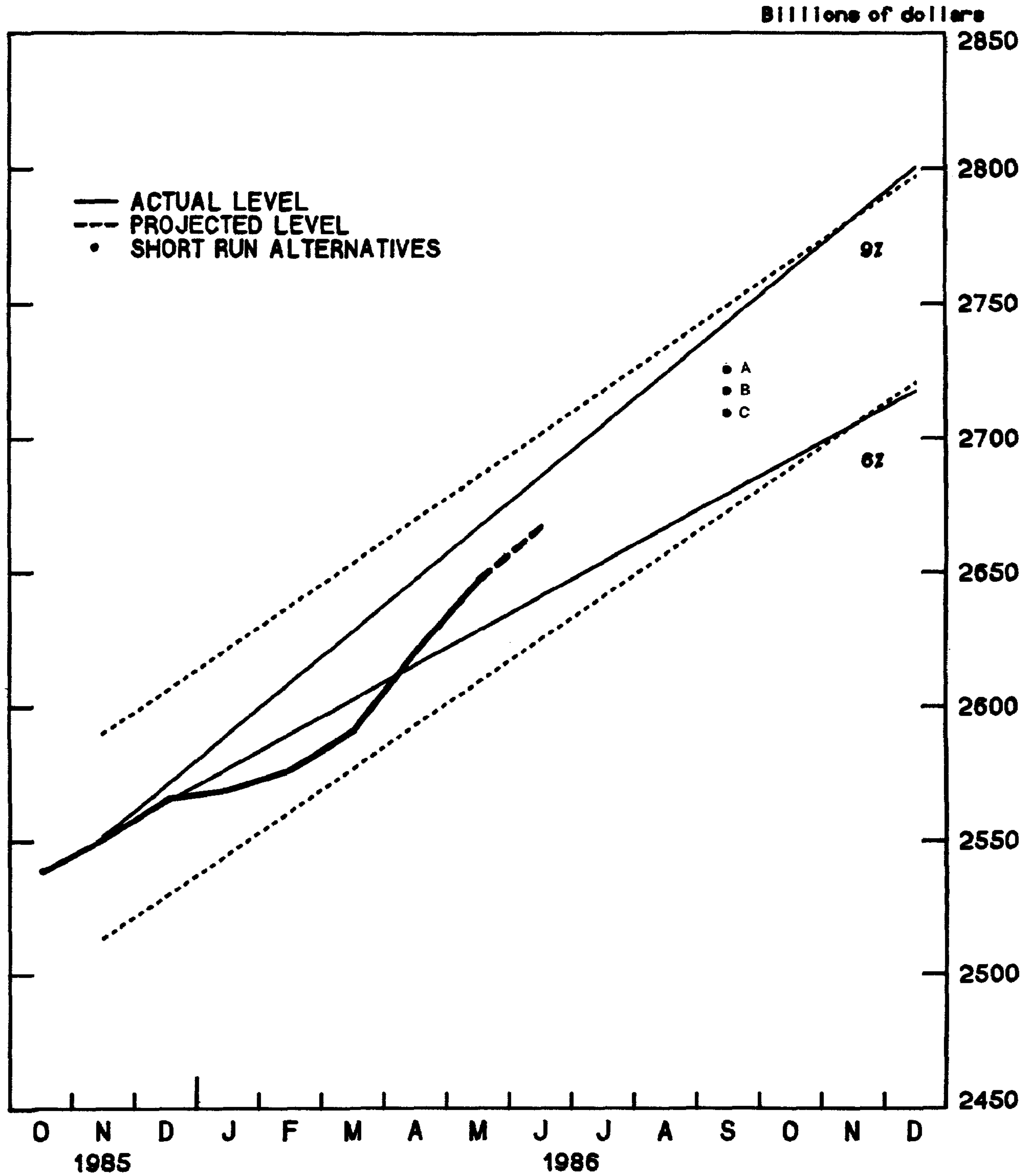


Chart 3
# ACTUAL AND TARGETED M3

