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March 27, 1987

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

March 27, 1987

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Growth of the monetary aggregates has slowed sharply in the last two months. Preliminary data indicate that over the January-March period M2 and M3 increased at 1 and 2-1/4 percent annual rates, respectively, well below their 6 to 7 percent short-run paths. As a result, both aggregates in March are around the lower bounds of their annual growth ranges for 1987. The velocities of the broader aggregates are estimated to have fallen only a shade in the first quarter, based on the greenbook GNP forecast, following decreases of about 4 percent in 1986. M1 expanded at only a 2-1/2 percent annual rate over the latest two months. However, owing to the bulge at year-end, M1 growth on a quarterly average basis came to 13-1/4 percent in the first quarter, implying a further substantial drop in velocity--perhaps 7 percent at an annual rate compared with its 9-1/2 percent decline last year.

(2) Slow growth in the aggregates over the last two months has been broadly based. Some of the deceleration appears to be related to a reversal of the bulge in deposits and bank lending associated with the surge in transactions before year-end; also, some of the moderation in deposit growth relative to last year likely reflects the completion of portfolio adjustments to the decline in rates through last summer. However, reasons for the extent of the recent weakness against a backdrop of moderate increases in spending and income are not entirely clear. Weakness in demand deposits, which have been essentially flat since mid-January, may be related in part to a falloff in the pace of mortgage prepayments. Other checkable deposits

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	January	February	March[p]	January to March[p]	QIV'86 to March[p]
Money and credit aggregates					
M1	11.7	-.7	5.7	2.5	10.9
M2	9.5	-.3	2.6	1.1	5.3
M3	9.1	1.3	3.0	2.2	5.6
Domestic nonfinancial debt	13.4	8.6	n.a.	n.a.	12.2[2]
Bank credit	18.4	2.0	n.a.	n.a.	11.7[2]
Reserve measures					
Nonborrowed reserves[1]	25.5	-1.5	-2.1	-1.8	14.4
Total reserves	21.6	-3.3	-2.7	-3.0	13.4
Monetary base	15.9	7.1	6.6	6.9	11.0
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	355	273	232[3]	--	--
Excess reserves	1068	1209	900[3]	--	--

p--preliminary. n.a.--not available.

1. Includes "other extended credit" from the Federal Reserve.
2. QIV'86 through February.
3. Through maintenance period ended March 25.

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-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.

have been expanding at a sharply reduced pace as well since January, without a compensating pickup in other retail deposits. With short-term rates somewhat above their levels of last fall and stock prices soaring while rates on some retail deposits continue to edge down, savers may be finding alternative investment outlets more attractive. Shifts into such instruments are suggested by recent increases in noncompetitive tenders for Treasury bills, which had been declining since last March, and some pickup in flows to bond and stock mutual funds in January and February. In light of the less favorable treatment of consumer interest expenses under tax reform, some households also may be drawing down M2 assets to repay consumer credit or to substitute for borrowing to finance large outlays, including contributions to IRAs before the tax date.

(3) With bank credit growth weak in February and March following the run-up over year-end, issuance by banks of CDs and other managed liabilities in M3 also has moderated in recent months. Declines in overnight RPs and Eurodollars contributed to the weakness in M2, but were offset in their effects on M3 by increases in their term counterparts. At thrifts, CDs continued to drop fairly rapidly, likely reflecting slow asset growth as well as continued reliance on Federal Home Loan Bank advances.

(4) Debt expansion by domestic nonfinancial sectors has slowed noticeably since January, bringing the growth of this aggregate from its fourth-quarter base to a little above the upper end of its long-run range. Business borrowing has fallen off as equity retirements have remained below their year-end pace and sales of new equity picked up in lagged response to rising share prices. Encouraged by relatively low long-term rates, business borrowing has been concentrated in bond markets, and short-term credit

contracted in February and likely in March as well. Overall household borrowing seems to have moderated somewhat in early 1987, but remains relatively robust; strength in mortgages relative to consumer credit appears to reflect underlying spending patterns as well as a substitution from consumer credit to mortgage borrowing under home equity lines. The growth in Treasury debt has been cut back substantially early this year, including a large paydown of Treasury bills; the Treasury has met a substantial portion of its needs by drawing on its sizable year-end cash balance.

(5) Total and nonborrowed reserves fell slightly over February and March, as required reserves leveled off following the year-end bulge in transactions deposits and excess reserves edged lower in line with their usual seasonal pattern. In the three complete reserve maintenance periods since the February FOMC meeting adjustment plus seasonal borrowing has averaged $280 million, close to the $300 million level assumed in the reserve paths. The federal funds rate associated with borrowing around this level edged off from nearly 6-1/4 percent at the last Committee meeting to around 6 percent or a bit higher following clarification at the Humphrey-Hawkins testimony that the System had not altered its basic stance toward reserve provision.

(6) Other interest rates were little changed on balance since the February FOMC meeting in exceptionally quiet trading. In addition to reduced concerns about a monetary tightening, incoming data were seen as presenting a mixed picture for the economy, although concerns about the dollar have tended to limit the scope for any decline in rates. On balance, private short-term rates are generally unchanged, while Treasury bill rates have declined about 15 to 20 basis points. This differential behavior may have reflected some

heightened concerns about credit quality related in part to Brazil's suspension of debt servicing as well as the paydown of bills by the Treasury. In contrast to the quiet debt markets, equity prices rose 8 percent over the period, bringing their gains since year-end to around 25 percent.

(7) The dollar traded in a narrow range through most of the intermeeting period, with its stability reinforced by the perception that at their meeting in Paris on February 21-22 major industrial countries agreed to support the prevailing structure of exchange rates. However, in recent days the dollar has come under substantial selling pressure against the yen, apparently triggered by renewed trade frictions between the United States and Japan and by official statements that raised some questions about the U.S. commitment to the Paris agreement. As the dollar dropped below the 150 yen/dollar level,

the United States by purchasing nearly $1-1/2 billion against yen, of which roughly half was done for Federal Reserve account;

. Nonetheless, the dollar has fallen about 4-1/4 percent against the yen since the last FOMC meeting. Throughout the intermeeting period sterling has been strengthening appreciably against the dollar and other currencies on brighter fiscal news and improved electoral prospects for the Thatcher government.

