Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

December 12, 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

December 12, 1986

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M2 growth slowed substantially in November to a 6-1/2 percent annual rate and M3 growth moderated further to a 5-1/2 percent annual rate; since September, growth in M2 has been in the upper part of and M3 a little below the 7 to 9 percent growth ranges established by the Committee for the September-to-December period. Based on preliminary data through early December, the staff estimates that annual growth in 1986 on a fourth-quarter to fourth-quarter basis will be just under 9 percent for M2 and about 8-3/4 percent for M3 (see table below), implying declines in velocity of around 4 percent. M1 accelerated again in November, reaching a 21 percent rate, as demand deposit growth surged. Growth in M1 likely will reach 14-3/4 percent for 1986 as a whole and its velocity will fall almost 9 percent--a postwar record.

Monetary and Credit Aggregates and Ranges for 1986[1]
(percent)

	M1	M2	M3	Debt
Actual growth p	14.8	8.9	8.7	12.7
Annual range	3 to 8	6 to 9	6 to 9	8 to 11

p--preliminary estimate.
1. Fourth-quarter to fourth-quarter basis.

(2) In November, a marked deceleration in the nontransactions portion of M2 reflected in part weakness in overnight RPs and Eurodollars--offset in M3 by some strength in their term counterparts. In addition, the

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	September	October	November	September to November	QIV'85 to November
Money and credit aggregates					
M1	9.6	14.0	20.9	17.6	15.0
M2	7.3	10.6	6.6	8.6	8.9
M3	8.8	6.7	5.6	6.1	8.7
Domestic nonfinancial debt	11.4	8.5	11.6	10.1	12.6
Bank credit	13.0	2.2	9.0	5.6	9.1
Reserve measures					
Nonborrowed reserves	10.8	16.0	33.4	24.9	21.5
Total reserves	11.5	13.7	32.9	23.5	19.9
Monetary base	5.4	9.4	12.8	11.1	9.6
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	438	345	333	--	--
Excess reserves	726	746	1001	--	--

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.

retail portion of nontransactions M2 slowed, perhaps owing to a small extent to heavy purchases of U.S. savings bonds at the end of October, just before their minimum yield was lowered from 7-1/2 to 6 percent. Retail money market funds were especially weak and small time deposits continued to show large outflows, while flows into savings deposits continued rapid. NOW account growth also remained very strong, contributing to the rapid growth in M1. Opportunity costs of holding NOW and savings accounts remained quite low as offering rates edged down only slightly. The non-M2 component of M3 rose a little in November. Bank credit expanded rapidly, but a large increase in Treasury deposits reduced the need to issue managed liabilities included in M3.

(3) Growth of debt of domestic nonfinancial sectors picked up to an 11-1/2 percent pace in November. Federal borrowing increased sharply, following the lifting of debt ceiling constraints. Business borrowing also was brisk last month, in both short- and long-term markets; a heavy pace of equity retirements, in part in advance of year-end tax changes affecting mergers, accounted for much of the strength. Although the announcement of a widening SEC investigation of insider trading had a pronounced effect on trading of low-grade debt, issuance of such debt remained strong and activity in investment-grade corporate bonds was not adversely affected. Issuance of tax-exempt bonds increased, but the pace was well below that of the spring and summer. Borrowing likely remained robust in mortgage markets, while the growth of consumer debt probably dropped off after the expiration of most auto financing incentives in early October. For the year, nonfinancial debt is expected to expand around 12-3/4 percent, well in excess of the 11 percent upper bound of the Committee's monitoring range.

(4) Reserve paths were constructed throughout the intermeeting period assuming \$300 million of adjustment plus seasonal borrowing. Growth of total reserves picked up sharply to a 33 percent rate owing to the surge in required reserves against transactions deposits and an advance in excess reserves from almost \$750 million in the previous three months to around \$1 billion on average in November. In large measure, the increase in excess reserves seemed to reflect the usual patterns around holidays and social security payment dates, and in conducting open market operations the Desk made informal allowance for higher demands for excess reserves. Consequently, adjustment plus seasonal borrowing in the two complete maintenance periods since the last FOMC meeting averaged close to the \$300 million path allowance. Even so, the funds rate firmed from around 5-7/8 percent at the time of the last meeting to well above 6 percent towards the end of the last complete statement period. Both seasonal and adjustment borrowing by smaller banks, where reserves and liquidity apparently have been ample, have been unusually light recently. In addition, larger banks may have been managing reserve positions especially cautiously, perhaps because of frequent discount window borrowings earlier in the fall and a desire not to constrain access to the window should the usual seasonal pressures arise over the year-end. In the current statement period, borrowing has averaged only \$77 million through the first 8 days, and the federal funds rate has averaged close to 6 percent.

(5) With the federal funds and RP financing rates a little firmer through much of the intermeeting period, other short-term market rates have risen by 10 to 35 basis points. However, bond yields generally

have declined about 15 to 25 basis points, as market participants appear to have interpreted incoming economic data as pointing on balance to a moderate course for activity and prices next year, which might provide some scope for an easing of policy in the first half of the year. Rates on commitments for fixed-rate home mortgages dropped one-half percentage point, moving toward a more normal alignment with Treasury bond yields. Although stock prices fell initially on the announcement of insider trading violations related to takeover activity, on balance they showed little net change over the period.

