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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 15, 1992

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The degree of reserve pressures was left unchanged immediately after the March 31 FOMC meeting, with the expected federal funds rate remaining at 4 percent. However, reserve conditions were eased on April 9, reducing the expected federal funds rate to 3-3/4 percent: The broad monetary aggregates had declined for several weeks, bringing them to the lower ends of their target ranges and extending their sluggish growth trends of 1991; moreover, the weakness in money occurred in the context of indications that the economic expansion was moderating from the pace early in the year and of fundamentals that continued to point to long-run disinflation. Desk reserve management during the intermeeting period was complicated by several factors. These included uncertainties about whether the demand for excess reserves might increase as a result of the cut in the reserve requirement on transactions deposits from 12 percent to 10 percent (implemented on April 2). In the event, depository institutions appeared to adjust smoothly to the lower level of required reserve balances; with combined required reserve and clearing balances seasonally high and noticeably above minimal clearing needs, little evidence of heightened demands for excess reserves or of increased federal funds rate volatility emerged. As a further complication, variable tax flows produced unusual fluctuations in the Treasury balance, and, on average, somewhat larger reserve supplies than projected. Over the five weeks since the April 9 easing, the federal funds rate averaged about 1/8 percentage point below the

expected level. Borrowing averaged $108 million over the three complete maintenance periods since the March meeting.[1]

(2) The easing of policy, in conjunction with data suggesting a subdued economic expansion and persistent weakness in broad money, prompted sizeable declines in market interest rates. Most short-term rates fell by more than the federal funds rate--registering declines of around 45 basis points over the intermeeting period--as sentiment shifted from expectations that the next policy action was more likely to be toward tightening to the current sense that some further ease may be more likely.[2] Intermediate-term yields fell 20 to 45 basis points and bond yields 5 to 15 basis points, while rates on fixed-rate mortgages dropped 35 basis points. But these declines still leave intermediate- and long-term rates about 1/4 to 3/4 percentage point above their lows reached around the turn of the year. Buoyed by generally strong earnings reports for the first quarter, price indexes for larger capitalization firms are up 2 to 4 percent since the March meeting. Bank earnings reports suggesting wide lending margins and generally less severe asset problems than had been anticipated led to even larger increases in bank stock prices; these price gains were trimmed somewhat late in the period by the bankruptcy filing of Olympia and York.

(3) The shift in outlook for U.S. interest rates, along with perceptions that any easing by the Bundesbank would be postponed, contributed to a downward move in the foreign exchange value of the dollar late in the intermeeting period. This recent decline largely accounted for the net depreciation of the dollar of 2-1/4 percent on a weighted

1. The borrowing allowance was reduced by $25 million to $75 million in implementing the easing action of April 9 and was subsequently increased to $100 million on April 30 in anticipation of increases in the demand for seasonal credit.
2. Discussions of interest rates, exchange rates, and stock prices are based on data available through noon, May 15.

average basis over the entire period. In Germany, short-term interest rates edged up on continued rapid money growth and adverse labor market developments, while long-term rates were about unchanged. However, a number of other countries took steps to ease monetary policy. Monetary authorities in Japan and the United Kingdom lowered official interest rates, and short-term rates in Canada also declined. Despite the Bank of Japan's easing move, long-term rates rose about 20 basis points on balance, possibly reflecting uncertainties associated with the effects of the Japanese stock market decline and the policy response to it. Major Japanese stock indexes rallied sharply in the first part of May, but fell back late in the intermeeting period after the Olympia and York filing. The net loss over the intermeeting period was 5 to 6-1/2 percent.

. The Desk did not intervene in foreign exchange markets.

(4) The broad monetary aggregates contracted in April, falling well below the track consistent with expectations at the time of the last FOMC meeting that M2 and M3 would increase at 3-1/2 and 1-1/2 percent rates, respectively, over March to June. M2 fell 2 percent at an annual rate last month, while M3 contracted at a 3-1/2 percent rate, after smaller declines for both aggregates in March. These decreases left M2 and M3 in April slightly above and slightly below the lower ends of their respective target ranges. Available data for early May suggest a resumption in money growth, although on a month-average basis M2 and M3 are likely to stay around the lower bounds of their ranges and below the paths implied by the Committee's specifications.

(5) Some of the recent declines in the aggregates appears attributable to temporary factors. Nonwithheld personal tax payments were unusually weak, and the associated buildup of liquid balances in March and April undoubtedly was less than incorporated in seasonal factors. Partly as a result, expansion of transactions and other liquid deposits slowed substantially in April. M1 increased at a much-reduced 5 percent rate, while the sum of savings, MMDAs, and money market mutual funds expanded at an 8 percent rate, near the pace of March but down considerably from that of the first two months of the year.[3] In addition, a surge in RTC activity around the end of the quarter likely played a part in a further sharp drop in retail deposits. Along with these factors restraining M2, M3 has been depressed by an appreciable runoff of Yankee CDs by branches of Japanese banks over the last six weeks; these banks have found some decreased acceptance of their liabilities from investors concerned about the consequences of the decline in real estate and stock prices in Japan.

(6) Even after taking account of these special factors, monetary growth appears to have been unusually sluggish. Subdued demand for M2 relative to income was reflected in an increase in velocity in the first quarter, despite little change in average opportunity costs. The unprecedented steepness of the yield curve and low rates on longer-term retail time deposits relative to market rates have encouraged investors to shift funds from deposits into the capital markets, as suggested by very large flows into bond and stock mutual funds. Indeed, the backup in intermediate- and long-term market interest rates that occurred

3. The deceleration of transactions deposits slowed growth of total reserves to a 4-1/2 percent pace in April. Currency rose at an 8 percent pace over the month and the monetary base at a 5 percent rate.

earlier in the year strengthened those incentives. Similarly, comparatively high rates on consumer debt may be prompting households to use deposit balances to pay down or to limit increases in such indebtedness. In addition, the deceleration of money growth after the surge early this year may signal some tapering-off of actual and expected spending.

