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August 14, 1987

Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (F.R.)
CLASS I - FOMC

August 14, 1987

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M2 growth picked up a little in July, although at a 2-3/4 percent annual rate, expansion of this aggregate was less than the Committee's 5 percent path for June to September and fell further below the 5-1/2 percent lower bound of its 1987 target range. The strengthening of M2 was accounted for entirely by a turnaround in M1, which edged up at a 1-3/4 percent pace in July after the substantial runoff in June. Demand deposits declined in July but at a much reduced rate from June; weakness in these deposits may have stemmed in part from continued reductions in compensating balances and a further slowing in mortgage refinancing in response to previous increases in interest rates. Other checkable deposits resumed growth in July, albeit at a moderate 6-1/4 percent rate, after the nearly unprecedented June decline. Weekly data for late July and early August suggest that some further strengthening of growth in both M1 and M2 is in train this month.

(2) The nontransactions component of M2 decelerated in July. MMDAs continued to run off and growth of savings deposits slowed substantially further, as opportunity costs on these more liquid accounts remained considerably wider than in 1986 or early this year. Rates on short-term small time deposits already had moved into closer alignment with market rates in June, and yields on longer-term accounts continued to rise in July as the market yield curve steepened. In response, small time deposits increased at a 12 percent clip in July, a little faster than in June, which ended 13 consecutive months of outflows.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	May	June	July	QIV '86 to July
Money and credit aggregates				
M1	4.5	-10.4	1.8	6.9
M2	0.3	1.0	2.8	3.7
M3	4.7	5.2	2.0	4.8
Domestic nonfinancial debt	10.6	9.8	7.9[pe]	9.8[pe]
Bank credit	7.4	3.2	1.0	7.2
Reserve measures				
Nonborrowed reserves[1]	7.8	-8.4	-1.6	8.0
Total reserves	8.2	-13.3	-2.1	8.2
Monetary base	8.7	0.5	4.8	7.9
Memo: (Millions of dollars)				
Adjustment and seasonal borrowing	748	503	478	--
Excess reserves	1079	1190	768	--

pe--Preliminary estimate.
1. Includes "other extended credit" from the Federal Reserve.

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

(3) M3 expanded at only a 2 percent rate in July, considerably below the 7-1/2 percent path set at the last Committee meeting, placing this aggregate just above the bottom of the parallel band associated with its 5-1/2 to 8-1/2 percent 1987 target range. Bank credit was flat last month; with their M2 deposits growing moderately, banks reduced their managed liabilities, including CDs and RPs in M3, and advanced a sizable volume of funds to their foreign branches, which probably contributed to less aggressive bidding for Eurodollar deposits and the decline in this component of M3 as well. At thrifts, on the other hand, overall issuance of large CDs was well maintained in July, although troubled institutions continued to experience runoffs of uninsured deposits.

(4) Growth in total debt of domestic nonfinancial sectors slowed in July, largely owing to the disruption to federal financing from the debt ceiling problem. Early in August, however, the bill auction that had been omitted in July was made up, and by mid-August, Treasury financing was back on track with the mid-quarter financing auctions occurring this week for normal settlement on August 17. Total borrowing by nonfinancial businesses appears to have eased somewhat in July; bond issuance remained near the higher June pace, but short-term credit was repaid on balance, with both business loans at banks and commercial paper outstanding registering declines. Tax-exempt bond offerings receded somewhat in July, and in early August both state and local governments and businesses have reduced their long-term borrowing in response to the recent rise in bond yields. In the household sector, mortgage borrowing has ebbed a bit in recent months, although a sharply rising ARM share probably has tended to lessen the effects of higher interest rates. Mortgage lending also has been boosted by the shift from consumer

credit to home-equity loans, which probably has shaved several percentage points from consumer installment credit growth this year.

(5) Total reserves continued to decline in July, but at a reduced 2 percent annual rate, largely reflecting weakness in transactions deposits and decreases in excess reserves. The monetary base, which was essentially flat in June, expanded at a 4-3/4 percent pace in July. The assumption for adjustment plus seasonal borrowing at the discount window used in constructing the nonborrowed reserve path was maintained at $500 million throughout the intermeeting period. Late in July, in light of slow growth in the monetary aggregates while the dollar was strengthening, the Account Manager was resolving uncertainties about reserve provision so that borrowing would more likely turn out below, rather than above, the path assumption. Most recently, given signs of strength in the economic expansion, continuing concerns about price pressures, and a pickup in money growth, the Manager has returned to a balanced stance of reserve provision. Borrowing for the three reserve maintenance periods ended since the July 7 FOMC meeting has averaged $466 million.

