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August 15, 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

August 15, 1986

MONETARY POLICY ALTERNATIVES

Recent developments

(1) Growth of all the monetary aggregates accelerated in July. M2 and M3 expanded at 12-3/4 and 13 percent annual rates last month, well above the Committee's 7 to 9 percent paths for these aggregates for the June-to-September period.[1] The rapid growth in the broader aggregates lifted them into the upper portions of their longer-run ranges. Expansion in M1 was at around a 17 percent rate last month, somewhat faster than in June and about in line with its average pace over the second quarter.

(2) The acceleration in the broader aggregates in July was associated in part with strengthening credit growth at banks and thrifts. A sharp rebound in overnight RPs, used to finance record bank acquisitions of government securities, accounted for most of the pickup in M2 growth. In addition, the remainder of M2--essentially core deposits and money market funds--continued to expand rapidly in July, as it has since spring, apparently bolstered by declines in market interest rates. Reflecting the sluggish adjustment of offering rates on OCDs, MMDAs and savings accounts, as well as a relatively flat yield curve, flows into liquid instruments continued heavy in July while small time deposits once again contracted.

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1. Preliminary results from the June benchmark survey of RPs indicate a considerably higher level of RPs than now reflected in published data. Most of the additional strength is in term RPs at thrifts, where they apparently were being used to obtain relatively low cost financing for an expanding volume of mortgage securities issued or guaranteed by federal agencies and Treasury issues. With the revisions to overnight RPs fairly small, the effects on M2 are relatively minor. For M3, growth from the fourth quarter to July has been revised upward by about one-half of a percentage point at an annual rate to 8.8 percent. The new information, which mainly affects second-quarter estimates, has been incorporated in the figures presented in the table on the following page and the discussion in this bluebook. Revised data are expected to be published this Thursday, and are strictly confidential until that time.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	May	June	July	QIV'85 to July
Money and credit aggregates				
M1	23.4	14.6	16.9	13.5
M2p	12.6	9.7	12.7	8.7
M3p	6.8	7.9	13.1	8.8
Domestic nonfinancial debt	10.7	10.3	10.3	12.6
Bank credit	5.9	3.8	12.5	8.5
Reserve measures				
Nonborrowed reserves[1]	32.4	22.0	23.3	20.7
Total reserves	33.0	21.4	25.3	18.7
Monetary base	13.7	9.1	8.7	9.1
Memo: (Millions of dollars)				
Adjustment and seasonal borrowing	292	273	363	—
Excess reserves	838	931	907	—

p--preliminary
1. Includes "other extended credit" from the Federal Reserve.

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.

M3 growth also was boosted by a resumption in issuance of large time deposits by thrift institutions, which may be building up their balance sheets in anticipation of more stringent capital requirements on growth; assets of institution-only money funds also increased sharply, owing to relative rate movements. Strength in M1 reflected continued rapid expansion of demand deposits as well as OCDs.

(3) The growth of the debt of domestic nonfinancial sectors in July is estimated to have remained near the 10 to 11 percent pace of recent months, with expansion from its fourth-quarter base at a 12-1/2 percent annual rate, above the 11 percent upper end of its long-run range. Treasury borrowing remained brisk in July, before being constrained by debt ceiling limitations in August. The Treasury was able to raise a substantial amount of new money at its mid-quarter refunding auctions settling in mid-August, but only by utilizing the borrowing authority of the Federal Financing Bank and paying down bills. Overall borrowing by nonfinancial businesses appears to have slowed somewhat from earlier in the year, despite continued heavy share retirements associated with mergers and financial restructurings; the sum of bank loans and commercial paper contracted a bit in July and bond sales, while still strong, were near the slowest pace of the year. Fragmentary information on household borrowing in July suggests that mortgage debt growth remained sizable while consumer credit slackened. Bond issuance in the tax-exempt market surged in advance of a tax reform deadline scheduled for September 1.

(4) Nonborrowed and total reserves increased in July at about 23 and 25 percent annual rates, respectively, reflecting rapid growth of required reserves against transactions deposits. With the decline in the

discount rate, reserve paths continued to be constructed assuming $300 million of adjustment plus seasonal borrowing. In the two complete reserve maintenance periods since the last meeting, such borrowing has averaged just under $400 million. In the conduct of open market operations over the intermeeting period, the Desk recognized that a substantial portion of this total represented borrowing by institutions facing special situations.

(5) Federal funds have traded generally in the 6-1/4 to 6-3/8 percent area since the cut in the discount rate announced shortly after the last FOMC meeting, down from the 6-7/8 percent level prevailing around the time of the last meeting. With the discount rate reduction already widely expected by the time of the July FOMC meeting, other short-term rates declined by somewhat less. In long-term credit markets, rates increased in the first part of the intermeeting period as economic developments and the absence of policy moves abroad were seen as reducing the scope for further Federal Reserve ease; in addition, weakness in bond markets reflected anxieties near the time of the Treasury refunding about foreign demand for dollar-denominated securities in circumstances of a weakening dollar. More recently, with the completion of the Treasury refunding and a rekindling of some expectations of a coordinated discount rate cut in key industrial countries in response to disappointing economic growth, bond rates have retraced much of their earlier rise and short-term rates have declined an additional 1/8 of a percentage point or so.

