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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

May 11, 1990

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Open market operations since the last Committee meeting have continued to be directed toward maintaining unchanged pressures on reserve positions, and the federal funds rate has remained in the area of 8-1/4 percent. Federal funds have tended to the soft side of this level since late April, however, reflecting a more abundant supply of nonborrowed reserves than expected, as shortfalls in tax receipts have shown through to the Treasury's account at the Federal Reserve. Adjustment borrowing has been around $100 million throughout the intermeeting period. Total adjustment plus seasonal borrowing, which has trended up over the period with the normal rise in seasonal borrowing, reached $257 million in the most recently completed maintenance period. In the current period, adjustment plus seasonal borrowing is averaging $291 million. In recognition of rising seasonal credit needs, the borrowing allowance was raised from $150 million immediately after the March meeting to $200 million in late April and then to the current level of $300 million.

(2) Responding to shifting sentiment on the strength of the economy, inflation prospects, and the likelihood of a near-term tightening of monetary policy, other market interest rates first rose in the intermeeting period and then fell sharply. On balance, bond yields have risen 15 to 25 basis points, while short-term rates are down a like amount. The largest decreases were registered by Treasury bills; despite this

widening, quality spreads remain low by historical standards. The structure of short-term rates had suggested strong expectations of a near-term firming of monetary policy part way through the period, but these expectations dissipated after release of the April data on employment, retail sales, and producer prices, and market yields now embody expectations of an essentially unchanged policy in coming months.

(3) The dollar's weighted average exchange value has declined about 3-1/2 percent since the last FOMC meeting, with much of the drop occurring as interest rates in the United States began retracing earlier increases following the release of April employment data. The dollar was weak against the mark, which strengthened against most currencies following publication of the plan for German monetary unification and prompt conclusion of an important labor negotiation, both of which appeared to relieve some concerns about the outlook for inflation. Very late in the period the dollar dropped sharply against the yen as well. Foreign interest rates showed mixed movements over the intermeeting period. Both short- and long-term rates in EMS countries other than Germany moved lower, prompted in some cases by cuts in central bank lending rates as those countries reacted to the earlier weakness of the mark in the EMS. The Japanese stock market rebounded substantially from its low in early April.

. The Desk sold $100 million against yen prior to and immediately following the April G-7 meeting, with half for the System account.

(4) M2 growth slowed to a 2 percent rate in April, well below the 6 percent path set for the March-to-June period at the last FOMC meeting. Part of this weakness owed to declines in the wholesale components of M2: overnight RPs ran off, likely associated with a contraction in government securities held in commercial banks' trading accounts last month, and demand deposits declined at a 6-1/2 percent rate.[1] Growth of the retail components of M2 also slowed, dropping to a 3-1/2 percent rate from around 6 percent over the first quarter. M2 has been restrained by the rise in intermediate- and long-term rates since late last year, and by the unusually slow adjustment of rates on retail deposits.[2] The conservative pricing stance at thrifts, which has accompanied a shrinkage of the industry and supervisory constraints on brokered deposit rates, has tended to deflect deposit flows toward banks. Banks also have held down deposit rates, as retail deposit inflows at those lower rates have been more than sufficient to fund credit growth. With their attractiveness diminished, small time deposits continued to increase sluggishly in April while noncompetitive tenders at bill and note auctions surged. Slow credit expansion at banks in April, along with an apparently steeper contraction of the thrift industry, held down overall needs for funds at depository institutions, and M3 grew at only a 1-1/4 percent rate in April as large CDs continued to decline.

1. M1 slowed to a 3-1/2 percent rate last month, despite continued strong expansion in currency and other checkable deposits. Reflecting the continued strength in currency, the monetary base grew at a 7 percent pace in April, a bit below the rate of the first quarter.

2. From late last year to the end of April, the 1-year Treasury bill rate had risen about 3/4 percentage point; by contrast, over the same period, the rate on 1-year small time deposits had risen only about 12 basis points at banks and at thrifts had fallen slightly.

(5) The growth of private domestic nonfinancial debt has moderated somewhat in recent months; the slowing appears to reflect a dropoff in credit demands, though tightening supply conditions likely have affected some specific credit categories. Most of the deceleration in overall credit usage reflected reduced borrowing by the household sector. Consumer credit expanded sluggishly in the first quarter and consumer lending at commercial banks weakened in April. The growth of real estate loans at banks also slowed in April; the higher cost of residential mortgage credit and softening real estate markets may be restraining demands, but survey data suggest that banks are tightening the terms of lending on many types of nonresidential loans. Reluctance of banks and other lenders to provide merger-related financing has continued to discourage net equity retirements. Abstracting from estimated merger financing, business lending at banks was weak in the first quarter, although it strengthened in April. Results from a May survey suggest that the weak C&I loan growth since the turn of the year primarily reflects reduced demand, particularly from large and middle market firms, but middle market firms and small businesses also faced tighter credit standards and more stringent loan terms. However, commercial paper issuance has been strong and businesses continue to find receptive markets for investment-grade bond issues, sustaining overall expansion of business credit. Federal debt issuance has been boosted by RTC-related borrowing. From the fourth quarter to March, total domestic nonfinancial debt increased at nearly a 7 percent pace.

MONEY, CREDIT, AND RESERVE AGGREGATES
(Seasonally adjusted annual rates of growth)

	Feb.	Mar.	Apr.	QIV'89 to Apr.
Money and credit aggregates				
M1	10.0	5.1	3.4	4.9
M2	8.7	5.0	2.0	5.3
M3	4.6	.8	1.2	2.4
Domestic nonfinancial debt	7.6	7.5	n.a.	6.8[1]
Bank credit	8.4	9.2	4.1	5.6
Reserves measures				
Nonborrowed reserves[2]	-3.6	16.6	-1.6	2.6
Total reserves	6.4	1.6	-.6	2.0
Monetary base	9.2	8.7	7.0	8.4
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	913	173	224	--
Excess reserves	989	861	882	--

n.a. - not available.
1. Through March.
2. Includes "other extended credit" from the Federal Reserve.
NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months.

