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May 16, 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

May 16, 1986

MONETARY POLICY ALTERNATIVES

Recent developments

(1) M1 grew 14-1/2 percent at an annual rate in April, continuing at around its rapid March pace, and data for the first part of May indicate further strong expansion. This growth, which substantially exceeded the the Committee's 7-to-8 percent March-to-June range, left M1 in April well above the upper end of its long-term range. M2 and M3 expanded in April at 13-3/4 and 10-1/2 percent rates, respectively, outpacing their 7 percent short-run paths. Even so, M2 in April moved only into the lower part of its long-run target cone, while M3 rose slightly above the middle of its long-run range. Data for early May suggest some slowing in growth of the broader aggregates from their pace in April, though expansion of M2 seems to be still relatively strong.

(2) The continued decline in interest rates during the spring appears to account for much of the recent strengthening in M1 and M2. This is especially true of their liquid retail components, whose offering rates in typical fashion have fallen less rapidly than market rates.[1] In April, inflows to OCDs, MMDAs, savings accounts and the money market funds in M2 all spurted to new highs for the year, while small time deposits, whose own yields have adjusted downward more rapidly, were about flat. In addition, demand deposits registered unusually sizable increases through early May. Exceptionally heavy personal tax refunds in April and early May also may

1. Reports suggest that only a small proportion of institutions have raised offering yields on savings accounts since the April 1 deregulation, and a smattering of institutions have lowered their rates paid on these accounts.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	March	April	QIV'85 to April
Money and credit aggregates			
M1	13.9	14.5	10.0
M2	6.8	13.7	6.5
M3	6.8	10.6	7.9
Domestic nonfinancial debt	9.0	9.8 e	13.6 e
Bank credit	9.5	2.0 p	7.8 p
Reserve measures			
Nonborrowed reserves[1]	16.8	10.2	16.2
Total reserves	12.8	10.5	12.7
Monetary base	8.0	6.0	8.0
Memo: (Millions of dollars)			
Adjustment and seasonal borrowing	243	258	--
Excess reserves	897	801	--

e -- estimated
p -- preliminary

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months. Data incorporate adjustments for discontinuities associated with implementation of the Monetary Control Act and other regulatory changes to reserve requirements and also reflect recently published revisions of seasonal factors for reserves.

1. Includes "other extended credit" from the Federal Reserve.

have added a little to growth in M1 and M2. In M3, expansion of institution-only money funds was quite strong, also reflecting lags in yield adjustments, but with bank credit growth weak, banks ran off large CDs in April.

(3) The expansion of total debt of domestic nonfinancial sectors is estimated to have picked up a bit in April from the 9 percent pace of March. Gross bond issuance by nonfinancial corporations in April again was at a record pace, with much of the proceeds used to pay down short-term debt and to retire outstanding higher-coupon bond issues; equity retirements, though continuing, appear to be slowing. Partial data suggest a step-up in net mortgage lending so far in the second quarter as well as very heavy refinancing activity; consumer credit flows at banks slowed further in April, but lending at auto finance companies may have increased in association with stronger sales and renewed rate concessions. Issuance of tax-exempt bonds, which had been extremely light earlier in the year, surged in April after some of the uncertainties of potential tax-law changes were alleviated. Marketable borrowing by the Treasury has remained substantial, even as sales of special issues to state and local governments engaging in advanced refundings have increased, resulting in an especially sizable build-up in the Treasury's cash balance.

(4) Both total and nonborrowed reserves expanded at a little more than a 10 percent annual rate in April. Throughout the intermeeting period, the nonborrowed reserve path was constructed on the assumption of $300 million of adjustment plus seasonal borrowing. In the three complete reserve maintenance periods since the last meeting, borrowing has averaged $277 million. Borrowing was exceptionally light in the days immediately preceding the cut in the discount rate from 7 to 6-1/2 percent in mid April, but has averaged a little more than $300 million since then.

(5) Federal funds generally have traded in a 6-3/4 to 7 percent range since just prior to the discount rate action, down half a point over the intermeeting period. Most other short-term market rates have shown smaller net declines, while longer-term market rates are somewhat higher on balance since the last FOMC meeting. Interest rates generally moved lower early in the intermeeting period, but subsequently reversed direction as oil prices turned up, the money supply strengthened further, and the dollar depreciated substantially--raising concerns about the strength of foreign demands for dollar assets and the scope for further easing in monetary policy. Most stock price indexes reached new record highs in April, but have since retreated.

(6) Although firming a bit in the last week, the dollar has declined on balance since the last FOMC meeting, dropping by about 4-1/4 percent on a weighted average basis, including decreases of 6-1/2 percent against the yen and 5-1/2 percent against the mark. Downward pressure on the dollar arose from market perceptions that further declines would be needed over time to bring about better balance in U.S. international transactions--particularly in the absence of substantially more stimulative policies abroad--at a time when many U.S. officials were seen to be little concerned about the dollar's weakness. The more recent firming has been associated with the back-up in interest rates in the U.S. and some change in the tone of statements by U.S. officials.

Policy alternatives

(7) All of the alternatives shown in the table below specify faster growth in each of the monetary aggregates over March to June than the paths selected by the Committee at the April meeting. A slowing in money growth over the balance of the quarter is embodied in all these alternatives, but given the substantial expansion in April and early May, achieving the Committee's existing specifications for the 3-month period would require some contraction in M1 and M2. None of the alternatives presented below assumes the extreme tightening in reserve conditions that might be associated with an attempt to achieve such an outcome. Alternative B assumes maintenance of about current pressures on reserve positions, while alternative A and alternative C contemplate a moderate easing and tightening of reserve pressures, respectively. As shown in the more detailed data on the table and charts on the following pages, under all the alternatives M1 in June would be expected to be considerably above the upper end of its parallel band, but M2 would stay in the lower portion and M3 around the middle of their respective cones.