(6) The dollar generally declined through November, but has since retraced a portion of that decline, ending the period about 1-3/4 percent lower on a weighted-average basis than at the time of the last FOMC meeting. Short-term interest rates rose moderately abroad, about in line with movements in U.S. rates, while long-term differentials moved slightly against dollar assets. The relative strength of the mark has increased pressures in the EMS,

Policy alternatives

(7) The table below presents three alternative specifications for growth in the monetary aggregates from November to March, along with associated federal funds rate ranges. More detailed data, including implied growth from December to March and from the fourth quarter of this year to March, are shown on the table and charts on the following pages. Given the pattern of money growth expected through the fourth quarter, expansion from the fourth quarter base for the 1987 ranges through March would be at rates very close to the November-to-March growth rates shown below. Thus, under the reserve conditions assumed for any of the alternatives, both M2 and M3 would be expected to be within their 5-1/2 to 8-1/2 percent tentative long-run ranges in March. However, growth in M1 would be expected to continue at historically rapid rates, well in excess of its very tentative 3 to 8 percent range.

	Alt. A	Alt. B	Alt. C
Growth from November to March			
M2	8	7	6
M3	6-1/2	6	5-1/2
M1	14	12	10
Associated federal funds rate range	3 to 7	4 to 8	5 to 9

(8) The specifications of alternative B assume borrowing at the discount window of $300 million. Federal funds would be expected to trade around 5-7/8 percent, though perhaps more often above than below this level through year-end. The three-month Treasury bill is likely to edge back to the 5-3/8 percent level, especially as federal funds trading comes to center

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-October	2764.9	2764.9	2764.9	3444.5	3444.5	3444.5	701.2	701.2	701.2
November	2780.1	2780.1	2780.1	3460.6	3460.6	3460.6	713.4	713.4	713.4
December	2794.6	2794.1	2793.6	3475.9	3475.2	3474.5	721.8	721.6	721.4
1987-January	2813.2	2810.4	2807.6	3495.0	3492.9	3490.7	730.4	729.1	727.8
February	2833.6	2828.0	2822.3	3515.7	3511.8	3507.9	738.7	735.9	733.1
March	2854.2	2845.0	2835.7	3535.6	3529.8	3524.0	746.9	742.2	737.5
Monthly Growth Rates									
1986-October	10.6	10.6	10.6	6.7	6.7	6.7	14.0	14.0	14.0
November	6.6	6.6	6.6	5.6	5.6	5.6	20.9	20.9	20.9
December	6.3	6.0	5.8	5.3	5.1	4.8	14.1	13.8	13.5
1987-January	8.0	7.0	6.0	6.6	6.1	5.6	14.3	12.5	10.6
February	8.7	7.5	6.3	7.1	6.5	5.9	13.6	11.2	8.7
March	8.7	7.2	5.7	6.8	6.2	5.5	13.3	10.3	7.2
Quarterly Ave. Growth Rates									
1986-Q1	4.3	4.3	4.3	7.6	7.6	7.6	7.7	7.7	7.7
Q2	10.5	10.5	10.5	9.0	9.0	9.0	15.8	15.8	15.8
Q3	11.1	11.1	11.1	10.2	10.2	10.2	17.3	17.3	17.3
Q4	8.6	8.6	8.5	7.0	7.0	7.0	15.5	15.5	15.4
1987-Q1	7.7	6.9	6.1	6.4	5.9	5.5	14.9	13.3	11.7
Sept.86 to Dec. 86	7.9	7.8	7.7	5.9	5.8	5.7	16.6	16.4	16.3
Nov. 86 to Mar. 87	8.0	7.0	6.0	6.5	6.0	5.5	14.1	12.1	10.1
Dec. 86 to Mar. 87	8.5	7.3	6.0	6.9	6.3	5.7	13.9	11.4	8.9
Q4 85 to Dec. 86	8.8	8.7	8.7	8.5	8.5	8.5	15.1	15.1	15.0
Q4 85 to Q4 86	8.9	8.9	8.9	8.7	8.7	8.7	14.8	14.8	14.8
Q4 86 to Mar. 87	8.0	7.0	6.1	6.5	6.0	5.6	14.7	12.7	10.7
1986 Ranges:		6 to 9			6 to 9			3 to 8	
1987 Ranges(Tentative):		5.5 to 8.5			5.5 to 8.5			3 to 8	