(6) The federal funds rate edged off during the intermeeting period to average around 6-5/8 percent recently. Most other private money market rates also moved a little lower, but bill rates backed up once the Treasury was able to complete a full auction schedule and paydowns of bills in weekly auctions slowed from the pace in the first half of the year. In capital markets, yields on Treasury and corporate bonds moved higher through early August, as pressures on oil prices from the Persian Gulf tensions against a backdrop of reasonably robust economic data and uncertain progress on the federal deficit seemed to intensify concerns about inflation and credit

demands in the future. Following the completion of the mid-quarter refunding bond rates have retraced a portion of this rise, but since the last meeting are up on balance by about 25 to 35 basis points. Apparently spurred by optimism about the outlook for profits, however, stock prices soared over the intermeeting period, with major indexes gaining from 6 to 10 percent.

(7) The dollar expanded by 1-1/2 percent on balance over the intermeeting period against a weighted average of other G-10 currencies. It rose strongly through much of the period, buoyed by the relative strength of the U.S. economy and the tensions in the Persian Gulf, but subsequently fell back in response to the worse-than-expected June trade figures. The dollar was particularly strong against the mark, perhaps reflecting a sluggish outlook for the German economy, and by late in the intermeeting period the dollar-mark exchange rate had recovered to its early 1987 level.

, with U.S. activity coming to $631 million over the intermeeting period, split evenly between the Federal Reserve and the Treasury.

. Money market conditions tightened somewhat in Germany and more in the United Kingdom, while remaining unchanged in Japan. Long-term rates rose significantly in all these countries, with the largest rise occurring in Japan amid improved prospects for economic activity as well as concerns about the inflation implications of mid-East tensions.

Policy alternatives

(8) The table below presents three alternative specifications for monetary growth from June to September, along with associated federal funds rate ranges. (More detailed data, including growth from July to September and from the fourth-quarter base of the long-run ranges to September implied under each alternative, are shown on the table and charts on the following pages.)

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

(9) Alternative B is based on retaining $500 million of adjustment plus seasonal borrowing as the assumption in constructing reserve paths. Federal funds would be likely to trade mainly in the lower portion of a 6-1/2 to 6-3/4 percent range, except perhaps around the mid-September corporate tax date, when unusually large payments may impart some temporary upward pressure to the funds rate. With no major changes in supply anticipated, at least until the time of the next expiration of the Treasury debt ceiling on September 23, Treasury bill rates now seem broadly consistent with a federal funds rate continuing to average a little above 6-1/2 percent. Likewise, other money market rates generally should vary around current levels under alternative B. Longer-term rates also are most likely to fluctuate near

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in billions									
1987 April	2838.2	2838.2	2838.2	3539.1	3539.1	3539.1	750.3	750.3	750.3
May	2839.0	2839.0	2839.0	3553.0	3553.0	3553.0	753.1	753.1	753.1
June	2841.3	2841.3	2841.3	3568.5	3568.5	3568.5	746.6	746.6	746.6
July	2847.9	2847.9	2847.9	3574.4	3574.4	3574.4	747.7	747.7	747.7
August	2863.7	2863.0	2862.3	3597.6	3596.8	3596.0	751.3	751.1	750.9
September	2881.1	2876.8	2872.6	3619.4	3616.7	3614.5	756.1	754.2	752.3
Monthly Growth Rates									
1987 April	5.7	5.7	5.7	5.4	5.4	5.4	17.5	17.5	17.5
May	0.3	0.3	0.3	4.7	4.7	4.7	4.5	4.5	4.5
June	1.0	1.0	1.0	5.2	5.2	5.2	-10.4	-10.4	-10.4
July	2.8	2.8	2.8	2.0	2.0	2.0	1.8	1.8	1.8
August	6.7	6.4	6.1	7.8	7.5	7.3	5.8	5.5	5.1
September	7.3	5.8	4.3	7.3	6.6	6.2	7.7	5.0	2.2
Quarterly Ave. Growth Rates									
1986 Q3	10.6	10.6	10.6	9.7	9.7	9.7	16.5	16.5	16.5
Q4	9.2	9.2	9.2	8.0	8.0	8.0	17.0	17.0	17.0
1987 Q1	6.3	6.3	6.3	6.4	6.4	6.4	13.1	13.1	13.1
Q2	2.4	2.4	2.4	3.9	3.9	3.9	6.4	6.4	6.4
Q3	3.5	3.3	3.0	4.9	4.8	4.7	0.9	0.5	0.2
Mar. 87 to June 87	2.4	2.4	2.4	5.2	5.2	5.2	3.8	3.8	3.8
June 87 to Sept. 87	5.6	5.0	4.4	5.7	5.4	5.2	5.1	4.1	3.1
July 87 to Sept. 87	7.0	6.1	5.2	7.6	7.1	6.7	6.7	5.2	3.7
Q4 86 to Q2 87	4.4	4.4	4.4	5.2	5.2	5.2	9.9	9.9	9.9
Q4 86 to Q3 87	4.1	4.0	3.9	5.1	5.1	5.0	6.9	6.8	6.6
Q4 86 to June 87	3.9	3.9	3.9	5.2	5.2	5.2	7.6	7.6	7.6
Q4 86 to July 87	3.7	3.7	3.7	4.8	4.8	4.8	6.9	6.9	6.9
Q4 86 to Sept. 87	4.4	4.2	4.1	5.4	5.3	5.2	6.9	6.6	6.3

