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February 7, 1986

Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

February 7, 1986

MONETARY POLICY ALTERNATIVES

Recent developments

(1) M1, which continued to expand rapidly in December, grew only a little in January. On average over the two months, M1 has increased at about a 7 percent annual rate, the lower end of the 7 to 9 percent short-run range for growth from November to March set by the Committee at its last meeting.[1] M2 grew at a 4-1/4 percent annual rate over the past two months, and M3 at 6-3/4 percent, as compared with their 6 to 8 percent ranges for the short-run period. With regard to experience in 1985 relative to long-run ranges for the aggregates, M1 grew well above its range for the second half of last year, while M2 and M3 were in the upper portion and near the midpoint of their respective ranges, as shown in the last column of the table on the following page (with the long-run ranges for last year shown in parentheses).

(2) The slowing of M1 growth in January was entirely attributable to a decline in demand deposits, following their unusually strong expansion during the final two months of last year. In January OCDs grew near the more moderate December pace; the removal of the regulatory minimum balance on Super NOW accounts did not have much effect on OCD growth, as depository institutions generally have not liberalized terms on Super NOW accounts to any significant extent. M2 growth was restrained by a sizable runoff of overnight RPs that likely reflected a rundown in collateral stemming from reductions in bank holdings of Treasury securities and a continued high level

1. These growth rates and all subsequent data on the monetary aggregates in this Bluebook incorporate annual benchmark and seasonal factor revisions. The revised series are confidential until release around mid-February. The revisions and their effects on growth of M1, M2, and M3 over recent years are described in Appendix A.

KEY MONETARY AGGREGATES [1]
(Seasonally adjusted annual rates of growth)

	Nov.	Dec.	Jan.p	Nov. to Jan.p	QIV '84 to QIV '85
Money and credit aggregates					
M1	11.3	12.4	1.3	6.9	12.7 [2] (3 to 8)[2]
M2	5.5	6.8	1.7	4.2	8.6 (6 to 9)
M3	4.7	5.8	7.8	6.8	7.4 (6 to 9-1/2)
Domestic nonfinancial debt	15.7	20.4	n.a.	n.a.	13.4 (9 to 12)
Bank credit	16.4	16.6	15.0	15.9	8.8
Reserve measures					
Nonborrowed reserves[3]	2.1 (17.0)[4]	33.4 (18.2)[4]	18.5	26.2 (18.5)[4]	15.4 (15.9)[4]
Total reserves	20.0	21.9	4.0	13.0	15.3
Monetary base	10.1	9.3	5.5	7.4	8.8
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	1210 (672)[4]	819	284	--	--
Excess reserves	928	1058	1094	--	--

1. Data for monetary aggregates incorporate benchmark revisions and new seasonal adjustment factors.
2. From QII '85 base.
3. Includes "other extended credit" from the Federal Reserve.
4. Figures in parentheses exclude the effects of borrowing by Bank of New York on November 21.

p - Preliminary.

of Treasury balances. However, M3 growth picked up, as banks' funding needs remained sizable, and their CD issuance accelerated.

(3) The total debt of domestic nonfinancial sectors continued to advance exceptionally rapidly late last year, paced by the explosion of tax-exempt debt issuance in advance of proposed tax law changes. Over the year, debt grew about 13-1/2 percent; a little more than one percentage point of this total represented the effects of unusual credit demands associated with the retirement of equity in mergers and other corporate restructurings, and about three-fourth of a percentage point is estimated to have resulted from the acceleration of tax-exempt borrowing before year-end. After the turn of the year, tax-exempt issuance virtually came to a halt. Federal government debt issuance, which was enlarged late last year by investment of the proceeds from advance refunding issues of state and local governments, also dropped off in January. However, credit demands by households and nonfinancial firms appear to have been relatively well maintained in the early weeks of the year.

(4) Total reserves increased at a 13 percent pace over the December-January period, as transactions accounts continued to grow fairly rapidly, on balance, and excess reserves were unusually high, especially around year-end. With discount window borrowing declining since November, nonborrowed reserves grew at an 18-1/2 percent annual rate on average over the last two months (adjusted for borrowing by Bank of New York in November). The nonborrowed reserves path was constructed over the intermeeting period on the assumption of $350 million of adjustment plus seasonal borrowing. Window-dressing pressures were unusually strong around year end, and both excess reserves and borrowing spiked in the reserve maintenance period ended

January 1. In the two complete maintenance periods in 1986 borrowing averaged around $260 million, and through the first eight days of the current statement period it has averaged $225 million.

(5) The federal funds rate moved lower once year-end pressures subsided, with trading in recent weeks generally in the 7-3/4--7-7/8 percent area, somewhat below its level at the time of the last FOMC meeting. However, other short-term rates rose 15 to 20 basis points since that time, mainly reflecting the very recent market response to stronger than expected employment figures. In longer-term markets, bond yields fluctuated fairly widely over the intermeeting interval, showing little net change. They responded to oil price developments and the cut in the Bank of Japan's discount rate, on the one side, and to the strong employment figures of the past two months and doubts about Gramm-Rudman's constitutionality on the other. Tax-exempt bond yields were down rather substantially, reflecting the dearth of issuance early this year. Rates for both fixed and variable rate mortgage commitments also fell below their levels at the time of the December FOMC meeting, in lagged response to earlier market rate declines.

(6) The trade-weighted average foreign exchange value of the dollar has fallen 3 percent further on balance since the last FOMC meeting, for a total drop of 12-1/2 percent since the G-5 announcement of September 22. On a bilateral basis, the dollar has depreciated 4-1/4 percent vis-a-vis the mark and 5-1/2 percent in terms of the yen since mid-December, bringing its net decline since the G-5 announcement to about 15-1/2 percent against the mark and 20 percent against the yen. Part of the dollar's intermeeting drop against these currencies may be attributable to statements by some G-5 authorities since their January consultation suggesting that a further depreciation

of the dollar might be acceptable and perhaps welcome. Sterling, however, depreciated 2-1/2 percent against the dollar in the intermeeting period in response to falling oil prices.

Long-run targets

(7) Shown below for Committee consideration are alternative longer-run ranges for the year 1986. Alternative I represents the tentative ranges established at the July meeting. The ranges in alternative II are generally higher, while those in alternative III are lower for M1 and M2.[1]

	Alt. I	Alt. II	Alt. III
M1	4 to 7	4 to 8	3 to 7
M2	6 to 9	6 to 9-1/2	5-1/2 to 8-1/2
M3	6 to 9	6 to 9	6 to 9
Debt	8 to 11	9 to 12	8 to 11

(8) The ranges of alternative I are roughly consistent with the staff's current GNP projection on the assumption that interest rates, if they decline, drop only moderately. With such a decline in rates, M1 seems likely to grow near the upper limit of the 4 to 7 percent range, and the velocity of M1 again to drop, though only a bit and much less than last year. The expectation that M1 expansion will slow substantially this year, despite some projected pick-up in GNP growth, is based partly on a smaller upward effect on the amount of M1 demanded because of interest rate behavior. But it also depends on the thought that the substantial portion of the quite rapid demand deposit growth of last year unexplained by usual interest rate or income relationships will not be repeated. M1 growth could tend to be reduced further in the degree that velocity shows more strength than expected, either because interest rates turn out to be higher or the public's preferences for cash diminish appreciably following last year's exceptional build-up in balances. We have assumed that the removal of minimum balances on MMDAs

1. For background information, appendix B provides a brief description of monetary ranges recently adopted by key foreign industrial countries.

and Super NOWs and, at the end of March, the lifting of ceiling rates on savings and NOW accounts will have only minimal effects, given the widespread availability for a number of years of other ceiling-free accounts and the relatively small size of previous minimum balance requirements.

(9) Growth of M2 and M3 this year should be reasonably well within their alternative I ranges, given the GNP projection. While slowing from last year's pace, the growth of debt from Q4 1985 to Q4 1986 is projected a little above the upper limit of its 8 to 11 percent range. A range of 8-1/2 to 11-1/2 percent would include an upper limit about at the staff's projection using quarterly averages. The moderation this year in credit demands by domestic sectors reflects a slowing in tax-exempt borrowing following last year's surge; some projected abatement of corporate debt financing, including for mergers and buyouts, that may in part be a product of the improved stock market; and a deceleration in U.S. government borrowing as fiscal restraint begins to take hold.