	Alt. A	Alt. B	Alt. C
Growth from March to June			
M1	13-3/4	13	12-1/4
M2	10-1/2	10	9-1/2
M3	8-3/4	8-1/2	8-1/4
Associated federal funds rate range [1]	4 to 8	5 to 9	6 to 10

1. The funds rate range of 5 to 9 percent suggested for alternative B--one percentage point lower than the range now in the directive--is about centered on the area of federal funds trading that has prevailed under existing reserve conditions since the discount rate was cut to 6-1/2 percent.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M1			M2			M3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in billions									
1986-January	627.2	627.2	627.2	2569.1	2569.1	2569.1	3224.1	3224.1	3224.1
February	631.1	631.1	631.1	2576.9	2576.9	2576.9	3240.6	3240.6	3240.6
March	638.4	638.4	638.4	2591.4	2591.4	2591.4	3259.0	3259.0	3259.0
April	646.1	646.1	646.1	2621.0	2621.0	2621.0	3287.8	3287.8	3287.8
May	655.6	655.4	655.2	2642.6	2642.2	2641.8	3309.1	3308.8	3308.5
June	660.4	659.3	658.1	2659.2	2656.2	2653.1	3329.5	3327.5	3325.5
Monthly Growth Rates									
1986-January	1.1	1.1	1.1	1.6	1.6	1.6	8.9	8.9	8.9
February	7.5	7.5	7.5	3.6	3.6	3.6	6.1	6.1	6.1
March	13.9	13.9	13.9	6.8	6.8	6.8	6.8	6.8	6.8
April	14.5	14.5	14.5	13.7	13.7	13.7	10.6	10.6	10.6
May	17.6	17.3	16.9	9.9	9.7	9.5	7.8	7.7	7.6
June	8.8	7.1	5.3	7.5	6.4	5.1	7.4	6.8	6.2
Quarterly Ave. Growth Rates									
1985-Q2	10.5	10.5	10.5	6.3	6.3	6.3	5.5	5.5	5.5
Q3	14.5	14.5	14.5	9.5	9.5	9.5	7.7	7.7	7.7
Q4	10.7	10.7	10.7	6.0	6.0	6.0	6.4	6.4	6.4
1986-Q1	7.7	7.7	7.7	4.3	4.3	4.3	7.4	7.4	7.4
Q2	13.8	13.5	13.2	9.6	9.4	9.2	8.3	8.2	8.2
Mar. 86 to June 86	13.8	13.1	12.3	10.5	10.0	9.5	8.7	8.4	8.2
Apr. 86 to June 86	13.3	12.3	11.1	8.7	8.1	7.3	7.6	7.2	6.9
Q4 84 to Q4 85	11.9	11.9	11.9	8.6	8.6	8.6	7.7	7.7	7.7
Q4 85 to Apr. 86	10.0	10.0	10.0	6.5	6.5	6.5	7.9	7.9	7.9
Q4 85 to June 86	11.1	10.8	10.4	7.2	7.0	6.8	7.9	7.8	7.7
1986 Target Ranges:		3 to 8			6 to 9			6 to 9	