Policy Alternatives

(6) Three alternatives--containing the standard differences in associated federal funds rates--are presented below for consideration by the Committee. Under alternative B, federal funds would be expected to continue to trade around 8-1/4 percent, with an initial level of adjustment plus seasonal borrowing of $350 million. The specifications of alternative A call for federal funds trading around 7-3/4 percent and a borrowing level of $300 million, while those of alternative C call for federal funds in the 8-3/4 percent area, which is likely to involve $400 million of borrowing. Judging from the experience of recent years, it is anticipated that seasonal borrowing will rise about $100 million over the intermeeting period; the borrowing levels suggested above incorporate a $50 million technical increase to take account of the expected rise in the next few weeks, but an additional increase in the borrowing path may be necessary under all three alternatives.

(7) Interest rates generally would be expected to show little net change under alternative B. Market expectations now embody federal funds continuing to trade around 8-1/4 percent, as under this alternative. Similarly, incoming information on the economy consistent with the greenbook forecast would be roughly in line with the continued economic growth and moderation in measured inflation--though with little improvement in longer-term price trends--that market participants now seem to be anticipating. Rates on Treasury bills and notes, however, could be subject to transitory supply pressures if RTC activity accelerates appreciably and with it Treasury financing needs. A breakthrough in negotiations on the

budget between the Administration and the Congress in coming weeks would be likely to spark a rally in capital markets, which after a time might induce a downward adjustment in the foreign exchange value of the dollar. Absent such a breakthrough, the dollar likely would remain around recent levels on foreign exchange markets; with the dollar stable and German reunification impending, a tightening of monetary policy in Germany and Japan before the next FOMC meeting appears unlikely.

(8) Projected growth rates for the monetary aggregates from March to June are given in the table below for all three alternatives. (The table and charts on the following pages show more detailed data.) Under alternative B, growth in both M2 and M3 would pick up over May and June from the sluggish pace of April. This pickup results in part from a cessation of the runoff of demand deposits and RPs. In addition, the response of depositors to previous increases in opportunity costs would begin to wane. Moreover, opportunity costs have already narrowed from April and, with market interest rates stable, this narrowing could continue, buoying retail deposit inflows, as banks raise small time deposit rates, albeit slowly, in adjustment to increases in market rates on balance this year. To an extent, the strengthening of M2 and M3 under this alternative rests on a rebound in bank credit growth and associated funding needs in May and June--given the evidence that reductions in willingness to lend are limited. Again, the behavior of the RTC constitutes a major uncertainty in the outlook for money growth. To date in the second quarter, RTC spending still has been fairly modest. We have assumed progressively more resolution activity over May and June, but well below

RTC's announced goal of 141 resolutions involving $50 billion of assets for this quarter. A surge in RTC activity could damp M3 growth as thrift assets end up on the government's balance sheet. And it could affect M2 as well, if large volumes of retail deposits are transferred to commercial banks without accompanying loans and investments, reducing bank needs to raise deposit offering rates. On balance, M2 growth is projected to strengthen to a 5 percent pace on average in May and June, in line with average growth over the first four months of the year. M3 growth would remain quite sluggish as thrifts continued to shrink--through RTC resolutions and through action to meet capital requirements--but would pick up a little to about a 3-1/2 percent pace from growth of around 1 percent in March and April.

	Alt. A	Alt. B	Alt. C
Growth from March to June			
M2	4-1/2	4	3-1/2
M3	3-1/4	3	2-3/4
M1	4-3/4	4	3-1/4
Growth from Q4'89 to June			
M2	5-1/2	5-1/4	5
M3	3	2-3/4	2-3/4
M1	5	4-3/4	4-1/2
Associated federal funds rate ranges	6 to 10	6 to 10	7 to 11

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									
1990 January	3229.3	3229.3	3229.3	4046.1	4046.1	4046.1	794.8	794.8	794.8
February	3252.6	3252.6	3252.6	4061.7	4061.7	4061.7	801.4	801.4	801.4
March	3266.2	3266.2	3266.2	4064.4	4064.4	4064.4	804.8	804.8	804.8
April	3271.7	3271.7	3271.7	4068.5	4068.5	4068.5	807.1	807.1	807.1
May	3283.4	3282.6	3281.8	4076.6	4076.3	4076.0	808.7	808.4	808.1
June	3303.0	3298.9	3294.8	4096.5	4093.9	4091.3	814.3	812.8	811.3
Monthly Growth Rates									
1990 January	3.1	3.1	3.1	1.3	1.3	1.3	0.0	0.0	0.0
February	8.7	8.7	8.7	4.6	4.6	4.6	10.0	10.0	10.0
March	5.0	5.0	5.0	0.8	0.8	0.8	5.1	5.1	5.1
April	2.0	2.0	2.0	1.2	1.2	1.2	3.4	3.4	3.4
May	4.3	4.0	3.7	2.4	2.3	2.2	2.3	1.9	1.5
June	7.2	6.0	4.8	5.9	5.2	4.5	8.3	6.5	4.8
Quarterly Ave. Growth Rates									
1989 Q2	1.6	1.6	1.6	3.2	3.2	3.2	-4.4	-4.4	-4.4
Q3	6.9	6.9	6.9	3.9	3.9	3.9	1.8	1.8	1.8
Q4	7.0	7.0	7.0	1.8	1.8	1.8	5.1	5.1	5.1
1990 Q1	6.0	6.0	6.0	2.8	2.8	2.8	4.8	4.8	4.8
Q2	4.5	4.3	4.1	2.3	2.2	2.1	4.8	4.5	4.2
Dec. 89 to Mar. 90	5.6	5.6	5.6	2.3	2.3	2.3	5.0	5.0	5.0
Mar. 90 to June 90	4.5	4.0	3.5	3.2	2.9	2.7	4.7	4.0	3.2
Q4 88 to Q4 89	4.5	4.5	4.5	3.3	3.3	3.3	0.6	0.6	0.6
Q4 89 to Q1 90	6.0	6.0	6.0	2.8	2.8	2.8	4.8	4.8	4.8
Q4 89 to Q2 90	5.3	5.2	5.1	2.6	2.5	2.5	4.9	4.7	4.6
Q4 89 to Apr. 90	5.3	5.3	5.3	2.4	2.4	2.4	5.0	5.0	5.0
Q4 89 to June 90	5.5	5.2	5.0	2.9	2.8	2.7	5.1	4.8	4.5
1990 Target Ranges:		3.0 to 7.0			2.5 to 6.5				