(10) The width of the tentative ranges adopted by the Committee last July is the same for M1 as for the other aggregates. However, experience with M1 in recent years and continuing uncertainties about its behavior in varying circumstances, given institutional changes, suggest that consideration be given to making the M1 range somewhat wider than for M2 or M3. Also, more technically, M1 for now appears to be more interest elastic than the broader aggregates. Thus, more scope for variation would be required should exogenous factors--such as fiscal policy, attitudes toward the dollar, or inflationary expectations--affect the demand for goods and services and interest rates by more or less than anticipated. (The potential impact of some of these elements is discussed in paragraphs (13) to (15) below.) Assuming little need to reduce the width of other monetary ranges, a

symmetrical widening of the tentative M1 range suggests 3-1/2 to 7-1/2 percent, or possibly a range of 3 to 8 percent. The latter is the same as that adopted for the second half of 1985, but would of course produce twice the leeway in dollar terms over a full year than for a half year.

(11) Alternative II--with ranges allowing more growth for M1, M2, and debt--may be viewed as consistent with a more stimulative approach to aggregate demand than is embedded in the staff's projection. Whether such a policy would risk leading to a significant acceleration of inflation, if not later this year then next, depends in part on how close the present rate of unemployment is to the so-called natural rate--the rate below which wage pressures will increase with feedback effects on prices. It would also depend on the growth potential of the economy. If the nation's growth potential were below, say, 3 percent per annum--taking account of labor force expansion and productivity--a more stimulative monetary policy that led to higher growth would run a greater risk of setting in motion upward price pressures, with assessment of the timing and extent of risk depending on one's view of the level of the natural rate of unemployment.

(12) The third alternative--with lower ranges for M1 and M2--may be thought of as consistent with taking advantage of a relatively sharp drop in oil prices to secure greater progress in moving toward reasonable price stability. A significant drop in oil prices would tend for a time both to increase real growth and to curtail general upward price pressures. If the price of imported oil declines to the $20 per barrel assumed in the GNP projection, the policy embodied in alternative III would probably lead to somewhat higher real interest rates and lower real growth than under alternative I, but with improved price performance. It would, however, exert more pressure for a time on international and domestic debtors (and

indirectly on their creditors) by holding interest rates higher than otherwise. Should oil prices drop noticeably more than currently assumed, the alternative III approach might well achieve the real growth projected by the staff, or a bit more, as well as better anti-inflationary gains, along with downward pressure on interest rates particularly as inflationary expectations lessen.

(13) In assessing the appropriateness of the monetary alternatives for this year, account also needs to be taken of the possibility that fiscal policy or the behavior of the dollar on exchange markets will differ from staff assumptions, as well as the oil price. The budget stance for fiscal year 1986 implicit in Gramm-Rudman looks more certain and achievable than is the case for later years. For fiscal 1987, the staff has assumed a budget deficit somewhat higher than the Gramm-Rudman limit, but which implies roughly the same swing toward fiscal restraint in terms of the structural deficit (the bulk of the higher actual deficit level stems from a projection of lower GNP growth). With regard to the exchange value of the dollar, the staff has assumed a further 5 percent annual rate of decline from its level at the end of January.

(14) If the fiscal policy and exchange rate assumptions turn out to be wrong, the odds at this time would appear to favor their being wrong on the side of greater upward price and interest rate pressures. The Gramm-Rudman process could break down in practice, particularly if the unconstitutionality of certain aspects is upheld by the Supreme Court. And if we are in fact in the midst of an underlying downward adjustment in the dollar to a level more consonant with something like eventual balance in the current account, there would evidently be the potential for a greater dollar decline this year. Both developments would, if they occurred, exert

more upward pressure on prices than in the staff projection--a larger decline in the dollar rather directly and lesser fiscal restraint through enhanced demand pressures. These effects would be muted if the oil price at the same time happened to drop by more than currently anticipated.

(15) In general, to the degree that uncertainties about exogenous fiscal and exchange market developments are more in an inflationary rather than a deflationary direction, this would tend to argue for restraint on the upper limits of the aggregates. Moreover, should interest rates tend to rise over the year because of stronger demand and price pressures, the velocity of M1 would probably increase somewhat. Thus, money growth lower in the ranges would be required to contain excessively strong demand pressures. On the other hand, if uncertainties were to be resolved in a deflationary direction putting interest rates naturally under downward pressure, the maintenance of economic growth would require greater monetary expansion. In particular, a relatively high upper limit for M1 growth may be needed, given its apparently enlarged interest elasticity of demand and the likelihood under those circumstances of a greater decline in its velocity this year than currently anticipated.

Short-run policy alternatives

(16) The table below presents three alternative specifications for growth in the monetary aggregates through March, together with associated federal funds rate ranges. Growth rates are shown from a November base, as chosen at the last meeting. Detailed data, including growth rates from December to March, are shown on the table and charts on the following pages.

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

(17) Given recent behavior of the aggregates, alternatives A and B are reasonably consistent with the short-run ranges from November to March adopted at the last meeting--7 to 9 percent annual rate of growth for M1 and 6 to 8 percent for M2 and M3--although the aggregates of B are somewhat lower than A relative to those ranges. The differences in the alternatives in that context would be reflected in the degree of near-term bank reserve pressures--with alternative B assuming unchanged pressures and alternative A some easing--and implications for the trajectory of money growth over the months ahead relative to longer-run ranges. In the tightening alternative C, both M1 and M2 would be expected to fall short of the December meeting ranges.

(18) The specifications of alternative B envision a continuation of discount window borrowing in a range of $300 to $400 million, with federal funds likely to trade around 7-3/4 percent or a little higher.

Alternative Levels and Growth Rates for Key Monetary Aggregates 07-Feb-86

	M1			M2			M3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in billions									
1985-October	614.0	614.0	614.0	2537.9	2537.9	2537.9	3163.2	3163.2	3163.2
November	619.8	619.8	619.8	2549.6	2549.6	2549.6	3175.5	3175.5	3175.5
December	626.2	626.2	626.2	2564.0	2564.0	2564.0	3190.8	3190.8	3190.8
1986-January	626.9	626.9	626.9	2567.6	2567.6	2567.6	3211.5	3211.5	3211.5
February	630.4	629.7	629.3	2580.9	2579.6	2578.5	3229.4	3228.4	3227.6
March	635.7	634.1	633.1	2601.0	2598.0	2595.6	3248.3	3245.9	3244.3
Monthly Growth Rates									
1985-October	5.1	5.1	5.1	4.2	4.2	4.2	4.8	4.8	4.8
November	11.3	11.3	11.3	5.5	5.5	5.5	4.7	4.7	4.7
December	12.4	12.4	12.4	6.8	6.8	6.8	5.8	5.8	5.8
1986-January	1.3	1.3	1.3	1.7	1.7	1.7	7.8	7.8	7.8
February	6.7	5.4	4.6	6.2	5.6	5.1	6.7	6.3	6.0
March	10.1	8.4	7.2	9.3	8.6	8.0	7.0	6.5	6.2
Quarterly Ave. Growth Rates									
1985-Q1	10.1	10.1	10.1	11.7	11.7	11.7	10.1	10.1	10.1
Q2	10.5	10.5	10.5	6.3	6.3	6.3	5.6	5.6	5.6
Q3	14.5	14.5	14.5	9.5	9.5	9.5	7.6	7.6	7.6
Q4	10.5	10.5	10.5	5.9	5.9	5.9	5.7	5.7	5.7
1986-Q1	7.1	6.6	6.3	5.1	4.9	4.7	6.7	6.6	6.5
Long-run base period to Dec.85	12.7	12.7	12.7	8.5	8.5	8.5	7.3	7.3	7.3
Long-run base period to Q4 85	12.7	12.7	12.7	8.6	8.6	8.6	7.4	7.4	7.4
Nov.85 to Mar.86	7.7	6.9	6.4	6.0	5.7	5.4	6.9	6.7	6.5
Dec.85 to Mar.86	6.1	5.1	4.4	5.8	5.3	4.9	7.2	6.9	6.7
Q4 85 to Mar.86	7.6	6.8	6.3	5.9	5.6	5.3	6.8	6.6	6.4
Tentative 1986 Target Ranges:		4 to 7			6 to 9			6 to 9	