Chart 1

ACTUAL AND TARGETED M1

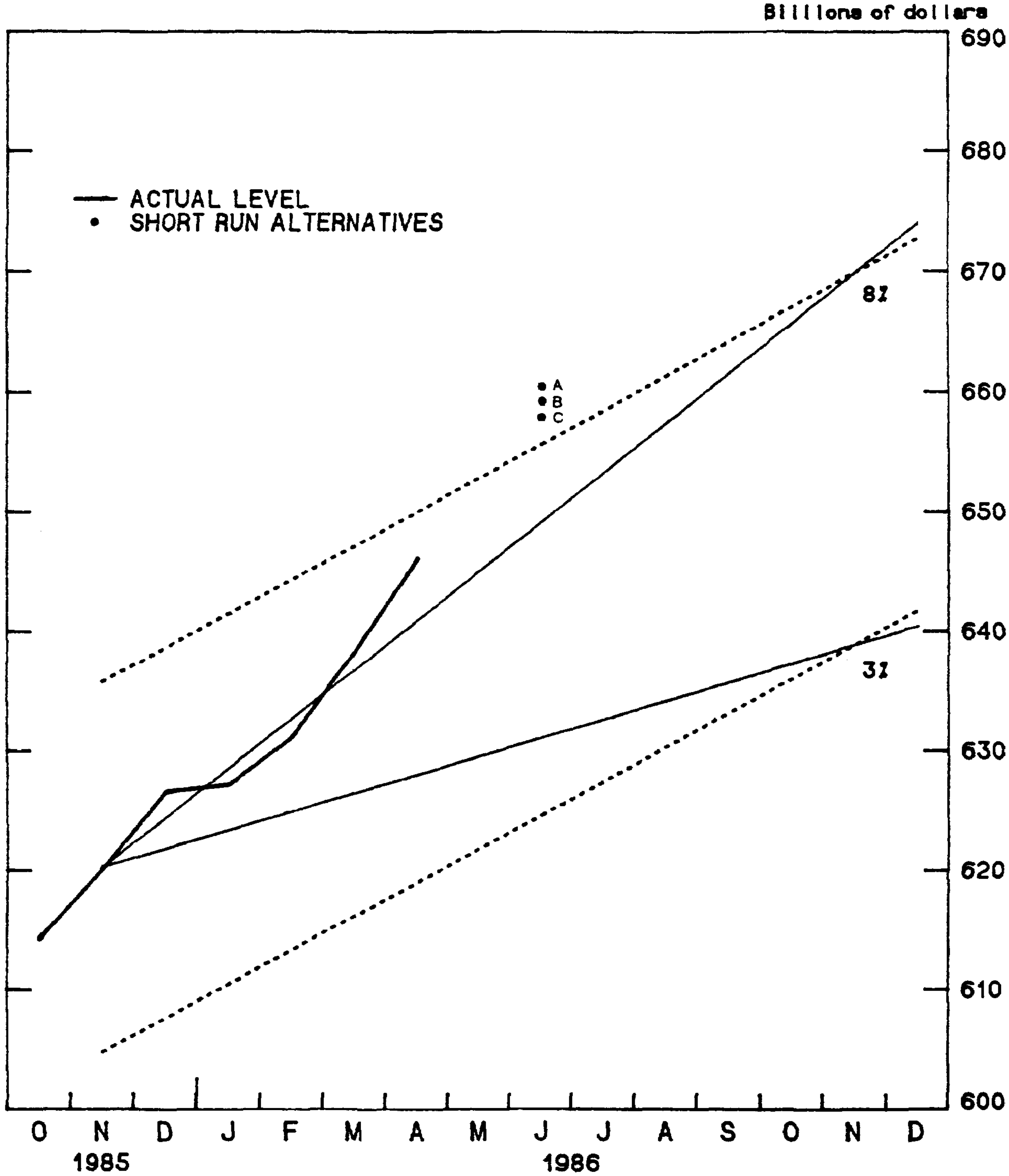


Chart 2

ACTUAL AND TARGETED M2

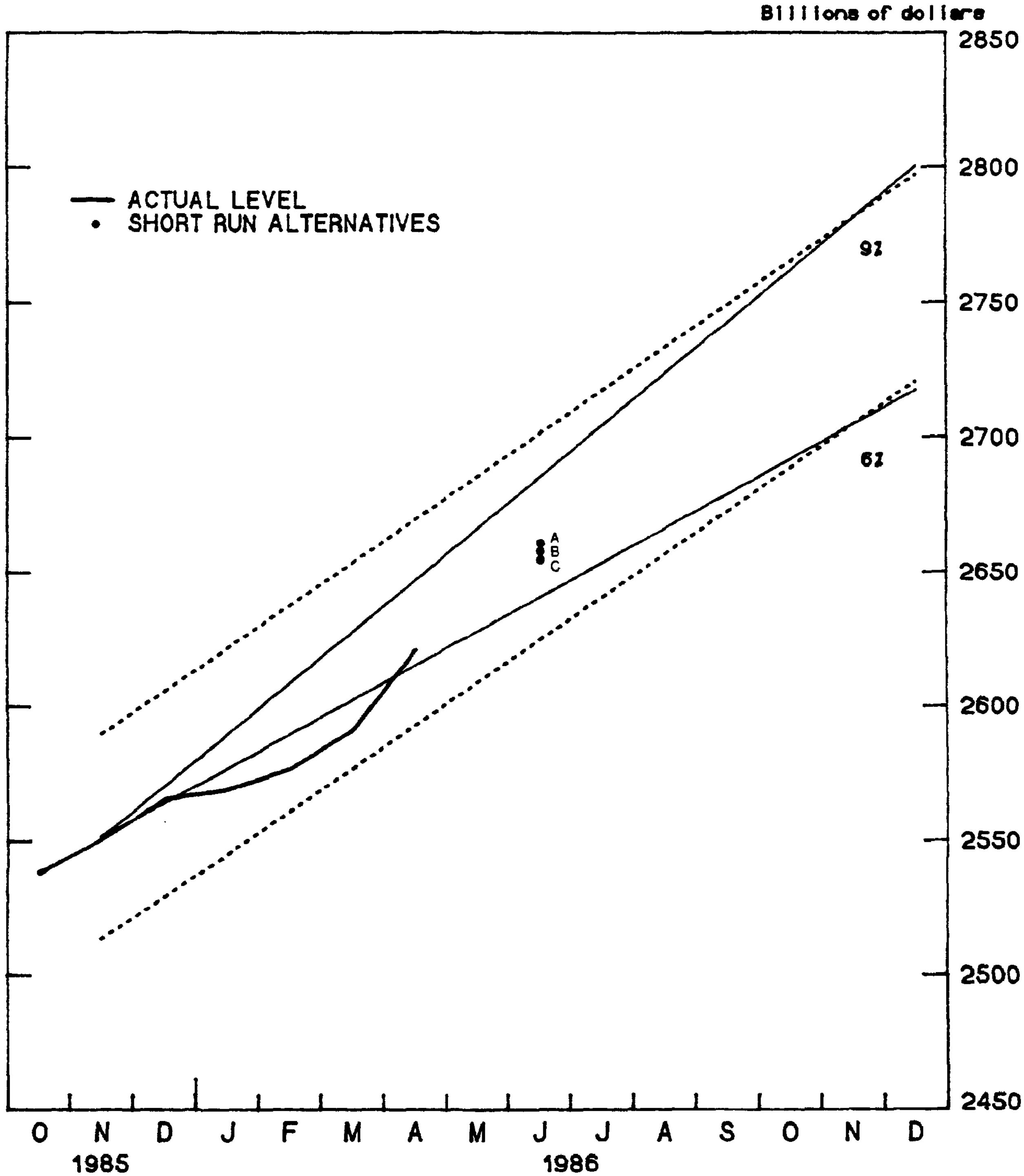