(6) The dollar has fallen a further 3-1/4 percent on a weighted-average basis since the last Committee meeting. Declines of 5 percent against the mark and 3-3/4 percent against the yen were partly offset by a 2-1/4 percent rise against sterling. Indications that other central banks would not follow, at least immediately, the Federal Reserve's discount rate

cut in July and various statements by U.S. officials suggesting the possibility that additional dollar declines might be needed to correct massive trade deficits contributed to the dollar's weakness.

Policy alternatives

(7) The table below presents three alternative specifications for the monetary aggregates for the June-to-September period and associated federal funds rate ranges. (More detailed data, including implied growth for the July-to-September period and from the fourth quarter of 1985 to September, are given on the table and charts on the following pages.)

	Alt. A	Alt. B	Alt. C
Growth from June to September			
M2	10-1/4	9-1/2	8-3/4
M3	9-1/2	9	8-1/2
M1	16	14-1/2	13
Associated federal funds rate range	3 to 7	4 to 8	5 to 9

(8) Growth in all the monetary aggregates is expected to slow over August and September from the very rapid pace of July. Even so, with reserve conditions about unchanged as assumed for alternative B, growth of the broader aggregates would be expected to come in around the upper end or a bit above the Committee's 7 to 9 percent range for June to September. Growth within that range would seem to require a moderate increase in pressures on reserve positions, as embodied in alternative C. Should pressures be eased as under alternative A, M2 in particular would be expected to be more noticeably above the short-run range, though likely remaining just within its long-run range through September. M1 growth would be anticipated to remain quite rapid under any of the alternatives, though below the extraordinary pace of the second quarter.

(9) Alternative B assumes adjustment plus seasonal borrowing at the discount window averaging around $300 million (abstracting from any

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in billions									
1986-April	2622.4	2622.4	2622.4	3293.2	3293.2	3293.2	646.1	646.1	646.1
May	2649.9	2649.9	2649.9	3311.8	3311.8	3311.8	658.7	658.7	658.7
June	2671.4	2671.4	2671.4	3333.5	3333.5	3333.5	666.7	666.7	666.7
July	2699.7	2699.7	2699.7	3369.8	3369.8	3369.8	676.1	676.1	676.1
August	2718.8	2718.2	2717.5	3389.5	3389.0	3388.4	684.6	684.3	684.1
September	2740.5	2735.5	2730.5	3412.5	3408.3	3404.1	693.4	690.9	688.4
Monthly Growth Rates									
1986-April	13.9	13.9	13.9	11.4	11.4	11.4	14.5	14.5	14.5
May	12.6	12.6	12.6	6.8	6.8	6.8	23.4	23.4	23.4
June	9.7	9.7	9.7	7.9	7.9	7.9	14.6	14.6	14.6
July	12.7	12.7	12.7	13.1	13.1	13.1	16.9	16.9	16.9
August	8.5	8.2	7.9	7.0	6.8	6.6	15.0	14.6	14.2
September	9.6	7.6	5.7	8.1	6.8	5.6	15.4	11.6	7.5
Quarterly Ave. Growth Rates									
1985-Q4	6.1	6.1	6.1	6.6	6.6	6.6	10.7	10.7	10.7
1986-Q1	4.3	4.3	4.3	7.5	7.5	7.5	7.7	7.7	7.7
Q2	10.5	10.5	10.5	8.7	8.7	8.7	15.8	15.8	15.8
Q3	10.8	10.6	10.3	9.4	9.2	9.0	16.7	16.2	15.6
Mar. 86 to June 86	12.2	12.2	12.2	8.7	8.7	8.7	17.7	17.7	17.7
June 86 to Sept.86	10.3	9.6	8.8	9.5	9.0	8.5	16.0	14.5	13.0
July 86 to Sept.86	9.1	8.0	6.8	7.6	6.9	6.1	15.4	13.1	10.9
Q4 85 to June 86	8.0	8.0	8.0	8.1	8.1	8.1	12.8	12.8	12.8
Q4 85 to Sept.86	8.8	8.6	8.4	8.7	8.5	8.3	14.1	13.7	13.2
1986 Ranges:		6 to 9			6 to 9			[3 to 8]	