Chart 1

ACTUAL M1 AND TENTATIVE TARGET RANGE

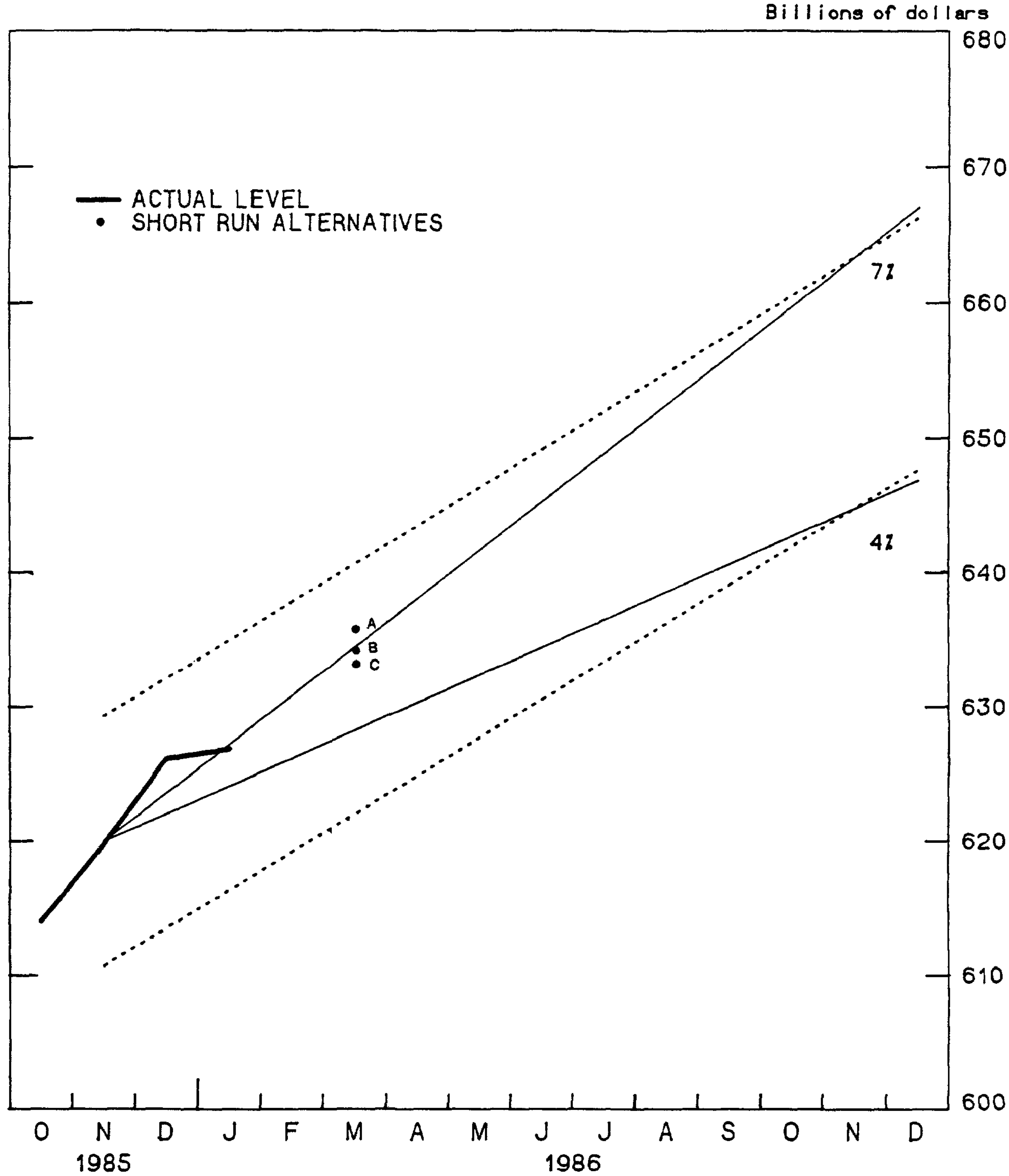


Chart 2

ACTUAL M2 AND TENTATIVE TARGET RANGE

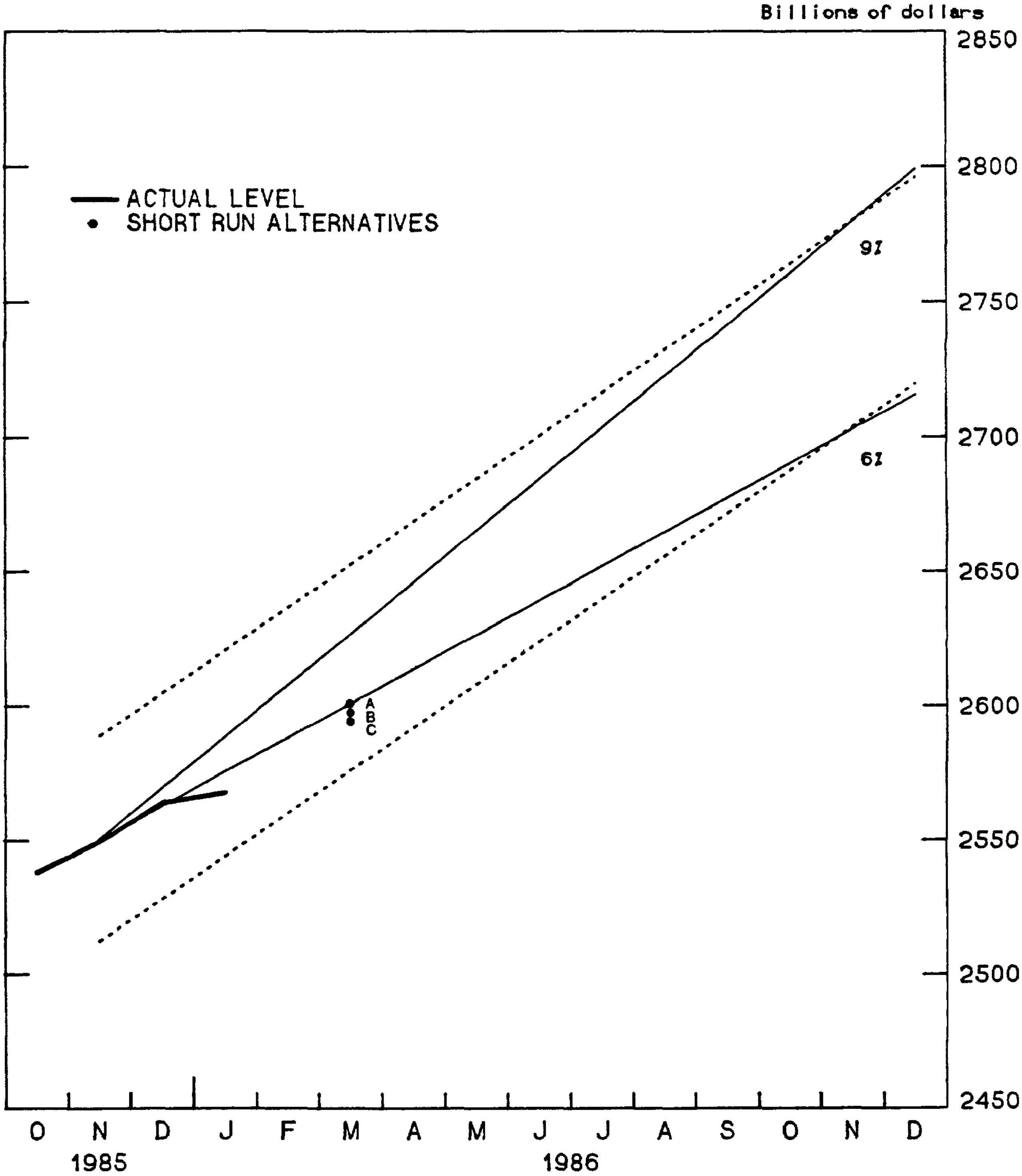


Chart 3

ACTUAL M3 AND TENTATIVE TARGET RANGE

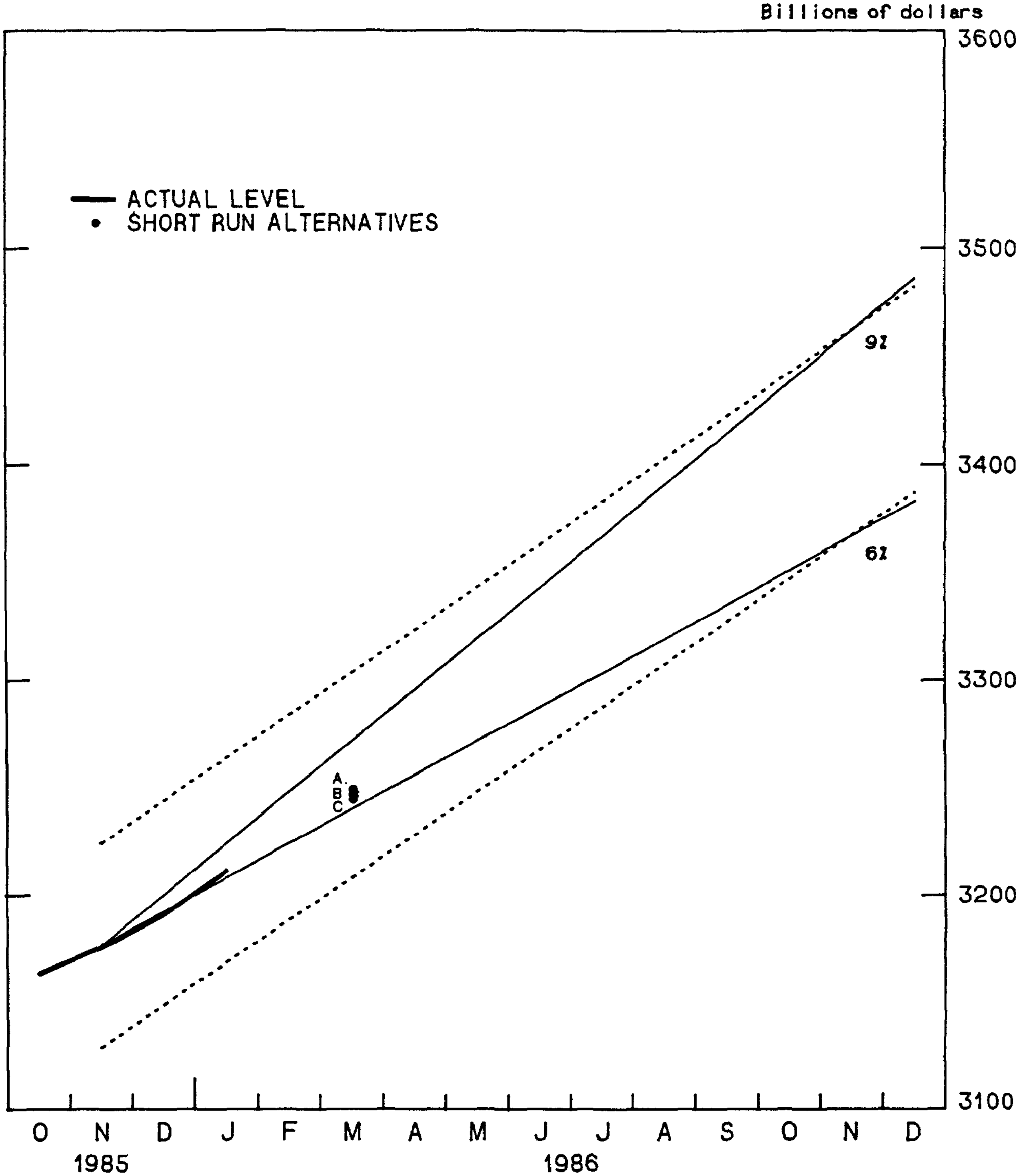
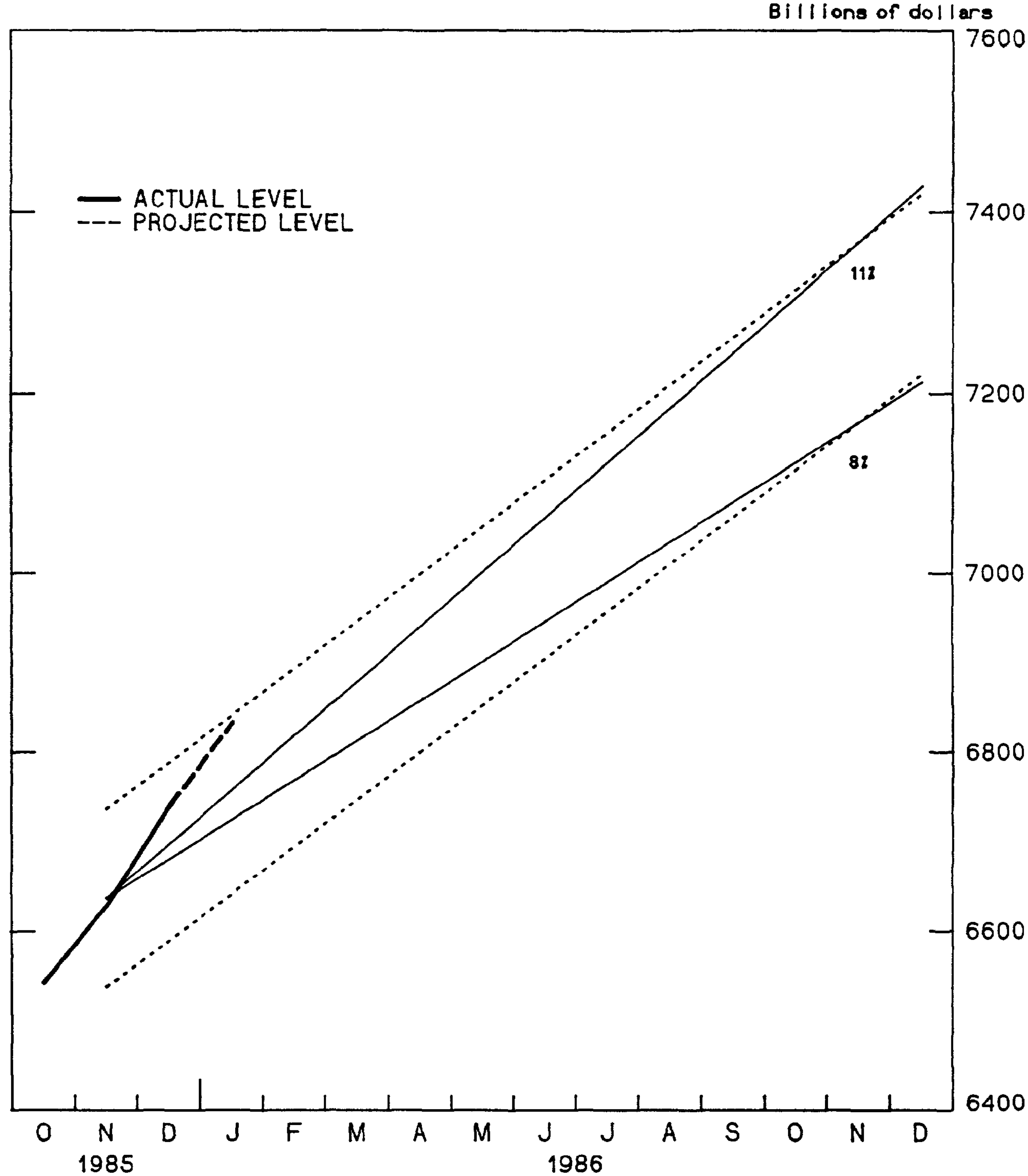


Chart 4

ACTUAL DEBT AND TENTATIVE RANGE



Growth in M1 would be expected to pick up to near a 7 percent annual rate in February and March, about the same as its December-January average. By March M1 would be a little under the upper bound of its tentative 4 to 7 percent 1986 range.

(19) A pickup in M2 growth is expected under alternative B in February and March, after its sluggish performance in January, as RP behavior ceases to be a drag and core deposits advance more in line with income. Nonetheless, M2 in March would remain somewhat below the lower bound of its tentative growth cone for 1986. Growth in M3 over the remainder of the quarter is expected to slow a bit from its January pace as bank credit expansion moderates. M3 in March would be somewhat above the lower end of its tentative range for this year.

(20) With current reserve pressures unchanged as assumed in alternative B, the 3-month Treasury bill rate would trade around 7-1/4 percent, the yield area reached following release of January's employment figures. Bond yields, too, would be likely to fluctuate around very recent levels, though still sensitive to incoming news about oil prices or the strength of economic activity. Underlying demand pressures on credit markets are expected to show little net change this quarter. A sharp drop in the growth of domestic nonfinancial debt is in train, but most of the slowing represents cessation of unusual borrowing activity late last year connected with the special situation in the tax-exempt market. The recent pace of decline in the exchange value of the dollar may not continue under alternative B, though if the dollar is fundamentally tending downward, a significant rise in the exchange rate is unlikely.