CHART 1

ACTUAL AND TARGETED M2

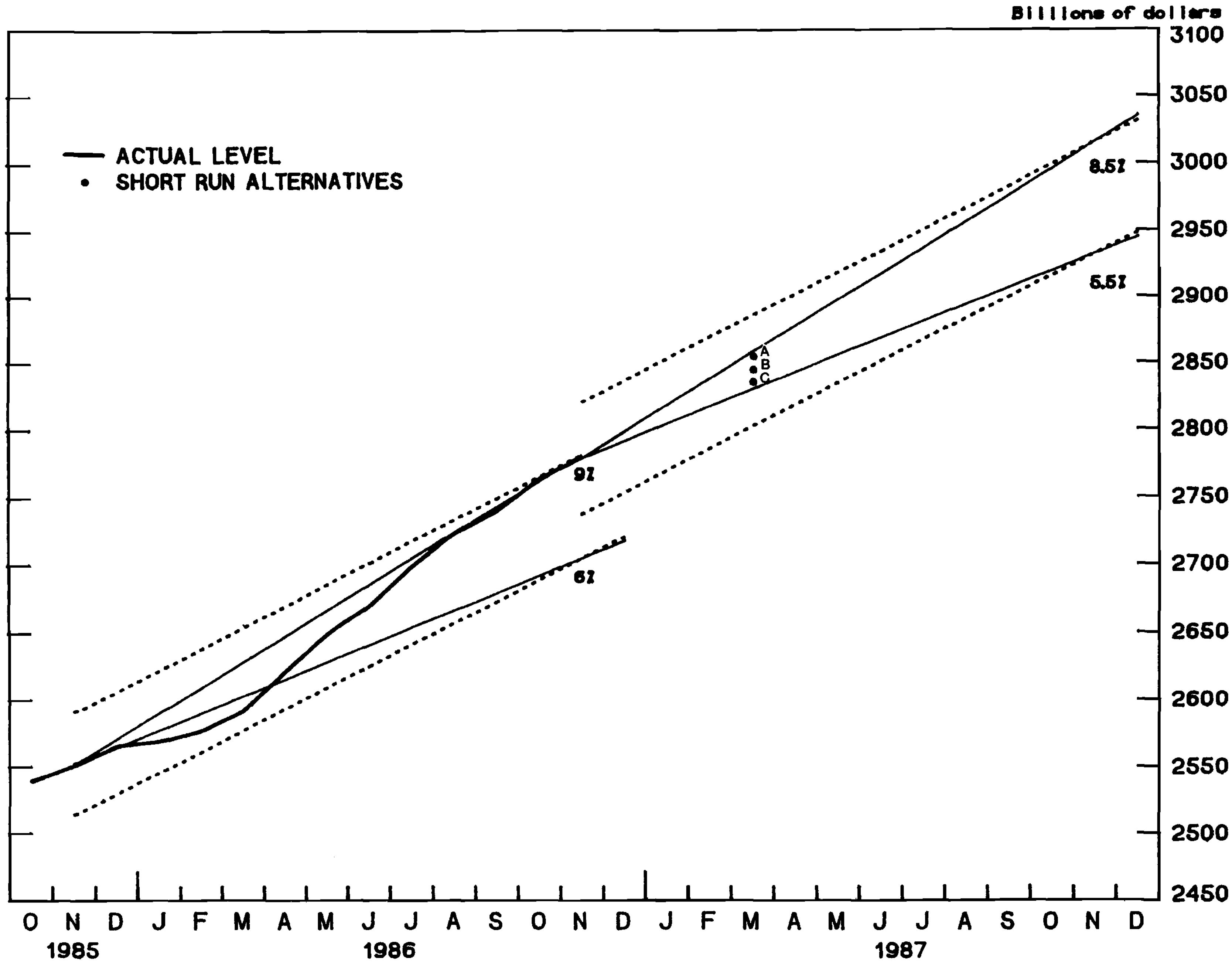


CHART 2

ACTUAL AND TARGETED M3

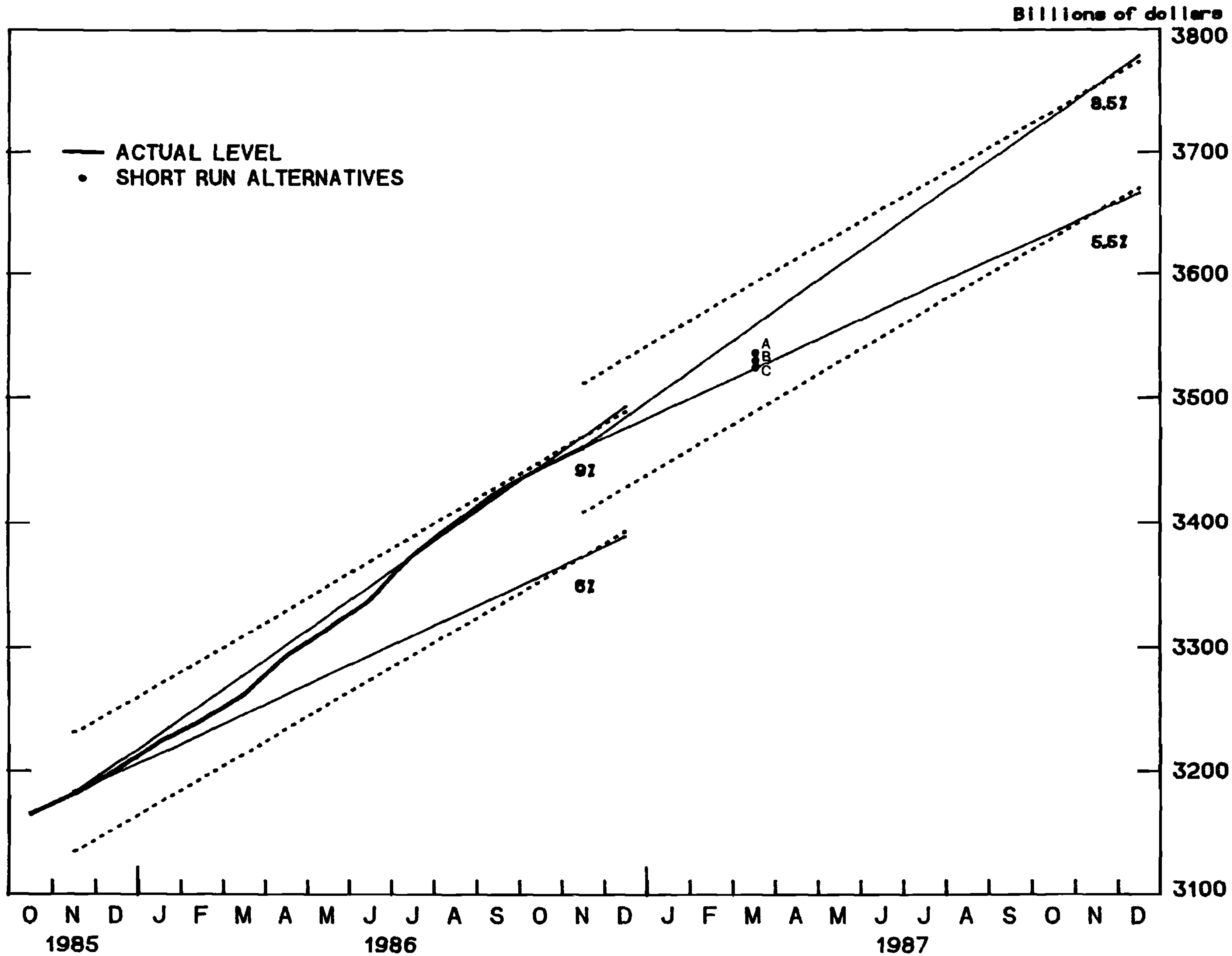