CHART 1

ACTUAL AND TARGETED M2

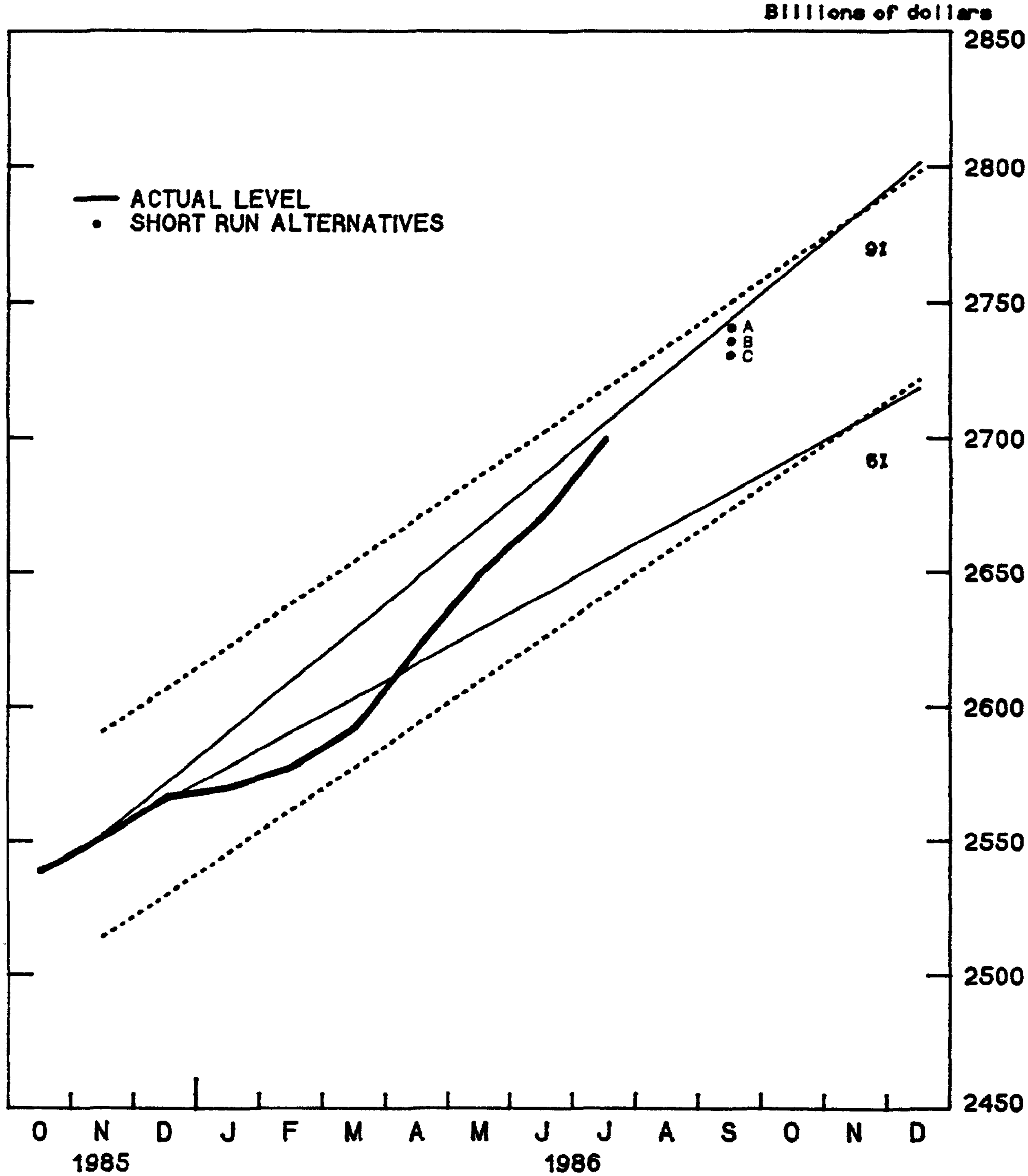


CHART 2
ACTUAL AND TARGETED M3

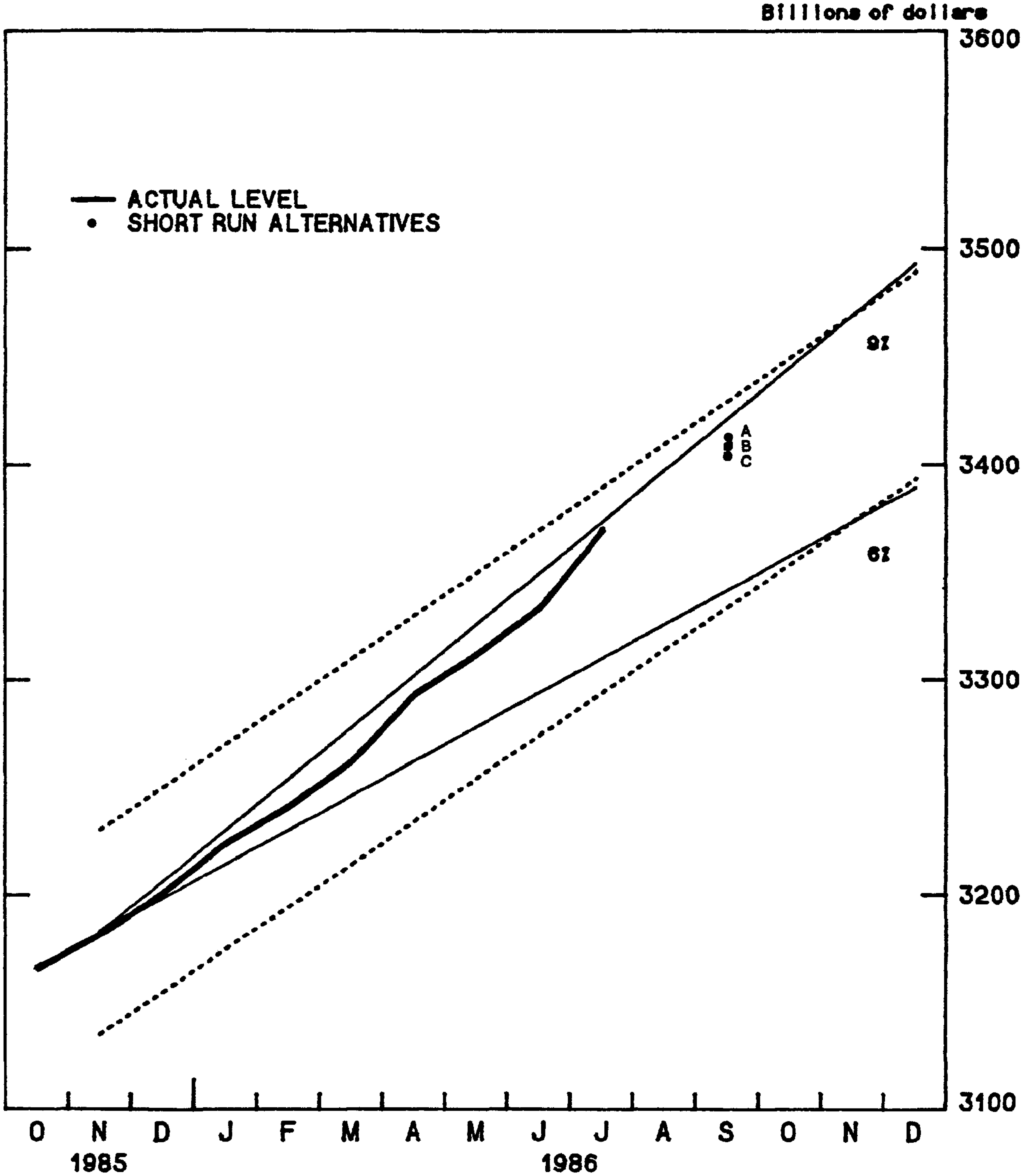


CHART 3

ACTUAL AND TARGETED M1

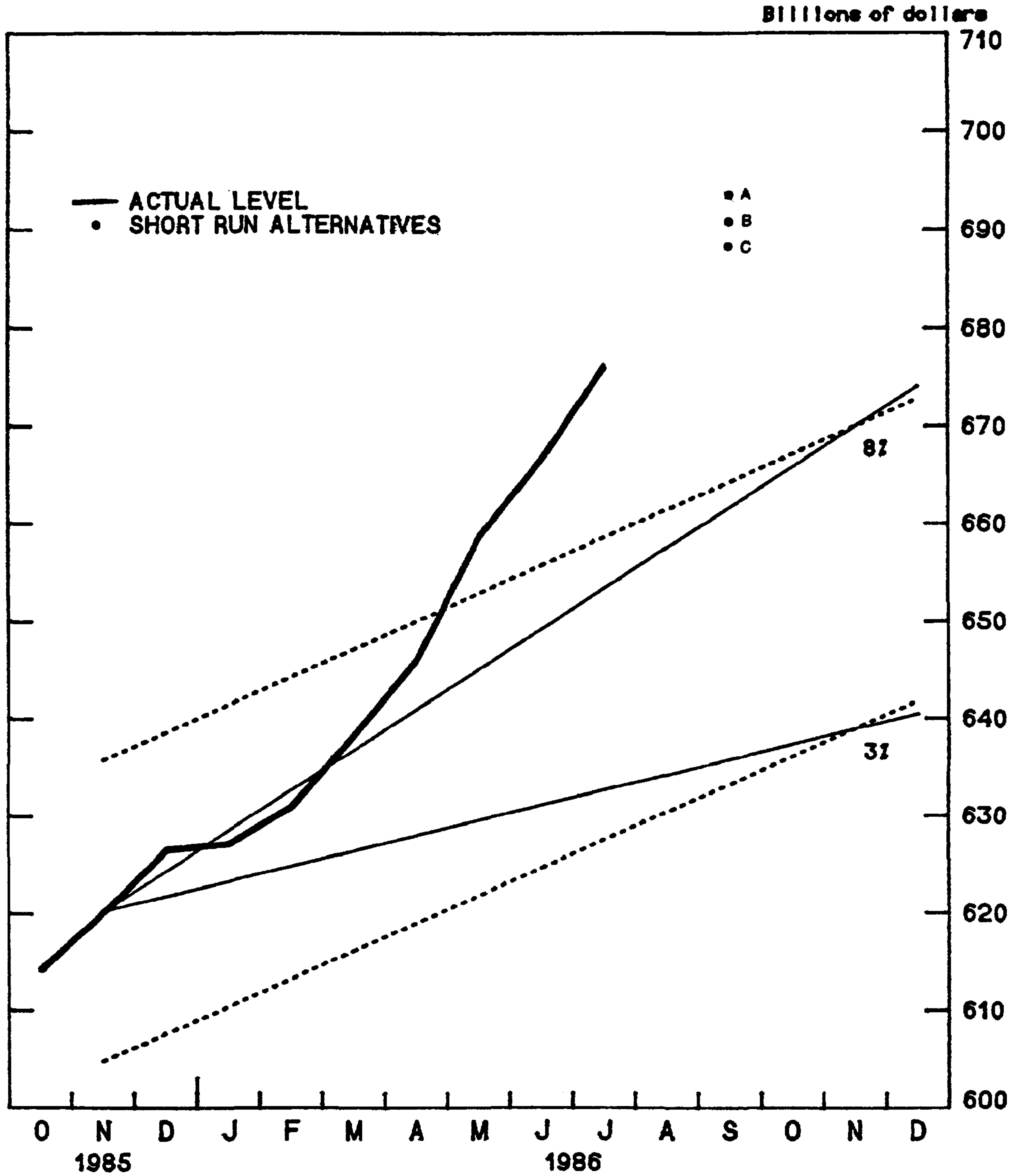
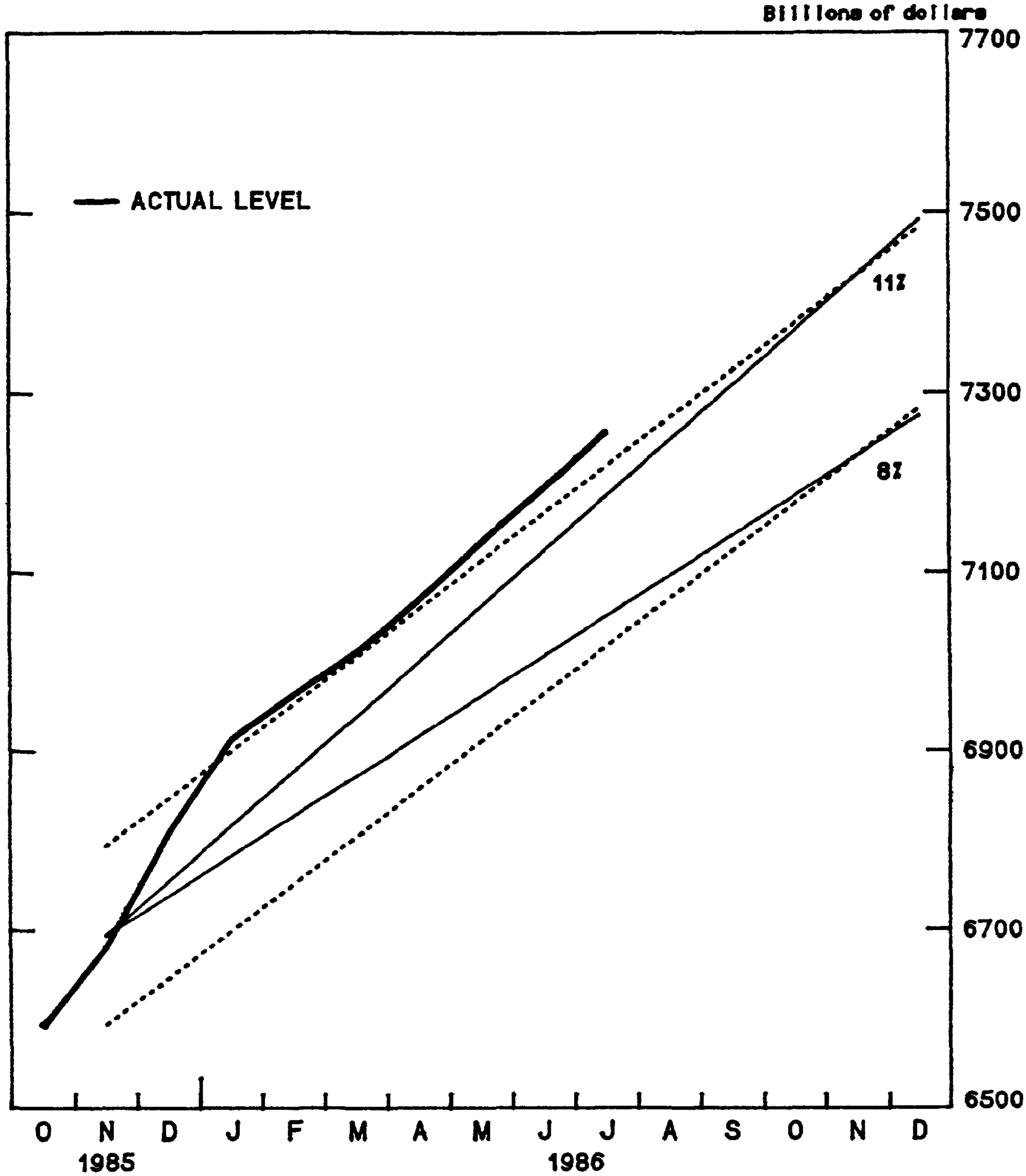


Chart 4

DEBT



Billions of dollars
ACTUAL LEVEL
7700
7500
7300
7100
6900
6700
6500
11%
8%
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1985
1986

special situation credit). Federal funds would probably continue to trade in the 6-1/4 to 6-3/8 percent area. M2 growth would be expected to slow to around 8 percent over August and September, reflecting in large measure a leveling off in overnight RPs as banks stop adding aggressively to their holdings of U.S. government securities in a more stable interest rate environment. In addition, growth of retail deposits and money market funds is likely to moderate as offering yields come more in line with market rates around current levels. Fragmentary data for early August suggest that expansion of M2 is indeed slowing from its rapid July pace. Even with the anticipated moderation in M2, growth would average 9-1/2 percent from June to September and 10-1/2 percent on a quarterly-average basis in the third quarter, implying an unusually large drop in its velocity (given the greenbook forecast for GNP) of 5-1/2 percent at an annual rate. The projected moderation in M3 growth from its July bulge reflects less rapid expansion in its non-M2 component as well as in M2. Inflows to institution-only money funds should abate in response to the realignment of fund yields with market rates, and the expected deceleration in bank credit would act to reduce issuance of managed liabilities.