(21) Alternative A assumes a reduction in reserve pressures associated with adjustment plus seasonal borrowing at the discount window

lowered to around $150 million. Federal funds would probably trade around the present 7-1/2 percent discount rate or a little less, and expectations of a discount rate cut would probably revive. The 3-month Treasury bill rate would fall to around 6-3/4 percent or so, and long-term rates would drop. Rates on large CDs might decline by even more if concerns about bank asset quality--recently reinforced to a degree by the drop in oil prices--are relieved a little by the general decline of interest rates. Also, bank CD issuance would be more muted under this alternative by heavier inflows of core deposits and some diversion of business credit demands away from banks as long-term markets become more attractive. Additional downward pressure on the dollar would emerge, with the extent depending in part on whether the market comes to anticipate even further easing action--and particularly if key foreign countries do not lower their interest rates.

(22) Under alternative A, M1 growth would be expected to pick up to about an 8-1/2 percent annual rate over February and March, as interest rates decline. Growth from the fourth quarter to March in this aggregate would be at an annual rate of about 7-1/2 percent--somewhat above the tentative longer-run range--and the lower rates would work to sustain money growth in the ensuing months. The 7-3/4 percent growth of M2 for February and March under this alternative would be bring this aggregate to around the lower bound of its tentative range by quarter-end.