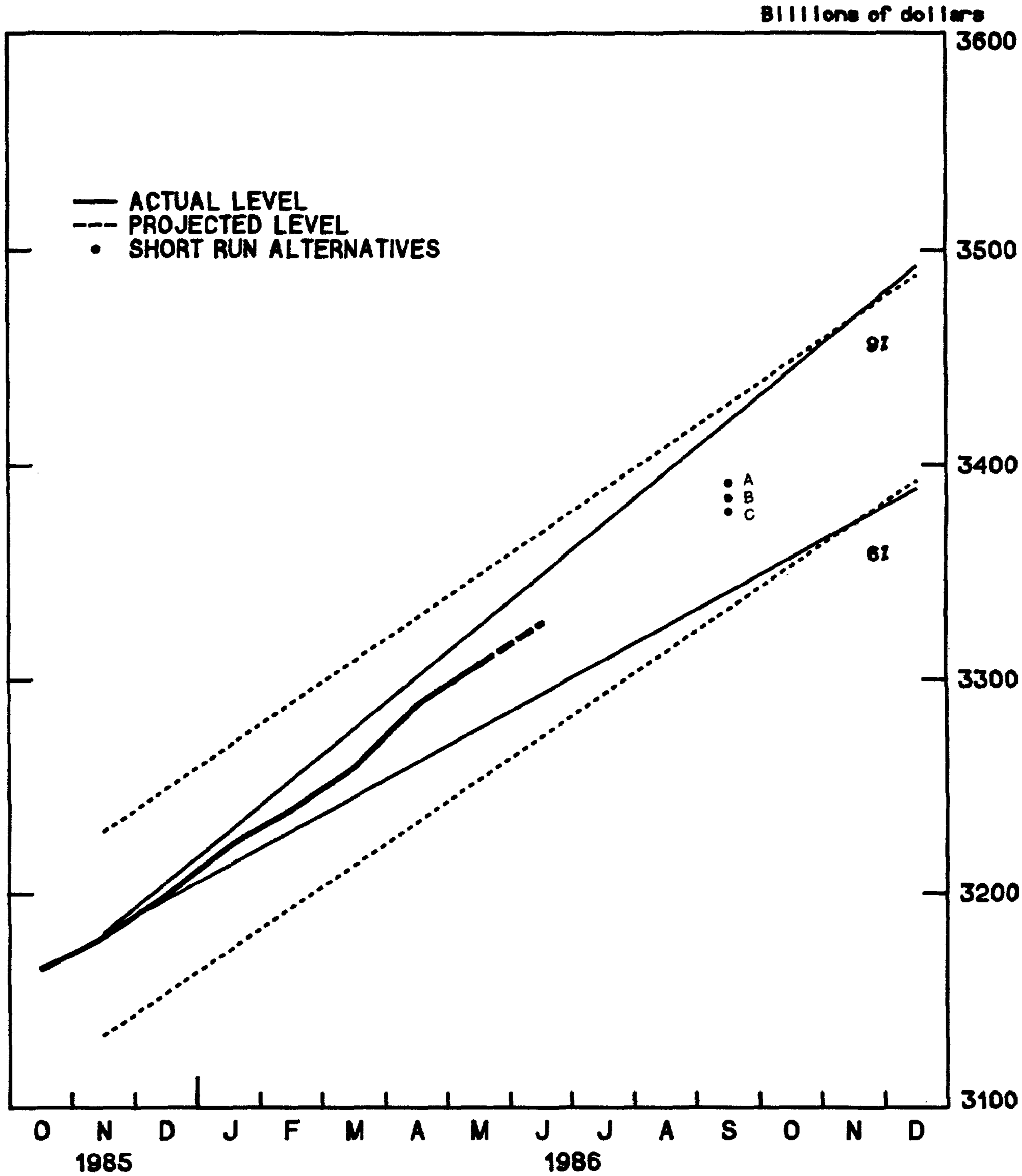
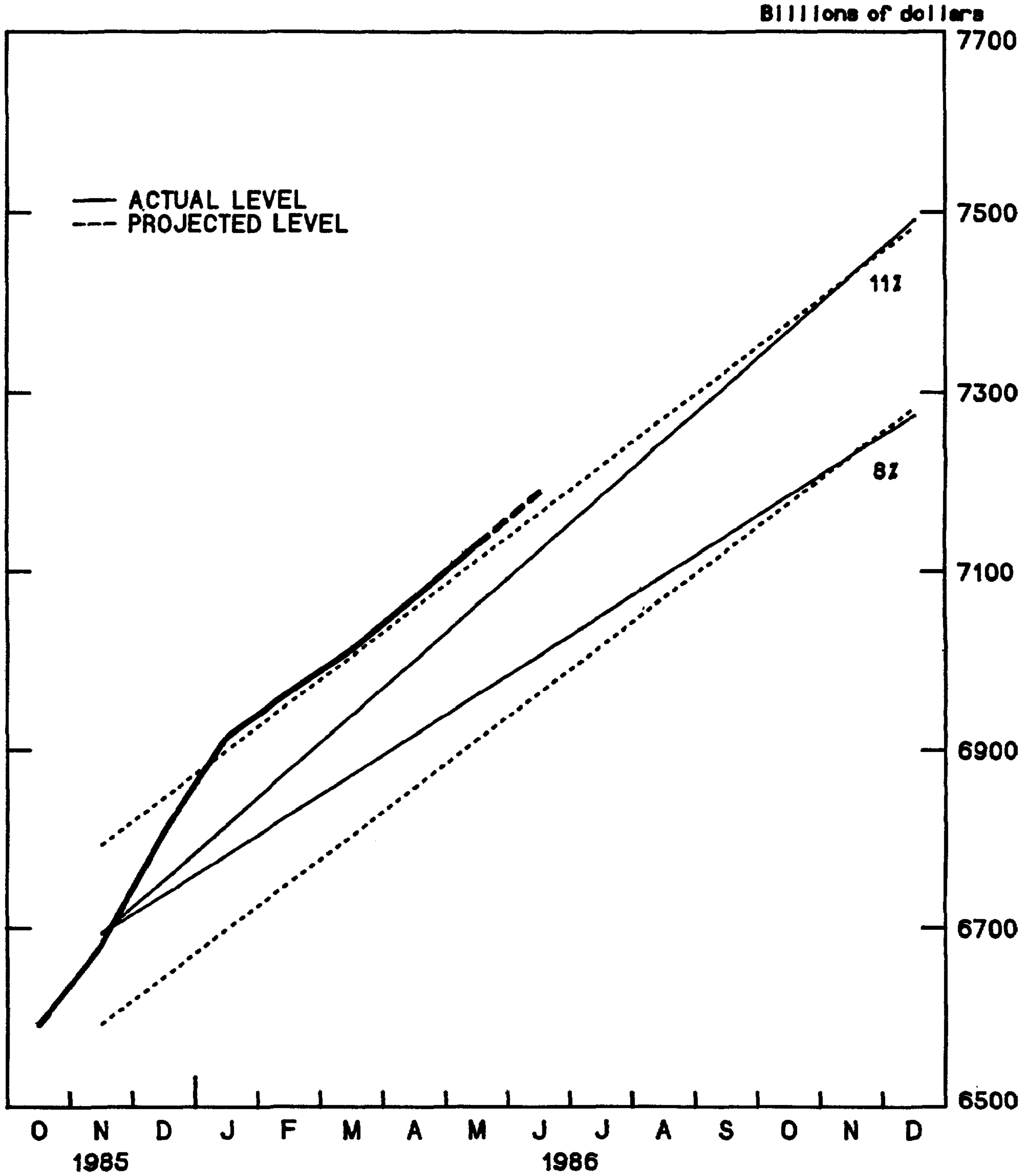