Policy alternatives

(8) The table below gives three alternative specifications for growth in the monetary aggregates from March to June, along with associated federal funds rate ranges. (More detailed data, including growth rates implied by each alternative from the fourth quarter to June, can be found in the table and charts on the following pages.) Expansion in the monetary aggregates under all three alternatives is expected to pick up from the sluggish pace of February and March; even so, growth is projected to be relatively moderate, and by June the broader aggregates would still be well below the midpoints of their ranges under alternatives A and B and at or a bit below the lower bounds under alternative C.

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

(9) Alternative B assumes maintenance of the current degree of pressure on reserve positions, with reserve paths allowing for $300 million of borrowing at the discount window. Federal funds would be expected to trade around 6 percent or a touch above. The Treasury bill rate is expected to remain around current levels or perhaps move lower in response to a further reduction in supply; although the Treasury is likely to sell cash management bills in coming days, they would mature shortly after the April tax date, and net redemptions of bills at regular weekly auctions are expected

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									
1987-January	2822.0	2822.0	2822.0	3515.8	3515.8	3515.8	737.6	737.6	737.6
February	2821.3	2821.3	2821.3	3519.5	3519.5	3519.5	737.2	737.2	737.2
March	2827.3	2827.3	2827.3	3528.4	3528.4	3528.4	740.7	740.7	740.7
April	2841.9	2841.0	2840.1	3546.6	3545.7	3544.9	747.3	746.9	746.5
May	2858.0	2855.0	2852.0	3565.2	3562.8	3560.6	753.5	752.4	751.3
June	2876.6	2869.6	2862.6	3585.2	3580.8	3576.4	760.3	757.6	754.8
Monthly Growth Rates									
1987-January	9.5	9.5	9.5	9.1	9.1	9.1	11.7	11.7	11.7
February	-0.3	-0.3	-0.3	1.3	1.3	1.3	-0.7	-0.7	-0.7
March	2.6	2.6	2.6	3.0	3.0	3.0	5.7	5.7	5.7
April	6.2	5.8	5.4	6.2	5.9	5.6	10.7	10.0	9.4
May	6.8	5.9	5.0	6.3	5.8	5.3	10.0	8.8	7.7
June	7.8	6.1	4.5	6.7	6.1	5.3	10.8	8.3	5.6
Quarterly Ave. Growth Rates									
1986-Q2	9.4	9.4	9.4	8.7	8.7	8.7	15.5	15.5	15.5
Q3	10.6	10.6	10.6	9.6	9.6	9.6	16.5	16.5	16.5
Q4	9.2	9.2	9.2	8.0	8.0	8.0	17.0	17.0	17.0
1987-Q1	6.5	6.5	6.5	6.7	6.7	6.7	13.3	13.3	13.3
Q2	5.0	4.5	4.0	5.1	4.8	4.5	8.2	7.5	6.7
Jan. 87 to Mar. 87	1.1	1.1	1.1	2.2	2.2	2.2	2.5	2.5	2.5
Mar. 87 to June 87	7.0	6.0	5.0	6.4	5.9	5.4	10.6	9.1	7.6
Q4 85 to Q4 86	8.9	8.9	8.9	8.8	8.8	8.8	15.3	15.3	15.3
Q4 86 to Q2 87	5.8	5.5	5.3	5.9	5.8	5.6	10.9	10.5	10.1
Q4 86 to Mar. 87	5.3	5.3	5.3	5.6	5.6	5.6	10.9	10.9	10.9
Q4 86 to June 87	6.0	5.6	5.2	6.0	5.8	5.6	10.9	10.3	9.6
1987 Ranges:		5.5 to 8.5			5.5 to 8.5				