(7) Aggregate credit flows appear to have remained weak through April, particularly outside the federal government. Private debt growth edged up during the first quarter, but remained appreciably slower than nominal GDP. The anemic expansion of debt likely reflected continued weak demand, as lenders, if anything, seemed to be moving toward an increased willingness to supply credit. In the business sector, little evidence of a further pickup in credit usage has emerged recently. Business loans at commercial banks declined 6 percent at an annual rate in April, despite indications that banks had been no more restrictive in approving loans, and commercial paper of nonfinancial firms ran off. Firms continued to issue sizable amounts of bonds in public markets in April, where narrowing spreads suggested ample appetite by investors. But a substantial proportion of the proceeds were used to pay down high cost debt, and further equity issuance also has limited demands on credit markets. Adjusted for securitizations, consumer loans at banks declined slightly over the past two months, despite evidence that some banks have become more willing to make such loans, and borrowing from banks under home equity lines remained modest. Judging from data on applications, mortgage borrowing likely is retreating somewhat from its strong pace of earlier in the year. State and local governments continued to tap longer-term markets at a brisk clip last month, but a sizable proportion of the proceeds went to refund existing debt. Federal borrowing remained heavy, boosting overall debt

growth. Through March, total debt of domestic nonfinancial sectors grew at a 4 percent rate from its fourth-quarter base, leaving this aggregate a little below its 4-1/2 to 8-1/2 percent monitoring range.

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

	Jan.	Feb.	Mar.	Apr.	QIV'91 to Apr.
Money and credit aggregates					
M1	16.4	27.2	10.3	5.1	14.3
M2	3.1	9.4	-.6	-1.9	2.7
M3	1.1	7.2	-2.9	-3.4	0.7
Domestic nonfinancial debt	2.6	4.2	5.9	--	4.1[1]
Bank credit	3.2	0.0	2.6	5.2	3.6
Reserve measures					
Nonborrowed reserves[2]	12.8	48.9	19.1	4.5	22.3
Total reserves	13.7	45.3	19.4	4.5	21.8
Monetary base	9.1	16.4	3.9	5.0	8.6
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	233	75	89	88	--
Excess reserves	1003	1065	1028	1145	--

1. QIV to 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. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

Policy Alternatives

(8) Three policy alternatives are presented below for Committee consideration. Under alternative B, federal funds would continue trading in the 3-3/4 percent area; extending the current assumption of $100 million for adjustment plus seasonal borrowing would be expected to preserve the current 1/4 percentage point spread of the funds rate above the discount rate, at least over the first part of the intermeeting period.[4] Under alternative A, the federal funds rate would drop to 3-1/4 percent. This reduction could be accomplished at the current discount rate by lowering the initial specification for borrowing to $75 million, placing the federal funds rate below the discount rate. The same federal funds rate could be achieved by cutting the discount rate 1/2 percentage point to 3 percent and specifying borrowing at the alternative B level of $100 million. Under the policy tightening of alternative C, the federal funds rate would rise to 4-1/4 percent, in association with higher initial borrowing of $125 million.

(9) Although market participants apparently view the prospects for the next policy action as more heavily favoring an easing than a tightening, no immediate policy change seems to remain the predominant view. Consequently, prices in domestic credit and foreign exchange markets probably would not show much reaction should the Committee maintain current reserve market conditions by choosing alternative B at this meeting. Economic expansion along the lines projected in the greenbook and money growth remaining near the lower end of the Committee's range (discussed below) are likely to continue to foster some downward bias in

4. Upward technical adjustments to the borrowing assumption may be required to allow for some continued uptrend in seasonal borrowing during the spring; the extent of such adjustments will be limited by the new market-based rate on such credit.

market expectations for reserve market pressures for a time. Maintaining unchanged conditions over the entire intermeeting period eventually could cause some short-term rates to edge higher and dollar exchange rates to strengthen a little as markets reassessed the Federal Reserve's intentions. However, long-term yields are likely to remain fairly steady or possibly even edge down as expectations for growth and inflation are trimmed back; the passage of an effective balanced budget amendment would add to downward pressures on long-term rates.

(10) The extent of the easing of reserve market conditions under alternative A would catch market participants unawares, and the 1/2 point drop in the federal funds rate would induce a nearly comparable decline in other money market interest rates. Commercial banks are likely to pass through the funds-rate reduction fully to the prime rate, while retaining a relatively wide spread over costs of funds. Recent declines in long-term rates, occurring as markets were beginning to build in a possible easing, suggest that a decrease in bond yields might accompany such an action. However, following an easing move, especially of the dimensions of alternative A, investors would become more assured of sustained economic expansion, but also less confident of any longer-term decrease in inflation, which together would limit any reductions in long-term rates. With interest rates on dollar-denominated securities becoming less attractive relative to returns abroad, the exchange value of the dollar would adjust downward.

(11) The more restrictive policy of alternative C would come as a considerable surprise to market participants. Short-term interest rates would rise at least commensurately with the federal funds rate. Long-term rates might increase relatively little, as investors shifted their concerns toward the potential for renewed economic weakness for a

time rather than inflationary pressures, in light of the signal of Federal Reserve resolve to achieve disinflation gains. Stock prices probably would slide as dividend streams expected by investors are reduced and discounted at somewhat higher rates. Quality spreads on private paper over Treasuries also could widen some from their current narrow levels. The dollar would strengthen appreciably on foreign exchange markets.

(12) Projected monetary growth under the three policy alternatives is given in the table below. (More detailed data are presented in the table and charts on the following pages.) Under all three alternatives, M2 and M3 are expected to resume growing in May and June, as the temporarily depressing effects on money demand in March and April of low tax payments and accelerated RTC resolutions fade out, and as some stimulus from the System's most recent easing takes hold. However, decreases in the volume of mortgage prepayments in prospect will have a depressing effect on demand deposits and MMDAs. The broader aggregates would end up in June only around the lower bounds of their annual growth cones--well below levels projected in the last bluebook. Although projected growth in nominal GDP for the second quarter has been revised down somewhat since the last greenbook, the staff is interpreting the shortfall in money to an important extent as signifying weaker underlying demands for money and credit relative to spending and interest rates than anticipated at the last meeting--that is, a shift in money demand. The forces that have held back depository intermediation in recent years--households and businesses deleveraging, borrowers substituting other financing for depository credit, and investors shifting from low-interest retail time deposits out a steep yield curve into bond mutual funds--seem to be persisting.