Chart 4
DEBT


Billions of dollars
ACTUAL LEVEL
PROJECTED LEVEL
7700
7500
7300
7100
6900
6700
6500
11%
8%
O
N
D
J
F
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O
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1986

rates further, inflows to other checkable deposits should tail off toward more normal levels as adjustments to the current structure of interest rates and opportunity costs wind down. M1 growth on a quarterly average basis, though, would drop only to 11-1/2 percent in the third quarter under alternative B, owing to the arithmetic carryover effect of the rapid buildup of cash balances in recent months. Such an increase in M1, given the 4-3/4 percent growth in nominal GNP projected in the third quarter, implies a decline in M1 velocity somewhat in excess of 6 percent--about the same as the average pace over the past year and a half.

(20) M2 growth under alternative B would slow further from June, remaining close to the midpoint of its longer-run range through September. Within the nontransactions component of M2, a moderation of inflows to liquid retail deposits and money fund shares is expected to about offset reduced outflows from small time deposits. M3 would grow at around its pace of both May and June under alternative B, also keeping it close to the midpoint of its longer-run range. CD issuance at banks and thrifts is expected to pick up in the face of slower core deposit growth and some modest quickening in loan demand. Overall debt growth, however, is likely to remain in line with the pace of recent months.

(21) The current market optimism regarding the likelihood of a decline in the discount rate presumably would not be validated under alternative B, and some edging up of rates from their most recent lows could be expected, especially should economic activity begin to show signs of the moderate strengthening as anticipated in the greenbook forecast. The 3-month Treasury bill rate might well end the quarter closer to 6-1/4 percent than to its current quote of a little below 6 percent, and the 30-year Treasury bond rate also would tend to back up a little from its

most recent level around 7-1/4 percent. Given the unusually wide spread between Treasury and private long-term rates, the latter might increase by somewhat less, especially if volume in bond and mortgage markets drops off. Despite the slight firming of interest rates, the downward trend of the dollar on foreign exchange markets is likely to persist in light of the continued large external deficit.

(22) Alternative A contemplates an easing of reserve conditions, characterized by frictional discount window borrowing of around $150 million and the federal funds rate averaging a little below 6-1/2 percent. (Alternative A would also be consistent with a combination of a 6 percent discount rate and maintenance of borrowing at the current $300 million level.) M1 growth is projected to average around 10 percent over the three months under these circumstances. M2 growth would be likely to remain near its June pace, ending the quarter somewhat above the midpoint of its range. With short-term rates drawing even closer to rates customarily paid on savings deposits and regular NOWs, there could be some risk of even faster M1 and M2 growth than specified over the summer months, especially if depository institutions are reluctant to reduce offering rates on these accounts. M3 growth, though, would not be expected to accelerate as much since some of the pickup in core deposits would be offset by reduced issuance of managed liabilities.

(23) The 3-month bill rate could drop to around 5-3/4 percent, and bond yields would also move lower, perhaps substantially if market participants interpret the easing of reserve conditions as signaling Federal Reserve concern about prospective weakness of economic activity. However, any such move could well be reversed subsequently, at least in part, if the economic strengthening and rising inflation rates projected

by the staff become evident. The value of the dollar on foreign exchange markets could initially come under substantial downward pressure. If key foreign authorities similarly adjust their monetary policies, however, pressure on the dollar would be lessened.

(24) Alternative C contemplates a tightening of reserve conditions and a more sizable slowing of growth in the monetary aggregates from their pace of recent months. M1 growth over June to September, at 6 percent, would be restrained to only about one-third of its March-to-June pace, cutting into some of the present overshoot of this aggregate relative to the upper bound of its current annual range. Both M2 and M3 would grow more slowly over the next three months than the midpoint of their ranges for the year, and the levels of these broader aggregates would edge a bit below the middle of their ranges by September. Discount window borrowing would rise to around $500 million, with the federal funds rate backing up into the 7-1/4 to 7-3/8 percent area.

(25) Choice of this alternative would surprise market participants who are currently speculating on the possibility of some near-term monetary easing, and market interest rates could register a marked upward adjustment. The 3-month Treasury bill rate could rise to nearly 6-3/4 percent, and long-term yields would back up substantially. Such a reversal of the recent credit market rally likely would cause the dollar to firm on international exchange markets. As the year progressed, this alternative would act to restrain inflationary pressures, but probably at the expense of a softening of economic activity relative to the staff forecast. Under those conditions, a decline in interest rates later in the year probably would be required to sustain the economic expansion, and a reversal of the near-term dollar strengthening could then occur.

Directive language

(26) Presented below for Committee consideration are alternatives for directive language dealing with the long-run ranges for 1986 and 1987, as well as with the operational paragraph. Two variants for the language describing the 1986 ranges are presented. Variant I embodies an approach in which the Committee would not specify a new range for M1, but would indicate its willingness to accept growth in excess of the current range. Variant II might be more appropriate should the Committee wish to specify a new range for M1 for 1986. In this variant, one sentence in brackets would accommodate a rebasing to the second quarter while another would allow for designation of the M1 range as a monitoring range. The two variants also give alternative language in brackets should the Committee decide to raise the debt range. Both retain language from the current directive to describe the uncertainties associated with M1 behavior and the various financial and economic conditions in light of which M1 would be evaluated. The language of the present directive is shown after Variant II.