CHART 1

ACTUAL AND TARGETED M2

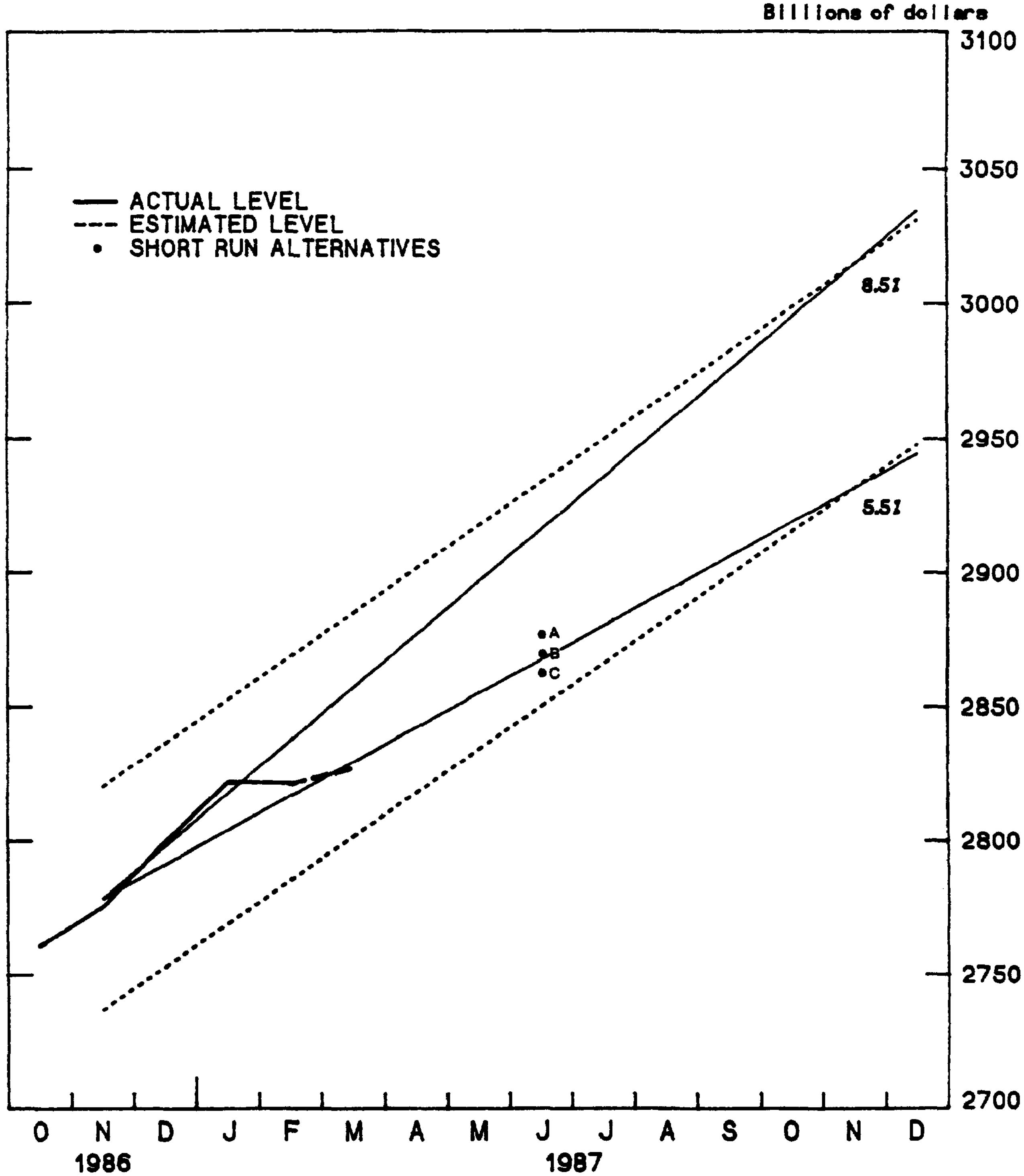


CHART 2