Chart 3

ACTUAL AND TARGETED M3

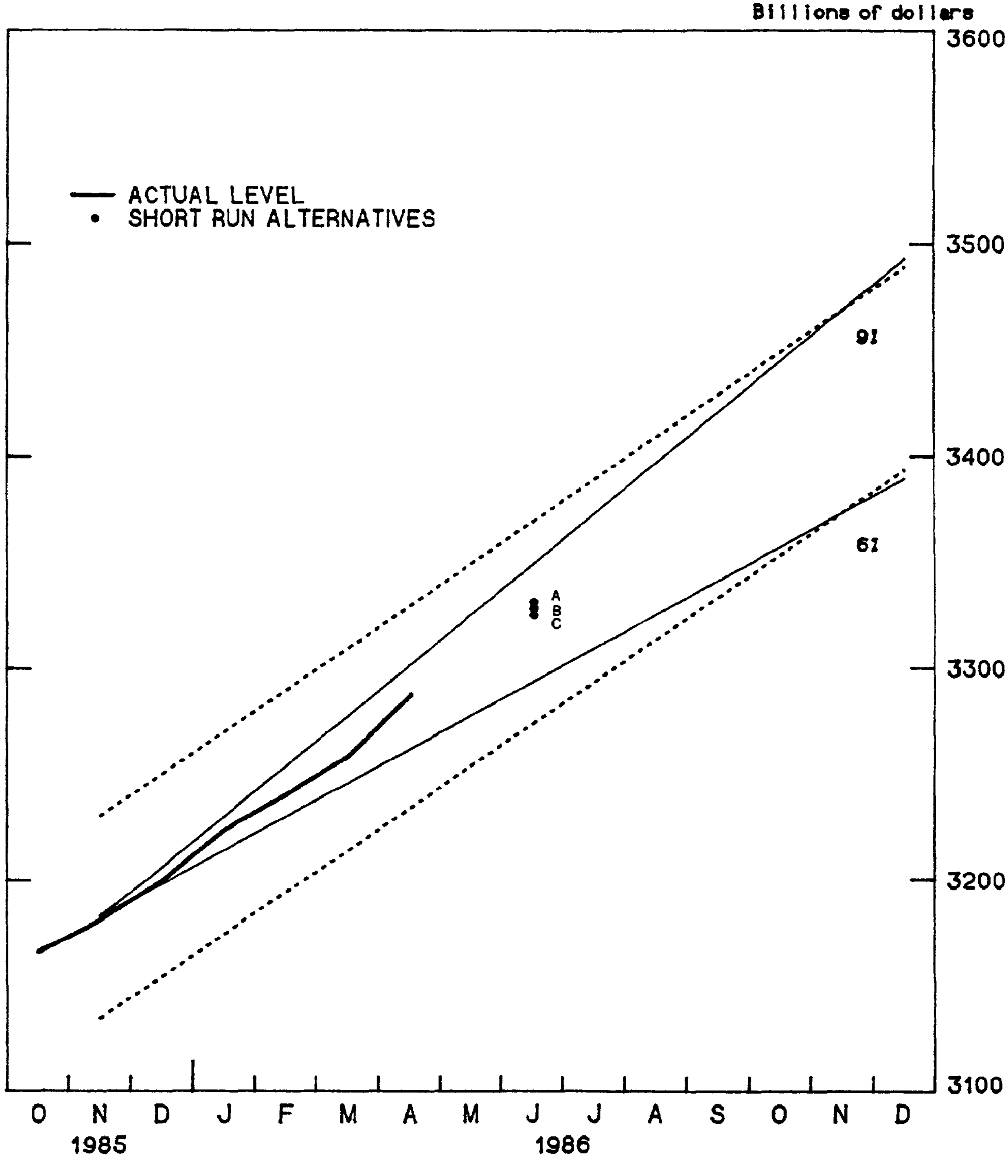
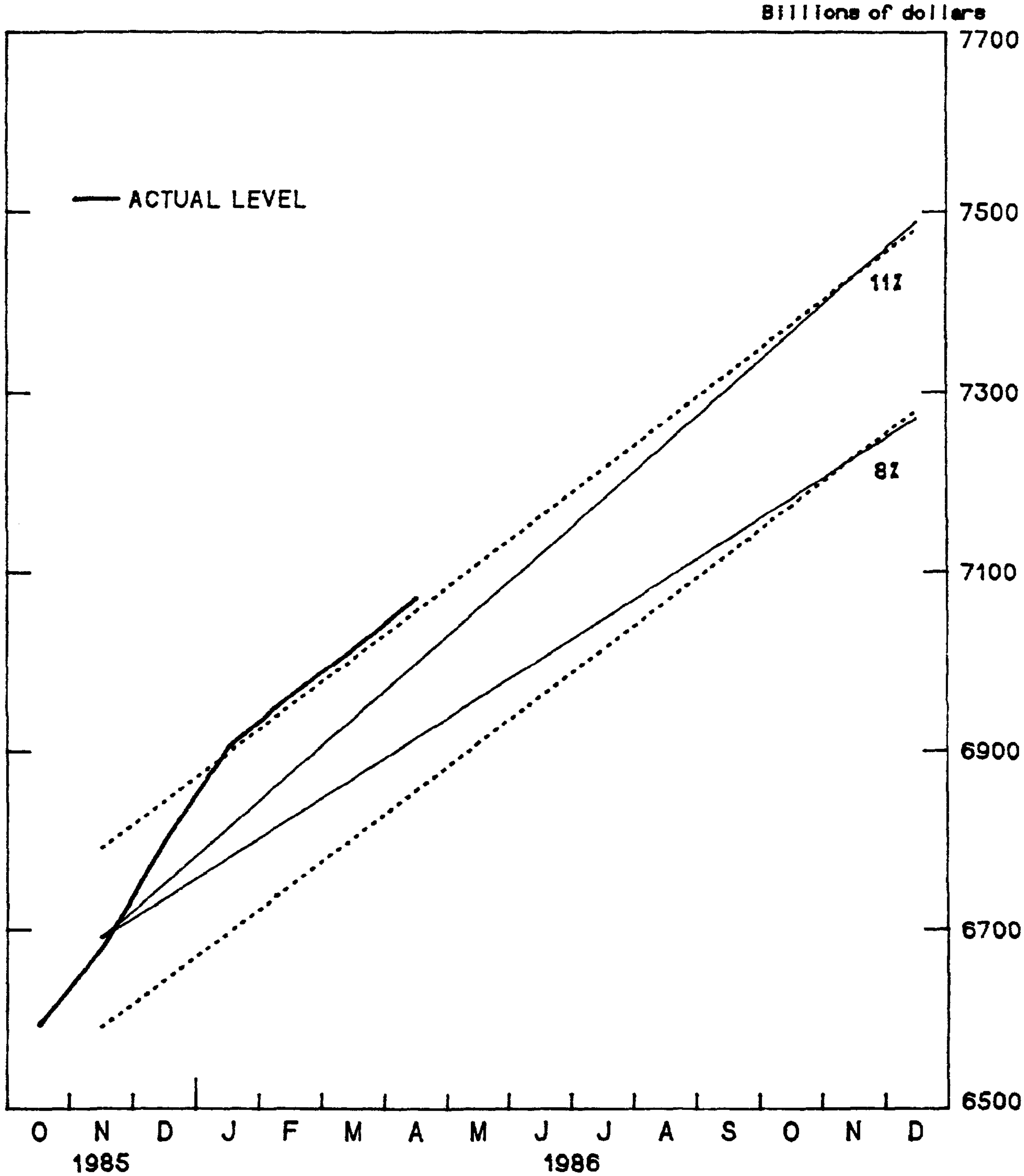