(27) The proposed language for 1987 follows closely that used in the latter part of 1985 to describe the 1986 ranges. It presumes that the Commitee will be setting an M1 range for next year and does not address the possibility of a formal downgrading of that range; however, as indicated, the M1 range would be regarded as more provisional than the other ranges.

(28) Proposed language for the operational paragraph is shown using the usual strike-through and capitalization techniques to indicate changes from the current directive. The directive adopted at the May

meeting was keyed closely to the particular circumstances obtaining at the time of the meeting--especially the rapid money growth early in the second quarter and expectations that it would slow over the balance of the quarter. With regard to possible intermeeting adjustments to reserve pressures, two alternatives are presented in brackets; the first adapts the language used in May, while the second is similar to that used in earlier directives. Should the Committee choose to designate the M1 range as a monitoring range or not to set a new long-run objective for M1, it may wish to delete the sentence in the operating paragraph specifying expected M1 growth.

Proposed language for 1986

VARIANT I

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, 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 established in February for growth of 6 to 9 percent for both M2 and M3, measured from the fourth quarter of 1985 to the fourth quarter of 1986. The associated range for growth in total domestic nonfinancial debt was also retained at 8 to 11 percent for the year [was raised to ___ to ___ percent in light of its ongoing strength relative to income]. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activity and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. In light of these uncertainties and of the substantial decline in velocity in the first half of the year, the Committee decided that growth of M1 in excess of the previously established 3-to-8 percent range for 1986 could be acceptable, depending on the behavior of velocity over the balance of the year growth in the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures.

VARIANT II

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, 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 established in February for growth of 6 to 9 percent for both M2 and M3, measured from the fourth quarter of 1985 to the fourth quarter of 1986. The associated range for growth in total domestic nonfinancial debt was also retained at 8 to 11 percent for the year [was raised to ___ to ___ percent in light of its ongoing strength relative to income]. With respect to M1, given the decline in its velocity in the first half of the year, the range initially set in February for 1986 was raised to ___ to ___ percent, which was considered more consistent with the ranges for the broader monetary aggregates. [The base for the M1 range was moved forward to the second quarter of 1986 and a range at an annual rate of ___ to ___ percent was established for the second half of the year.] The Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activity and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. [Considering these uncertainties, the Committee agreed that in the implementation of policy, growth of M1 would (only) be monitored relative to its range.] M1 would be evaluated in light of its consistency with the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures.

CURRENT LANGUAGE

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, 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 its February meeting to establish the following ranges for monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate was subject to substantial uncertainties in relationship to economic activity and prices, depending among other things on its responsiveness to changes in interest rates. It agreed that an appropriate target range under existing circumstances would be 3 to 8 percent, but it intends to evaluate movements in M1 in the light of its consistency with the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures. It adopted a range of 6 to 9 percent for M2 and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for the year 1986.

Proposed language for 1987

For 1987 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1986 to the fourth quarter of 1987, of ____ to ____ percent for M1, ____ to ____ percent for M2, and ____ to ____ percent for M3. The associated range for growth in total domestic nonfinancial debt was provisionally set at ____ to ____ percent for 1987. With respect to M1 particularly, the Committee recognized that uncertainties surrounding the behavior of its velocity would require careful reappraisal of the target range at the beginning of 1987.

Proposed operational paragraph

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain (Alt. B)/ INCREASE SOMEWHAT (Alt. C) the existing degree of pressure on reserve positions. This action is expected to be consistent with ~~a deceleration in money growth over the balance of the quarter. However, in view of the rapid money growth thus far in the quarter and the apparent weakness in velocity, the Committee anticipates faster growth for the monetary aggregates, particularly M1, than expected at the last meeting.~~ GROWTH IN M2 and M3 ~~are expected to expand~~ over the period from ~~March to~~ June TO SEPTEMBER at annual rates of about ~~8 to 10~~ ____ AND ____ percent RESPECTIVELY. While the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of about ~~12-to-14~~ ________ percent over the period is ~~now~~ anticipated. ~~If the anticipated slowing in monetary growth does not develop,~~ [Somewhat greater reserve restraint would (MIGHT) be acceptable in the context of (MORE RAPID GROWTH IN THE MONETARY AGGREGATES AND) a pickup in growth of the economy, taking account of conditions in domestic and international financial markets and the behavior of the dollar in foreign exchange markets. Somewhat lesser reserve restraint might (WOULD) be acceptable in the context of a marked slowing in money growth and pronounced sluggishness in economic performance.] [SOMEWHAT GREATER RESERVE RESTRAINT (WOULD) (MIGHT), AND SOMEWHAT LESSER RESTRAINT (WOULD) (MIGHT), BE ACCEPTABLE DEPENDING ON THE BEHAVIOR OF THE AGGREGATES, THE STRENGTH OF THE BUSINESS EXPANSION, DEVELOPMENTS IN FOREIGN EXCHANGE MARKETS, PROGRESS AGAINST INFLATION, AND CONDITIONS IN DOMESTIC AND INTERNATIONAL CREDIT MARKETS.] The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of ~~5-to-9~~ ____ TO ____ percent.