ACTUAL AND TARGETED M3

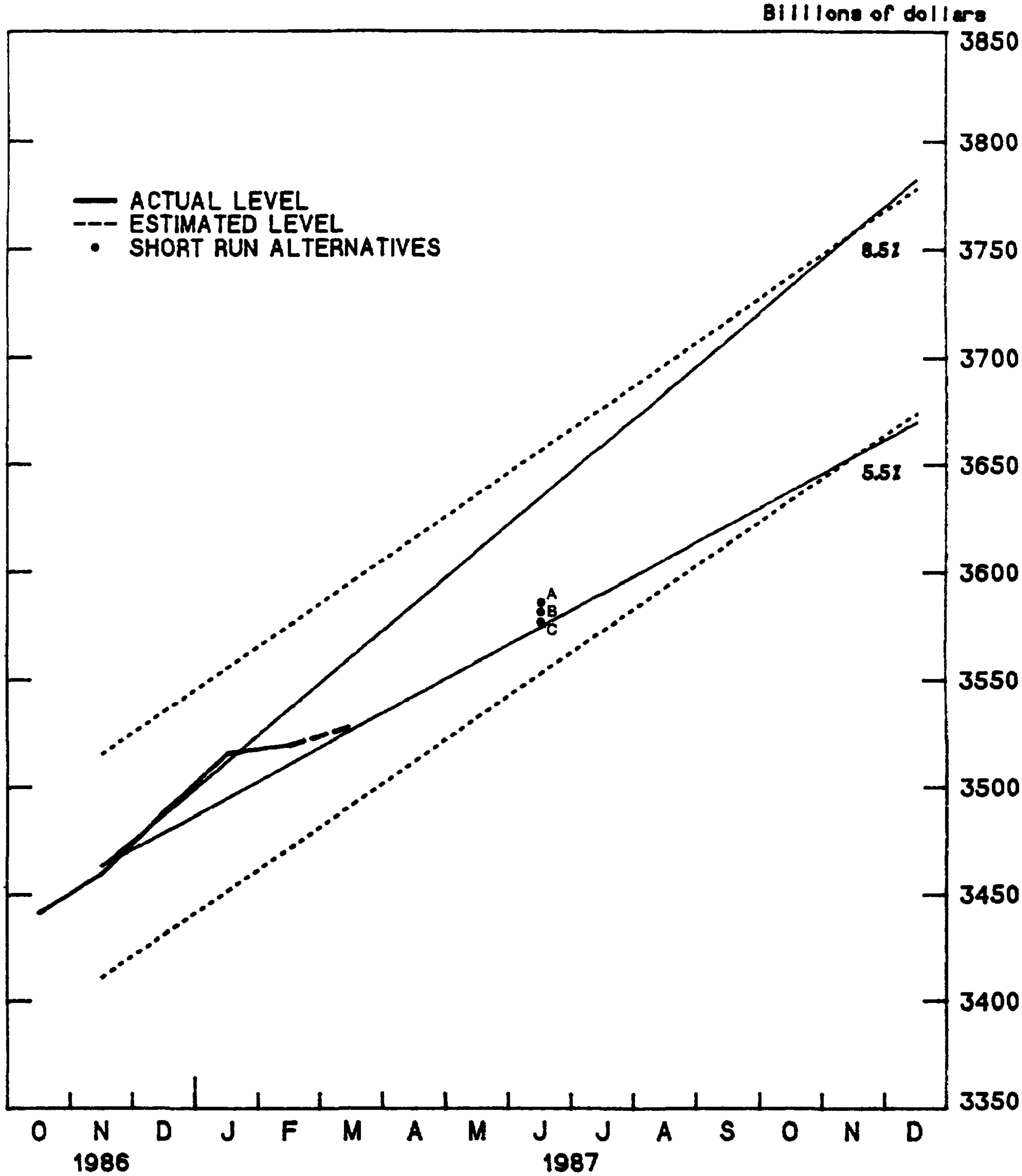
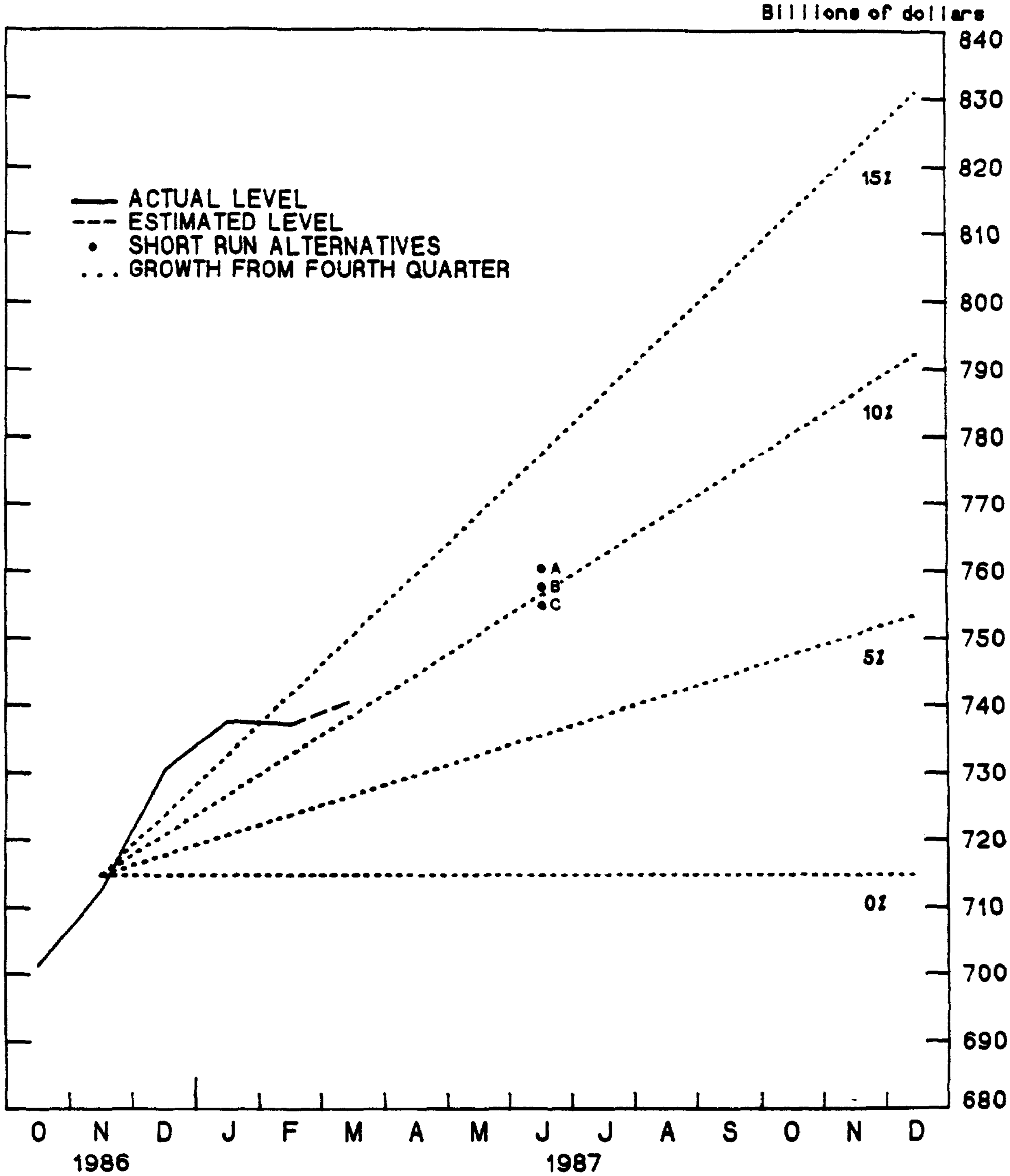