	Alt. A	Alt. B	Alt. C
Growth from March to June			
M2	1-1/4	1	3/4
M3	1/4	0	-1/4
M1	9-3/4	9-1/4	8-3/4
Growth from April to June			
M2	3	2-1/2	2
M3	2	1-3/4	1-1/2
M1	12	11-1/4	10-1/2

(13) Growth of M2 is projected to average 2-1/2 percent at an annual rate over May and June with the essentially stable money market interest rates of alternative B. Most of the pickup should stem from the liquid components, as outflows to cover tax payments prove to be smaller than implicitly anticipated by seasonal factors. In particular, M1 is likely to return to a double-digit pace over May and June, led by a sharp reacceleration of demand and other checkable deposits.[5] Even so, M2 growth from March to June would be only 1 percent, as would its growth on a quarterly-average basis, far below the staff's projected pace of 5 percent for nominal GDP. The staff believes that M2 velocity will continue to increase in coming quarters but at a much slower rate as the unusual factors inducing the current quarter's increase in M2 velocity wane. For the year as a whole, V2 is projected to be up about 2 percent in association with annual M2 growth of 3-1/2 percent.

5. Adjusted for the change in reserve requirements, total reserves and the monetary base would grow by 10-1/4 and 7-3/4 percent, respectively, over May and June.

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									
1992 January	3448.1	3448.1	3448.1	4175.1	4175.1	4175.1	910.4	910.4	910.4
February	3475.2	3475.2	3475.2	4200.1	4200.1	4200.1	931.0	931.0	931.0
March	3473.5	3473.5	3473.5	4189.9	4189.9	4189.9	939.0	939.0	939.0
April	3467.9	3467.9	3467.9	4178.1	4178.1	4178.1	943.0	943.0	943.0
May	3472.8	3472.2	3471.6	4182.6	4182.2	4181.9	954.5	954.1	953.7
June	3484.8	3482.4	3479.8	4191.5	4189.7	4188.0	961.9	960.8	959.5
Monthly Growth Rates									
1992 January	3.1	3.1	3.1	1.1	1.1	1.1	16.4	16.4	16.4
February	9.4	9.4	9.4	7.2	7.2	7.2	27.2	27.2	27.2
March	-0.6	-0.6	-0.6	-2.9	-2.9	-2.9	10.3	10.3	10.3
April	-1.9	-1.9	-1.9	-3.4	-3.4	-3.4	5.1	5.1	5.1
May	1.7	1.5	1.3	1.3	1.2	1.1	14.6	14.1	13.6
June	4.2	3.5	2.8	2.6	2.2	1.7	9.4	8.4	7.4
Quarterly Ave. Growth Rates									
1991 Q1	3.7	3.7	3.7	3.4	3.4	3.4	5.2	5.2	5.2
Q2	4.4	4.4	4.4	1.8	1.8	1.8	7.4	7.4	7.4
Q3	0.6	0.6	0.6	-1.3	-1.3	-1.3	7.5	7.5	7.5
Q4	2.3	2.3	2.3	1.0	1.0	1.0	11.0	11.0	11.0
1992 Q1	4.2	4.2	4.2	2.2	2.2	2.2	16.5	16.5	16.5
Q2	1.1	1.0	0.9	-0.4	-0.5	-0.5	11.4	11.1	10.9
Dec 91 to Mar 92	4.0	4.0	4.0	1.8	1.8	1.8	18.2	18.2	18.2
Mar 92 to Jun 92	1.3	1.0	0.7	0.2	0.0	-0.2	9.8	9.3	8.8
Apr 92 to Jun 92	2.9	2.5	2.1	1.9	1.7	1.4	12.1	11.3	10.5
Q4 90 to Q4 91	2.8	2.8	2.8	1.2	1.2	1.2	8.0	8.0	8.0
Q4 91 to Q2 92	2.6	2.6	2.6	0.9	0.8	0.8	14.2	14.0	13.9
Q4 91 to Mar 92	3.9	3.9	3.9	1.7	1.7	1.7	16.5	16.5	16.5
Q4 91 to Apr 92	2.7	2.7	2.7	0.7	0.7	0.7	14.3	14.3	14.3
Q4 91 to June 92	2.8	2.7	2.5	1.1	1.0	0.9	13.8	13.6	13.4
1992 Target Ranges:		2.5 to 6.5			1.0 to 5.0				