Chart 1

ACTUAL AND TARGETED M2

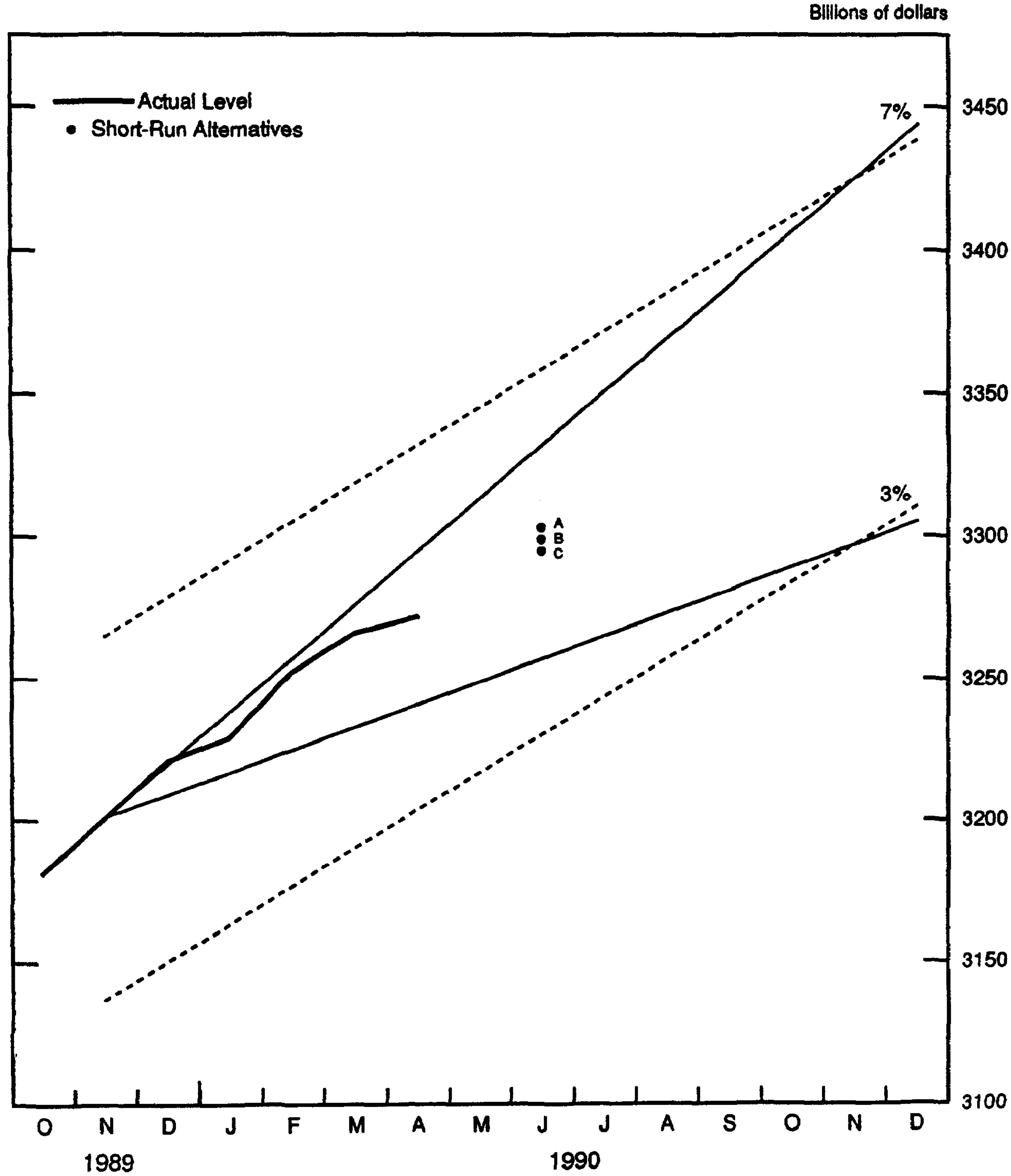


Chart 2

ACTUAL AND TARGETED M3