CHART 3

ACTUAL AND TARGETED M1

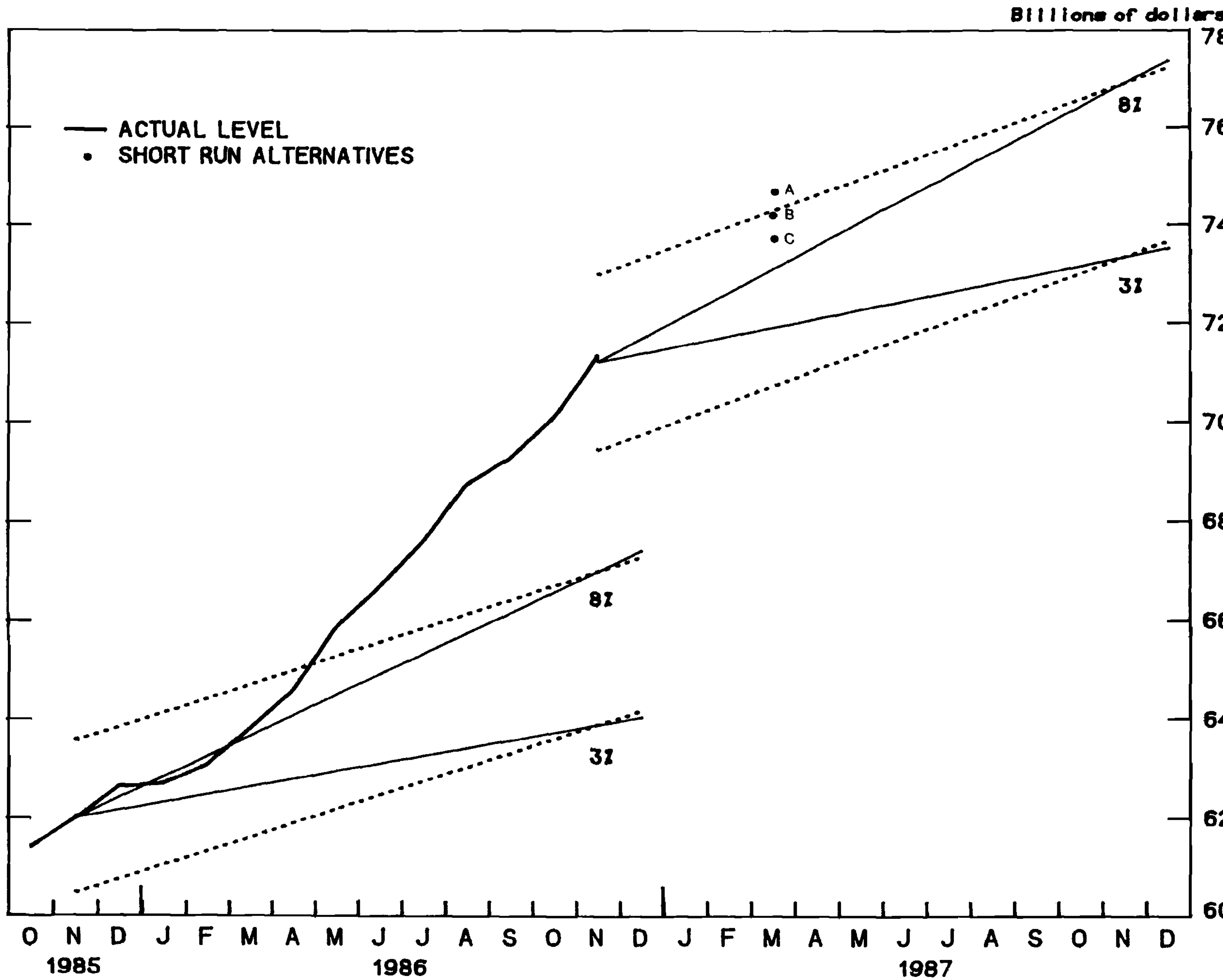
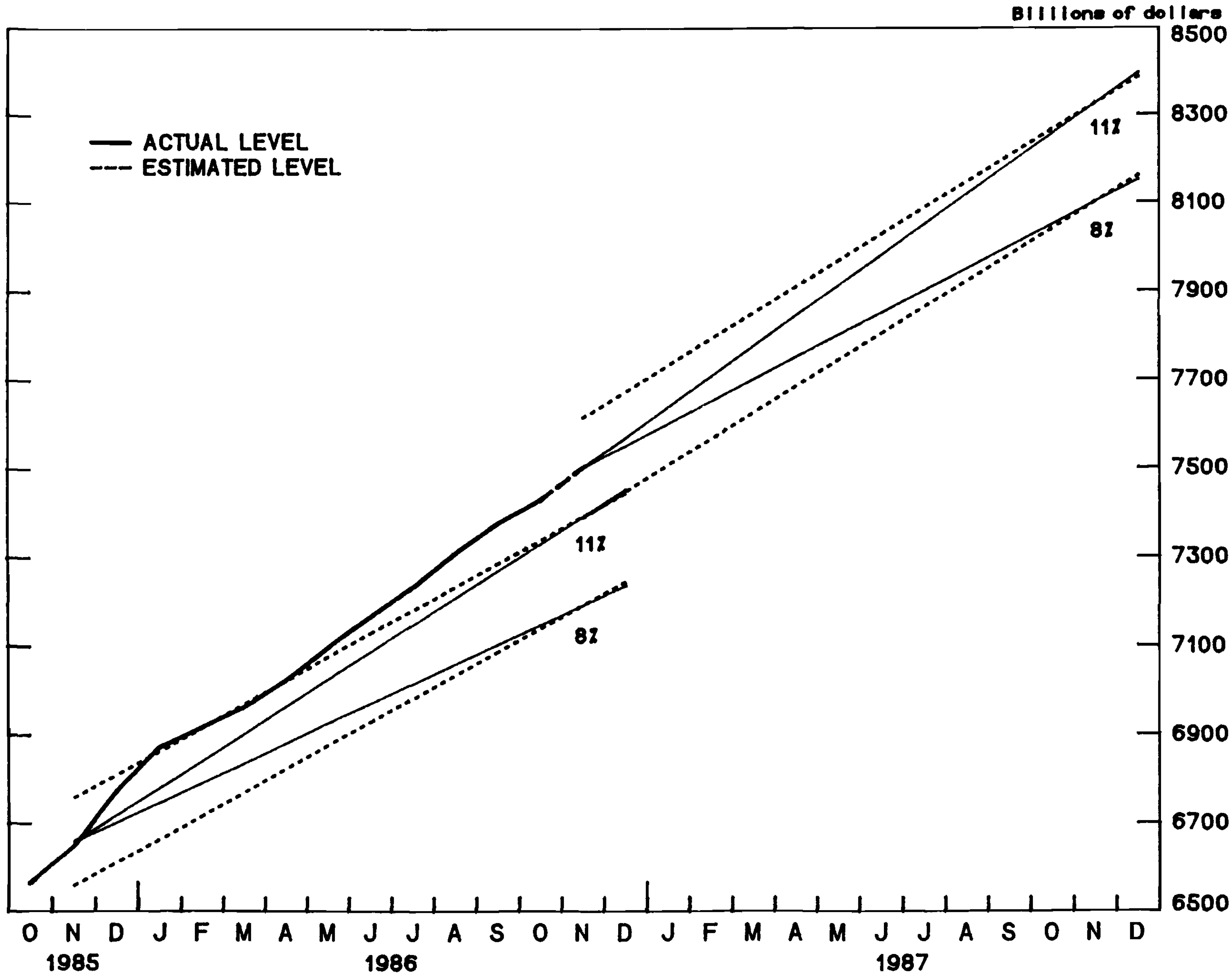