Chart 1

ACTUAL AND TARGETED M2

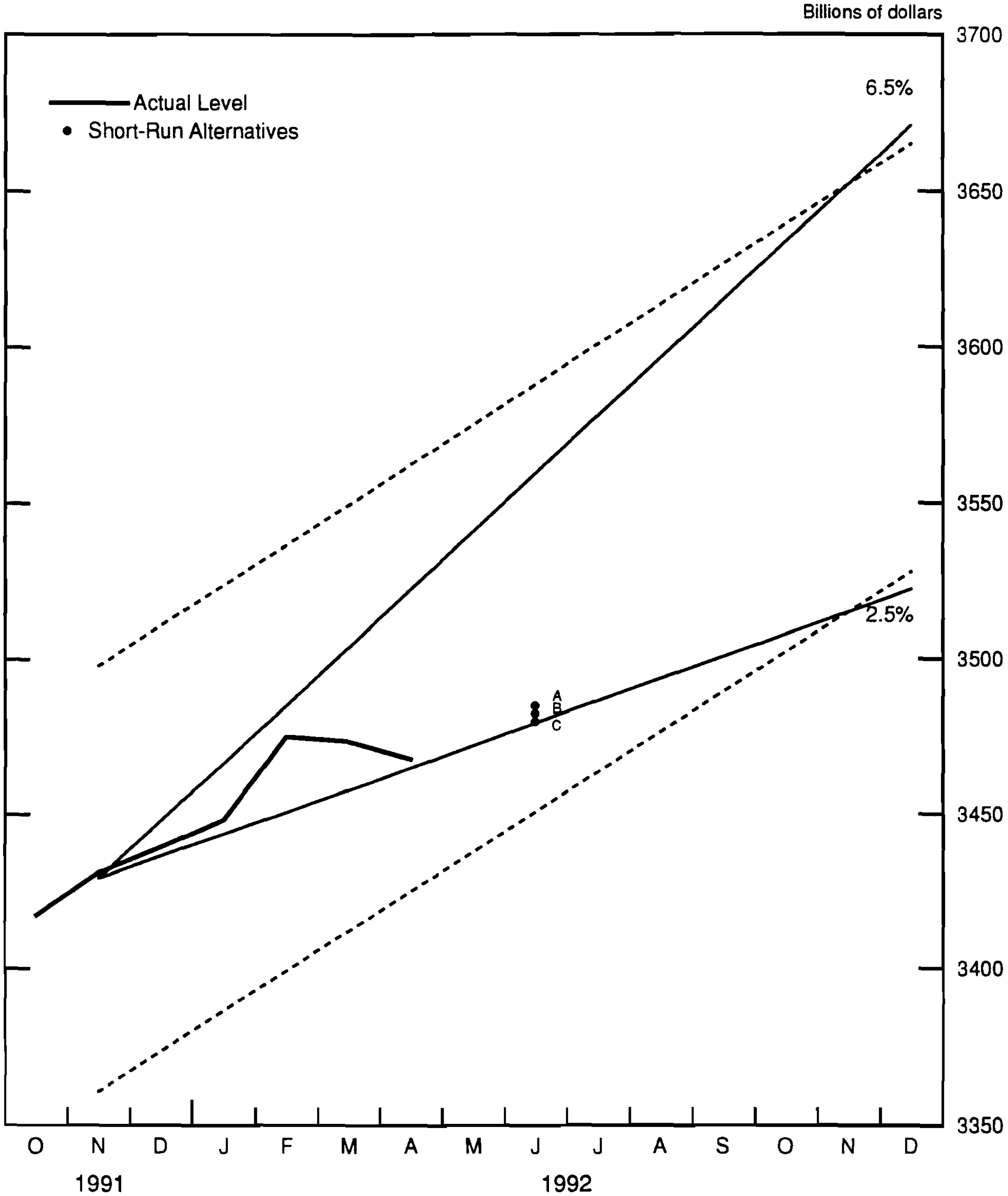


Chart 2

ACTUAL AND TARGETED M3

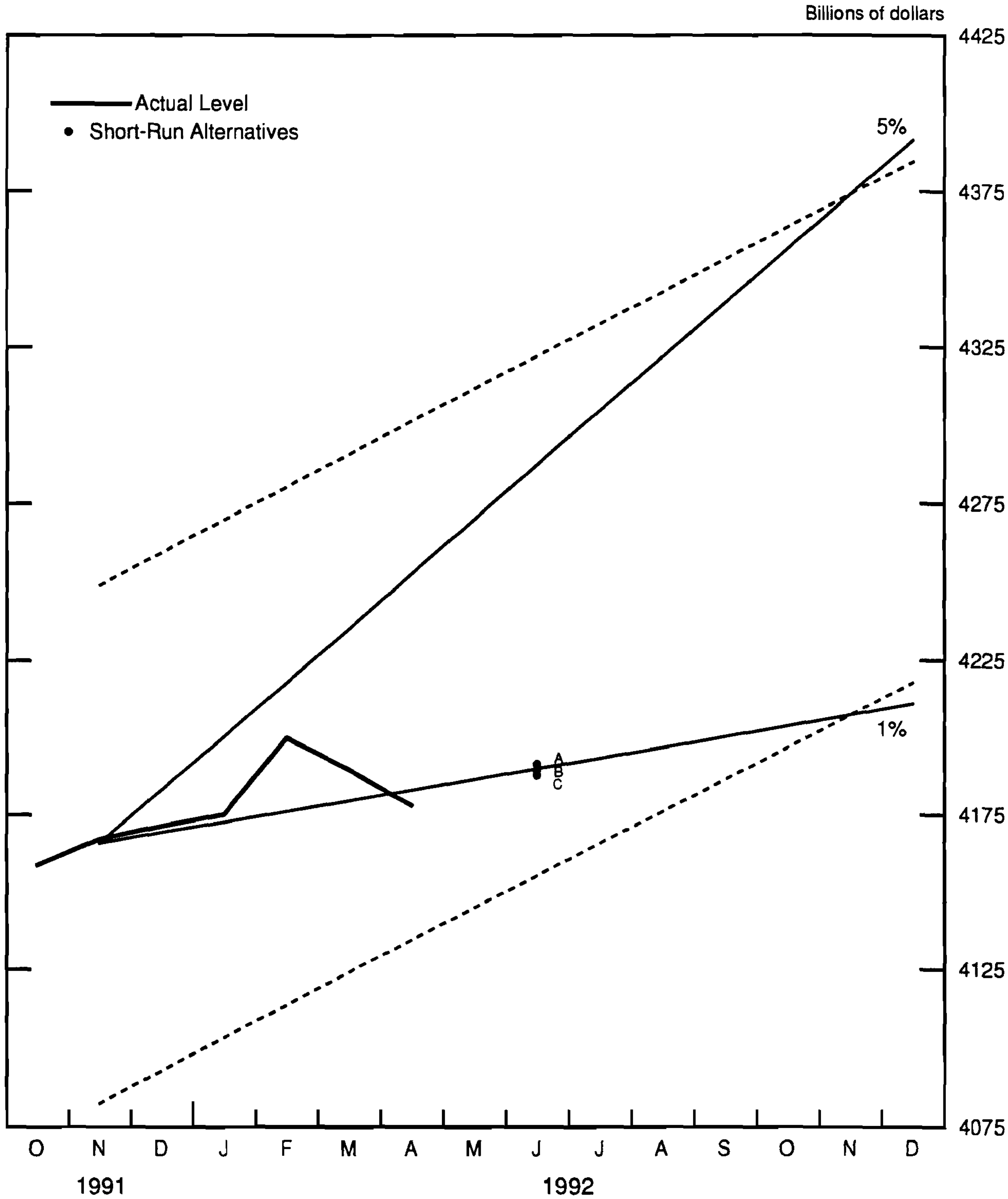
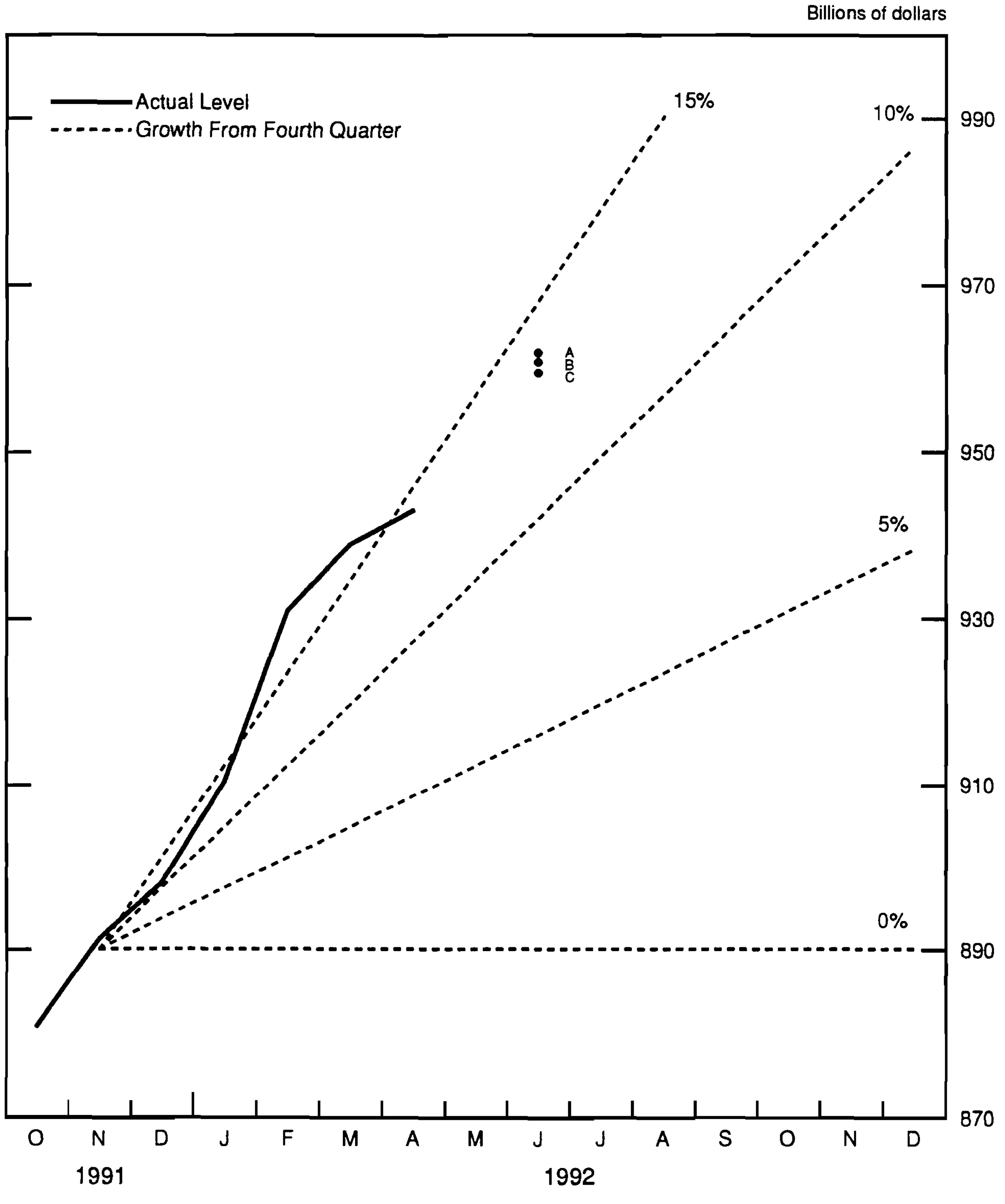