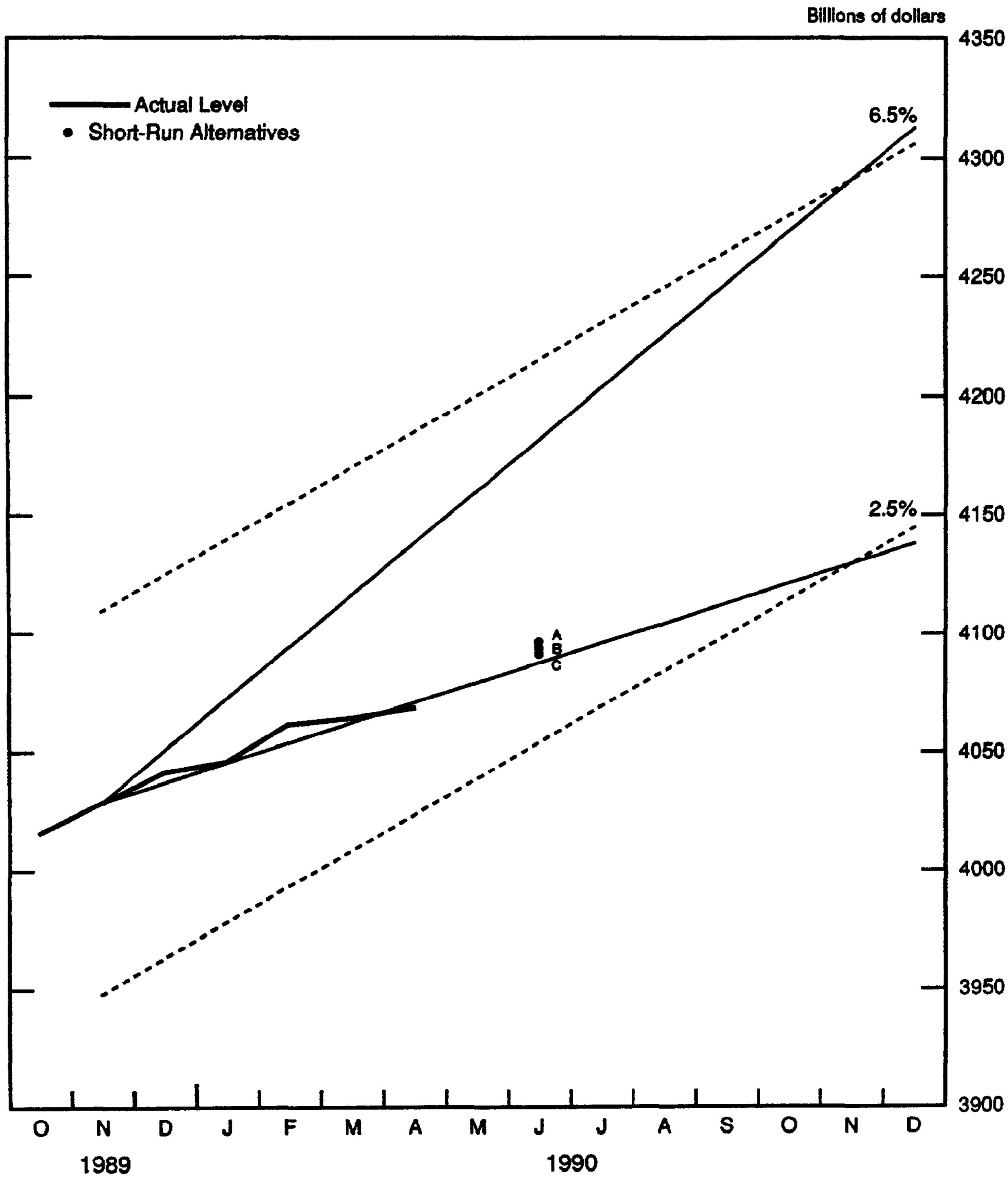


Chart 3

M1

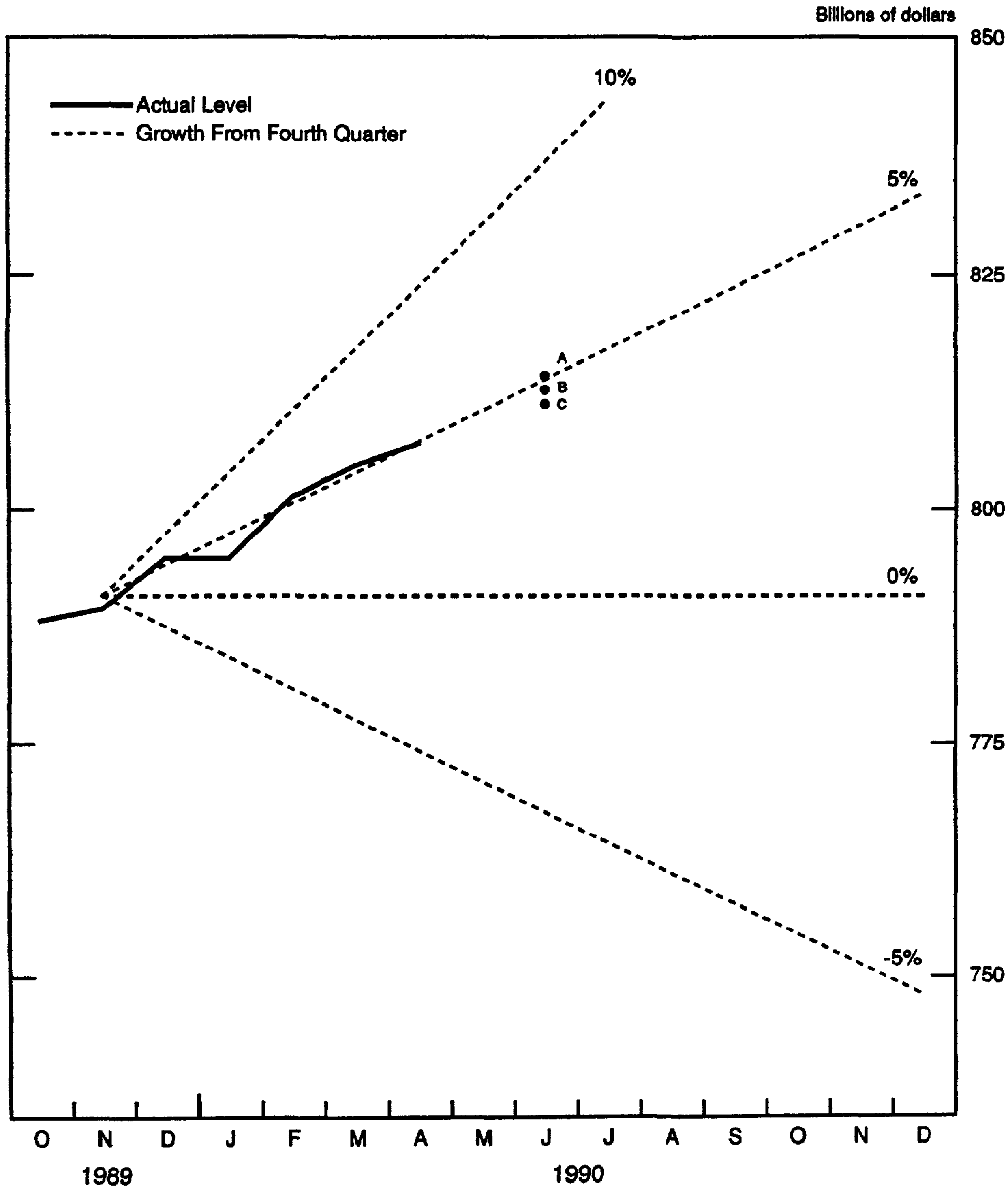
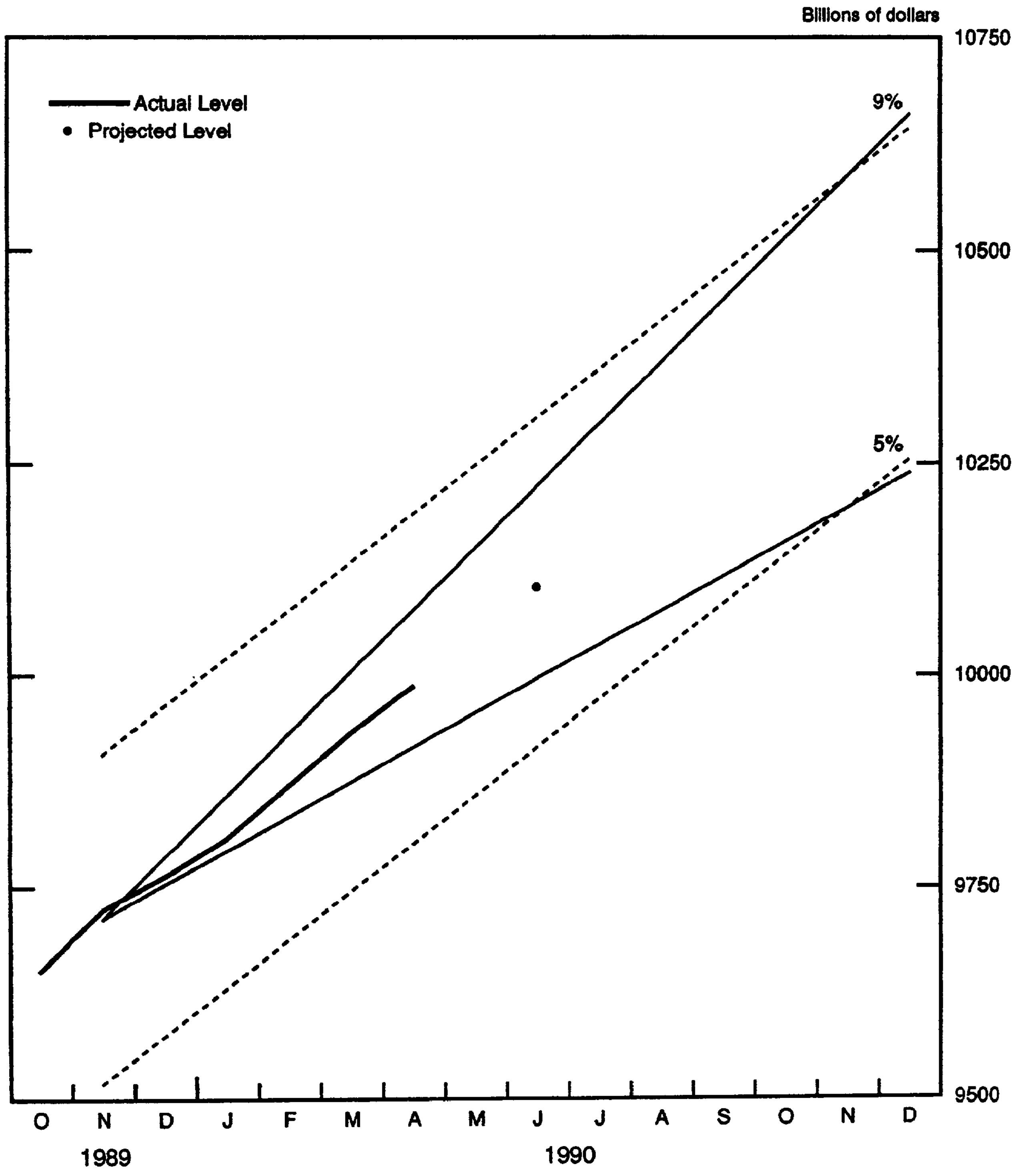