Chart 1

ACTUAL AND TARGETED M2

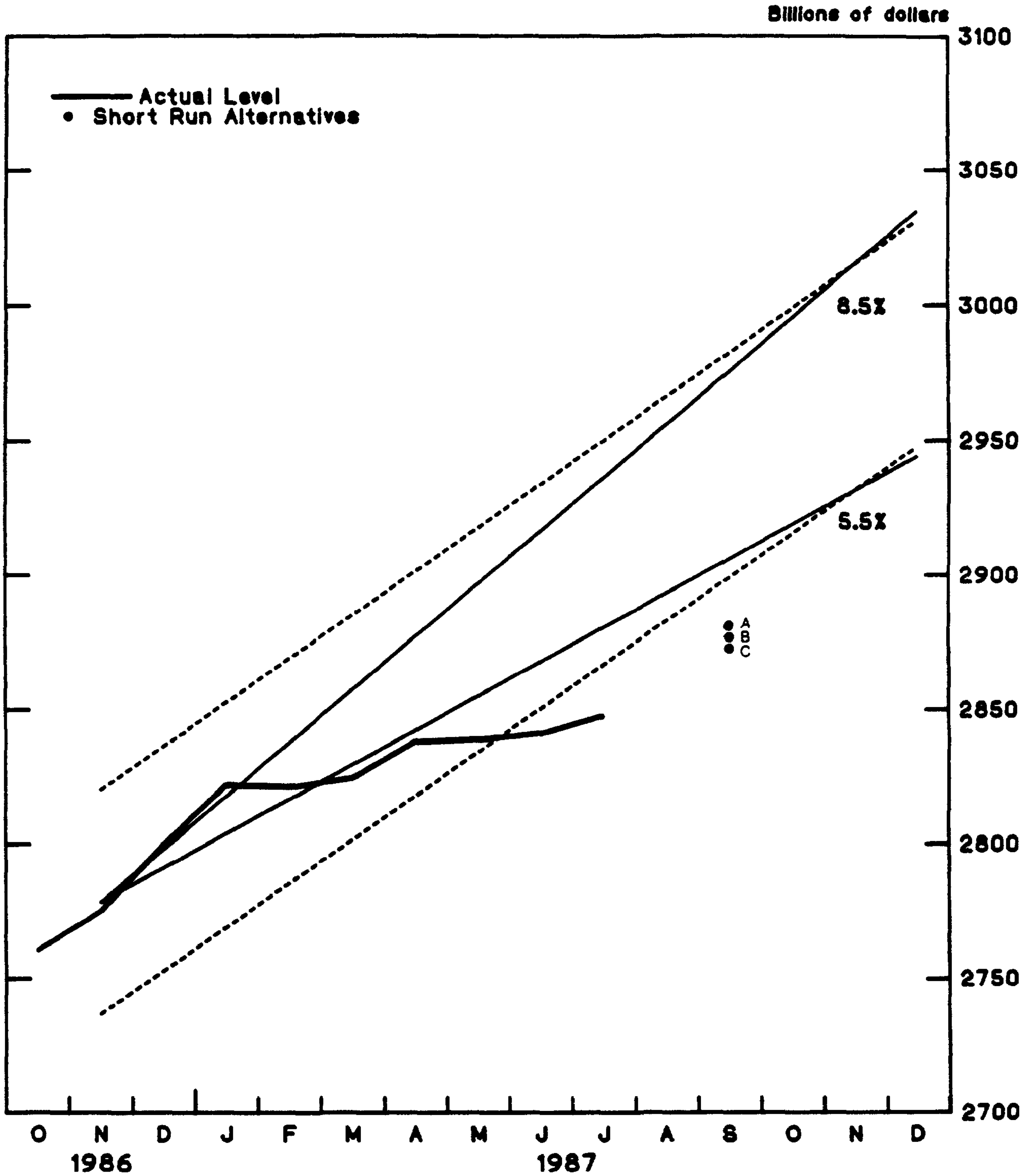