# Selected Interest Rates

July 7, 1986

Percent

| Period | Short-term: federal funds | Treasury bills secondary market: 3-month | Treasury bills secondary market: 6-month | Treasury bills secondary market: 1-year | CDs secondary market 3-month | comm. paper 1-month | money market mutual fund | bank prime loan | Long-Term: U.S. government constant maturity yields: 3-year | U.S. government constant maturity yields: 10-year | U.S. government constant maturity yields: 30-year | corporate A utility recently offered | municipal Bond Buyer | conventional home mortgages: secondary market: fixed-rate | conventional home mortgages: primary market: fixed-rate | conventional home mortgages: primary market: ARM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1985--High | 8.98 | 8.65 | 9.03 | 9.21 | 9.13 | 8.83 | 8.31 | 10.75 | 11.19 | 11.95 | 11.89 | 13.23 | 10.31 | 13.57 | 13.29 | 11.14 |
| Low | 7.13 | 6.77 | 6.92 | 7.06 | 7.34 | 7.22 | 7.00 | 9.50 | 8.24 | 9.07 | 9.34 | 10.62 | 8.85 | 10.52 | 11.09 | 9.17 |
| 1986--High | 9.55 | 7.21 | 7.30 | 7.35 | 7.94 | 7.91 | 7.22 | 9.50 | 8.60 | 9.38 | 9.52 | 10.83 | 8.72 | 10.97 | 10.99 | 9.09 |
| Low | 6.82 | 5.89 | 5.93 | 5.90 | 6.42 | 6.51 | 6.15 | 8.50 | 6.66 | 7.15 | 7.25 | 9.15 | 7.55 | 9.57 | 9.86 | 8.41 |
| June | 7.53 | 6.95 | 7.09 | 7.27 | 7.44 | 7.34 | 7.21 | 9.78 | 9.05 | 10.16 | 10.45 | 11.60 | 9.18 | 11.88 | 12.22 | 9.89 |
| July | 7.88 | 7.08 | 7.20 | 7.31 | 7.64 | 7.58 | 7.03 | 9.50 | 9.18 | 10.31 | 10.50 | 11.64 | 9.20 | 11.94 | 12.03 | 9.68 |
| Aug. | 7.90 | 7.14 | 7.32 | 7.48 | 7.81 | 7.73 | 7.08 | 9.50 | 9.31 | 10.33 | 10.56 | 11.76 | 9.44 | 12.04 | 12.19 | 9.52 |
| Sept. | 7.92 | 7.10 | 7.27 | 7.51 | 7.93 | 7.83 | 7.10 | 9.50 | 9.37 | 10.37 | 10.61 | 11.87 | 9.61 | 12.11 | 12.19 | 9.52 |
| Oct. | 7.99 | 7.16 | 7.33 | 7.45 | 7.88 | 7.81 | 7.15 | 9.50 | 9.25 | 10.24 | 10.50 | 11.82 | 9.54 | 11.97 | 12.14 | 9.50 |
| Nov. | 8.05 | 7.24 | 7.30 | 7.33 | 7.81 | 7.84 | 7.21 | 9.50 | 8.88 | 9.78 | 10.06 | 11.35 | 9.22 | 11.51 | 11.78 | 9.38 |
| Dec. | 8.28 | 7.10 | 7.14 | 7.16 | 7.80 | 7.87 | 7.23 | 9.50 | 8.40 | 9.26 | 9.54 | 10.93 | 8.96 | 10.83 | 11.26 | 9.19 |
| 1986--Jan. | 8.14 | 7.07 | 7.17 | 7.21 | 7.82 | 7.78 | 7.15 | 9.50 | 8.41 | 9.19 | 9.40 | 10.74 | 8.50 | 10.79 | 10.88 | 9.01 |
| Feb. | 7.86 | 7.06 | 7.11 | 7.11 | 7.69 | 7.70 | 7.11 | 9.50 | 8.10 | 8.70 | 8.93 | 10.21 | 7.99 | 10.45 | 10.71 | 8.93 |