Billions of dollars
850
825
800
775
750
10%
5%
0%
-5%
Actual Level
Growth From Fourth Quarter
A
B
C
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1989
1990

Chart 4

DEBT



Billions of dollars
Actual Level
Projected Level
9%
5%
10750
10500
10250
10000
9750
9500
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1989
1990

(9) Even with the projected strengthening in money, growth of both M2 and M3 over the March-to-June period would be noticeably below expectations at the time of the last meeting. Moreover, growth of M2 would be appreciably below the 6 to 7 percent rate of expansion of the previous several quarters, leaving this aggregate only a little above the midpoint of its annual range at mid-year. As noted, the moderation in both M2 and M3 has resulted in part from the weakness in credit growth at banks as well as thrifts. To a considerable extent, this weakness seems to represent a rechannelling of credit flows involving assets, such as mortgages and consumer receivables, that are easily securitized and absorbed by other lenders, without materially raising costs to borrowers. The lack of serious disruptions from this process can be inferred from continued narrow yield spreads between mortgages and Treasury securities. In addition, weaker bank credit growth reflects some tightening of terms and reduction in availability of loans--including those to small business and for construction--that are not easily transferred to other lenders. In the staff forecast, however, the "credit crunch" does not deepen and, while important in certain locales and for selected uses, does not have a major effect on aggregate borrowing and spending. In these circumstances, the slower money growth now forecast for the second quarter would not signal the approach of underlying weakness in the economy, since it would be offset by an upward shift in velocity. M2 velocity in the staff forecast is projected to increase at a 2-1/4 percent rate in the second quarter, following a 1-1/2 percent rise in the first quarter.

(10) Consistent with the notion that credit remains generally available, growth in the debt of private domestic nonfinancial sectors is expected to continue close to the 6 percent average pace of recent months, about in line with spending. While the less hospitable attitude of lenders toward LBOs will continue to restrain corporate restructuring activity and associated credit usage, credit availability difficulties elsewhere in the business sector are expected to have only relatively modest effects, and borrowing by nonfinancial businesses should continue around its recent rate. Credit availability effects likely will continue to be more noticeable in the construction and development area, and the rise in mortgage rates that has occurred this year will continue to restrain household mortgage borrowing as well. Consumer credit growth is expected to remain subdued as spending on durables is projected to be sluggish. Considerable uncertainty surrounds the outlook for Treasury borrowing--both the amount and timing--owing to RTC financing needs. While Treasury borrowing for RTC working capital purposes would end up boosting the debt aggregate, such borrowing would not be expected to put underlying pressure on the general level of interest rates: federal government liabilities simply would be replacing those of private intermediaries, which are not included in the debt aggregate, leaving unaffected the volume of saving available for investment. Assuming a substantial pickup in RTC-related borrowing in the second quarter, federal government debt would increase at about an 8 percent pace over the March-to-June period. Total domestic nonfinancial debt is projected to expand at a 7 percent rate over the three months and

by June would be 7 percent at an annual rate above its fourth-quarter 1989 base, at the midpoint of its 1990 monitoring range.

(11) The easing of reserve conditions under alternative A would tend to strengthen money growth over May and June to something more in line with rates incorporated in the Committee's expectations at the last meeting. Opportunity costs would narrow even more, boosting M2 growth to nearly a 6 percent rate over May and June, leaving this aggregate noticeably above the midpoint of its annual range. M3 growth would firm to a 4 percent annual rate, keeping this aggregate a little above the lower bound of its range. The easing of policy under alternative A would come as something of a surprise to most market participants, and money market rates would decline by the full 50 basis point drop in the federal funds rate. The dollar would come under downward pressure, and, absent incoming information pointing to a weaker economy or a distinct improvement in underlying cost or price trends, the decline in bond rates would be limited, resulting in a steeper yield curve. If, however, evidence suggested a softening in economic activity, perhaps reflecting more powerful credit restraint than now seems apparent, the drop in short-term rates would feed through to bond yields. The decline in market rates would tend to buoy borrowing and spending by those with market access, helping to offset the effects of tighter credit availability on spenders dependent on depository intermediaries.