(23) The exact response of these monetary aggregates, especially M1, to the lessening of reserve pressures under alternative A is somewhat difficult to assess. There would seem to be some risk of a more pronounced upward thrust to M1 (and perhaps also M2) growth than specified as market rates decline under this alternative. A further decline of market rates could bring the spread between short-term market instruments and checkable

accounts to quite low levels depending on institutional reactions, with the potential for strong inflows as the opportunity cost of liquidity and safety becomes less practically significant.

(24) Alternative C encompasses a modest firming in reserve conditions, with discount borrowing increasing to $450 to $500 million and federal funds trading consistently somewhat above 8 percent. The tightening assumed under this alternative would come as something of a surprise to participants in foreign as well as domestic markets. Short-term rates would back up appreciably, and the exchange value of the dollar would partly reverse some of its recent decline. Long-term rates would also rise, at least in the short-run, particularly if the current Treasury refunding were not well distributed.

(25) Growth in the monetary aggregates through March under this alternative would be low relative to the short-run ranges adopted at the previous meeting. M1 would move further down in its tentative long-run range, and M2 would remain below its range. The restraint on the aggregates would probably continue to some degree into the spring, assuming the higher interest rates were sustained. Thus, this alternative might be viewed as most consistent with the long-run ranges of alternative III.

Directive language

1986 Ranges

(26) Shown below is draft directive language relating to the Committee's decisions on the longer-run ranges (draft language for the operating paragraph is shown in (27) below). Suggested deletions from the current directive are indicated in strike-through form. Proposed additions, shown in caps, refer to M1 uncertainties and the role of the aggregates in policy implementation.

> The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. ~~In furtherance of these objectives the Committee at the July meeting reaffirmed ranges for the year of 6 to 9 percent for M2 and 6 to 9-1/2 percent for M3. The associated range for total domestic nonfinancial debt was reaffirmed at 9 to 12 percent. With respect to M1, the base was moved forward to the second quarter of 1985 and a range was established at an annual growth rate of 3 to 8 percent. The range takes account of expectations of a return of velocity growth toward more usual patterns, following the sharp decline in velocity during the first half of the year, while also recognizing a higher degree of uncertainty regarding that behavior. The appropriateness of the new range will continue to be re-examined in the light of evidence with respect to economic and financial developments including developments in foreign exchange markets. More generally, the Committee agreed that growth in the aggregates may be in the upper parts of their ranges, depending on continuing~~

~~developments-with-respect-to-velocity-and-provided-that-inflationary pressures-remain-subdued~~. In furtherance of these objectives ~~for 1986~~ the Committee agreed ~~on-tentative~~ TO ESTABLISH ranges ~~of~~ FOR monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of ~~4-to-7~~ __ TO __ percent for M1, ~~6-to-9~~ ___ TO ___ percent for M2, and ~~6-to-9~~ ___ TO ___ percent for M3. The associated range for growth in total domestic nonfinancial debt was ~~provisionally~~ set at ~~8-to-11~~ ___ TO ___ percent for THE YEAR 1986. THE COMMITTEE RECOGNIZED THAT, BASED ON THE EXPERIENCE OF RECENT YEARS, M1 WAS SUBJECT TO SUBSTANTIAL UNCERTAINTIES, PARTICULARLY WITH REGARD TO THE RESPONSIVENESS OF INSTITUTIONS AND DEPOSITORS TO CHANGING MARKET AND ECONOMIC CONDITIONS, INCLUDING THE FINAL PHASE OF DEPOSIT RATE DEREGULATION. THE COMMITTEE UNDERSTOOD THAT POLICY IMPLEMENTATION WOULD REQUIRE CONTINUING APPRAISAL OF THE RELATIONSHIPS AMONG THE VARIOUS MEASURES OF MONEY AND CREDIT, THEIR VELOCITY TRENDS, AND INDICATORS OF ECONOMIC ACTIVITY AND PRICES, AS WELL AS CONDITIONS IN DOMESTIC CREDIT AND FOREIGN EXCHANGE MARKETS. ~~With respect to M1 particularly, the Committee recognized that uncertainties-surrounding-recent-behavior-of-velocity-would-require-careful reappraisal-of-the-target-range-at-the-beginning-of-1986.--Moreover, in-establishing-ranges-for-next-year,-the-Committee-also-recognized that-account-would-need-to-be-taken-of-experience-with-institutional and-depository-behavior-in-response-to-the-completion-of-deposit-rate deregulation-early-in-the-year.~~

OPERATIONAL PARAGRAPH

(27) The proposed format follows that used at the December meeting. It includes reference to the uncertainty surrounding the behavior of M1 and retains the November base since subsequent developments have not been far off expectations at that meeting. If that base is retained, the ranges adopted at the last meeting would be generally consistent with expectations of growth under alternatives A or B (although M1 and M2 would be near the bottom or in the lower half of the ranges). If the base were shifted forward to December, growth expectations for M1 consistent with the two alternatives, would be lower--5 to 6 percent.

In the implementation of policy for the immediate future, the Committee seeks to decrease somewhat (Alt. A)/MAINTAIN (Alt. B)/ INCREASE SLIGHTLY (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 November to March at annual rates of about ~~6 to 8~~ __________ percent [___ PERCENT AND ___ PERCENT, RESPECTIVELY]; while the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of ~~7 to 9~~ __________ percent over the period is anticipated. Somewhat greater reserve restraint might (WOULD), and somewhat lesser reserve restraint would (MIGHT), be acceptable depending on behavior of the aggregates, the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of ~~6-to-10~~ ___ TO ___ percent.

Appendix A

Money Stock Revisions

Measures of the money stock have been revised to incorporate annual benchmark and seasonal adjustments. This appendix discusses the revisions and presents tables comparing growth rates of the old and new series. These revisions are to be regarded as strictly confidential until their release planned for around mid-February.

Benchmark Revisions

Deposits of commercial banks and thrifts have been benchmarked through the June 1985 call reports and incorporate data revisions. In addition, RPs have been benchmarked to the new quarterly and annual RP surveys. The benchmark revisions on net had a relatively small positive impact on M1 growth over 1985 and a negligible effect on M2; M1 growth was raised by 0.3 percentage point for the second half of the year and 0.2 percentage point for the year as a whole. M3 growth over 1985 was lowered by 0.5 percentage point, reflecting primarily large revisions to term RPs at thrifts.

Seasonal Revisions

The seasonal factor review employed the same X-11 ARIMA procedures that were used last year. Although revisions to seasonal factors had little effect on the broad patterns of growth in 1985 for the monetary aggregates, some redistributions of growth occurred between the first and second halves. On a quarterly average basis, the seasonal factor revisions raised M1 growth--by about 0.3 percentage point--in the second half of last year, while lowering that for M2 and M3.

Table A-1

COMPARISON OF REVISED AND OLD M1 GROWTH RATES
(percent changes at annual rates)

	Revised M1 (1)	Old M1 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1984--Oct.	-2.4	-7.0	4.6	0.3	4.3
Nov.	10.0	12.0	-2.0	0.2	-2.2
Dec.	9.3	10.2	-0.9	0.2	-1.1
1985--Jan.	9.5	9.0	0.5	0.0	0.5
Feb.	13.6	14.3	-0.7	0.0	-0.7
Mar.	5.9	5.7	0.2	0.0	0.2
Apr.	7.3	5.9	1.4	0.0	1.4
May	14.4	14.0	0.4	0.4	0.0
June	17.3	19.8	-2.5	0.4	-2.9
July	10.8	9.3	1.5	0.0	1.5
Aug.	17.1	20.3	-3.2	-0.2	-3.0
Sept.	13.3	11.9	1.4	0.0	1.4
Oct.	5.1	-1.6	6.7	1.4	5.3
Nov.	11.3	13.4	-2.1	0.3	-2.4
Dec.	12.4	13.2	-0.8	0.6	-1.4
1986--Jan.p	1.3	3.1	-1.8	-1.8	0.0
Quarterly					
1984--QIV	4.5	3.2	1.3	0.4	0.9
1985--QI	10.1	10.5	-0.4	0.1	-0.5
QII	10.5	10.2	0.3	0.1	0.2
QIII	14.5	15.1	-0.6	0.1	-0.7
QIV	10.5	8.8	1.7	0.6	1.1
Semi-Annual					
1985--QIV '84 to QII '85	10.4	10.5	-0.1	0.1	-0.2
QII '85 to QIV '85	12.7	12.1	0.6	0.3	0.3
Annual (QIV to QIV)					
1984	5.4	5.2	0.2	0.2	0.0
1985	11.9	11.6	0.3	0.2	0.1

p--preliminary estimate

Table A-2

COMPARISON OF REVISED AND OLD M2 GROWTH RATES
(percent changes at annual rates)