Chart 4
DEBT


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

(8) Under alternative B discount window borrowing would continue around $300 million, with the federal funds rate remaining generally between 6-3/4 and 6-7/8 percent. M1 under these circumstances is expected to slow considerably in June, though still increasing at a 13 percent rate over the March-to-June period. The effects of earlier market rate declines on demands for transactions balances should be abating in June, and incentives to shift into NOWs should diminish as their offering rates decrease further in lagged response to the previous drop in market rates. Moreover, growth in demand deposits could moderate in coming weeks following their recent bulge. Even with its slowing in June, on a quarterly average basis M1 would grow at a 13-1/2 percent annual rate in the second quarter, implying an extraordinary 9 percent decline in velocity, assuming the staff's GNP forecast. Over the last two quarters of the year, M1 growth would have to slow to a 5 percent annual rate to hit the upper end of its annual range. This could entail some rise in interest rates over the second half, especially if economic activity strengthens as expected.

(9) M2 growth under alternative B also would slow over the rest of the second quarter--though still recording a much faster advance than during the first three months of the year. Inflows to liquid retail accounts, while remaining sizable, would moderate compared with April and early May as yields on MMDAs and MMMFs move into closer alignment with market rates. As growth of core deposits ebbs, banks should resume issuance of large CDs to help finance some pickup in bank credit growth from its recent depressed pace, and thus M3 is expected to slow relatively little in June.

(10) Under alternative B market interest rates are likely to fluctuate near recent levels in coming weeks, with the 3-month Treasury bill rate between 6 and 6-1/4 percent. The dollar could continue to drift

lower in foreign exchange markets. With long-term rates remaining around current relatively low levels, credit demands are likely to continue to be focused on long-term markets. Bond issuance by businesses should remain heavy and mortgage borrowing very strong. However, weakness in investment spending and some further slowing in equity retirements are projected to restrain overall business credit needs, and, in the aggregate, growth of the debt of private nonfinancial borrowers from March to June should be only a bit above its first-quarter pace. Federal government debt issuance, on the other hand, is projected to be stronger in the current quarter, contributing to an appreciable pickup in total debt growth. This growth would leave the debt aggregate in June well above its long-run range.

(11) Under alternative A, which entails discount window borrowing falling to frictional levels of $100 to $150 million, the funds rate would tend to move below the current 6-1/2 percent discount rate. An easing in reserve pressures at this time would probably be taken by the market as signaling Federal Reserve willingness to tolerate a substantial overshoot of M1 in the context of moderate economic growth and favorable price developments. The 3-month Treasury bill rate likely would decline to around 5-3/4 percent, or perhaps lower, and bond yields could reverse much, if not all, of their recent increases. In the absence of similar interest rate reductions abroad, the dollar could come under considerable downward pressure in foreign exchange markets. Concerns about the future attractiveness of dollar assets could possibly intensify under these circumstances, tempering declines in long-term interest rates.

(12) The specifications of alternative A contemplate a less marked deceleration of M1 over the rest of the quarter, with growth in June close to 9 percent. Indeed, even this degree of slowing might not

emerge by midyear, given the possibility of a very substantial interest sensitivity of this aggregate as opportunity costs narrow even further. Growth of the more liquid components of nontransactions M2 also would remain quite strong, limiting the slowing in M2 growth, and this aggregate would be boosted to near the middle of its long-run range. With the strength in core deposits holding down needs for managed liabilities, M3 would be expected to grow around 7-1/2 percent over the last two months of the quarter, remaining a bit above the midpoint of its range.

(13) Alternative C encompasses an increase in discount window borrowing to between $450 and $550 million. The federal funds rate probably would move back into the 7-1/4 to 7-3/8 percent neighborhood. M1 growth in June would be expected to be reduced to around 5 percent under these circumstances. Although this aggregate would still be above its parallel band in June, the near-term tightening of market conditions would raise the odds that M1 would move to within its longer-run range later in the year as the increase in rates and its effects on spending tended to damp demands for transactions balances in the second half. M2 would remain in the lower portion of its range through midyear, though well above the lower end, while M3 would be at about the middle of its range.