(12) The tighter reserve conditions under alternative C would be expected to keep money growth damped. M2 would be at the middle of its range by June and M3 just above the lower end of its range. Short-term

rates would increase by about the 1/2 percentage point rise in the federal funds rate, and the dollar would tend to firm. Banks would raise the prime rate, and could further tighten other credit terms. Bond yields also would rise, at least initially, in response to the reversal of the previous trend in Federal Reserve actions. However, in the context of only moderate growth in the economy, the higher short-term interest rates and slower money growth would be seen as a policy response to inflation pressures, implying additional emphasis by the Federal Reserve on its price stability objective. In this context, the credibility of that objective could be enhanced, to the benefit of bond prices.

Directive Language

(14) Draft language for the operational paragraph, including the usual options, is shown below.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/maintain/ INCREASE SOMEWHAT the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly (SOMEWHAT) greater reserve restraint (WOULD/MIGHT) or slightly (SOMEWHAT) lesser reserve restraint would (MIGHT) be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about __ AND __ ~~6 and 4~~ percent respectively. 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 __ ~~6 to 10~~ percent.

May 14, 1990

SELECTED INTEREST RATES

(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	money market mutual	bank prime	U.S. government constant maturity yields			corporate A utility recently	municipal Bond	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year	3-month	1-month	fund	loan	3-year	10-year	30-year	offered	Buyer	fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
89 -- High	9.95	9.04	9.07	8.96	10.23	9.98	9.19	11.50	9.77	9.46	9.26	10.47	7.95	11.73	11.22	9.41
Low	8.38	7.54	7.35	7.15	8.24	8.35	7.87	10.50	7.60	7.78	7.85	9.26	7.19	9.92	9.68	8.34
90 -- High	8.33	7.96	8.00	7.97	8.58	8.48	8.06	10.50	9.09	9.07	9.03	10.32	7.79	10.99	10.67	8.63
Low	8.12	7.54	7.45	7.28	8.11	8.14	7.62	10.00	7.90	7.94	8.00	9.55	7.35	10.13	9.80	8.35
Monthly																
May 89	9.81	8.43	8.41	8.31	9.59	9.57	9.13	11.50	8.98	8.86	8.83	10.09	7.51	10.90	10.77	9.30
Jun 89	9.53	8.15	7.93	7.84	9.20	9.34	8.96	11.07	8.37	8.28	8.27	9.65	7.35	10.39	10.20	9.03
Jul 89	9.24	7.88	7.61	7.36	8.76	8.95	8.72	10.98	7.83	8.02	8.08	9.54	7.28	10.11	9.88	8.74
Aug 89	8.99	7.90	7.74	7.61	8.64	8.79	8.32	10.50	8.13	8.11	8.12	9.55	7.36	10.38	9.99	8.65
Sep 89	9.02	7.75	7.74	7.65	8.78	8.87	8.25	10.50	8.25	8.19	8.15	9.55	7.52	10.44	10.13	8.71
Oct 89	8.84	7.64	7.62	7.45	8.60	8.66	8.21	10.50	8.02	8.01	8.00	9.39	7.48	10.19	9.95	8.62
Nov 89	8.55	7.69	7.49	7.25	8.39	8.47	8.00	10.50	7.80	7.87	7.90	9.28	7.39	10.06	9.77	8.51
Dec 89	8.45	7.63	7.42	7.21	8.32	8.61	7.90	10.50	7.77	7.84	7.90	9.36	7.31	10.06	9.74	8.39
Jan 90	8.23	7.64	7.55	7.38	8.16	8.20	7.74	10.11	8.13	8.21	8.26	9.63	7.43	10.30	9.90	8.39
Feb 90	8.24	7.74	7.70	7.55	8.22	8.22	7.64	10.00	8.39	8.47	8.50	9.84	7.52	10.49	10.20	8.46
Mar 90	8.28	7.90	7.85	7.76	8.35	8.32	7.65	10.00	8.63	8.59	8.56	9.92	7.53	10.61	10.27	8.53
Apr 90	8.26	7.77	7.84	7.80	8.42	8.32	7.69	10.00	8.78	8.79	8.76	10.09	7.62	10.75	10.37	8.55
Weekly																
Feb 7 90	8.22	7.80	7.74	7.58	8.22	8.24	7.65	10.00	8.41	8.51	8.53	9.75	7.50	10.36	10.21	8.46
Feb 14 90	8.21	7.70	7.66	7.50	8.21	8.19	7.65	10.00	8.29	8.38	8.42	9.84	7.49	10.50	10.10	8.48
Feb 21 90	8.25	7.74	7.72	7.59	8.22	8.22	7.64	10.00	8.43	8.52	8.56	9.94	7.55	10.60	10.31	8.44
Feb 28 90	8.27	7.72	7.70	7.55	8.24	8.22	7.64	10.00	8.42	8.49	8.52	9.91	7.50	10.55	10.23	8.48
Mar 7 90	8.28	7.84	7.79	7.69	8.27	8.27	7.62	10.00	8.55	8.59	8.60	10.00	7.50	10.67	10.29	8.50
Mar 14 90	8.27	7.96	7.87	7.82	8.38	8.33	7.64	10.00	8.69	8.65	8.63	9.92	7.55	10.63	10.34	8.55
Mar 21 90	8.27	7.94	7.89	7.78	8.40	8.35	7.66	10.00	8.66	8.59	8.53	9.82	7.54	10.55	10.26	8.56
Mar 28 90	8.26	7.88	7.84	7.73	8.36	8.35	7.68	10.00	8.60	8.52	8.48	9.98	7.57	10.64	10.22	8.56
Apr 4 90	8.33	7.80	7.80	7.74	8.37	8.34	7.67	10.00	8.65	8.62	8.59	9.93	7.54	10.55	10.26	8.56
Apr 11 90	8.25	7.78	7.77	7.69	8.36	8.31	7.69	10.00	8.60	8.59	8.55	9.96	7.53	10.67	10.25	8.50
Apr 18 90	8.27	7.77	7.80	7.76	8.34	8.29	7.69	10.00	8.72	8.74	8.71	10.25	7.64	10.78	10.41	8.56
Apr 25 90	8.24	7.75	7.88	7.89	8.48	8.33	7.69	10.00	8.93	8.96	8.94	10.32	7.77	10.99	10.56	8.56
May 2 90	8.12	7.84	8.00	7.97	8.58	8.37	7.66	10.00	9.09	9.07	9.03	10.16	7.79	10.80	10.67	8.62
May 9 90	8.20	7.80	7.84	7.84	8.45	8.30	7.66	10.00	8.83	8.89	8.88	10.12	7.66	10.63	10.54	8.63
Daily																
May 4 90	8.21	7.76	7.82	7.82	8.45	8.30	..	10.00	8.77	8.84	8.83	..	..	..	..	..
May 10 90	8.23	7.71	7.72	7.73	8.35	8.26	..	10.00	8.73	8.82	8.81	..	..	..	..	..
May 11 90	8.23 p	7.62	7.63	7.63	8.26	8.21	..	10.00	8.56 p	8.63 p	8.61 p	..	..	..	..	..