	Revised M2 (1)	Old M2 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1984--Oct.	7.1	5.7	1.4	0.0	1.4
Nov.	12.8	14.0	-1.2	-0.4	-0.8
Dec.	13.0	13.0	0.0	0.6	-0.6
1985--Jan.	13.1	13.8	-0.7	-0.5	-0.2
Feb.	11.0	11.1	-0.1	-1.2	1.1
Mar.	3.7	4.3	-0.6	0.1	-0.7
Apr.	2.5	-0.9	3.4	1.2	2.2
May	8.6	8.5	0.1	-0.2	0.3
June	13.3	13.7	-0.4	0.5	-0.9
July	8.2	8.6	-0.4	0.1	-0.5
Aug.	9.2	11.3	-2.1	-0.4	-1.7
Sept.	6.7	7.1	-0.4	0.0	-0.4
Oct.	4.2	2.0	2.2	0.2	2.0
Nov.	5.5	6.6	-1.1	-0.3	-0.8
Dec.	6.8	7.8	-1.0	-0.2	-0.8
1986--Jan.p	1.7	1.5	0.2	0.3	-0.1
Quarterly					
1984--QIV	9.7	9.1	0.6	0.6	0.0
1985--QI	11.7	12.1	-0.4	-0.4	0.0
QII	6.3	5.3	1.0	0.3	0.7
QIII	9.5	10.2	-0.7	0.0	-0.7
QIV	5.9	5.9	0.0	-0.1	0.1
Semi-Annual					
1985--QIV '84 to QII '85	9.1	8.8	0.3	0.0	0.3
QII '85 to QIV '85	7.8	8.1	-0.3	0.0	-0.3
Annual (QIV to QIV)					
1984	8.0	7.7	0.3	0.2	0.1
1985	8.6	8.6	0.0	0.0	0.0

p--preliminary estimate

Table A-3

COMPARISON OF REVISED AND OLD M3 GROWTH RATES
(percent changes at annual rates)

	Revised M3 (1)	Old M3 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1984--Oct.	10.3	10.0	0.3	-0.6	0.9
Nov.	12.1	14.3	-2.2	-2.1	-0.1
Dec.	12.5	14.2	-1.7	-1.2	-0.5
1985--Jan.	10.7	10.2	0.5	0.0	0.5
Feb.	8.1	8.1	0.0	-1.5	1.5
Mar.	5.1	5.9	-0.8	-1.0	0.2
Apr.	2.2	0.4	1.8	0.1	1.7
May	7.1	7.9	-0.8	0.1	-0.9
June	11.1	10.8	0.3	0.8	-0.5
July	5.8	4.9	0.9	0.2	0.7
Aug.	6.7	9.8	-3.1	-0.9	-2.2
Sept.	7.5	9.9	-2.4	-0.7	-1.7
Oct.	4.8	3.7	1.1	0.0	1.1
Nov.	4.7	5.9	-1.2	-1.1	-0.1
Dec.	5.8	7.2	-1.4	-0.8	-0.6
1986--Jan.	7.8	6.8	1.0	0.6	0.4
Quarterly					
1984--QIV	10.5	11.0	-0.5	-0.2	-0.3
1985--QI	10.1	10.7	-0.6	-1.0	0.4
QII	5.6	5.3	0.3	-0.3	0.6
QIII	7.6	8.2	-0.6	0.0	-0.6
QIV	5.7	6.7	-1.0	-0.6	-0.4
Semi-Annual					
1985--QIV '84 to QII '85	7.9	8.1	-0.2	-0.7	0.5
QII '85 to QIV '85	6.7	7.5	-0.8	-0.3	-0.5
Annual (QIV to QIV)					
1984	10.5	10.4	0.1	0.0	0.1
1985	7.4	7.9	-0.5	-0.5	0.0

p--preliminary estimate

Appendix B

Foreign Money Growth Targets

Several foreign industrial countries have announced targets for growth of monetary aggregates during 1986 that are not far different from the targets or actual experience of 1985, as shown in the table on the next page. Switzerland is the only country shown (abstracting from a definitional change in France) that has lowered its target growth rate from that adopted for last year. In France, however, achievement of the new target would entail a deceleration from experience in 1985 as so far reported.

Growth of the foreign targeted monetary aggregates was generally moderate last year. The major exception was growth in the United Kingdom of £M3, which has been rapid during the past ten months, apparently as a result of financial innovation and regulatory change.

In <u>Germany</u>, central bank money (CBM) accelerated in the second half of 1985. As a result, growth of that aggregate over the target interval was in the upper half of its 1985 3-5 percent target range. The 1986 target has been set at 3.5-5.5 percent growth in CBM. Bundesbank officials have described this range as allowing CBM to continue at approximately its rate of growth during the second half of 1985.

In <u>France</u>, the introduction of new deposit forms and related financial innovation has led authorities to redefine the monetary aggregates as of the beginning of this year. The 1986 target calls for 3-5 percent growth of the newly redefined M3 and has been characterized by French authorities as effectively unchanged from last year's target. The 1985 target called for M2R growth of 4-6 percent. Through September money was growing at a rate somewhat above this range.

RECENT FOREIGN MONEY-GROWTH TARGETS
(percent)

Country	Current Target			Previous Target			
	Aggregate	Range	Interval	Aggregate	Range	Interval	Outcome
France	M3 (redefined)	3-5	1986Q4 / 1985Q4	M2R	4-6	Aver Nov, Dec '85+Jan '86 / Aver Nov, Dec '84+Jan '85	7.7 (Sept)
Germany	Central Bank Money	3.5-5.5	1986Q4 / 1985Q4	Central Bank Money	3-5	1985Q4 / 1984Q4	4.5 (Q4)
Japan*	M2+CDs	9	1986Q1 / 1985Q1	M2+CDs	8-8.9	1985Q4 / 1984Q4	8.9 (Nov)
Switzer-land	Adjusted Central Bank Money	2	1986 / 1985	Adjusted Central Bank Money	3	1985 / 1984	2.3 (Nov)
United Kingdom	MO	3-7	**				4.7 (Jan)
	£M3(suspended)	5-9	**				14.3 (Jan)

Definitions of Foreign Targeted Aggregates:

France: M3 (newly redefined) -- currency plus all deposits at banks in France plus deposits at the Post Office, Treasury, Bank of France and Special Savings Institutions plus all non-negotiable short-term financial instruments plus short-term bond mutual funds.
M2R -- currency plus deposits at banks in France plus deposits at the Post Office, Treasury, and Bank of France held by residents.

Germany: central bank money -- currency plus reserves against banks' monetary liabilities when computed at 1974 reserve ratios.

Japan: M2+CDs -- currency plus deposits at banks in Japan and installment accounts at mutual loan and savings banks.

Switzerland: adjusted central bank money -- currency plus deposits of banks, commercial and industrial firms at the Swiss National Bank (SNB) less deposits borrowed from the SNB for short-term end-of-period window dressing.

United Kingdom: MO -- currency plus banks' Operational Deposits at the Bank of England.
£M3 -- currency plus all sterling deposits held by residents at banks in the United Kingdom less public sector deposits.

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* Forecast growth of M2; targets are not set.

** In May 1985 U.K. officials changed the interpretation to be placed on the current target to refer to the percentage change over the preceding 12 months for each month's observation until the new target is announced. Previously target ranges were set for annual growth of the aggregates from February each year.

Swiss adjusted central bank money averaged 2.3 percent growth through November, slightly below the 3 percent target set for 1985. The target of 2 percent growth for this year is intended to be consistent with reduction of the rate of inflation below the 1985 rate of 3 percent.

In the United Kingdom rapid growth of the broad money aggregates has continued since the spring of 1985, in part as a result of financial innovation and regulatory change. In January, £M3 was 14.3 percent above its year-earlier level. In response to the sustained rapid growth of this aggregate and the perception of structural change as a major explanatory factor, officials effectively suspended the target for £M3 growth set in the March budget announcement. The target range for growth of monetary base, M0, was consistently met through 1985; and in January that aggregate was near the middle of its 3-7 percent growth range. The upcoming budget announcement in March is expected to include new target ranges for money growth in 1986.

Targets for money growth are not set in Japan. The Bank of Japan does forecast growth of M2+CDs each quarter from the same quarter one year earlier. Over the year ending in the fourth quarter of last year growth of that aggregate rose to an estimated 8.9 percent from the 8 percent rate of preceding four-quarter intervals, as firms adjusted portfolios and increased borrowing from banks in anticipation of higher interest rates by the end of the year. The forecast for growth over the four quarters ending in the first quarter of this year is 9 percent.