Chart 4

DEBT



Billions of dollars
ACTUAL LEVEL
ESTIMATED LEVEL
8500
8300
8100
7900
7700
7500
7300
7100
6900
6700
6500
11%
8%
11%
8%
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1985
1986
1987

more evenly around 5-7/8 percent after year-end pressures abate. Bond rates are expected to vary around current levels; consistent with the staff forecast, incoming indicators of domestic output growth and inflation should not provide the basis for a major shift in sentiment. However, markets are likely to remain sensitive to developments in oil markets--especially given the current OPEC meeting--and in foreign exchange markets. Downward pressures on the dollar could re-emerge in light of continued large current account deficits, especially absent evidence of a greater willingness of foreign authorities to lower interest rates.

(9) M2, under alternative B, is expected to slow further from its average growth over October and November, expanding at a 7 percent pace over the November-to-March period--in the middle of its tentative range. The boost to M2 growth from previous market rate declines is likely to diminish further over this period, reinforced by additional reductions in offering rates on passbook accounts and other liquid deposits. The degree of moderation, though, probably will be limited by a continuation of slow adjustment of offering rates on these accounts. In addition, nominal income growth is projected to pick up in the first quarter, bolstering demands for M2. Adding to uncertainty about M2 growth in 1987 are tighter restrictions on IRA deductions imposed by tax reform, which will tend to reduce the appeal of this non-M2 investment. While this could act to boost inflows to M2 accounts over time, its effects are less certain early in the year, when flows are dominated by contributions for the previous tax year.[1] Under

1. The new mortgage-backed securities favored by tax reform--REMICs--appear unlikely to attract many funds from retail M2 accounts, especially in the near-term.

alternative B, M2 would outpace nominal GNP, given the staff forecast, and its velocity thus would decline further in the first quarter, though by considerably less than in the fourth quarter or the year 1986.

(10) Under the specifications of alternative B, M3 would expand at a 6 percent rate from November to March, near the reduced pace of recent months and in the lower half of its tentative range. Credit growth at banks is expected to moderate in early 1987 as business and household loan demands slacken, and stiffer capital requirements for thrifts should further restrain their asset growth. Under these circumstances depository institutions will be under little pressure to issue CDs and other managed liabilities in M3. The margin of growth of M3 over GNP would narrow and the contraction of M3 velocity in the first quarter would be small--about in line with its long-term trend.

(11) The outlook for M1 remains quite uncertain, given the extraordinarily low opportunity costs of holding OCDs and the erratic behavior of demand deposits. However, underlying conditions would seem to continue to point to some moderation in M1 growth under alternative B from the exceptional pace of recent quarters. With market rates fairly stable for some months now, interest rate effects on OCDs are likely to diminish as offering rates are reduced further and as the public's portfolio becomes more fully adjusted to earlier rate declines. Demand deposit growth also should subside, in part as compensating balances are brought into line with lower interest rates. Nevertheless, M1 would be expected to grow in the first quarter at a rate well in excess of GNP and its velocity would register another sharp decline, on the order of an 8 percent annual rate.