(14) Market rates would back up considerably under alternative C, at least initially, given the absence of market sentiment that such a move is imminent. The three-month bill rate would rise to around 6-3/4 percent, and bond yields also would increase, though the rise might be moderated a bit to the extent that this action was viewed as reducing the potential for a reemergence of price pressures later this year. The current wide spreads between long-term private and Treasury rates might

tend to narrow if the back-up in rates led potential borrowers to defer long-term financing. With U.S. interest rates rising relative to foreign rates, the dollar would be likely to strengthen on foreign exchange markets.

Directive language

(15) Draft language for the operational paragraph is shown below, with three variants proposed for Committee consideration. The first follows the format used at the April 1 meeting. However, it does not address the sizable disparity between the growth rates for money now expected for the second quarter and those specified at the last meeting. The second and third variants acknowledge the rapid money growth, but focus on the expected slowing over the balance of the quarter. The second variant generally follows the existing format. It provides for specific numerical expectations for money growth over March to June, but in addition gives some indication of why expected growth is higher than previously specified. In light of the rapid money growth, the second variant indicates somewhat more explicitly than the existing directive the conditions under which lesser reserve restraint over the intermeeting period could be acceptable. The third variant represents a more substantial departure from the language of the existing format (and for this reason the usual caps and strike-throughs are not used to show changes from the existing directive). It omits numerical expectations for money growth over the second quarter, given the likelihood of marked strength relative to previous expectations, with growth of M1 in particular well in excess of its long-run range. It is somewhat more explicit than the other variants in calling for a tightening of reserve pressures should the expected slowing in money growth not develop.

Alternative Draft Operational Paragraphs

I

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain (Alt. B)/ INCREASE SOMEWHAT (Alt. C) the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from March to June at annual rates of about ~~7~~ ___ percent AND ___ PERCENT, RESPECTIVELY; while the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of about ~~7 to 8~~ ___ TO ___ (OR ___) percent over the period is anticipated. Somewhat lesser reserve restraint or somewhat greater reserve restraint might (WOULD) 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.

II

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain (Alt. B)/ INCREASE SOMEWHAT (Alt. C) the existing degree of pressure on reserve positions. This action is expected to be consistent with A DECELERATION IN MONEY growth ~~in~~ OVER THE BALANCE OF THE QUARTER.

HOWEVER, IN VIEW OF THE RAPID MONEY GROWTH THUS FAR IN THE QUARTER AND THE APPARENT WEAKNESS IN VELOCITY, THE COMMITTEE ANTICIPATES FASTER GROWTH FOR ALL THE MONETARY AGGREGATES THAN EXPECTED AT THE LAST MEETING. M2 AND M3 ARE EXPECTED TO EXPAND over the period from March to June at annual rates of about ~~7~~ ___ AND ___ percent~~,~~ RESPECTIVELY. While the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of about ~~7-to-8~~ ___ to ___ (or ___) percent over the period is anticipated. ~~Somewhat-lesser-reserve-restraint-or~~ Somewhat greater reserve restraint might (WOULD) 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. SOMEWHAT LESSER RESERVE RESTRAINT MIGHT (WOULD) BE ACCEPTABLE IN THE CONTEXT OF SLOWER MONETARY GROWTH THAN EXPECTED, ESPECIALLY OF THE BROADER AGGREGATES, AND SLUGGISH ECONOMIC PERFORMANCE, TAKING ACCOUNT OF DEVELOPMENTS IN FOREIGN EXCHANGE MARKETS, WAGE AND PRICE BEHAVIOR, 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.

III

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain

(Alt. B)/INCREASE SOMEWHAT (Alt. C) the existing degree of pressure on reserve positions. This action is expected to be consistent with substantial slowing over the balance of the quarter in the rates of growth of the monetary aggregates--especially M1 and M2--from their recent rapid pace. If such a slowing does not develop, somewhat greater reserve restraint would/might be acceptable in the context of continuing growth of the economy, taking account of conditions in domestic and international financial markets, and the behavior of the dollar in foreign exchange markets. Somewhat lesser reserve restraint would/might be acceptable should there be a very marked slowing in money growth, especially of the broader aggregates, along with sluggish economic performance, taking account of developments in foreign exchange 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.