Chart 2

ACTUAL AND TARGETED M3

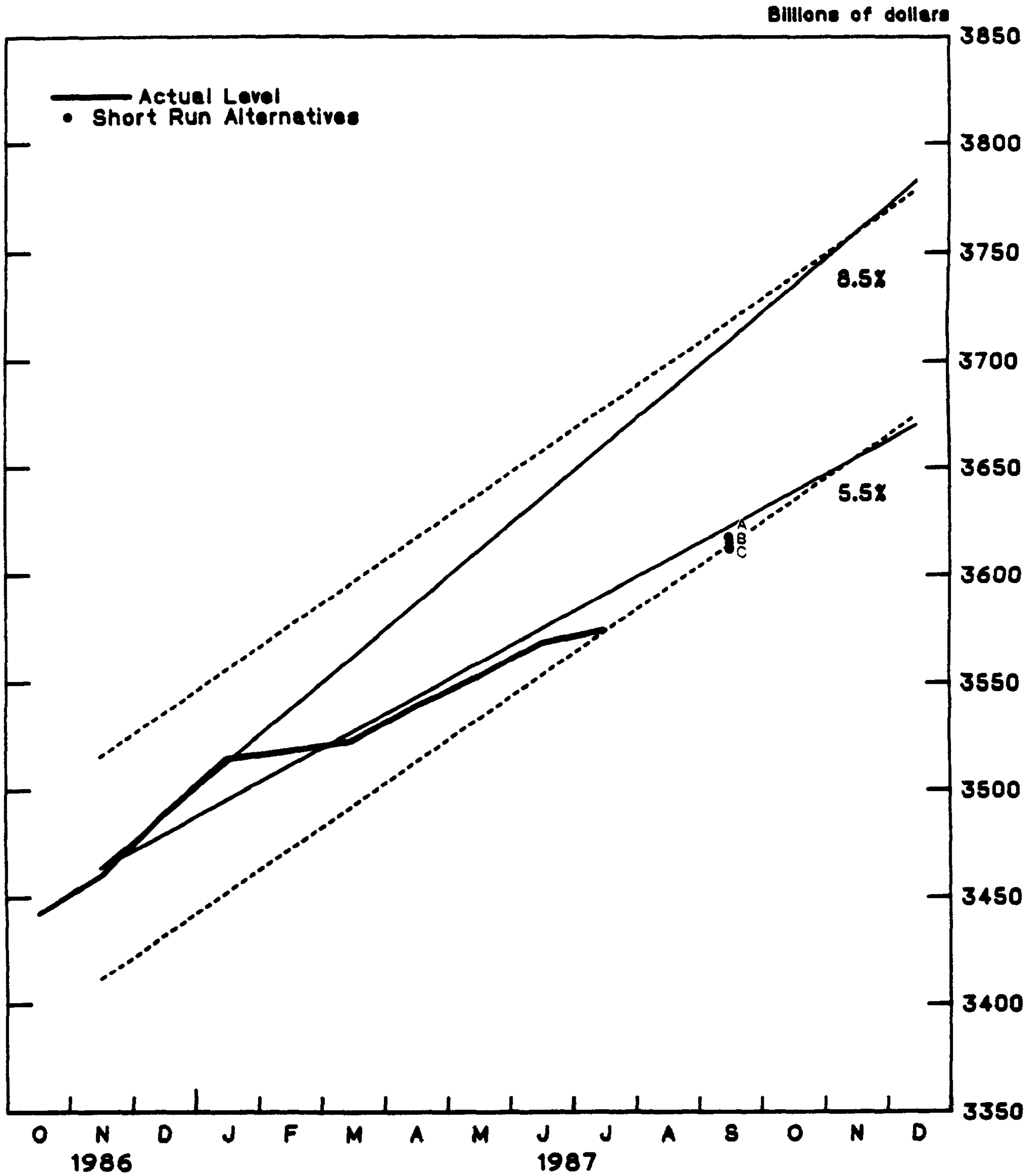