(10) Growth of M1, while diminishing over August and September under alternative B, is likely to remain quite strong at around 13 percent. Both its demand deposit and NOW account components should still grow fairly rapidly in the near term, given recent declines in open market rates and, in the case of OCDs, sluggish adjustment of deposit offering rates, which imply extremely thin opportunity costs at least for a while. The decline in the velocity of M1 would be at an 11 percent rate in the third quarter, nearly as large as the 12 percent drop in the second quarter.

(11) The money growth specifications of alternative B imply increases in both M2 and M3 from their fourth-quarter base to September of around 8-1/2 percent at an annual rate, with growth in M1 at nearly a 14 percent annual rate through September. Expansion in all the monetary aggregates would be expected to moderate a little further in the fourth quarter, should interest rates remain close to current levels as in the staff's greenbook forecast. In that forecast, nominal GNP is projected to strengthen only moderately in the fourth quarter, while the effects of earlier declines in interest rates on money demand should continue to diminish. Under these circumstances, both M2 and M3 are likely to remain fairly high in their long-run ranges, growing perhaps around 8-1/2 percent from QIV 1985 to QIV 1986. M1 expansion for the year might be about 13 percent, with its velocity registering a record postwar decline.

(12) Total debt of domestic nonfinancial sectors is likely to expand a little more rapidly over August and September than in recent months. Boosting debt growth this month is the surge in bond issuance by state and local governments. We anticipate some rebound in borrowing by the Treasury in coming weeks, assuming some action on the debt ceiling, to cover its considerable financing needs and rebuild its cash balance. Business credit needs probably will continue to be bolstered by heavy share retirements associated with mergers and financial restructurings, although the financing gap should remain relatively small, reflecting flat capital spending and internal funds. Household mortgage borrowing should remain substantial, given the continued strength of the single-family home market, while consumer credit expansion is expected to moderate further. From its fourth-quarter base, debt is projected to stay well above the upper end of its monitoring

range through the third quarter and to remain above the upper end of its range for the year, despite some further moderation expected in the fourth quarter.

(13) Short- and long-term interest rates are expected to remain around their current levels under alternative B, at least initially, though with federal funds continuing to trade in a 6-1/4 to 6-3/8 area some modest upward pressures on interest rates could emerge as market participants begin to reassess the odds on a near-term easing in policy. Nevertheless, the dollar could continue to drift lower on foreign exchange markets. In addition to the usual economic news, financial markets may be confronted with important developments in tax reform and federal budget policy that could significantly affect investor sentiment during the weeks ahead.

(14) Alternative A involves an easing of pressures on reserve positions, either through a reduction in regular adjustment plus seasonal borrowing to a frictional level of perhaps $150 million or so, or a cut in the discount rate by 1/2 percentage point with discount borrowing maintained at the current specification of $300 million. The federal funds rate would probably decline to 5-3/4 percent or a little above. The associated decrease in market interest rates would be expected to boost M2 growth to a little over a 10 percent annual rate over the June-to-September period, moving this aggregate to just below the upper end of its long-run range. There is a risk that M2 growth could be even more rapid if institutions prove especially reluctant to reduce offering rates on conventional NOW and savings accounts as market rates drop closer to the previous regulatory ceilings of 5-1/4 and 5-1/2 percent on these accounts. In any event, given the lagged effects of any near-term easing in market conditions, M2 growth in the fourth quarter

could continue at a fairly rapid pace, absent a subsequent move toward more reserve restraint; this would leave the aggregate around the upper end or even somewhat above its long-run range for the year. M3 would grow at around a 9-1/2 percent annual rate over the June-to-September period under this alternative, entering the fourth quarter near the upper end of its annual range. The risks of M3 running significantly above the upper end of its annual range, even in the event of a surge in OCDs and savings deposits, would be limited by offsetting reductions in issuance of managed liabilities by banks and thrifts. M1 would be expected to increase at a 16 percent rate between June and September under this alternative, moving even further above the upper end of its range by the end of the quarter.

(15) Short-term rates would decline appreciably, with the 3-month Treasury bill rate falling toward 5-1/4 percent under alternative A. Bond yields probably would also decline, but any sustained sizable drop likely would require signs of continuing sluggishness in the economy and lack of price pressures, as well as the absence of substantial weakness in the dollar. The dollar could come under heavy selling pressure with this alternative, unless key foreign central banks were also to take easing steps.

(16) Alternative C assumes a tightening of reserve positions, with borrowing from the discount window rising to around $500 million and the federal funds rate backing up to the 6-3/4 to 6-7/8 percent area. Under this alternative, the slowing in M2 and M3 likely would be sufficient to move growth of these aggregates to within the 7 to 9 percent three-month range established at the last meeting. In addition, the tighter reserve conditions of this alternative would place these aggregates on a trajectory that would better

assure that they would remain well within their annual ranges for the year. Growth in M1 also would slow substantially by September and into the fourth quarter as market interest rates backed up. Growth for the year still would be considerably above the upper end of its range, however, perhaps in the vicinity of 12 percent.

(17) Treasury bill rates could rise by more than 50 basis points to around 6-1/4 percent as reserve conditions tightened unexpectedly. Rates on CDs could jump by even more if such a move were viewed as aggravating repayment difficulties of bank borrowers, especially if the rise in rates were seen as likely to restrain economic activity substantially. The slide of the dollar on foreign exchange markets would, at least temporarily, be slowed or halted. A firmer tone to the dollar and a reassessment of the inflation outlook could act to limit somewhat the accompanying rise in long-term interest rates.