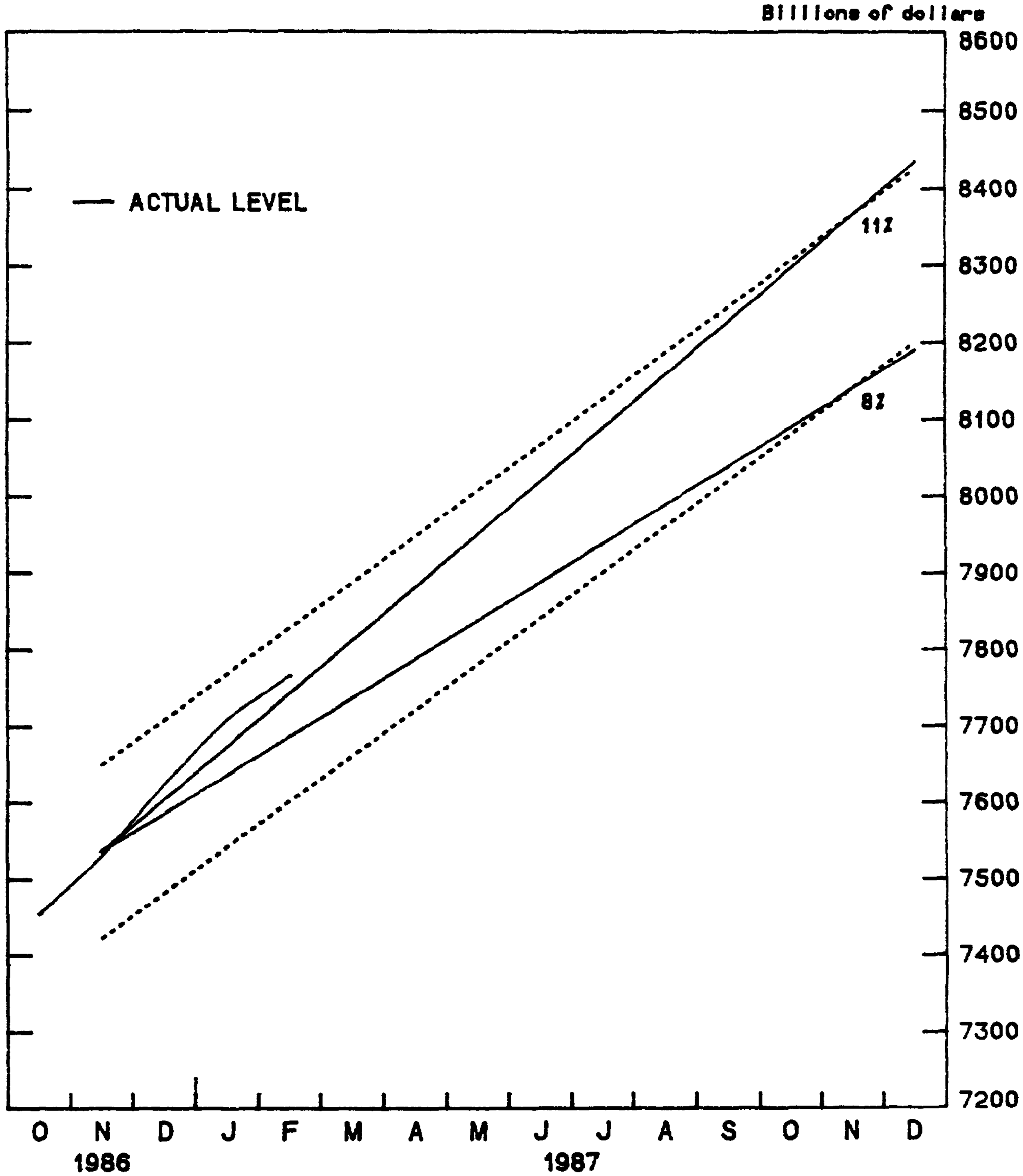
CHART 3

M1



Billions of dollars
ACTUAL LEVEL
ESTIMATED LEVEL
SHORT RUN ALTERNATIVES
GROWTH FROM FOURTH QUARTER
15%
10%
5%
0%
A
B
C
840
830
820
810
800
790
780
770
760
750
740
730
720
710
700
690
680
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1986
1987

Chart 4
DEBT


Billions of dollars
ACTUAL LEVEL
11%
8%
8600
8500
8400
8300
8200
8100
8000
7900
7800
7700
7600
7500
7400
7300
7200
O N D J F M A M J J A S O N D
1986
1987

to continue for a time. Little net movement in long-term rates is anticipated under this alternative, consistent with staff expectations of moderate economic expansion and limited inflationary pressures. The dollar might remain under some downward pressure, but the decline in exchange rates through the spring is expected to be moderate assuming continuing efforts to stabilize rates under the Paris agreement. Sustained weakness in the dollar could tend to push up interest rates in U.S. markets owing to concerns about monetary policy responses and the strength of overall demand for dollar assets.

(10) Under alternative B, growth in M2 would be expected to strengthen to a 6 percent annual rate over the March-to-June period, lifting this aggregate to the lower end of its long-run range. With market interest rates little changed for some time now, and not anticipated to move far from current levels under this alternative, M2 might grow about in line with income over coming months. Shifts into non-M2 savings vehicles may diminish, especially should stock prices show less strength, and any use of M2 balances to pay down existing consumer loans in the wake of tax reform might abate if those with a significant tax incentive have moved relatively promptly. The deadline for 1986 IRA contributions is in mid-April, but with the tax law changes it is difficult to predict the effects on M2 growth. On a quarterly average basis, M2 would rise at only a 4-1/2 percent annual rate in the second quarter, given the pattern of growth over the first quarter, and the staff's GNP forecast would imply a small rise in M2 velocity, the first increase in more than a year.

(11) M3 growth under alternative B also would be expected to strengthen to a 6 percent rate over the March-to-June period. Inflows to M2 deposits at banks are expected to be augmented by some pickup in the

issuance of managed liabilities included in M3; borrowing from foreign branches should drop back from recently elevated levels, and overall needs for funds are projected to increase reflecting in part a turnaround in business loans now that much of the year-end bulge has been worked off. The pace of CD runoffs at thrifts is expected to moderate as their asset growth rebounds a bit from the recent depressed pace, though any intensification of concerns about the health of these institutions or their insurance fund could work in the other direction. On a quarterly average basis, M3 would grow at only a 4-3/4 percent rate, the slowest pace in more than a decade and a half; M3 velocity, which has trended downward, would post a small increase.

(12) Under alternative B, expansion of M1 is anticipated to strengthen to a 9 percent annual rate over March to June. The acceleration in M1 would reflect a resumption of growth in demand deposits, which are anticipated to increase at a rate only a little below the projected growth of spending. OCDs are expected to grow at around the reduced pace of February and March; however, with opportunity costs widening only a little further with the continued downward drift of offering rates, the pace of growth would still considerably exceed that of income. On a quarterly average basis, M1 would rise at a 7-1/2 percent rate in the second quarter, the slowest rate since late 1984, and its velocity would decline at only a 2 percent annual rate. Over the first half of the year M1 would increase at about a 10 percent annual rate.

(13) Debt of domestic nonfinancial sectors is expected to continue to run much below the pace of last year, though remaining well in excess of the expansion of income. Debt is projected to increase at a 9 percent rate from March to June, moving the debt aggregate down to within

the upper portion of its 8 to 11 percent range. Borrowing by private sectors should be around the reduced pace of the first three months of the year and of roughly the same composition. With interest rates remaining around current levels and the yield curve relatively flat, business borrowing is expected to remain concentrated in long-term markets. Gross equity issuance might be close to its advanced March pace, while share retirements, though substantial, likely will remain below the average rate of 1986. Similarly, household borrowing is likely to continue to be concentrated in mortgage markets, reflecting strong single-family housing activity and further substitution of home equity loans for consumer credit. On a seasonally adjusted basis, federal borrowing will rebound from its recent reduced pace, though in part this would serve to boost the Treasury's cash balance over the quarter.