(12) The debt of domestic nonfinancial sectors is likely to decelerate in early 1987, with slower growth coming from both the government and private sectors. However, the decline in borrowing by some key sectors would be greater than is indicated by their underlying financing needs. Federal borrowing, for example, is expected to moderate considerably (seasonally adjusted), but much of this would result from a drawdown of the Treasury's cash balance, rather than a substantial decrease in the fiscal deficit. Borrowing by state and local governments is likely to edge lower from the already reduced levels of recent months in part as advance refunding activity slackens. Business needs for external funds in the first quarter should remain at about the level of the fourth quarter, but with a slowing of equity retirements after the current surge, businesses are expected to tap the credit market for smaller amounts in early 1987. In the household sector, a moderation in underlying demands for consumer credit will be exaggerated by efforts to substitute mortgage for consumer debt to retain full deductibility of interest payments; abstracting from such shifting, household mortgage demands would be expected to remain around the enlarged amounts of recent quarters. Total domestic nonfinancial debt is expected to grow at about a 10 percent annual rate over the first quarter of 1987, within the Committee's tentative annual monitoring range of 8 to 11 percent.

(13) Alternative A assumes a reduction in discount window borrowing to a near-frictional level of $150 million or a reduction in the discount rate of one-half percentage point with borrowing maintained at $300 million. The federal funds rate, in either event, would decline to the 5-1/4 to 5-1/2 percent area. Other short-term rates also would move lower,

with the three-month bill likely dropping to 5 percent or a little below. The dollar could come under greater downward pressure on foreign exchange markets, unless other major central banks were similarly to ease. A weaker dollar and possibly heightened concerns about inflation could limit the scope for bond rate declines. That scope could widen, though, should incoming indicators on the economy point to more softness early in the year than is now generally expected and to subdued price pressures.

(14) Under alternative A, growth in M2 would slow only a little from its average pace of recent months, and by March this aggregate would be in the upper portion of its tentative long-run range. Growth in M3 would strengthen a bit, but still would be below the midpoint of its tentative range in March. M1 would be expected to expand at about the very rapid pace of 1986. Unless greater interest cost pressures break the resistance of banks and thrifts to lowering offering rates on savings deposits and other liquid accounts, opportunity costs on these accounts would remain very low--or even decline further--drawing funds from small time deposits and the open market. M3 would tend to be boosted by inflows to money market funds, as their yields lagged the decrease in market interest rates. In addition, bank funding needs might be enlarged by more lending to businesses, especially if long-term rates did not similarly decline.

(15) Under alternative C, reserve paths would be drawn with an assumed $500 million of discount window borrowing. The federal funds rate would rise to the 6-1/4 to 6-1/2 percent area. The tighter reserve conditions of this alternative would act to damp growth in M2 and M3; M2 would be in the lower half and M3 close to the lower end of their tentative ranges in March. Opportunity costs of the more liquid components of M2, in parti-

cular, would widen appreciably, restraining inflows to retail accounts, and reduced overall funding needs of banks and thrifts associated with slower asset growth would limit expansion of managed liabilities in M3. Growth in M1 also would be damped by tighter reserve market conditions and accompanying larger opportunity costs, although it probably would continue to advance considerably more rapidly than GNP.

(16) The three-month bill likely would rise by around 50 basis points, and other short-term rates could rise by even more should the debt servicing difficulties of some businesses and other borrowers seem to have worsened. The dollar might firm, at least for a while, on foreign exchange markets. Bond rates also would back up, although reduced pressure on the dollar and a reassessment of inflation prospects could limit the extent of any rise.

Directive language

(17) Draft language for the operational paragraph, with the usual alternatives for indicating the degree of reserve pressure, is shown below. In keeping with the Committee's practice since the July meeting, the draft provides for the specification of numerical growth rates for M2 and M3 but not for M1. With regard to M1, the staff is projecting some slowdown over the November-to-March period relative to growth over the summer and fall months, and the Committee could retain the wording of the current directive if it wished to indicate a similar expectation. If, on the other hand, the Committee preferred not to express any expectation about M1 growth over the months ahead, it could delete the language in the first set of brackets, referring to an expected moderation, perhaps substituting wording, like that shown in the second set of brackets, which emphasizes the uncertain outlook for M1. With regard to possible intermeeting adjustments in the degree of reserve pressure, the draft retains the symmetrical language of the latest directive but that language could be adapted to an asymmetrical approach (with the appropriate use of "might" and "would") as in a number of earlier directives. The draft also retains the reference to the possibility of "slight" adjustments to reserve pressures; the more usual terminology of "somewhat" as well as the standard option with respect to the use of "would" are given in parentheses.

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 growth in M2 and M3 over the period from ~~September to December~~ NOVEMBER TO MARCH at annual rates of ~~7 to 9~~ ___ and ___ percent, RESPECTIVELY. [While growth in M1 over the same period is expected to moderate from its exceptional pace during the previous several months,] [THE OUTLOOK FOR M1 REMAINS SUBJECT TO A GREAT DEAL OF UNCERTAINTY, AND] growth in this aggregate will continue to be judged in the light of the behavior of M2 and M3 and other factors. Slightly (SOMEWHAT) greater reserve restraint or slightly (SOMEWHAT) lesser reserve restraint might (WOULD) be acceptable depending on the behavior of the aggregates, taking into account 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 ~~4 to 8~~ ___ TO ___ percent.