Directive language

(18) Draft language for the operational paragraph, with the usual options for alternative specifications of reserve pressures, is shown below. This draft follows the format used at the July meeting in specifying expected growth rates for M2 and M3 but not for M1. With respect to M1, the draft retains language referring to the expectation of a reduction in M1 growth from the second-quarter pace. Under all three bluebook alternatives, the staff is projecting some slowing in the rate of M1 growth for June to September relative to the previous three months, although the degree of slowing is not very marked, especially under alternative A. Should the Committee choose this alternative, it may wish to delete the language referring to the expected moderation in M1 growth, leaving the statement that M1 will be judged in light of the broader aggregates and other factors. With regard to possible intermeeting adjustments in the degree of reserve pressures, the draft provides for symmetry in either direction, as in the July directive, but could be adapted to an asymmetric approach (with the appropriate use of "might" and "would") as in a number of earlier directives.

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~~,~~ ~~taking account of the possibility of a change in the discount rate~~. This action is expected to be consistent with growth in M2 and M3 over the period from June to September at annual rates of about __ TO ___ ~~7-to-9~~ percent. While growth in M1 is expected to moderate from the exceptionally large increase during the second quarter, that growth will continue to be judged in the light of the behavior of M2 and M3 and other factors. Somewhat greater or lesser reserve restraint might(WOULD) 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 ___ TO ___ ~~4-to-8~~ percent.

Selected Interest Rates

Percent

August 18, 1986

Period	Short-term: federal funds	Short-term: Treasury bills secondary market 3-month	Short-term: Treasury bills secondary market 6-month	Short-term: Treasury bills secondary market 1-year	Short-term: CDs secondary market 3-month	Short-term: comm. paper 1-month	Short-term: money market mutual fund	Short-term: bank prime loan	Long-Term: U.S. government constant maturity yields 3-year	Long-Term: U.S. government constant maturity yields 10-year	Long-Term: U.S. government constant maturity yields 30-year	Long-Term: corporate A utility recently offered	Long-Term: municipal Bond Buyer	Long-Term: conventional home mortgages secondary market fixed-rate	Long-Term: conventional home mortgages primary market fixed-rate	Long-Term: 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	6.31	5.65	5.68	5.73	6.12	6.21	5.82	8.00	6.64	7.15	7.16	9.15	7.55	9.57	9.86	8.41
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	6.18	8.50	7.41	7.80	7.57	9.65	8.30	10.45	10.68	8.60
July	6.56	5.83	5.86	5.90	6.37	6.42	6.06p	8.16	6.86	7.30	7.27	9.57	7.95	10.16	10.49	8.52
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
9	6.87	5.90	5.89	5.94	6.45	6.67	6.15	8.50	6.96	7.34	7.18	9.54	7.91	10.17	10.59	8.57
16	6.51	5.78	5.83	5.84	6.36	6.41	6.09	8.07	6.79	7.24	7.16	9.51	7.91	10.07	10.43	8.50
23	6.42	5.74	5.81	5.84	6.31	6.30	5.99	8.00	6.75	7.19	7.24	9.67	8.08	10.22	10.40	8.48
30	6.32	5.84	5.89	5.96	6.31	6.27	5.89	8.00	6.92	7.41	7.48	9.69	7.96	10.07	10.40	8.49
Aug. 6	6.36	5.74	5.78	5.81	6.23	6.27	5.86	8.00	6.79	7.37	7.50	9.58	7.97	10.00	10.40	8.44
13	6.31	5.65	5.68	5.73	6.12	6.21	5.82	8.00	6.64	7.28	7.39	9.49	7.64	9.87	10.23	8.42
Daily--Aug. 8	6.36	5.70	5.76	5.77	6.18	6.24	--	8.00	6.68	7.30	7.41	--	--	--	--	--
14	6.29	5.59	5.56	5.66	5.96	6.14	--	8.00	6.51	7.16	7.29	--	--	--	--	--
15	6.36p	5.56	5.54	5.64	5.96	6.15	--	8.00	6.51p	7.14p	7.29p	--	--	--	--	--

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 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