(14) Alternative A assumes a reduction in discount window borrowing to a near-frictional $150 million or a 50 basis point decrease in the discount rate with borrowing maintained at $300 million. In either case, the federal funds rate would decline to close to 5-1/2 percent. This easing in money market conditions would be expected to bolster the expansion of the aggregates, increasing the odds that M2 and M3 will be in the long-term ranges at midyear, even if economic growth turns out to be somewhat weaker than the staff projects. Without such unanticipated economic weakness, M2 growth would be expected to strengthen to a 7 percent annual rate over the March-to-June period, and M3 to 6-1/2 percent, lifting both noticeably above the lower boundaries of their long-run ranges by June. Flows into retail accounts would strengthen again, boosted by lagging offering rates on these accounts, especially OCDs and passbook savings. M1 likely would accelerate appreciably over the coming months.

(15) There appears to be little expectation of an easing action in the period just ahead and thus the three-month bill rate also would decline by about 1/2 of a percentage point, toward 5 percent. Other short-term rates could fall a little more, tending to reverse the recent widening in spreads, to the degree that lower interest rates were viewed as enhancing the financial condition of troubled borrowers and intermediaries. Unless this alternative were undertaken in the context of a generally weaker than expected world economy accompanied by substantial monetary easing abroad, downward pressure on the dollar likely would intensify, perhaps requiring substantial additional official intervention if authorities attempted to maintain exchange rates around recent levels. Absent indicators pointing to a much weaker economy, the pressure on the dollar and perhaps more concern about inflation might limit the extent of any decline in long-term rates.

(16) Under alternative C, reserve paths would be drawn with a borrowing level of $500 million, which would push the federal funds rate up to the 6-1/2 percent area. The three-month bill rate would rise about 50 basis points under this alternative and CD rates possibly by more. The increase in interest rates would tend to relieve downward pressure on the dollar, at least for a while. Bond rates would rise, as there appears to be little expectation in the markets of a tightening, although any such increase would be limited by sentiment that such a move was acting to contain inflationary pressures, in part through its effect on the dollar.

(17) A rise in interest rates would limit the extent of the pick-up in M2--as opportunity costs of holding M2 balances widened. Given the weakness of this aggregate in the first quarter, which may have reflected shifts in portfolio preferences, alternative C would tend to bring M2

farther below the lower end of its long-run range over the second quarter. Slower expansion of assets at banks and thrifts would act to restrain M3 growth to along the lower end of its long-run range. Growth in its M1 component would be expected to remain subdued but still be above that of income.

Directive language

(18) Draft language for the operational paragraph, with the usual alternatives for indicating the degree of reserve pressure, is shown below. The draft provides for the specification of numerical growth rates for M2 and M3 but, as in earlier directives, not for M1. Should the Committee wish to place particular emphasis on exchange market conditions in the implementation of policy over coming weeks, language along the lines shown in the first bracket might be used (with corresponding deletions to the present language on foreign exchange market developments also shown in brackets). An alternative would be to move up the reference to exchange market developments in the existing sentence on possible intermeeting adjustments. With regard to such adjustments, the draft provides for numerous options with appropriate usage of "would," "might," "somewhat," and "slightly."

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 MARCH ~~January~~ through ~~March~~ JUNE at annual rates of ___ AND ___ ~~about-6-to-7~~ percent, RESPECTIVELY. Growth in M1 is expected to REMAIN ~~slow~~ substantially BELOW ITS PACE IN 1986 ~~from-the-high-rate-of-earlier-months~~. [IN LIGHT OF THE RECENT INSTABILITY OF THE DOLLAR IN FOREIGN EXCHANGE MARKETS, PARTICULAR EMPHASIS WILL BE PLACED ON CONDITIONS IN THESE MARKETS IN OPERATIONAL DECISIONS. IN ADDITION,] somewhat (SLIGHTLY) greater reserve restraint would (MIGHT), 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 ___ TO ___ ~~4 to~~ 8 percent.