| Mar. | 7.48 | 6.56 | 6.57 | 6.59 | 7.24 | 7.30 | 6.96 | 9.10 | 7.30 | 7.78 | 7.96 | 9.41 | 7.74 | 9.86 | 10.08 | 8.65 |
| Apr. | 6.99 | 6.06 | 6.08 | 6.06 | 6.60 | 6.75 | 6.58 | 8.83 | 6.86 | 7.30 | 7.39 | 9.26 | 7.64 | 9.71 | 9.93 | 8.53 |
| May | 6.85 | 6.15 | 6.19 | 6.25 | 6.65 | 6.72 | 6.22 | 8.50 | 7.27 | 7.71 | 7.52 | 9.50 | 7.96 | 10.22 | 10.21 | 8.57 |
| June | 6.92 | 6.21 | 6.27 | 6.32 | 6.73 | 6.79 | 6.17p | 8.50 | 7.41 | 7.80 | 7.57 | 7.65 | 8.30 | 10.45 | 10.68 | 8.60 |
| Apr. 2 | 7.39 | 6.34 | 6.32 | 6.32 | 7.07 | 7.26 | 6.88 | 9.00 | 7.05 | 7.40 | 7.49 | 9.21 | 7.56 | 9.77 | 9.99 | 8.66 |
| 9 | 7.05 | 6.19 | 6.18 | 6.14 | 6.81 | 7.01 | 6.76 | 9.00 | 6.93 | 7.37 | 7.45 | 9.19 | 7.63 | 9.75 | 9.98 | 8.61 |
| 16 | 6.97 | 5.89 | 5.94 | 5.90 | 6.49 | 6.67 | 6.68 | 9.00 | 6.66 | 7.18 | 7.29 | 9.15 | 7.55 | 9.57 | 9.92 | 8.50 |
| 23 | 6.92 | 5.92 | 5.93 | 5.92 | 6.42 | 6.51 | 6.50 | 8.79 | 6.69 | 7.15 | 7.25 | 9.47 | 7.69 | 9.77 | 9.86 | 8.41 |
| 30 | 6.89 | 6.11 | 6.17 | 6.19 | 6.53 | 6.61 | 6.38 | 8.50 | 7.12 | 7.47 | 7.53 | 9.41 | 7.79 | 9.67 | 9.90 | 8.46 |
| May 7 | 6.87 | 6.08 | 6.11 | 6.13 | 6.55 | 6.68 | 6.30 | 8.50 | 7.03 | 7.46 | 7.54 | 9.42 | 7.76 | 9.87 | 10.00 | 8.59 |
| 14 | 6.82 | 6.08 | 6.09 | 6.15 | 6.58 | 6.69 | 6.25 | 8.50 | 7.09 | 7.57 | 7.40 | 9.53 | 7.91 | 10.17 | 10.08 | 8.57 |
| 21 | 6.87 | 6.20 | 6.23 | 6.33 | 6.73 | 6.77 | 6.19 | 8.50 | 7.46 | 7.91 | 7.60 | 9.57 | 8.09 | 10.32 | 10.36 | 8.57 |
| 28 | 6.85 | 6.18 | 6.25 | 6.30 | 6.69 | 6.73 | 6.19 | 8.50 | 7.40 | 7.80 | 7.45 | 9.60 | 8.07 | 10.52 | 10.38 | 8.54 |
| Jun. 4 | 6.95 | 6.38 | 6.46 | 6.52 | 6.78 | 6.70 | 6.15 | 8.50 | 7.70 | 8.19 | 7.81 | 9.70 | 8.36 | 10.67 | 10.74 | 8.62 |
| 11 | 6.89 | 6.36 | 6.43 | 6.49 | 6.84 | 6.84 | 6.17 | 8.50 | 7.65 | 8.09 | 7.76 | 9.66 | 8.51 | 10.32 | 10.76 | 8.60 |
| 18 | 6.87 | 6.15 | 6.24 | 6.26 | 6.72 | 6.80 | 6.19 | 8.50 | 7.33 | 7.71 | 7.50 | 9.70 | 8.27 | 10.47 | 10.61 | 8.65 |
| 25 | 6.86 | 6.10 | 6.15 | 6.19 | 6.66 | 6.75 | 6.17 | 8.50 | 7.22 | 7.55 | 7.43 | 9.55 | 8.05 | 10.32 | 10.62 | 8.54 |
| July 2 | 7.02 | 6.01 | 5.99 | 6.05 | 6.55 | 6.72 | 6.19 | 8.50 | 7.03 | 7.38 | 7.26 | 9.49 | 7.90 | 10.27 | 10.61 | 8.54 |
| Daily--June 27 | 6.82 | 6.02 | 6.00 | 6.08 | 6.59 | 6.73 | -- | 8.50 | 7.06 | 7.38 | 7.29 | -- | -- | -- | -- | -- |
| July 3 | 6.85p | 5.91 | 5.85 | 5.89 | 6.47 | 6.69 | -- | 8.50 | 6.92p | 7.32p | 7.18p | -- | -- | -- | -- | -- |
| 4 | M | A | R | K | | E | T | | C | L | O | | S | E | D | |