The setting of a target for M1 growth in Canada was ended in late 1982 as financial innovation within the banking system was perceived to have greatly reduced the usefulness of that aggregate as an indicator for monetary policy. In 1985 the Canadian narrow monetary aggregates grew rapidly, as adjustment to innovation appeared to continue. The Bank of Italy sets rates of desired growth for several monetary aggregates ranging from the narrow monetary base to the broad aggregate total domestic credit. Data through August revealed that money growth was generally exceeding the targets set for 1985, and their targets were revised upwards in consequence so as to allow for somewhat more growth for the year as a whole than originally planned, but still implying slowing of money growth during the remainder of 1985.

Selected Interest Rates

Percent

February 10, 1986

Period	Short-term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	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-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
1984--High	11.77	10.65	10.76	11.09	11.71	11.35	10.72	13.00	13.44	13.84	13.81	15.30	11.44	15.37	14.68	12.31
Low	7.95	7.71	8.01	8.39	8.24	8.04	8.38	11.00	10.39	11.30	11.36	12.70	9.86	12.87	13.14	10.81
1985--High	8.98	8.65	9.03	9.21	9.13	8.83	8.31	10.75	11.19	11.95	11.89	13.23	10.31	13.57	13.29	11.14
Low	7.13	6.77	6.92	7.06	7.34	7.22	7.00	9.50	8.24	9.07	9.34	10.62	8.85	10.52	11.09	9.17
1984--Dec.	8.38	8.06	8.28	8.60	8.60	8.39	8.55	11.06	10.56	11.50	11.52	12.88	10.40	13.06	13.18	11.01
1985--Jan.	8.35	7.76	8.00	8.33	8.14	7.99	8.00	10.61	10.43	11.38	11.45	12.78	9.96	13.03	13.08	10.84
Feb.	8.50	8.27	8.39	8.56	8.69	8.46	7.80	10.50	10.55	11.51	11.47	12.76	10.07	13.05	12.92	10.63
Mar.	8.58	8.52	8.90	9.06	9.02	8.74	7.97	10.50	11.05	11.86	11.81	13.17	10.23	13.48	13.17	10.90
Apr.	8.27	7.95	8.23	8.44	8.49	8.31	7.97	10.50	10.49	11.43	11.47	12.75	9.85	13.07	13.20	10.83
May	7.97	7.48	7.65	7.85	7.92	7.80	7.71	10.31	9.75	10.85	11.05	12.25	9.46	12.65	12.91	10.55
June	7.53	6.95	7.09	7.27	7.44	7.34	7.21	9.78	9.05	10.16	10.45	11.60	9.18	11.88	12.22	9.89
July	7.88	7.08	7.20	7.31	7.64	7.58	7.03	9.50	9.18	10.31	10.50	11.64	9.20	11.94	12.03	9.68
Aug.	7.90	7.14	7.32	7.48	7.81	7.73	7.08	9.50	9.31	10.33	10.56	11.76	9.44	12.04	12.19	9.52
Sept.	7.92	7.10	7.27	7.51	7.93	7.83	7.10	9.50	9.37	10.37	10.61	11.87	9.61	12.11	12.19	9.52
Oct.	7.99	7.16	7.33	7.45	7.88	7.81	7.15	9.50	9.25	10.24	10.50	11.82	9.54	11.97	12.14	9.50
Nov.	8.05	7.24	7.30	7.33	7.81	7.84	7.21	9.50	8.88	9.78	10.06	11.35	9.22	11.51	11.78	9.38
Dec.	8.28	7.10	7.14	7.16	7.80	7.87	7.23r	9.50	8.40	9.26	9.54	10.93	8.96	10.83	11.26	9.19
1986--Jan.	8.14	7.07	7.17	7.21	7.82	7.78	7.17p	9.50	8.41	9.19	9.40	10.74	8.50	10.79	10.88	9.01
1985--Nov. 6	8.30	7.22	7.31	7.37	7.78	7.84	7.20	9.50	9.03	9.97	10.22	11.42	9.36	11.62	11.90	9.40
13	7.95	7.26	7.29	7.32	7.77	7.84	7.19	9.50	8.92	9.82	10.10	11.42	9.25	11.57	11.79	9.37
20	8.13	7.27	7.32	7.33	7.84	7.84	7.26	9.50	8.87	9.79	10.07	11.30	9.08	11.27	11.64	9.36
27	7.71	7.21	7.29	7.32	7.84	7.81	7.21	9.50	8.76	9.65	9.95	11.25	9.20	11.37	11.58	9.38
Dec. 4	8.49	7.22	7.30	7.34	7.92	7.92	7.22	9.50	8.74	9.65	9.90	11.27	9.14	11.32	11.50	9.13
11	8.03	7.19	7.24	7.25	7.90	7.91	7.25	9.50	8.58	9.46	9.75	10.95	8.96	10.77	11.31	9.31
18	8.05	7.04	7.03	7.06	7.66	7.78	7.25	9.50	8.27	9.16	9.46	10.68	8.90	10.72	11.14	9.17
25	8.02	7.07	7.09	7.10	7.76	7.83	7.21	9.50	8.24	9.07	9.34	10.62	8.85	10.52	11.09	9.17
1986--Jan. 1	9.55	6.99	7.05	7.08	7.77	7.91	7.22	9.50	8.23	9.01	9.28	10.59	8.72	10.52	10.81	9.04
8	8.20	7.09	7.13	7.14	7.76	7.78	7.21	9.50	8.27	9.05	9.29	10.83	8.51	10.82	10.75	9.02
15	7.94	7.21	7.30	7.35	7.94	7.83	7.09	9.50	8.60	9.38	9.52	10.75	8.54	10.97	10.99	9.09
22	7.87	7.05	7.18	7.25	7.84	7.80	7.16	9.50	8.46	9.26	9.42	10.82	8.46	10.87	10.97	8.93
29	7.83	6.97	7.09	7.14	7.80	7.73	7.15	9.50	8.36	9.15	9.38	10.67	8.29	10.75	10.89	8.97
Feb. 5	7.97	7.00	7.06	7.08	7.72	7.70	7.15	9.50	8.21	9.03	9.30	10.58	8.24	10.67	10.85	8.98
Daily--Jan. 31	8.09	6.97	7.05	7.07	7.75	7.74	--	9.50	8.25	9.08	9.34	--	--	--	--	--
Feb. 6	7.73	7.10	7.13	7.12	7.70	7.65	--	9.50	8.22	9.03	9.25	--	--	--	--	--
7	7.72p	7.21	7.26	7.27	7.83	7.75	--	9.50	8.33p	9.12p	9.29p	--	--	--	--	--

NOTE: Weekly data for columns 1 through 11 are statement week averages. Data in column 7 are taken from Donoghue's Money Fund Report. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 13 is the *Bond Buyer* revenue index. Column 14 is the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments on the Friday following the end of the statement week. Column 15 is the average contract rate on new commitments for fixed-rate mortgages (FRMs) with 80 percent loan-to-value ratios at a sample of savings and loans. Column 16 is the average initial contract rate on new commitments for one-year, adjustable-rate mortgages (ARMs) at S&Ls offering both FRMs and ARMs with the same number of discount points.