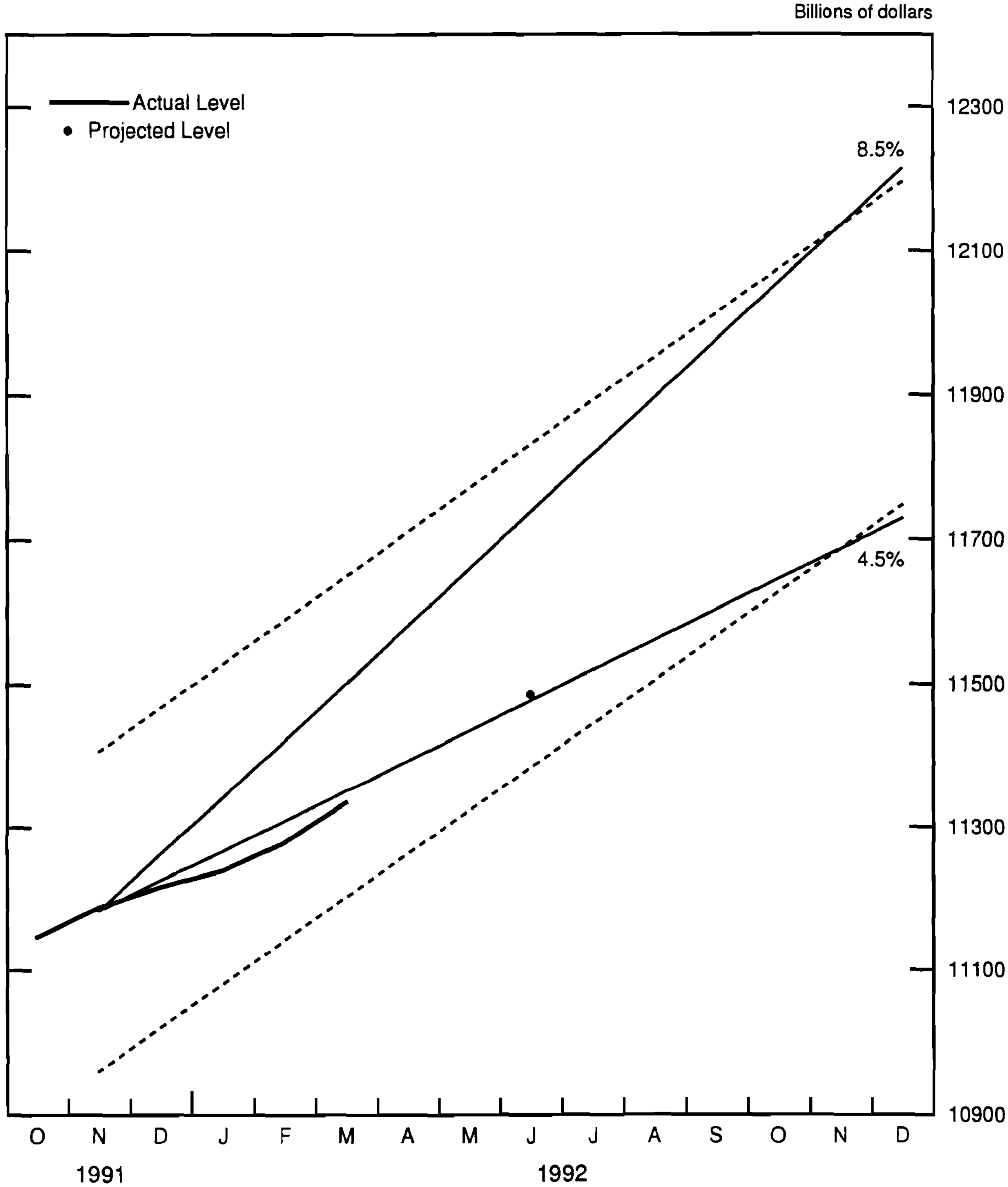
Chart 3

M1



Billions of dollars
Actual Level
Growth From Fourth Quarter
15%
10%
5%
0%
A
B
C
990
970
950
930
910
890
870
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1991
1992