Selected Interest Rates

Percent

December 15, 1986

Period	Short-term: federal funds	Short-term: 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	5.81	5.09	5.16	5.31	5.47	5.60	5.17	7.50	6.24	7.02	7.16	9.15	7.15	9.37	9.50	7.79
1986--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	6.02	8.16	6.86	7.30	7.27	9.57	7.95	10.16	10.49	8.52
Aug.	6.17	5.52	5.55	5.60	5.92	6.02	5.74	7.90	6.49	7.17	7.33	9.51	7.59	9.75	10.15	8.37
Sep.	5.89	5.21	5.35	5.45	5.71	5.74	5.34	7.50	6.62	7.45	7.62	9.56	7.53	9.98	10.01	8.20
Oct.	5.85	5.18	5.26	5.41	5.69	5.74	5.22	7.50	6.56	7.43	7.70	9.48	7.47	9.82	9.97	8.06
Nov.	6.04	5.35	5.41	5.48	5.76	5.84	5.21p	7.50	6.46	7.25	7.52	9.31	7.23	9.56	9.70	7.90
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
20	6.38	5.56	5.56	5.61	5.94	6.12	5.76	8.00	6.44	7.09	7.24	9.45	7.43	9.62	10.04	8.33
27	5.87	5.32	5.38	5.41	5.64	5.68	5.67	7.86	6.27	7.02	7.24	9.32	7.32	9.52	9.93	8.32
Sep. 3	5.83	5.22	5.23	5.31	5.47	5.60	5.53	7.50	6.24	7.06	7.28	9.43	7.37	9.77	9.90	8.33
10	5.82	5.20	5.31	5.41	5.63	5.66	5.38	7.50	6.51	7.31	7.52	9.59	7.63	10.02	9.96	8.18
17	5.88	5.16	5.36	5.46	5.73	5.77	5.34	7.50	6.69	7.54	7.69	9.72	7.57	10.07	10.07	8.19
24	5.81	5.24	5.40	5.50	5.80	5.78	5.30	7.50	6.75	7.59	7.75	9.62	7.55	10.07	10.10	8.10
Oct. 1	6.08	5.22	5.38	5.49	5.78	5.83	5.30	7.50	6.69	7.47	7.63	9.50	7.57	9.92	10.08	8.18
8	5.75	5.09	5.17	5.32	5.64	5.72	5.26	7.50	6.48	7.33	7.56	9.51	7.47	9.82	9.99	8.08
15	5.83	5.11	5.16	5.33	5.63	5.70	5.21	7.50	6.50	7.42	7.72	9.52	7.50	9.87	9.96	8.03
22	5.91	5.28	5.37	5.48	5.77	5.77	5.19	7.50	6.67	7.56	7.84	9.49	7.49	9.77	9.95	8.03
29	5.86	5.22	5.30	5.46	5.74	5.77	5.20	7.50	6.60	7.44	7.73	9.32	7.30	9.72	9.89	7.98
Nov. 5	6.02	5.22	5.30	5.41	5.64	5.72	5.20	7.50	6.48	7.30	7.59	9.42	7.30	9.77	9.83	7.98
12	5.98	5.35	5.46	5.54	5.78	5.81	5.17	7.50	6.55	7.36	7.60	9.37	7.29	9.67	9.81	7.98
19	6.13	5.38	5.43	5.49	5.81	5.86	5.21	7.50	6.48	7.26	7.51	9.22	7.18	9.42	9.64	7.84
26	6.00	5.38	5.42	5.46	5.76	5.88	5.25	7.50	6.39	7.15	7.42	9.16	7.16	9.37	9.50	7.79
Dec. 3	6.25	5.41	5.44	5.47	5.83	5.99	5.22	7.50	6.38	7.12	7.37	9.08	7.15	9.37	9.30	7.77
10	5.97	5.46	5.47	5.48	5.84	6.02	5.26	7.50	6.36	7.07	7.33	9.00	7.34	9.38	9.35	7.72
Daily--Dec. 5	5.94	5.44	5.46	5.49	5.81	6.01	--	7.50	6.38	7.12	7.38	--	--	--	--	--
11	5.86	5.49	5.49	5.51	5.87	6.03	--	7.50	6.39	7.12	7.38	--	--	--	--	--
12	5.90p	5.49	5.50	5.52	5.94	6.04	--	7.50	6.40p	7.13p	7.39p	--	--	--	--	--