Selected Interest Rates

May 19, 1986

Percent

Period	Short-term: federal funds	Short-term: Treasury bills secondary market 3-month	Short-term: Treasury bills secondary market 6-month	Short-term: Treasury bills secondary market 1-year	Short-term: CDs secondary market 3-month	Short-term: comm. paper 1-month	Short-term: money market mutual fund	Short-term: bank prime loan	Long-Term: U.S. government constant maturity yields 3-year	Long-Term: U.S. government constant maturity yields 10-year	Long-Term: U.S. government constant maturity yields 30-year	Long-Term: corporate A utility recently offered	Long-Term: municipal Bond Buyer	Long-Term: conventional home mortgages secondary market fixed-rate	Long-Term: conventional home mortgages primary market fixed-rate	Long-Term: conventional home mortgages primary market ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1985--High	8.98	8.65	9.03	9.21	9.13	8.83	8.31	10.75	11.19	11.95	11.89	13.23	10.31	13.57	13.29	11.14
Low	7.13	6.77	6.92	7.06	7.34	7.22	7.00	9.50	8.24	9.07	9.34	10.62	8.85	10.52	11.09	9.17
1986--High	9.55	7.21	7.30	7.35	7.94	7.91	7.22	9.50	8.60	9.38	9.52	10.83	8.72	10.97	10.99	9.09
Low	6.82	5.89	5.93	5.90	6.42	6.51	6.25	8.50	6.66	7.15	7.25	9.15	7.55	9.57	9.86	8.41
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	10.92
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	10.56
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	7.23	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	7.15	9.50	8.41	9.19	9.40	10.74	8.50	10.79	10.88	9.01
Feb.	7.86	7.06	7.11	7.11	7.69	7.70	7.11	9.50	8.10	8.70	8.93	10.21	7.99	10.45	10.71	8.93
Mar.	7.48	6.56	6.57	6.59	7.24	7.30	6.96	9.10	7.30	7.78	7.96	9.41	7.74	9.86	10.08	8.65
Apr.	6.99	6.06	6.08	6.06	6.60	6.75	6.64p	8.83	6.86	7.30	7.39	9.26	7.64	9.71	9.93	8.53
1986--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
12	7.85	7.15	7.20	7.19	7.76	7.72	7.09	9.50	8.23	9.00	9.22	10.27	8.09	10.57	10.80	9.00
19	7.84	7.06	7.13	7.12	7.69	7.72	7.12	9.50	8.11	8.72	8.96	10.01	7.95	10.47	10.68	8.90
26	7.82	7.05	7.08	7.08	7.66	7.68	7.09	9.50	8.04	8.46	8.67	9.48	7.66	10.07	10.51	8.84
Mar. 5	7.89	6.94	6.91	6.88	7.56	7.62	7.11	9.50	7.66	8.06	8.22	9.56	7.57	10.02	10.20	8.67
12	7.52	6.62	6.60	6.62	7.26	7.28	7.06	9.07	7.31	7.83	8.04	9.37	7.55	9.74	10.01	8.58
19	7.47	6.54	6.59	6.59	7.16	7.23	6.93	9.00	7.29	7.78	7.97	9.38	8.13	9.87	10.01	8.67
26	7.25	6.41	6.47	6.52	7.17	7.22	6.85	9.00	7.24	7.72	7.91	9.29	7.69	9.82	10.10	8.67
Apr. 2	7.39	6.34	6.32	6.32	7.07	7.26	6.88	9.00	7.05	7.40	7.49	9.21	7.56	9.77	9.99	8.66
9	7.05	6.19	6.18	6.14	6.81	7.01	6.76	9.00	6.93	7.37	7.45	9.19	7.63	9.75	9.98	8.61
16	6.97	5.89	5.94	5.90	6.49	6.67	6.68	9.00	6.66	7.18	7.29	9.15	7.55	9.57	9.92	8.50
23	6.92	5.92	5.93	5.92	6.42	6.51	6.50	8.79	6.69	7.15	7.25	9.47	7.69	9.77	9.86	8.41
30	6.89	6.11	6.17	6.19	6.53	6.61	6.38	8.50	7.12	7.47	7.53	9.41r	7.79	9.67	9.90	8.46
May 7	6.87	6.08	6.11	6.13	6.55	6.68	6.30	8.50	7.03	7.46	7.54	9.42	7.76	9.87	10.00	8.59
14	6.82	6.08	6.09	6.15	6.58	6.69	6.25	8.50	7.09	7.57	7.40	9.53	7.91	10.17	10.08	8.57
Daily--May 9	6.78	6.05	6.08	6.12	6.54	6.65	--	8.50	7.01	7.48	7.37	--	--	--	--	--
15	7.00	6.17	6.16	6.25	6.61	6.63	--	8.50	7.37	7 79	7.50	--	--	--	--	--
16	6.78p	6.21	6.27	6.38	6.74	6.78	--	8.50	7.56p	8.00p	7.65p	--	--	--	--	--

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

MAY 19, 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	15.8	13.8	14.3
1985	11.9	8.6	7.6	3.8	7.7	8.5	9.9	15.2	13.5	13.9
QUARTERLY AVERAGE										
2ND QTR. 1985	10.5	6.3	5.0	2.6	5.5	6.2	9.7	12.5	12.0	12.1
3RD QTR. 1985	14.5	9.5	8.0	0.2	7.7	7.9	9.6	14.6	12.4	12.9
4TH QTR. 1985	10.7	6.0	4.6	8.0	6.4	9.3	8.8	15.0	14.0	14.3
1ST QTR. 1986	7.7	4.3	3.2	19.8	7.4	8.1	12.7	17.9	15.5	16.1
MONTHLY										
1985--APR.	7.3	2.5	1.0	0.8	2.1	2.1	4.9	11.9	12.4	12.3
MAY	14.2	8.6	7.0	0.6	7.0	6.4	13.4	15.8	11.5	12.5
JUNE	17.3	13.3	11.9	2.3	11.0	9.6	9.5	14.4	11.7	12.4
JULY	10.8	8.3	7.4	-3.7	5.9	5.8	10.9	16.7	12.1	13.1
AUG.	17.3	9.3	6.8	-2.1	7.0	9.1	6.5	13.9	12.9	13.1
SEPT.	13.3	6.7	4.6	11.7	7.7	9.0	8.2	7.9	13.3	12.0
OCT.	5.3	4.2	3.8	10.8	5.5	6.8	2.0	8.9	13.2	12.2
NOV.	11.5	5.9	4.1	4.8	5.6	11.6	16.4	24.1	13.0	15.6
DEC.	12.6	7.0	5.3	8.2	7.3	12.0	16.6	29.1	19.7	21.9
1986--JAN.	1.1	1.6	1.7	38.8	8.9	7.2	15.3	17.0	18.6	18.2
FEB.	7.5	3.6	2.4	15.9	6.1	6.1	4.1	10.4	9.9	10.0
MAR.	13.9	6.8	4.4	6.9	6.8	3.6	9.5	5.0	10.1	9.0
APR. P	14.5	13.7	13.5	-1.4	10.6		1.6	6.8	10.7	9.8
MONTHLY LEVELS ($BILLIONS)										
1985--DEC.	626.6	2565.7	1939.1	634.5	3200.3	3837.0	1895.5	1586.0	5215.0	6801.0
1986--JAN.	627.2	2569.1	1941.9	655.0	3224.1	3860.0	1919.6	1608.5	5295.8	6904.3
FEB.	631.1	2576.9	1945.8	663.7	3240.6	3879.5	1926.2	1622.5	5339.5	6961.9
MAR.	638.4	2591.4	1953.0	667.5	3259.0	3891.0	1941.5	1629.3	5384.6	7013.9
APR. P	646.1	2621.0	1974.9	666.7	3287.8		1944.1	1638.6	5432.4	7071.0
WEEKLY LEVELS ($BILLIONS)										
1986--APR. 7	645.9									
14	641.4									
21	645.6									
28P	648.6									
MAY 5P	654.7									