Chart 4
DEBT


Billions of dollars
Actual Level
Projected Level
8.5%
4.5%
12300
12100
11900
11700
11500
11300
11100
10900
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1991
1992

(14) Under alternative B, the projected turnaround in M2 over May and June should show through to M3, which is expected to register an annual growth rate of 1-3/4 percent; from March to June, M3 would be about unchanged. The slower expansion of M3 than of M2 would reflect continued runoffs of large time deposits, as net credit extension at depositories lags behind inflows to retail deposits. The decline of business loans at banks might moderate as inventory liquidation slows and banks become more willing to lend, especially to smaller businesses. However, business credit demands are expected to be restrained overall, as projected cash flow about matches capital spending, and to remain focused on longer-term markets. The modest projected rise in spending for new homes and durable goods, together with continuing cautious attitudes toward debt, should limit household borrowing as well. Consequently, growth of the debt of nonfederal sectors is projected to continue at only a 2-3/4 percent annual rate from March to June. Federal debt, by contrast, is expected to post a more rapid 13 percent rate of growth over these three months. Total domestic nonfinancial debt is anticipated to expand at a little above a 5 percent rate over the second quarter, lifting it in June to just above the lower bound of its 4-1/2 to 8-1/2 percent monitoring range.

(15) The growth of M2, M3, and debt through June would be little affected by either the easing or tightening of reserve conditions under alternatives A or C. More of the impact of these actions could be expected to be felt in the second half of the year. If the lower funds rate of alternative A is maintained through year-end, growth of M2 for the year could be expected to come in around 4 percent. Some impetus to money demand would derive from the reduced opportunity cost of holding liquid balances and, later in the year, from added strength in spending.

If alternative C is adopted and the higher rates maintained, a 3 percent annual pace for M2 would be more likely. Overall, based on recent experience, the impetus from changed short-term interest rates is projected to have a considerably smaller effect on M2 growth than embodied in historical relationships. While growth of M3 for the year of 2 percent is expected under the constant funds rate of alternative B, this projection would have to be shaded up or down by perhaps 1/4 point if alternative A or C were chosen at this FOMC meeting and sustained for the rest of the year.

<u>Directive Language</u>

(16) Draft language for the operational paragraph is presented below. An alternative for the last sentence is shown in brackets. This alternative would stress the Committee's expectation of a resumption of growth in broad money over May and June, in contrast to the traditional three-month specification, which would show little if any monetary growth (for example, 1 percent for M2 and zero for M3 under alternative B).

<u>OPERATIONAL PARAGRAPH</u>

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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly (SOMEWHAT) greater reserve restraint might (WOULD) or slightly (SOMEWHAT) lesser reserve restraint (MIGHT) would 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 ___ ~~3-1/2 and 1-1/2~~ percent, respectively. [The contemplated reserve conditions are expected to be consistent with a resumption of growth in M2 and M3 over the period from April to June to annual rates of about ___ and __ percent, respectively.]

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	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-month	1-month			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
91 -- High	7.46	6.46	6.49	6.43	7.75	8.49	7.37	9.93	7.47	8.35	8.52	9.96	7.40	9.97	9.75	7.78
-- Low	4.22	3.84	3.93	4.01	4.25	4.88	4.53	7.07	5.24	6.96	7.58	8.49	6.76	8.38	8.35	6.02
92 -- High	4.20	4.05	4.22	4.51	4.32	5.02	4.51	6.50	6.32	7.65	8.07	8.99	6.87	9.22	9.03	6.22
-- Low	3.47	3.62	3.73	3.89	3.79	3.84	3.51	6.50	5.11	6.79	7.44	8.46	6.53	8.36	8.23	5.78
Monthly																
May 91	5.78	5.46	5.61	5.76	5.91	5.91	5.60	8.50	7.12	8.07	8.27	9.45	7.13	9.73	9.47	7.22
Jun 91	5.90	5.57	5.75	5.96	6.07	6.06	5.49	8.50	7.39	8.28	8.47	9.53	7.30	9.93	9.62	7.24
Jul 91	5.82	5.58	5.70	5.91	5.98	5.98	5.46	8.50	7.38	8.27	8.45	9.55	7.18	9.79	9.57	7.23
Aug 91	5.66	5.33	5.39	5.45	5.65	5.72	5.38	8.50	6.80	7.90	8.14	9.25	7.05	9.44	9.24	7.08
Sep 91	5.45	5.21	5.25	5.26	5.47	5.57	5.24	8.20	6.50	7.65	7.95	9.05	6.97	9.18	9.01	6.87
Oct 91	5.21	4.99	5.04	5.04	5.33	5.29	5.03	8.00	6.23	7.53	7.93	9.02	6.89	9.04	8.86	6.71
Nov 91	4.81	4.56	4.61	4.64	4.94	4.95	4.82	7.58	5.90	7.42	7.92	8.95	6.89	8.86	8.71	6.42
Dec 91	4.43	4.07	4.10	4.17	4.47	4.98	4.61	7.21	5.39	7.09	7.70	8.68	6.87	8.56	8.50	6.19
Jan 92	4.03	3.80	3.87	3.95	4.05	4.11	4.18	6.50	5.40	7.03	7.58	8.57	6.67	8.65	8.43	5.89
Feb 92	4.06	3.84	3.93	4.08	4.07	4.11	3.84	6.50	5.72	7.34	7.85	8.79	6.83	8.92	8.76	5.88
Mar 92	3.98	4.04	4.18	4.40	4.25	4.28	3.73	6.50	6.18	7.54	7.97	8.91	6.86	9.17	8.93	6.11
Apr 92	3.73	3.75	3.87	4.09	4.00	4.02	3.66	6.50	5.93	7.48	7.96	8.82	6.80	8.98	8.85	6.15
Weekly																
Jan 29 92	4.01	3.82	3.90	4.00	4.07	4.08	3.99	6.50	5.61	7.22	7.71	8.72	6.76	8.98	8.68	5.93
Feb 5 92	4.17	3.84	3.91	4.01	4.06	4.09	3.92	6.50	5.67	7.30	7.78	8.71	6.79	8.74	8.67	5.87
Feb 12 92	3.93	3.76	3.82	3.94	3.94	4.00	3.85	6.50	5.53	7.23	7.78	8.85	6.85	9.04	8.73	5.78
Feb 19 92	4.20	3.81	3.92	4.10	4.07	4.13	3.78	6.50	5.76	7.43	7.93	8.87	6.85	9.02	8.82	5.92
Feb 26 92	3.96	3.93	4.04	4.21	4.18	4.18	3.78	6.50	5.89	7.42	7.92	8.72	6.82	8.89	8.83	5.93
Mar 4 92	4.08	3.99	4.07	4.22	4.16	4.23	3.75	6.50	5.89	7.37	7.88	8.86	6.82	9.10	8.85	5.99
Mar 11 92	3.95	4.02	4.14	4.37	4.24	4.27	3.72	6.50	6.05	7.47	7.92	8.99	6.86	9.19	8.88	6.04
Mar 18 92	4.04	4.05	4.22	4.51	4.30	4.32	3.72	6.50	6.32	7.65	8.04	8.98	6.87	9.22	9.03	6.22
Mar 25 92	3.94	4.05	4.21	4.45	4.27	4.29	3.73	6.50	6.30	7.58	7.99	8.87	6.87	9.17	8.98	6.19
Apr 1 92	4.09	4.02	4.14	4.32	4.21	4.26	3.73	6.50	6.18	7.53	7.95	8.77	6.85	9.02	8.96	6.22
Apr 8 92	3.98	3.94	4.02	4.19	4.14	4.19	3.74	6.50	5.94	7.43	7.90	8.78	6.78	8.85	8.84	6.15
Apr 15 92	3.65	3.63	3.73	3.92	3.95	3.98	3.66	6.50	5.71	7.35	7.87	8.81	6.74	9.03	8.76	6.11
Apr 22 92	3.47	3.68	3.83	4.10	3.97	3.97	3.62	6.50	5.99	7.55	8.00	8.90	6.82	9.00	8.85	6.13
Apr 29 92	3.65	3.69	3.84	4.11	3.93	3.92	3.59	6.50	6.02	7.58	8.07	8.86	6.83	9.02	8.84	6.10
May 6 92	3.77	3.65	3.78	4.09	3.89	3.92	3.55	6.50	5.96	7.55	8.02	8.73	6.77	8.88	8.75	6.02
May 13 92	3.84	3.62	3.73	3.99	3.79	3.84	3.51	6.50	5.83	7.40	7.90	--	6.70	--	--	--
Daily																
May 8 92	3.71	3.63	3.75	4.03	3.81	3.83	--	6.50	5.88	7.41	7.90	--	--	--	--	--
May 14 92	3.93	3.57	3.69	3.90	3.75	3.83	--	6.50	5.72	7.34	7.87	--	--	--	--	--
May 15 92	-- 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. 18, 1992