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 the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments on the Friday following the end of the statement week. Column 15 is the average contract rate on new commitments for fixed-rate mortgages (FRMs) with 80 percent loan-to-value ratios at a sample of savings and loans. Column 16 is the average initial contract rate on new commitments for one-year, adjustable-rate mortgages (ARMs) at S&Ls offering both FRMs and ARMs with the same number of discount points.

# Money and Credit Aggregate Measures

Seasonally adjusted

Strictly Confidential (FR)—
Class II FOMC

JULY 7, 1986

| Period | Money stock measures and liquid assets | | | | | | Bank credit | Domestic nonfinancial debt[2] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | M1 | M2 | nontransactions components in M2 | nontransactions components in M3 only | M3 | L | total loans and investments[1] | U.S. government[2] | other[2] | total[2] |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| PERCENT ANNUAL GROWTH: | | | | | | | | | | |
| ANNUALLY (QIV TO QIV) | | | | | | | | | | |
| 1983 | 10.4 | 12.2 | 12.8 | 1.0 | 9.9 | 10.4 | 10.6 | 21.5 | 8.5 | 11.2 |
| 1984 | 5.4 | 8.0 | 8.8 | 21.2 | 10.5 | 11.9 | 11.2 | 15.8 | 13.8 | 14.3 |
| 1985 | 11.9 | 8.6 | 7.6 | 3.7 | 7.6 | 8.5 | 9.9 | 15.2 | 13.6 | 14.0 |
| QUARTERLY AVERAGE | | | | | | | | | | |
| 3RD QTR. 1985 | 14.5 | 9.5 | 8.0 | -0.3 | 7.6 | 7.8 | 9.6 | 14.6 | 12.4 | 12.9 |
| 4TH QTR. 1985 | 10.7 | 6.0 | 4.6 | 8.3 | 6.5 | 9.4 | 9.4 | 15.2 | 14.4 | 14.6 |
| 1ST QTR. 1986 | 7.7 | 4.3 | 3.2 | 20.1 | 7.4 | 8.1 | 12.7 | 17.5 | 15.7 | 16.1 |
| 2ND QTR. 1986 PE | 15 ¾ | 10 ¼ | 8 ½ | ½ | 8 ¾ | | 4 | | | |
| MONTHLY | | | | | | | | | | |
| 1985--JUNE | 17.3 | 13.2 | 11.9 | 1.6 | 10.8 | 9.4 | 10.7 | 14.4 | 11.6 | 12.2 |
| JULY | 10.8 | 8.3 | 7.4 | -4.1 | 5.9 | 5.7 | 9.1 | 16.6 | 12.2 | 13.2 |
| AUG. | 17.3 | 9.3 | 6.8 | -2.3 | 6.9 | 9.1 | 7.7 | 14.0 | 13.0 | 13.2 |
| SEPT. | 13.3 | 6.7 | 4.6 | 11.5 | 7.7 | 9.1 | 8.7 | 7.9 | 13.3 | 12.1 |
| OCT. | 5.3 | 4.2 | 3.9 | 11.2 | 5.6 | 6.9 | 5.4 | 9.1 | 13.2 | 12.3 |
| NOV. | 11.5 | 5.9 | 4.0 | 5.6 | 5.8 | 12.0 | 13.3 | 24.5 | 13.5 | 16.1 |
| DEC. | 12.6 | 7.1 | 5.3 | 9.0 | 7.4 | 12.3 | 15.6 | 28.9 | 21.6 | 23.3 |
| 1986--JAN. | 1.1 | 1.5 | 1.6 | 37.5 | 8.6 | 6.9 | 18.7 | 16.4 | 19.0 | 18.4 |
| FEB. | 7.3 | 3.5 | 2.3 | 16.7 | 6.2 | 5.7 | 3.4 | 9.8 | 8.5 | 8.7 |
| MAR. | 14.1 | 6.8 | 4.4 | 9.6 | 7.4 | 3.9 | 5.6 | 5.3 | 9.2 | 8.3 |
| APR. | 14.5 | 13.7 | 13.5 | -0.9 | 10.7 | 7.9 | 2.0 | 7.8 | 10.3 | 9.7 |
| MAY | 23.2 | 12.0 | 8.4 | -13.7 | 6.8 | | 5.4 | 12.7 | 9.2 | 10.0 |
| JUNE PE | 15 | 9 | 7 | -1 | 7 | | 4 | | | |
| MONTHLY LEVELS ($BILLIONS) | | | | | | | | | | |
| 1986--JAN. | 627.2 | 2569.0 | 1941.8 | 653.9 | 3222.9 | 3859.0 | 1930.0 | 1608.0 | 5306.1 | 6914.1 |
| FEB. | 631.0 | 2576.6 | 1945.6 | 663.0 | 3239.6 | 3877.2 | 1935.5 | 1621.1 | 5343.5 | 6964.5 |
| MAR. | 638.4 | 2591.2 | 1952.8 | 668.3 | 3259.5 | 3889.7 | 1944.6 | 1628.2 | 5384.4 | 7012.6 |
| APR. | 646.1 | 2620.8 | 1974.7 | 667.8 | 3288.6 | 3915.4 | 1947.9 | 1638.8 | 5430.6 | 7069.5 |
| MAY | 658.6 | 2647.0 | 1988.5 | 660.2 | 3307.2 | | 1956.7 | 1656.2 | 5472.4 | 7128.6 |
| WEEKLY LEVELS ($BILLIONS) | | | | | | | | | | |
| 1986--MAY 5 | 654.6 | | | | | | | | | |
| 12 | 656.1 | | | | | | | | | |
| 19 | 658.8 | | | | | | | | | |
| 26 | 660.6 | | | | | | | | | |
| JUNE 2 | 663.1 | | | | | | | | | |
| 9 | 666.9 | | | | | | | | | |
| 16P | 668.2 | | | | | | | | | |
| 23P | 666.4 | | | | | | | | | |

1/ ANNUAL RATES FOR BANK CREDIT ARE ADJUSTED FOR A TRANSFER OF LOANS FROM CONTINENTAL ILLINOIS NATIONAL BANK TO THE FDIC BEGINNING SEPTEMBER 26, 1984.
2/ DEBT DATA ARE ON A MONTHLY AVERAGE BASIS, DERIVED BY AVERAGING END-OF-MONTH LEVELS OF ADJACENT MONTHS, AND HAVE BEEN ADJUSTED TO REMOVE DISCONTINUITIES.
P-PRELIMINARY
PE-PRELIMINARY ESTIMATE

# Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

JULY 7, 1986

| Period | Currency | Demand deposits | Other checkable deposits | Overnight RPs and Eurodollars NSA | MMDAs NSA | Savings deposits | Small denomination time deposits[1] | Money market mutual funds, NSA: general purpose, and broker/dealer[2] | Money market mutual funds, NSA: institutions only | Large denomination time deposits[3] | Term RPs NSA | Term Eurodollars NSA | Savings bonds | Short-term Treasury securities | Commercial paper | Bankers acceptances |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| ANNUALLY (4TH QTR): | | | | | | | | | | | | | | | | |
| 1983 | 147.2 | 243.4 | 130.2 | 53.6 | 376.2 | 309.7 | 775.0 | 138.2 | 43.2 | 325.2 | 48.0 | 89.3 | 70.9 | 211.1 | 127.5 | 44.0 |
| 1984 | 157.8 | 247.1 | 144.2 | 56.1 | 405.1 | 291.0 | 881.8 | 161.7 | 57.7 | 409.8 | 65.6 | 81.8 | 74.0 | 268.6 | 158.7 | 44.5 |
| 1985 | 169.7 | 268.4 | 176.3 | 66.7 | 508.5 | 303.2 | 877.3 | 176.8 | 64.1 | 433.0 | 62.6 | 77.8 | 79.0 | 295.8 | 199.5 | 42.7 |
| MONTHLY | | | | | | | | | | | | | | | | |
| 1985-MAY | 163.2 | 255.4 | 158.4 | 61.3 | 466.4 | 290.8 | 889.5 | 172.2 | 63.5 | 425.0 | 57.7 | 80.8 | 76.1 | 276.8 | 168.6 | 46.3 |
| JUNE | 164.4 | 259.0 | 161.8 | 60.8 | 478.1 | 293.6 | 890.3 | 175.4 | 67.1 | 422.7 | 57.1 | 78.2 | 76.5 | 281.9 | 165.7 | 44.5 |
| JULY | 165.3 | 260.4 | 164.8 | 60.7 | 487.2 | 296.7 | 888.0 | 175.8 | 65.0 | 418.3 | 55.7 | 77.6 | 76.7 | 279.2 | 171.6 | 43.7 |
| AUG. | 166.9 | 263.1 | 169.0 | 63.6 | 495.2 | 299.7 | 880.9 | 176.8 | 63.6 | 421.0 | 57.1 | 78.8 | 77.2 | 277.3 | 182.9 | 43.6 |
| SEPT. | 167.7 | 266.4 | 171.5 | 64.1 | 499.8 | 300.3 | 878.3 | 176.7 | 62.3 | 425.6 | 58.4 | 78.9 | 78.0 | 280.6 | 187.2 | 43.2 |
| OCT. | 168.7 | 266.0 | 173.7 | 64.7 | 504.1 | 302.3 | 875.7 | 177.0 | 63.3 | 429.7 | 59.4 | 78.2 | 78.5 | 280.9 | 192.5 | 43.9 |
| NOV. | 169.8 | 267.8 | 176.7 | 65.8 | 509.5 | 303.7 | 876.0 | 176.8 | 64.5 | 432.9 | 62.8 | 78.4 | 79.0 | 299.5 | 196.4 | 43.1 |
| DEC. | 170.6 | 271.5 | 178.6 | 69.6 | 512.0 | 303.6 | 880.3 | 176.5 | 64.6 | 436.5 | 65.5 | 76.7 | 79.5 | 307.1 | 209.5 | 41.1 |
| 1986-JAN. | 171.9 | 268.9 | 180.5 | 68.0 | 515.7 | 304.0 | 885.9 | 177.7 | 67.3 | 447.9 | 68.2 | 76.0 | 79.9 | 304.1 | 210.6 | 41.5 |
| FEB. | 172.9 | 269.2 | 183.1 | 67.5 | 516.3 | 304.9 | 891.0 | 181.0 | 67.7 | 451.2 | 69.8 | 79.2 | 80.5 | 305.9 | 209.2 | 42.1 |
| MAR. | 173.9 | 273.2 | 185.2 | 66.3 | 520.5 | 306.9 | 894.7 | 186.2 | 70.2 | 450.4 | 70.6 | 81.9 | 81.1 | 298.0 | 209.5 | 41.6 |
| APR. | 174.4 | 275.7 | 189.9 | 66.9 | 525.1 | 311.5 | 896.2 | 191.4 | 74.1 | 452.0 | 68.7 | 80.7 | 81.8 | 301.0 | 203.0 | 41.0 |
| MAY | 175.8 | 281.6 | 195.1 | 66.3 | 530.6 | 318.6 | 891.2 | 193.4 | 76.1 | 446.2 | 68.4 | 79.9 | | | | |

1/ INCLUDES RETAIL REPURCHASE AGREEMENTS. ALL IRA AND KEOGH ACCOUNTS AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS ARE SUBTRACTED FROM SMALL TIME DEPOSITS.
2/ EXCLUDES IRA AND KEOGH ACCOUNTS.
3/ NET OF LARGE DENOMINATION TIME DEPOSITS HELD BY MONEY MARKET MUTUAL FUNDS AND THRIFT INSTITUTIONS.
P-PRELIMINARY

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

# Net Changes in System Holdings of Securities[1]

**Millions of dollars, not seasonally adjusted**

July 7, 1986

| 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 | 398 | 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 |
| 1985 | 14,596 | 1,349 | 2,185 | 358 | 293 | 4,185 | -- | -- | -- | -- | -- | 18,619 | 3,001 |
| 1985--QTR. I | -2,044 | 961 | 465 | -100 | -- | 1,326 | -- | -- | -- | -- | -- | -735 | 462 |
| II | 7,183 | 245 | 846 | 108 | 96 | 1,295 | -- | -- | -- | -- | -- | 8,409 | -350 |
| III | 4,027 | -- | 6 | 6 | -- | 12 | -- | -- | -- | -- | -- | 3,962 | -3,446 |
| IV | 5,431 | 143 | 868 | 345 | 197 | 1,552 | -- | -- | -- | -- | -- | 6,983 | 6,336 |
| 1986--QTR. I | -2,821 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -2,861 | -3,580 |
| II | 7,585 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 7,535 | -356 |
| 1986--Jan. | 61 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 61 | -3,466 |
| Feb. | -3,277 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -3,318 | 198 |
| Mar. | 396 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 396 | -312 |
| Apr. | 2,988 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,988 | 3,659 |
| May | 3,196 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,146 | -4,470 |
| June | 1,402 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,402 | 455 |
| 1986--Mar. 5 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,308 |
| 12 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 4,809 |
| 19 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -5,405 |
| 26 | 138 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 138 | 3,644 |
| Apr. 2 | 320 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 320 | -1,925 |
| 9 | 2,132 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,132 | -3,357 |
| 16 | 251 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 251 | 4,724 |
| 23 | 389 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 389 | 311 |
| 30 | 153 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 153 | 2,520 |
| May 7 | 135 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 135 | -2,041 |
| 14 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -50 | -2,491 |
| 21 | 84 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 84 | 5,469 |
| 28 | 305 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 305 | -3,228 |
| June 4 | 2,979 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,979 | -1,788 |
| 11 | 296 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 296 | -1,837 |
| 18 | 171 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 171 | 3,908 |
| 25 | 248 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 248 | -3,584 |
| July 2 | 380 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 380 | 545 |
| LEVEL--July 2 | 90.4 | 21.2 | 33.6 | 15.3 | 22.3 | 92.4 | 2.6 | 3.8 | 1.3 | .4 | 8.1 | 194.7 | -3.8 |

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 purchase 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 (+).