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

DEC. 15, 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	21.3	8.9	11.5
1984	5.4	8.0	8.8	21.2	10.5	11.9	11.2	16.0	13.3	13.9
1985	11.9	8.7	7.7	3.8	7.7	8.5	9.9	15.2	12.8	13.3
QUARTERLY AVERAGE										
4TH QTR. 1985	10.7	6.1	4.7	8.6	6.6	9.5	9.4	13.7	13.4	13.5
1ST QTR. 1986	7.7	4.3	3.3	20.6	7.6	8.3	12.7	17.0	14.9	15.4
2ND QTR. 1986	15.8	10.5	8.7	3.4	9.0	7.0	4.1	11.6	9.8	10.3
3RD QTR. 1986	17.3	11.1	9.1	6.3	10.2	8.5	10.5	14.5	11.1	11.9
MONTHLY										
1985--NOV.	11.5	5.9	4.2	5.7	5.9	12.0	13.3	23.1	13.0	15.3
DEC.	12.6	7.1	5.3	9.0	7.5	12.3	15.5	27.9	21.3	22.8
1986--JAN.	1.1	1.6	1.7	37.8	8.7	7.1	18.7	15.8	18.2	17.6
FEB.	7.3	3.6	2.4	16.9	6.3	5.9	3.4	9.8	7.2	7.7
MAR.	14.1	6.8	4.6	11.6	7.8	4.3	5.7	5.6	8.5	7.8
APR.	14.5	13.8	13.6	2.5	11.4	7.2	2.0	9.6	10.7	10.4
MAY	23.4	12.6	9.1	-10.7	7.9	9.8	5.9	17.3	10.9	12.4
JUNE	14.8	9.6	7.8	4.7	8.5	6.8	3.8	19.3	9.8	12.0
JULY	16.6	12.8	11.5	13.8	13.0	9.1	13.2	14.7	9.9	11.0
AUG.	20.6	11.2	8.0	0.9	9.1	8.3	13.8	8.8	13.7	12.5
SEPT.	9.6	7.3	6.4	14.7	8.8	8.6	13.0	11.5	11.4	11.4
OCT.	14.0	10.6	9.4	-9.1	6.7	6.7	2.2	9.9	8.1	8.5
NOV. P	20.9	6.6	1.7	1.8	5.6		9.0	16.0	10.2	11.6
MONTHLY LEVELS ($BILLIONS)										
1986--JULY	676.0	2699.2	2023.2	675.9	3375.1	4002.9	1985.0	1712.6	5518.1	7230.7
AUG.	687.6	2724.3	2036.7	676.4	3400.7	4030.7	2007.7	1725.1	5581.1	7306.2
SEPT.	693.1	2740.8	2047.6	684.7	3425.5	4059.6	2029.6	1741.6	5634.2	7375.8
OCT.	701.2	2764.9	2063.7	679.5	3444.5	4082.2	2034.0	1755.9	5672.1	7427.9
NOV. P	713.4	2780.1	2066.7	680.5	3460.6		2049.3	1779.3	5720.4	7499.7
WEEKLY LEVELS ($BILLIONS)										
1986-NOV. 3	703.4									
10	713.2									
17	712.3									
24P	711.5									
DEC. 1P	721.4									

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

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

DEC. 15, 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	210.3	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	433.1	63.0	77.8	79.0	297.1	199.5	42.7
MONTHLY																
1985-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	300.7	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	308.4	209.5	41.1
1986-JAN.	171.9	268.9	180.5	68.9	515.7	304.0	885.9	177.7	67.3	447.9	68.8	76.0	79.9	305.5	210.6	41.6
FEB.	172.9	269.2	183.1	68.5	516.3	304.9	891.0	181.0	67.7	451.3	70.6	79.2	80.5	307.7	209.2	42.4
MAR.	173.9	273.2	185.3	67.6	520.5	306.9	894.7	186.2	70.2	450.5	71.6	82.7	81.1	300.2	209.5	41.7
APR.	174.4	275.7	189.9	68.5	525.2	311.4	895.9	191.4	74.1	452.1	71.5	81.5	81.8	298.8	203.0	41.0
MAY	175.8	281.6	195.1	69.1	530.8	318.5	891.2	193.2	76.1	446.4	74.2	79.8	82.6	305.7	206.7	40.1
JUNE	176.7	284.9	199.0	66.4	540.4	325.0	885.6	197.3	75.0	445.1	75.3	80.1	83.4	299.5	210.6	40.3
JULY	177.5	288.3	203.8	71.9	546.1	331.2	883.7	199.7	77.5	445.9	75.0	78.6	84.3	291.9	212.3	39.4
AUG.	179.0	291.8	210.4	74.6	553.1	337.6	877.2	200.5	80.8	448.0	75.5	78.4	85.3	288.4	219.3	37.2
SEPT.	179.7	292.2	214.8	72.6	558.3	344.4	871.3	202.2	84.4	447.2	78.0	81.6	86.4	289.8	221.1	36.8
OCT.	181.2	293.2	220.4	77.0	563.8	353.8	861.8	206.7	84.5	443.2	78.1	78.6	87.8	289.6	222.9	37.5
NOV. P	182.2	298.4	226.4	75.6	568.1	363.1	854.3	206.6	84.4	443.4	82.4	79.5				

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

December 15, 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
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
II	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
III	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
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
Aug.	2,940	--	--	--	--	--	--	--	--	--	--	2,850	-448
Sept.	861	--	--	--	--	--	--	--	--	--	--	861	5,762
Oct.	928	--	--	--	--	--	--	--	--	--	--	835	-3,493
Nov.	3,318	190	893	236	158	1,476	--	--	--	--	--	4,670	1,852
Sept. 3	2,287	--	--	--	--	--	--	--	--	--	--	2,287	-1,085
10	119	--	--	--	--	--	--	--	--	--	--	119	2,179
17	281	--	--	--	--	--	--	--	--	--	--	281	-2,438
24	151	--	--	--	--	--	--	--	--	--	--	151	1,108
Oct. 1	295	--	--	--	--	--	--	--	--	--	--	236	-1,708
8	106	--	--	--	--	--	--	--	--	--	--	106	469
15	120	--	--	--	--	--	--	--	--	--	--	120	1,529
22	--	--	--	--	--	--	--	--	--	--	--	-34	5,065
29	472	--	--	--	--	--	--	--	--	--	--	472	-6,223
Nov. 5	295	--	--	--	--	--	--	--	--	--	--	295	1,827
12	2,708	--	--	--	--	--	--	--	--	--	--	2,583	-291
19	153	190	893	236	158	1,476	--	--	--	--	--	1,629	2,157
26	117	--	--	--	--	--	--	--	--	--	--	117	-3,097
Dec. 3	461	--	--	--	--	--	--	--	--	--	--	461	1,702
10	4,123	--	--	--	--	--	--	--	--	--	--	4,123	-2,061
LEVEL--Dec. 10 ($ billions)	104.0	18.5	38.8	15.5	23.1	93.8	2.5	3.8	1.2	.4	7.8	209.2	-3.5

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 (+)