Selected Interest Rates

Percent

March 30, 1987

Period	Short-term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A utility recently offered	municipal Bond Buyer	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year					3-year	10-year	30-year			fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1986--High	9.55	7.21	7.30	7.35	7.94	7.91	7.21	9.50	8.60	9.38	9.52	10.83	8.72	10.97	10.99	9.09
Low	5.75	5.09	5.16	5.32	5.47	5.60	5.17	7.50	6.24	7.02	7.16	9.03	7.15	9.31	9.30	7.62
1987--High	7.62	5.73	5.73	5.71	6.23	6.26	6.19	7.50	6.62	7.31	7.60	8.92	7.09	9.26	9.32	7.64
Low	5.95	5.33	5.36	5.40	5.83	5.88	5.28	7.50	6.37	7.03	7.34	8.79	6.92	8.97	9.07	7.52
Monthly																
1986--Mar.	7.48	6.56	6.57	6.59	7.24	7.30	7.00	9.10	7.30	7.78	7.96	9.41	7.74	9.86	10.08	8.64
Apr.	6.99	6.06	6.08	6.06	6.60	6.75	6.60	8.83	6.86	7.30	7.39	9.26	7.61	9.72	9.94	8.55
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	7.92	10.11	10.14	8.54
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	10.18	10.51	8.52
Aug.	6.17	5.53	5.55	5.60	5.92	6.02	5.74	7.90	6.49	7.17	7.33	9.51	7.59	9.82	10.20	8.40
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	5.21	7.50	6.46	7.25	7.52	9.31	7.23	9.56	9.70	7.90
Dec.	6.91	5.53	5.55	5.55	6.04	6.63	5.45	7.50	6.43	7.11	7.37	9.08	7.23	9.34	9.31	7.68
1987--Jan.	6.43	5.43	5.44	5.46	5.87	5.95	5.50	7.50	6.41	7.08	7.39	8.92	6.99	9.15	9.23	7.62
Feb.	6.10	5.59	5.59	5.63	6.10	6.12	5.32p	7.50	6.56	7.25	7.54	8.82	7.03	9.04	9.12	7.56
Weekly																
1986--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	9.03	7.34	9.38	9.35	7.72
17	6.30	5.54	5.55	5.55	5.99	6.27	5.25	7.50	6.43	7.13	7.39	9.08	7.31	9.31	9.30	7.63
24	6.31	5.55	5.59	5.59	6.24	7.20	5.39	7.50	6.45	7.09	7.36	9.07	7.16	9.31	9.30	7.62
31	9.20	5.65	5.65	5.65	6.27	7.56	5.48	7.50	6.54	7.18	7.43	9.14	7.19	9.39	9.37	7.67
1987--Jan. 7	7.62	5.51	5.53	5.52	5.96	6.14	6.19	7.50	6.42	7.10	7.37	8.92	7.01	9.26	9.32	7.64
14	6.01	5.38	5.43	5.46	5.85	5.89	5.46	7.50	6.38	7.06	7.34	8.88	7.04	9.12	9.25	7.62
21	6.01	5.33	5.36	5.40	5.83	5.88	5.42	7.50	6.37	7.03	7.35	8.84	6.92	8.97	9.10	7.59
28	6.13	5.45	5.40	5.44	5.85	5.90	5.34	7.50	6.42	7.11	7.44	8.81	6.98	9.03	9.12	7.58
Feb. 4	6.22	5.58	5.57	5.57	5.94	6.00	5.31	7.50	6.51	7.20	7.50	8.80	6.98	9.02	9.11	7.58
11	6.14	5.73	5.73	5.67	6.05	6.11	5.28	7.50	6.60	7.27	7.54	8.88	7.09	9.09	9.12	7.57
18	6.21	5.67	5.69	5.71	6.23	6.26	5.34	7.50	6.62	7.31	7.60	8.80r	7.05	9.04	9.14	7.57
25	5.95	5.44	5.43	5.56	6.12	6.09	5.36	7.50	6.52	7.22	7.52	8.79	7.01	9.02	9.10	7.52
Mar. 4	6.06	5.49	5.48	5.58	6.10	6.11	5.34	7.50	6.51	7.18	7.48	8.80	6.92	9.07	9.08	7.54
11	6.12	5.63	5.63	5.69	6.13	6.16	5.35	7.50	6.56	7.22	7.51	8.83	7.02	9.01	9.09	7.55
18	6.08	5.61	5.59	5.67	6.16	6.21	5.39	7.50	6.54	7.21	7.51	8.86	7.08	8.98	9.08	7.55
25	6.14	5.56	5.57	5.66	6.19	6.25	5.39	7.50	6.58	7.24	7.55	8.91	7.11	8.99	9.07	7.53
Daily																
1987--Mar. 20	6.09	5.52	5.55	5.63	6.16	6.21	--	7.50	6.53	7.22	7.53	--	--	--	--	--
26	6.21	5.57	5.60	5.70	6.22	6.31	--	7.50	6.61	7.24	7.56	--	--	--	--	--
27	6.15p	5.63	5.56	5.77	6.22	6.31	--	7.50	6.68p	7.32p	7.66p	--	--	--	--	--

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.

Strictly Confidential (FR)-
Class II FOMC

Money and Credit Aggregate Measures

Seasonally adjusted

MAR. 30, 1987

Period	Money stock measures and liquid assets: M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	L	Bank credit: total loans and investments[1]	Domestic nonfinancial debt[2]: 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)										
1984	5.4	7.9	8.6	23.3	10.7	12.2	11.2	16.0	13.4	13.9
1985	12.1	8.8	7.8	3.4	7.7	8.5	9.9	15.2	12.9	13.5
1986	15.3	8.9	6.9	8.3	8.8	8.1	9.4	14.6	12.7	13.1
QUARTERLY AVERAGE										
2ND QTR. 1986	15.5	9.4	7.4	5.9	8.7	7.1	4.1	11.6	9.8	10.2
3RD QTR. 1986	16.5	10.6	8.6	5.8	9.6	8.0	10.5	14.5	11.7	12.3
4TH QTR. 1986	17.0	9.2	6.6	3.4	8.0	8.3	9.1	12.3	12.1	12.1
1ST QTR. 1987 PE	13¼	6½	4	7¼	6¾					
MONTHLY										
1986--MAR.	15.8	7.7	5.0	9.3	8.0	4.5	5.7	5.6	8.4	7.8
APR.	14.4	11.5	10.6	6.9	10.6	7.7	2.0	9.6	10.7	10.4
MAY	21.1	10.7	7.3	-3.2	7.9	9.8	5.9	17.3	10.8	12.3
JUNE	14.4	9.2	7.4	5.9	8.5	6.3	3.8	19.3	9.9	12.1
JULY	16.4	11.8	10.3	7.0	10.8	8.0	13.2	14.7	10.4	11.4
AUG.	18.4	11.0	8.4	5.3	9.9	8.5	13.8	8.8	14.7	13.3
SEPT.	10.7	7.9	7.0	11.9	8.7	8.6	13.0	11.5	13.0	12.6
OCT.	14.4	10.7	9.5	-6.8	7.2	7.7	2.2	9.6	10.0	9.9
NOV.	18.8	6.4	2.2	6.3	6.4	7.8	8.9	15.2	11.4	12.3
DEC.	30.5	10.6	3.7	9.1	10.3	9.6	17.4	18.9	14.3	15.4
1987--JAN.	11.7	9.5	8.8	7.8	9.1	9.3	18.4	8.0	14.9	13.3
FEB.	-0.7	-0.3	-0.2	7.4	1.3		2.2	4.3	10.0	8.7
MAR. PE	6	3	1	5	3					
MONTHLY LEVELS ($BILLIONS)										
1986--OCT.	701.4	2760.7	2059.3	680.5	3441.2	4081.8	2034.0	1755.5	5698.2	7453.7
NOV.	712.4	2775.4	2063.0	684.1	3459.5	4108.2	2049.0	1777.7	5752.4	7530.0
DEC.	730.5	2799.8	2069.3	689.3	3489.2	4141.1	2078.7	1805.7	5821.0	7626.6
1987--JAN.	737.6	2822.0	2084.4	693.8	3515.8	4173.1	2110.6	1817.8	5893.4	7711.1
FEB.	737.2	2821.3	2084.1	698.1	3519.5		2114.5	1824.3	5942.6	7766.9
WEEKLY LEVELS ($BILLIONS)										
1987-FEB. 2	737.0									
9	734.8									
16	736.9									
23	738.8									
MAR. 2	738.3									
9 P	739.0									
16 P	740.2									