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)										
1989	0.6	4.8	6.2	-0.9	3.6	4.8	7.4	7.3	8.4	8.2
1990	4.2	4.0	3.9	-7.2	1.7	1.8	5.5	10.3	6.1	7.0
1991	8.0	2.8	1.1	-5.6	1.2	0.4	3.5	11.2	2.4	4.5
QUARTERLY AVERAGE										
1991-2nd QTR.	7.4	4.4	3.4	-9.7	1.8	-1.9	2.8	6.8	3.4	4.2
1991-3rd QTR.	7.5	0.6	-1.6	-9.8	-1.3	0.7	1.9	13.9	1.9	4.7
1991-4th QTR.	11.0	2.3	-0.6	-5.2	1.0	0.1	6.1	12.2	1.7	4.3
1992-1st QTR.	16.5	4.2	-0.1	-7.4	2.2	2.1	3.6	8.1	2.2	3.6
MONTHLY										
1991-APR.	0.6	2.8	3.4	-7.7	0.8	-6.2	1.4	-1.9	3.7	2.4
MAY	11.7	3.8	1.3	-14.1	0.5	-4.8	0.5	11.8	3.9	5.8
JUNE	9.0	2.2	-0.1	-14.1	-0.8	6.8	3.7	16.0	2.5	5.6
JULY	3.8	-1.5	-3.3	-9.5	-3.0	1.2	0.3	12.3	1.4	4.0
AUG.	9.1	0.7	-2.1	-4.5	-0.2	-1.5	1.3	15.3	1.2	4.5
SEP.	7.6	0.7	-1.7	-9.5	-1.2	-2.6	5.3	12.3	1.5	4.1
OCT.	12.2	2.1	-1.4	0.3	1.8	0.8	7.1	13.1	1.7	4.5
NOV.	14.3	4.8	1.6	-8.9	2.4	3.1	7.4	10.8	2.4	4.5
DEC.	9.0	2.8	0.7	-6.4	1.2	-0.5	6.5	7.7	1.5	3.0
1992-JAN.	16.4	3.1	-1.7	-8.2	1.1	-1.2	3.3	6.1	1.4	2.6
FEB.	27.2	9.4	3.1	-3.5	7.2	8.1	0.0	6.1	3.6	4.2
MAR.	10.3	-0.6	-4.6	-14.1	-2.9	3.5	2.6	15.4	2.8	5.9
APR. p	5.1	-1.9	-4.6	-10.4	-3.4		5.1			
LEVELS ($BILLIONS) :										
MONTHLY										
1991-DEC.	898.1	3439.3	2541.2	732.0	4171.4	4988.2	2837.8	2766.0	8450.3	11216.2
1992-JAN.	910.4	3448.1	2537.7	727.0	4175.1	4983.3	2845.4	2780.1	8460.0	11240.1
FEB.	931.0	3475.2	2544.2	724.9	4200.1	5017.1	2845.3	2794.2	8485.1	11279.3
MAR.	939.0	3473.5	2534.5	716.4	4189.9	5031.9	2851.4	2830.0	8505.1	11335.1
APR. p	943.0	3467.9	2524.8	710.2	4178.1		2863.7			
WEEKLY										
1992-APR. 6	941.2	3468.3	2527.1	702.5	4170.8					
13	940.2	3469.5	2529.4	714.9	4184.4					
20	945.9	3471.3	2525.4	707.5	4178.8					
27 p	941.2	3461.2	2520.0	715.9	4177.1					
MAY 4 p	951.7	3471.0	2519.4	707.7	4178.8					