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, 13 and 14 are 1-day quotes for Friday, Thursday or Friday, 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. Column 15 is the average contract rate on new commitments for fixed-rate mortgages(FRMs) with 80 percent loan-to-value ratios at major institutional lenders. Column 16 is the average initial contract rate on new commitments for 1-year, adjustable-rate mortgages(ARMs) at major institutional lenders offering both FRMs and ARMs with the same number of discount points.

p -- preliminary data

Strictly Confidential (FR)
Class II FOMC

Money and Credit Aggregate Measures

Seasonally adjusted

MAY. 15, 1990

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components in M2	nontransactions components in M3 only	M3	L	total loans and investments	U.S. government[1]	other[1]	total[1]
	1	2	3	4	5	6	7	8	9	10
ANN. GROWTH RATES (%) :										
ANNUALLY (Q4 TO Q4)										
1987	6.3	4.3	3.6	12.0	5.8	5.5	7.9	9.0	10.2	9.9
1988	4.3	5.2	5.5	10.6	6.3	7.1	7.8	8.0	9.4	9.1
1989	0.6	4.5	5.9	-1.5	3.3	4.4	7.2	7.4	8.1	8.0
QUARTERLY AVERAGE										
1989-2nd QTR.	-4.4	1.6	3.7	9.1	3.2	5.0	6.7	6.9	7.9	7.7
1989-3rd QTR.	1.8	6.9	8.7	-6.9	3.9	4.2	7.0	4.6	7.9	7.2
1989-4th QTR.	5.1	7.0	7.7	-17.1	1.8	2.8	7.7	9.5	7.4	7.9
1990-1st QTR.	4.8	6.0	6.4	-9.6	2.8	2.9	5.0	7.8	6.1	6.5
MONTHLY										
1989-APR.	-5.2	1.0	3.1	8.4	2.6	6.4	4.3	5.6	7.9	7.4
MAY	-9.1	-1.6	0.9	6.3	0.2	-0.1	6.6	4.2	8.8	7.7
JUNE	-3.9	6.3	9.8	4.1	5.8	5.6	6.3	4.3	7.7	6.9
JULY	8.4	9.8	10.3	-4.2	6.7	6.3	7.9	-0.1	8.3	6.4
AUG.	2.0	7.6	9.5	-20.3	1.4	3.4	7.1	9.1	8.0	8.3
SEP.	3.8	6.3	7.0	-23.0	0.0	1.3	5.5	10.9	6.1	7.2
OCT.	8.0	6.9	6.6	-19.8	1.3	2.1	11.4	9.5	8.0	8.4
NOV.	2.0	7.2	9.0	-9.6	3.7	3.8	7.4	10.9	8.2	8.9
DEC.	8.2	7.6	7.4	-10.7	3.8	5.4	1.8	3.7	5.2	4.8
1990-JAN.	0.0	3.1	4.2	-5.7	1.3	0.6	2.7	5.3	5.7	5.6
FEB.	10.0	8.7	8.2	-11.0	4.6	2.2	8.4	10.5	6.8	7.6
MAR.	5.1	5.0	5.0	-16.5	0.8	5.0	9.2	14.8	5.2	7.5
APR. p	3.4	2.0	1.6	-1.8	1.2		4.1	7.3	6.3	6.6
LEVELS ($BILLIONS) :										
MONTHLY										
1989-DEC.	794.8	3221.0	2426.2	820.6	4041.6	4868.3	2582.6	2265.4	7497.5	9762.9
1990-JAN.	794.8	3229.3	2434.6	816.7	4046.1	4870.6	2585.8	2275.4	7533.0	9808.5
FEB.	801.4	3252.6	2451.2	809.2	4061.7	4879.5	2603.8	2295.4	7575.5	9871.0
MAR.	804.8	3266.2	2461.4	798.1	4064.4	4899.9	2623.8	2323.8	7608.6	9932.5
APR. p	807.1	3271.7	2464.6	796.9	4068.5		2632.8	2338.0	7648.8	9986.8
WEEKLY										
1990-APR. 2	808.2	3266.8	2458.6	792.5	4059.3					
9	806.3	3272.4	2466.1	798.5	4070.9					
16	810.6	3273.2	2462.5	804.3	4077.5					
23 p	805.7	3273.7	2468.0	794.7	4068.4					
30 p	805.4	3268.7	2463.3	791.3	4060.0					