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

MAR. 30, 1987

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):																
1984	157.8	246.6	143.9	56.1	405.4	290.5	880.0	161.7	57.7	413.6	65.6	81.7	73.9	267.3	161.2	45.7
1985	169.7	268.6	175.9	67.3	509.2	301.9	880.3	176.6	64.7	433.3	63.0	77.6	78.9	295.2	201.7	43.2
1986	182.4	299.8	226.2	77.1	568.1	358.4	858.4	207.2	84.3	446.2	81.0	79.4	89.7	290.6	229.0	37.7
MONTHLY																
1986-FEB.	172.7	270.3	183.1	68.4	517.1	304.8	889.8	181.0	67.7	447.6	70.7	79.1	80.5	305.7	208.6	42.5
MAR.	173.8	274.6	186.0	67.3	521.0	306.6	892.0	186.2	70.2	448.5	71.7	82.7	81.2	299.1	208.8	41.4
APR.	174.4	277.7	189.9	68.2	526.1	311.1	893.1	191.4	74.1	451.3	71.6	81.4	81.9	298.3	206.1	40.6
MAY	175.8	282.2	195.5	68.9	531.6	316.8	888.0	193.2	76.1	447.6	74.1	79.7	82.7	303.8	210.7	39.8
JUNE	176.7	285.0	199.6	66.3	541.0	321.8	883.0	197.3	75.0	447.5	75.1	80.0	83.5	298.2	212.6	39.8
JULY	177.6	288.2	204.5	71.9	546.6	327.4	880.9	199.7	77.5	448.3	74.7	78.2	84.3	292.5	214.5	39.0
AUG.	179.0	291.2	210.4	74.7	553.6	334.6	876.7	200.5	80.8	449.4	75.4	77.2	85.3	288.7	219.7	37.3
SEPT.	179.7	292.2	214.7	72.7	558.8	341.4	872.2	202.2	84.4	448.5	78.1	79.9	86.4	288.0	223.9	36.9
OCT.	181.2	293.4	220.4	77.4	564.4	350.4	864.7	206.9	84.5	445.7	78.2	76.6	87.7	286.9	228.4	37.7
NOV.	182.4	297.8	225.9	76.7	568.7	358.5	857.1	207.1	84.4	445.9	82.6	78.4	89.8	292.4	228.4	38.0
DEC.	183.5	308.3	232.3	77.3	571.3	366.2	853.3	207.6	84.1	447.0	82.2	83.2	91.7	292.4	230.2	37.5
1987-JAN.	186.0	305.1	240.0	83.7	574.2	376.7	851.3	209.0	84.0	449.6	80.9	86.4	92.7	287.2	239.7	37.7
FEB.	187.2	300.7	242.7	79.8	570.6	387.3	847.2	210.8	84.7	447.8	83.5	90.5				

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.

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

March 30, 1987

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	19,099	190	893	236	158	1,476	--	--	--	--	--	20,178	10,033
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
II	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
III	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
IV	9,668	190	893	236	158	1,476	--	--	--	--	--	10,927	9,925
1986--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	58	476	--	--	--	--	--	4,670	1,852
Dec.	5,422	--	--	--	--	--	--	--	--	--	--	5,422	11,566
1987--Jan.	414	--	--	--	--	--	--	--	--	--	--	304	-10,701
Feb.	-4,189	--	-252	--	--	-252	--	--	--	--	--	-4,441	-4,723
Dec. 3	461	--	--	--	--	--	--	--	--	--	--	461	1,702
10	4,123	--	--	--	--	--	--	--	--	--	--	4,123	-2,061
17	115	--	--	--	--	--	--	--	--	--	--	115	3,050
24	497	--	--	--	--	--	--	--	--	--	--	497	-743
31	461	--	--	--	--	--	--	--	--	--	--	461	12,379
Jan. 7	--	--	--	--	--	--	--	--	--	--	--	--	-10,570
14	467	--	--	--	--	--	--	--	--	--	--	467	1,458
21	530	--	--	--	--	--	--	--	--	--	--	420	-874
28	--	--	--	--	--	--	--	--	--	--	--	--	495
Feb. 4	-704	--	-2	--	--	-2	--	--	--	--	--	-707	-6,611
11	-3,538	--	-250	--	--	-250	--	--	--	--	--	-3,788	92
18	-629	--	--	--	--	--	--	--	--	--	--	-629	1,802
25	--	--	--	--	--	--	--	--	--	--	--	--	-5,252
Mar. 4	305	--	--	--	--	--	--	--	--	--	--	305	4,110
11	200	--	--	--	--	--	--	--	--	--	--	200	5,155
18	153	--	--	--	--	--	--	--	--	--	--	153	-5,445
25	168	--	--	--	--	--	--	--	--	--	--	168	-145
LEVEL--Mar. 25 ($ billions)	100.9	15.7	39.0	15.6	23.3	93.6	2.2	3.9	1.3	.3	7.7	206.8	-4.6

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 (+)