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

Strictly Confidential (FR)-
Class II FOMC

Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

MAY. 18, 1992

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA[1]	Savings deposits[2]	Small denomination time deposits[3]	Money market mutual funds: general purpose and broker/dealer[4]	Money market mutual funds: Institutions only	Large denomination time deposits[5]	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
LEVELS ($BILLIONS):															
ANNUALLY (4TH QTR.)															
1989	221.2	279.2	282.8	76.2	884.7	1145.3	311.2	106.8	561.3	106.8	78.8	116.8	320.3	349.1	40.3
1990	245.5	277.5	292.7	78.8	919.9	1167.7	346.2	130.1	501.9	93.6	68.0	125.2	331.1	357.4	33.6
1991	266.0	287.0	329.1	72.8	1028.8	1079.1	359.8	173.6	443.1	73.4	60.8	137.0	320.1	337.9	24.4
MONTHLY															
1991-APR.	256.3	276.1	302.5	69.6	953.0	1159.7	366.6	152.9	487.7	82.2	65.2	130.1	307.3	341.6	30.6
MAY	256.6	278.4	307.8	68.5	966.1	1150.9	367.8	155.2	483.5	80.4	62.3	131.3	299.5	327.9	29.1
JUNE	257.6	280.1	311.6	67.9	976.8	1140.6	368.8	155.3	478.3	78.4	61.6	132.4	325.1	333.0	28.1
JULY	259.3	279.3	313.7	64.8	986.1	1129.5	367.9	155.4	471.2	78.8	62.7	133.5	332.8	339.8	28.1
AUG.	261.3	280.1	317.3	67.3	994.1	1120.8	362.4	158.6	465.5	78.4	63.6	134.4	330.6	336.3	27.2
SEP.	262.9	280.6	320.6	66.4	1002.4	1111.0	359.9	162.6	458.5	76.7	61.5	135.2	322.9	337.7	25.8
OCT.	264.8	283.8	324.5	69.5	1015.0	1095.2	359.3	168.2	450.0	75.5	62.8	136.1	321.1	336.2	25.3
NOV.	266.0	287.6	329.7	73.3	1028.7	1079.2	359.5	173.6	442.3	73.7	61.9	137.1	323.4	337.9	24.5
DEC.	267.3	289.5	333.2	75.7	1042.6	1063.0	360.5	179.1	437.1	70.9	57.7	137.9	315.9	339.7	23.3
1992-JAN.	269.4	293.9	339.0	77.1	1061.2	1042.7	360.0	182.4	427.9	70.9	55.7	138.9	311.2	334.8	23.2
FEB.	271.6	305.1	346.2	77.0	1083.9	1019.2	363.7	188.2	420.7	72.1	56.0	140.1	326.6	327.5	22.9
MAR.	271.8	309.7	349.4	73.6	1098.0	1001.9	358.0	185.3	413.0	73.7	57.8	141.2	341.6	337.5	21.7
APR. p	273.6	311.2	350.2	71.2	1111.4	984.4	354.2	189.2	406.1	72.2	56.2				

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

p-preliminary

May 15, 1992

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

NET CHANGES IN SYSTEM HOLDINGS OF SECURITES[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]				Redemptions (-)	Net Change			
				within 1 year	1-5	5-10	over 10					
1989	1,468	12,730	-11,263	327	946	258	284	500	1,315	442	-10,390	-1,683
1990	17,448	4,400	13,048	425	50	-100	—	—	375	183	13,240	11,128
1991	20,038	1,000	19,038	3,043	6,583	1,280	375	—	11,282	292	25,199	-1,614
1991 —Q1	2,160	1,000	1,160	800	2,950	400	—	—	4,150	—	5,310	-16,864
—Q2	4,356	—	4,356	900	550	—	—	—	1,450	128	3,172	992
—Q3	7,664	—	7,664	1,165	650	—	—	—	1,815	55	9,419	152
—Q4	5,858	—	5,858	178	2,433	880	375	—	3,867	109	7,299	14,106
1992 —Q1	-1,000	1,600	-2,600	—	2,452	—	—	—	2,452	85	-233	-14,636
1991 May	3,411	—	3,411	200	—	—	—	—	200	37	1,068	-1,153
June	37	—	37	—	—	—	—	—	—	—	37	775
July	1,359	—	1,359	625	—	—	—	—	625	55	1,929	71
August	5,776	—	5,776	340	—	—	—	—	340	—	6,116	-2,134
September	529	—	529	200	650	—	—	—	850	—	1,374	2,216
October	2,198	—	2,198	—	—	—	—	—	—	14	2,185	6,942
November	2,823	—	2,823	178	2,133	880	375	—	3,567	51	4,022	-8,871
December	837	—	837	—	300	—	—	—	300	45	1,092	16,035
1992 January	-1,628	1,600	-3,228	—	—	—	—	—	—	85	-3,313	-12,874
February	123	—	123	—	1,027	—	—	—	1,027	—	1,150	-2,010
March	505	—	505	—	1,425	—	—	—	1,425	—	1,930	248
April	—	—	—	—	—	—	—	—	—	49	-49	345
Weekly												
January 22	-498	400	-898	—	—	—	—	—	—	35	-933	5,150
29	-909	800	-1,709	—	—	—	—	—	—	16	-1,725	-5,495
February 5	—	400	-400	—	—	—	—	—	—	—	-400	-1,098
12	—	—	—	—	—	—	—	—	—	—	—	2,211
19	—	—	—	—	395	—	—	—	395	—	395	11,087
26	123	—	123	—	632	—	—	—	632	—	755	-9,995
March 4	—	—	—	—	—	—	—	—	—	—	—	1,892
11	—	—	—	—	—	—	—	—	—	—	-0	1,165
18	—	—	—	—	625	—	—	—	625	—	625	3,800
25	39	—	39	—	800	—	—	—	800	—	839	-6,138
April 1	466	—	466	—	—	—	—	—	—	49	417	2,654
8	—	—	—	—	—	—	—	—	—	—	—	-3,412
15	—	—	—	—	—	—	—	—	—	—	—	9,028
22	—	—	—	—	—	—	—	—	—	—	—	-10,233
29	—	—	—	—	—	—	—	—	—	—	—	1,490
May 6	—	—	—	—	—	—	—	—	—	—	—	-598
13	—	—	—	—	—	—	—	—	—	—	—	3,639
Memo: LEVEL (bil. $)[6]												
May 13			136.1	33.1	63.3	15.3	24.6		136.3		278.3	-6.0

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 issues.
4. Reflects net change in 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
May 13	2.3	2.7	0.7	0.2	5.9