AUG. 18, 1986

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	M1	M2	nontransactions components		M3	L	total loans and investments[1]	U.S. government[2]	other[2]	total[2]
			in M2	in M3 only						
	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	8.7	7.7	3.8	7.7	8.5	9.9	15.2	13.6	14.0
QUARTERLY AVERAGE										
3RD QTR. 1985	14.5	9.6	8.0	-0.2	7.6	7.8	9.6	14.6	12.4	12.9
4TH QTR. 1985	10.7	6.1	4.7	8.5	6.6	9.5	9.4	15.2	14.4	14.6
1ST QTR. 1986	7.7	4.3	3.3	20.5	7.5	8.2	12.7	17.5	15.6	16.1
2ND QTR. 1986	15.8	10.5	8.9	1.3	8.7	6.9	4.1	9.5	9.8	9.7
MONTHLY										
1985--JULY	10.8	8.3	7.5	-3.7	5.9	5.8	9.1	16.6	12.2	13.2
AUG.	17.3	9.3	6.9	-2.3	7.1	9.2	7.7	14.0	13.0	13.2
SEPT.	13.3	6.8	4.8	11.9	7.8	9.1	8.7	7.9	13.3	12.1
OCT.	5.3	4.3	3.9	11.2	5.7	7.0	5.4	9.1	13.2	12.3
NOV.	11.5	5.9	4.2	5.7	5.9	12.0	13.3	24.5	13.6	16.1
DEC.	12.6	7.1	5.3	9.1	7.5	12.3	15.6	28.9	21.6	23.3
1986--JAN.	1.1	1.6	1.7	37.6	8.7	7.0	18.7	16.4	18.9	18.3
FEB.	7.3	3.6	2.4	16.9	6.3	5.7	3.4	9.8	8.4	8.7
MAR.	14.1	6.8	4.5	11.2	7.7	4.2	5.6	5.3	9.2	8.3
APR.	14.5	13.9	13.8	1.6	11.4	7.3	2.0	7.8	10.6	9.9
MAY	23.4	12.6	9.1	-15.9	6.8	10.2	5.9	12.7	10.0	10.7
JUNE	14.6	9.7	8.1	0.4	7.9	5.5	3.8	15.4	8.8	10.3
JULY P	16.9	12.7	11.4	14.3	13.1		12.5	13.9	9.2	10.3
MONTHLY LEVELS ($BILLIONS)										
1986--MAR.	638.4	2592.3	1953.9	669.9	3262.2	3892.4	1944.6	1628.2	5384.1	7012.4
APR.	646.1	2622.4	1976.3	670.8	3293.2	3916.2	1947.9	1638.8	5431.7	7070.5
MAY	658.7	2649.9	1991.3	661.9	3311.8	3949.5	1957.5	1656.2	5477.0	7133.3
JUNE	666.7	2671.4	2004.7	662.1	3333.5	3967.6	1963.7	1677.5	5517.1	7194.6
JULY P	676.1	2699.7	2023.7	670.0	3369.8		1984.2	1697.0	5559.6	7256.6
WEEKLY LEVELS ($BILLIONS)										
1986--JULY 7	674.1									
14	673.4									
21	677.5									
28P	676.9									
AUG. 4P	679.6									

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

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

AUG. 18, 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	268.5	158.7	44.5
1985	169.7	268.4	176.3	67.3	508.5	303.2	877.3	176.8	64.1	433.0	63.0	77.8	79.0	295.8	199.5	42.7
MONTHLY																
1985-JULY	165.3	260.4	164.8	60.8	487.2	296.7	888.0	175.8	65.0	418.2	55.8	77.6	76.7	279.2	171.6	43.7
AUG.	166.9	263.1	169.0	63.8	495.2	299.7	880.9	176.8	63.6	421.0	57.3	78.8	77.2	277.3	182.9	43.6
SEPT.	167.7	266.4	171.5	64.5	499.8	300.3	878.3	176.7	62.3	425.6	58.6	78.9	78.0	280.6	187.2	43.2
OCT.	168.7	266.0	173.7	65.2	504.1	302.3	875.7	177.0	63.3	429.7	59.8	78.2	78.5	280.9	192.5	43.9
NOV.	169.8	267.8	176.7	66.4	509.5	303.7	876.0	176.8	64.5	432.9	63.3	78.4	79.0	299.5	196.4	43.1
DEC.	170.6	271.5	178.6	70.3	512.0	303.6	880.3	176.5	64.6	436.5	66.0	76.7	79.5	307.1	209.5	41.1
1986-JAN.	171.9	268.9	180.5	68.8	515.7	304.0	885.9	177.7	67.3	447.9	68.8	76.0	79.9	304.1	210.6	41.5
FEB.	172.9	269.2	183.1	68.5	516.3	304.9	891.0	181.0	67.7	451.2	70.5	79.2	80.5	305.8	209.2	42.1
MAR.	173.9	273.2	185.2	67.5	520.5	306.9	894.7	186.2	70.2	450.5	71.4	82.7	81.1	298.0	209.5	41.6
APR.	174.4	275.7	189.9	68.4	525.2	311.4	896.2	191.4	74.1	452.1	71.2	81.0	81.8	297.2	203.0	41.0
MAY	175.8	281.6	195.1	69.1	530.8	318.5	891.2	193.4	76.1	446.3	73.0	78.3	82.6	308.3	206.7	40.1
JUNE	176.6	284.9	199.0	66.5	540.4	325.0	885.9	197.7	75.0	445.6	73.4	77.6	83.4	304.4	206.3	40.0
JULY P	177.5	288.3	204.0	71.9	546.2	331.3	883.4	200.1	77.5	446.5	73.6	76.1				

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

August 18, 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
July	867	--	--	--	--	--	--	--	--	--	--	867	-1,270
1986--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
9	--	--	--	--	--	--	--	--	--	--	--	--	1,630
16	208	--	--	--	--	--	--	--	--	--	--	208	5,527
23	128	--	--	--	--	--	--	--	--	--	--	128	-6,570
30	531	--	--	--	--	--	--	--	--	--	--	531	-169
Aug. 6	168	--	--	--	--	--	--	--	--	--	--	168	-341
13	126	--	--	--	--	--	--	--	--	--	--	36	425
LEVEL--Aug. 13 ($ billions)	92.1	20.5	34.5	15.1	22.3	92.4	2.5	3.8	1.3	.4	8.0	195.8	-3.3

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 (+).