1. 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

seasonally adjusted unless otherwise noted

MAY. 15, 1990

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA[1]	MMDAs	Savings deposits	Small denomination time deposits[2]	Money market mutual funds: general purpose and broker/dealer[3]	Money market mutual funds: institutions only	Large denomination time deposits[4]	Term RPs NSA[1]	Term Eurodollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LEVELS ($BILLIONS) :																
ANNUALLY (4TH QTR.)																
1987	195.0	291.5	260.5	87.6	529.3	416.2	903.6	220.5	87.2	482.3	107.4	92.4	99.8	261.9	258.4	44.5
1988	210.7	287.6	280.4	83.3	504.9	428.2	1021.6	237.5	86.7	538.0	123.2	102.7	108.8	267.0	326.2	40.7
1989	220.8	279.5	283.1	75.6	479.9	407.7	1138.9	308.0	101.5	560.7	103.4	80.1	116.8	312.7	349.7	40.6
MONTHLY																
1989-APR.	215.7	281.3	277.9	78.5	473.2	412.0	1084.1	257.8	88.3	568.3	126.3	100.3	112.2	280.0	358.2	41.5
MAY	216.6	279.6	272.8	77.8	463.1	405.4	1103.0	261.2	92.1	573.1	127.5	97.2	112.8	288.1	348.8	41.2
JUNE	217.2	276.3	273.0	79.6	460.9	403.4	1114.0	268.3	96.3	574.9	128.4	93.4	113.6	289.6	349.4	41.2
JULY	217.8	279.6	274.5	81.0	463.9	403.3	1122.4	277.7	99.0	574.7	123.8	91.8	114.3	290.9	349.5	41.9
AUG.	218.6	278.5	276.0	78.3	468.2	404.0	1130.0	287.8	101.4	570.5	116.9	89.6	115.0	293.3	354.3	42.6
SEP.	219.3	278.1	278.4	74.9	471.9	405.5	1132.6	295.9	101.6	565.6	112.9	85.3	115.7	303.7	350.3	41.0
OCT.	220.0	280.0	280.8	75.3	475.3	406.1	1135.9	302.7	101.1	562.7	108.3	80.0	116.2	308.8	350.0	40.0
NOV.	220.4	278.8	282.8	74.8	480.8	407.9	1138.5	309.0	101.1	561.0	107.2	79.2	116.8	309.3	351.3	40.5
DEC.	221.9	279.7	285.7	76.8	483.7	409.0	1142.3	312.4	102.3	558.3	94.8	81.1	117.5	320.0	347.9	41.2
1990-JAN.	224.6	277.3	285.4	80.8	484.9	410.3	1142.5	318.1	103.2	554.1	91.4	75.9	117.7	322.8	343.3	40.7
FEB.	226.6	280.2	287.0	81.5	489.4	413.6	1141.2	324.5	103.7	549.4	94.8	71.8	118.2	316.6	344.7	38.3
MAR.	228.4	279.3	289.5	80.7	494.9	414.6	1143.8	325.0	105.4	544.0	92.9	69.7	119.1	337.2	342.9	36.4
APR. p	230.1	277.8	291.6	78.6	498.7	415.7	1144.0	324.8	106.8	538.9	92.5	69.8				

1. Net of money market mutual fund holdings of these items.
2. Includes retail repurchase agreements. All IRA and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.
3. Excludes IRA and Keogh accounts.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.

p-preliminary

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

May 14, 1990

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES[1]
Millions of dollars, not seasonally adjusted

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total[4]	Net RPs[5]
	Net purchases[2]	Redemptions (-)	Net change	Net purchases[3] within 1-year	1-5	5-10	over 10	Redemptions (-)	Net change			
1984	11,479	7,700	3,779	826	1,938	236	441	--	3,440	256	6,964	1,450
1985	18,096	3,500	14,596	1,349	2,185	358	293	--	4,185	162	18,619	3,001
1986	20,099	1,000	19,099	190	893	236	158	--	1,476	398	20,178	10,033
1987	12,933	9,029	3,905	3,358	9,779	2,441	1,858	70	17,366	276	20,994	-11,033
1988	7,635	2,200	5,435	2,177	4,686	1,404	1,398	--	9,665	587	14,513	1,557
1989	1,466	12,730	-11,264	327	946	258	284	500	1,315	442	-10,391	-1,683
1988--Q1	319	2,200	-1,881	--	-800	-175	--	--	-975	155	-3,011	-3,514
Q2	423	--	423	1,092	3,661	1,017	966	--	6,737	130	7,030	5,220
Q3	1,795	--	1,795	--	--	--	--	--	--	77	1,717	1,393
Q4	5,098	--	5,098	1,084	1,824	562	432	--	3,903	224	8,776	-1,541
1989--Q1	-3,842	2,200	-6,042	--	-228	-20	--	--	-248	188	-6,477	-5,591
Q2	2,496	2,400	96	172	1,361	287	284	--	2,104	125	2,075	924
Q3	-6,450	3,200	-9,650	--	-163	-9	--	--	-172	99	-9,921	-893
Q4	9,263	4,930	4,333	155	-24	--	--	500	-369	30	3,934	3,877
1990--Q1	-3,799	1,400	-5,199	100	100	--	--	--	200	--	-4,999	-4,061
1989--June	-571	1,200	-1,771	--	--	--	--	--	--	--	-1,771	10,002
July	-5,516	2,400	-7,916	--	-13	-9	--	--	-22	45	-7,983	-5,152
August	-934	800	-1,734	--	-150	--	--	--	-150	--	-1,884	617
September	--	--	--	--	--	--	--	--	--	54	54	3,641
October	-1,414	1,400	-2,814	--	-24	--	--	500	-524	30	-3,368	463
November	8,794	3,530	5,264	155	--	--	--	--	155	--	5,419	-453
December	1,883	--	1,883	--	--	--	--	--	--	--	1,883	3,867
1990--January	-1,065	1,000	-2,065	--	--	--	--	--	--	--	-2,065	-8,435
February	-3,277	400	-3,677	--	--	--	--	--	--	--	-3,677	4,417
March	543	0	543	100	100	--	--	--	200	--	742	-43
April	5,796	0	5,796	--	100	--	--	--	100	78	5,818	-1,260
Mar. 7	488	--	488	100	100	--	--	--	200	--	688	4,201
14	--	--	--	--	--	--	--	--	--	--	--	-5,353
21	--	--	--	--	--	--	--	--	--	--	--	3,112
28	--	--	--	--	--	--	--	--	--	--	--	-1,253
Apr. 4	200	--	200	--	--	--	--	--	--	--	200	-29
11	4,833	--	4,833	--	100	--	--	--	100	--	4,933	-2,362
18	290	--	290	--	--	--	--	--	--	--	290	7,661
25	181	--	181	--	--	--	--	--	--	78	103	-7,458
May 2	347	--	347	--	--	--	--	--	--	--	347	-84
9	--	--	--	--	--	--	--	--	--	--	--	-97
Memo: LEVEL (bil.$)[6]												
May 9	--	--	107.2	25.5	58.1	12.6	26.3	--	122.5	--	236.2	-5.6

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing coupon issues.
4. Reflects net change and redemptions (-) of Treasury and agency securities.
5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).
6. The levels of agency issues were as follows:

within 1-year	1-5	5-10	over 10	total
2.3	2.9	1.1	0.2	6.5