Money and Credit Aggregate Measures

Seasonally adjusted

Strictly Confidential (FR)—
Class II FOMC
FEB. 10, 1986

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	L	total loans and investments[1]	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)										
1983	10.4	12.2	12.8	1.0	9.9	10.4	10.6	21.5	8.5	11.2
1984	5.4	8.0	8.8	21.2	10.5	11.9	10.8	15.9	13.6	14.1
1985	11.9	8.6	7.6	3.0	7.4		9.9	15.1	12.9	13.4
QUARTERLY AVERAGE										
1ST QTR. 1985	10.1	11.7	12.1	4.2	10.1	9.6	10.0	15.2	13.0	13.5
2ND QTR. 1985	10.5	6.3	5.0	2.8	5.6	6.0	9.7	12.3	11.8	11.9
3RD QTR. 1985	14.5	9.5	7.9	-0.1	7.6	7.9	9.6	14.6	11.5	12.2
4TH QTR. 1985	10.5	5.9	4.4	5.0	5.7		8.8	15.3	12.9	13.4
MONTHLY										
1985--JAN.	9.5	13.1	14.3	1.4	10.7	8.6	6.6	15.4	12.7	13.3
FEB.	13.6	11.0	10.2	-3.3	8.1	10.5	12.9	12.6	10.7	11.1
MAR.	6.1	3.7	3.0	10.4	5.1	8.0	11.6	8.5	11.8	11.0
APR.	7.1	2.5	1.0	1.0	2.2	2.0	4.9	11.8	12.2	12.1
MAY	14.4	8.6	7.0	1.0	7.1	6.0	13.4	15.4	11.3	12.3
JUNE	17.3	13.3	11.9	2.5	11.1	9.4	9.5	14.1	11.4	12.0
JULY	10.8	8.2	7.4	-3.9	5.8	6.1	10.9	16.6	11.2	12.4
AUG.	17.1	9.2	6.7	-3.1	6.7	9.0	6.5	14.3	11.3	12.0
SEPT.	13.3	6.7	4.6	10.7	7.5	9.4	8.2	7.6	12.2	11.1
OCT.	5.1	4.2	3.8	7.5	4.8	6.1	.2.0	8.8	12.5	11.6
NOV.	11.3	5.5	3.7	1.2	4.7	11.0	16.4	25.0	12.5	15.4
DEC.	12.4	6.8	4.9	1.7	5.8		16.6	29.5	16.5	19.5
1986--JAN. PE	1	2	2	33	8		15			
MONTHLY LEVELS ($BILLIONS)										
1985--AUG.	604.7	2515.1	1910.4	615.9	3131.0	3711.6	1828.8	1496.1	4923.6	6419.7
SEPT.	611.4	2529.1	1917.8	621.4	3150.6	3740.8	1841.3	1505.6	4973.6	6479.2
OCT.	614.0	2537.9	1923.8	625.3	3163.2	3759.8	1844.4	1516.6	5025.5	6542.1
NOV.	619.8	2549.6	1929.8	625.9	3175.5	3794.2	1869.6	1548.2	5077.7	6626.0
DEC.	626.2	2564.0	1937.7	626.8	3190.8		1895.5	1586.3	5147.5	6733.8

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.

PE-PRELIMINARY ESTIMATE

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

FEB. 10, 1986

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA	MMDAs NSA	Savings deposits	Small denomination time deposits[1]	Money market mutual funds, NSA: general purpose, and broker/dealer[2]	Money market mutual funds, NSA: Institutions only	Large denomination time deposits[3]	Term RPs NSA	Term Eurodollars NSA	Savings bonds	Short-term Treasury securities	Commercial paper	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
ANNUALLY (4TH QTR):																
1983	147.2	243.4	130.2	53.6	376.2	309.7	775.0	138.2	43.2	325.2	48.0	89.3	70.9	211.1	127.5	44.0
1984	157.8	247.1	144.2	56.0	405.1	291.0	881.8	161.7	57.7	409.8	65.8	81.9	74.0	268.6	158.7	44.2
1985	169.7	268.3	176.2	65.9	508.6	303.2	877.5	176.4	64.1	432.8	58.5	78.1				
MONTHLY																
1984-DEC.	158.5	248.4	146.3	56.2	417.0	289.7	887.5	167.5	62.7	413.9	62.4	83.2	74.3	266.0	161.8	43.6
1985-JAN.	159.6	249.0	149.0	60.3	435.7	289.4	887.4	171.9	65.0	415.6	58.9	81.1	74.5	266.7	159.6	43.3
FEB.	160.7	251.2	152.2	64.6	450.5	289.9	885.2	175.1	62.2	416.9	58.5	81.3	74.9	270.4	164.8	45.0
MAR.	161.3	251.3	154.1	63.4	460.2	289.7	885.0	177.6	59.5	421.0	58.6	84.7	75.3	274.8	169.8	46.3
APR.	161.9	251.8	156.5	57.8	462.5	289.0	887.6	176.2	59.6	425.9	59.7	81.0	75.7	276.0	168.9	45.9
MAY	163.2	255.4	158.4	61.3	466.4	290.8	889.5	172.2	63.5	425.0	57.5	81.8	76.1	277.4	168.6	44.5
JUNE	164.4	258.9	161.8	60.8	478.1	293.6	890.3	175.4	67.1	422.7	56.9	79.9	76.5	282.6	164.7	42.8
JULY	165.3	260.3	164.8	60.7	487.2	296.7	888.0	175.8	65.0	418.3	55.4	79.4	76.7	280.3	171.1	42.2
AUG.	166.9	263.0	169.0	63.4	495.2	299.7	880.9	176.8	63.6	421.0	56.8	80.2	77.2	279.2	182.0	42.2
SEPT.	167.7	266.3	171.5	63.8	499.8	300.3	878.3	176.7	62.3	425.7	58.0	80.0	78.0	283.2	186.6	42.5
OCT.	168.7	265.9	173.6	64.2	504.2	302.3	875.8	177.0	63.3	429.7	57.7	78.9	78.5	282.6	191.7	43.9
NOV.	169.8	267.6	176.6	65.0	509.6	303.7	876.2	176.5	64.5	432.7	58.8	79.0	79.0	299.8	196.8	43.1
DEC.	170.6	271.4	178.4	68.5	512.1	303.5	880.6	175.8	64.5	436.1	59.1	76.4				

1/ INCLUDES RETAIL REPURCHASE AGREEMENTS. ALL IRA AND KEOGH ACCOUNTS AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS ARE SUBTRACTED FROM SMALL TIME DEPOSITS.
2/ EXCLUDES IRA AND KEOGH ACCOUNTS.
3/ NET OF LARGE DENOMINATION TIME DEPOSITS HELD BY MONEY MARKET MUTUAL FUNDS AND THRIFT INSTITUTIONS.
P-PRELIMINARY

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

February 10, 1986

Period	Treasury bills net change[2]	Treasury coupons net purchases[3]					Federal agencies net purchases[4]					Net change outright holdings total[5]	Net RPs[6]
		within 1-year	1-5	5-10	over 10	total	within 1-year	1-5	5-10	over 10	total		
1980	-3,052	912	2,138	703	811	4,564	217	398	29	24	668	2,035	2,462
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1982	5,698	312	1,794	388	307	2,803	--	--	--	--	--	8,312	1,461
1983	13,068	484	1,896	890	383	3,653	--	--	--	--	--	16,342	-5,445
1984	3,779	826	1,938	236	441	3,440	--	--	--	--	--	6,964	1,450
1985	14,596	1,349	2,185	358	293	4,185	--	--	--	--	--	18,619	3,001
1985--QTR. I	-2,044	961	465	-100	--	1,326	--	--	--	--	--	-735	462
II	7,183	245	846	108	96	1,295	--	--	--	--	--	8,409	-350
III	4,027	--	6	6	--	12	--	--	--	--	--	3,962	-3,446
IV	5,431	143	868	345	197	1,552	--	--	--	--	--	6,983	6,336
1985--Aug.	3,056	--	6	6	--	12	--	--	--	--	--	3,038	-53
Sept.	1,171	--	--	--	--	--	--	--	--	--	--	1,171	-1,578
Oct.	-265	--	--	--	--	--	--	--	--	--	--	-265	-732
Nov.	1,180	--	--	--	--	--	--	--	--	--	--	1,180	-718
Dec.	4,515	143	868	345	197	1552	--	--	--	--	--	6,068	7,785
1986--Jan.	61	--	--	--	--	--	--	--	--	--	--	61	3,466
1985--Oct. 2	6	--	--	--	--	--	--	--	--	--	--	6	-5,445
9	--	--	--	--	--	--	--	--	--	--	--	--	1,970
16	--	--	--	--	--	--	--	--	--	--	--	--	-1,563
23	--	--	--	--	--	--	--	--	--	--	--	--	1,977
30	-265	--	--	--	--	--	--	--	--	--	--	-265	-10,048
Nov. 6	535	--	--	--	--	--	--	--	--	--	--	535	9,939
13	551	--	--	--	--	--	--	--	--	--	--	551	-646
20	--	--	--	--	--	--	--	--	--	--	--	--	-8,688
27	68	--	--	--	--	--	--	--	--	--	--	68	4,227
Dec. 4	3,699	--	--	--	--	--	--	--	--	--	--	3,699	12,098
11	442	143	868	345	197	1,552	--	--	--	--	--	1,995	-6,194
18	170	--	--	--	--	--	--	--	--	--	--	170	607
25	15	--	--	--	--	--	--	--	--	--	--	15	-2,548
1986--Jan. 1	216	--	--	--	--	--	--	--	--	--	--	216	5,075
8	--	--	--	--	--	--	--	--	--	--	--	--	-4,999
15	134	--	--	--	--	--	--	--	--	--	--	134	3,037
22	152	--	--	--	--	--	--	--	--	--	--	152	4,896
29	--	--	--	--	--	--	--	--	--	--	--	--	-4,768
Feb. 5	940	--	--	--	--	--	--	--	--	--	--	-940	-7,440
LEVEL--Feb. 5	80.7	20.3	35.5	14.8	21.8	92.4	2.7	3.9	1.2	.4	8.2	189.4	-8.1

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 (+).