1/ ANNUAL RATES FOR BANK CREDIT ARE ADJUSTED FOR A TRANSFER OF LOANS FROM CONTINENTAL ILLINOIS NATIONAL BANK TO THE FDIC BEGINNING SEPTEMBER 26, 1984.

2/ DEBT DATA ARE ON A MONTHLY AVERAGE BASIS, DERIVED BY AVERAGING END-OF-MONTH LEVELS OF ADJACENT MONTHS, AND HAVE BEEN ADJUSTED TO REMOVE DISCONTINUITIES.

P-PRELIMINARY

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

MAY 19, 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	157.0	247.1	144.2	56.1	405.1	291.0	881.8	161.7	57.7	409.8	65.6	81.8	74.0	268.6	158.7	44.5
1985	169.7	268.4	176.3	66.6	508.5	303.2	877.3	176.8	64.1	433.0	62.7	78.5	79.0	295.9	199.5	42.7
MONTHLY																
1985-APR.	161.9	251.8	156.5	57.8	462.5	289.0	887.6	176.2	59.6	425.9	59.8	80.9	75.7	276.0	167.7	47.5
MAY	163.2	255.4	158.4	61.3	466.4	290.8	889.5	172.2	63.5	425.0	57.7	81.4	76.1	277.4	168.6	46.3
JUNE	164.4	259.0	161.8	60.8	478.1	293.6	890.3	175.4	67.1	422.7	57.1	79.2	76.5	282.6	165.7	44.5
JULY	165.3	260.4	164.8	60.7	487.2	296.7	888.0	175.8	65.0	418.3	55.7	78.8	76.7	279.9	171.6	43.7
AUG.	166.9	263.1	169.0	63.6	495.2	299.7	880.9	176.8	63.6	421.0	57.1	80.0	77.2	278.1	182.9	43.6
SEPT.	167.7	266.4	171.5	64.1	499.8	300.3	878.3	176.7	62.3	425.6	58.5	80.2	78.0	281.3	187.2	43.2
OCT.	168.7	266.0	173.7	64.7	504.1	302.3	875.7	177.0	63.3	429.7	59.5	79.3	78.5	281.4	192.5	43.9
NOV.	169.8	267.8	176.7	65.7	509.5	303.7	876.0	176.8	64.5	432.9	63.0	79.1	79.0	299.5	196.4	43.1
DEC.	170.6	271.5	178.6	69.5	512.0	303.6	880.3	176.5	64.6	436.5	65.7	77.0	79.5	306.7	209.5	41.1
1986-JAN.	171.9	268.9	180.5	68.0	515.7	304.0	886.0	177.7	67.3	447.9	68.5	76.7	79.9	303.9	210.6	41.5
FEB.	172.9	269.2	183.1	67.6	516.4	305.0	891.0	181.0	67.7	451.2	70.3	79.3	80.5	307.2	209.2	42.1
MAR.	173.9	273.2	185.2	66.5	520.5	306.9	894.7	186.3	70.2	450.3	71.4	80.4	81.1	299.9	209.5	41.6
APR. P	174.5	275.6	189.9	67.4	525.2	311.6	895.3	191.8	74.1	451.7	69.6	79.1				

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

May 19, 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
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
1986--Jan.	61	--	--	--	--	--	--	--	--	--	--	61	-3,466
Feb.	-3,277	--	--	--	--	--	--	--	--	--	--	-3,318	198
Mar.	396	--	--	--	--	--	--	--	--	--	--	396	-312
Apr.	2,988	--	--	--	--	--	--	--	--	--	--	2,988	3,659
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
12	-1650	--	--	--	--	--	--	--	--	--	--	-1,683	3,646
19	-195	--	--	--	--	--	--	--	--	--	--	-195	119
26	-717	--	--	--	--	--	--	--	--	--	--	-725	1,576
Mar. 5	--	--	--	--	--	--	--	--	--	--	--	--	-1,308
12	--	--	--	--	--	--	--	--	--	--	--	--	4,809
19	--	--	--	--	--	--	--	--	--	--	--	--	-5,405
26	138	--	--	--	--	--	--	--	--	--	--	138	3,644
Apr. 2	320	--	--	--	--	--	--	--	--	--	--	320	-1,925
9	2,132	--	--	--	--	--	--	--	--	--	--	2,132	-3,357
16	251	--	--	--	--	--	--	--	--	--	--	251	4,724
23	389	--	--	--	--	--	--	--	--	--	--	389	311
30	153	--	--	--	--	--	--	--	--	--	--	153	2,520
May 7	135	--	--	--	--	--	--	--	--	--	--	135	-2,041
14	--	--	--	--	--	--	--	--	--	--	--	-50	-2,491
LEVEL--May 14	86.5	21.9	33.3	15.1	22.0	92.4	2.5	3.9	1.3	.4	8.1	190.3	-3.3

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 (+).