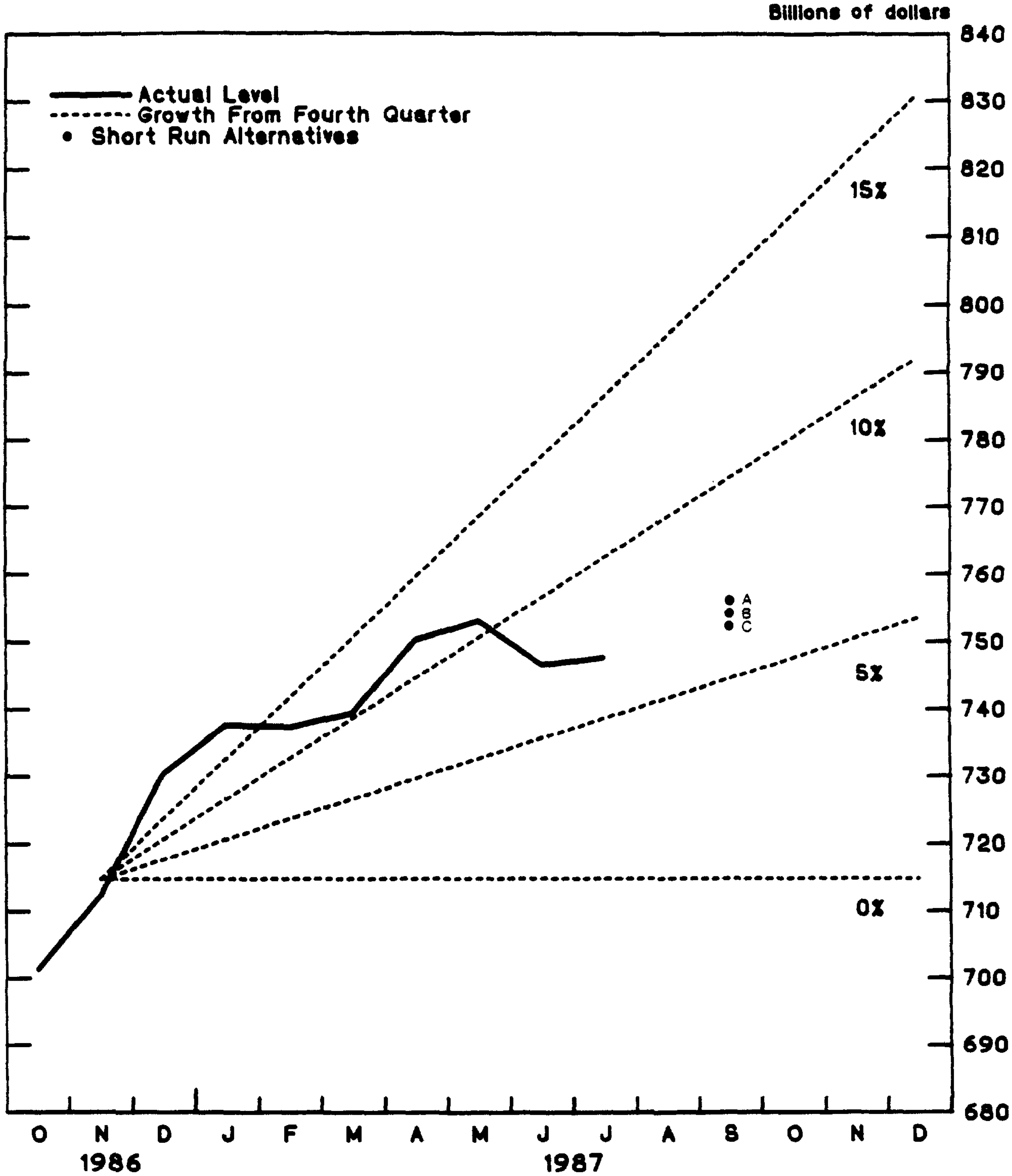


Chart 3

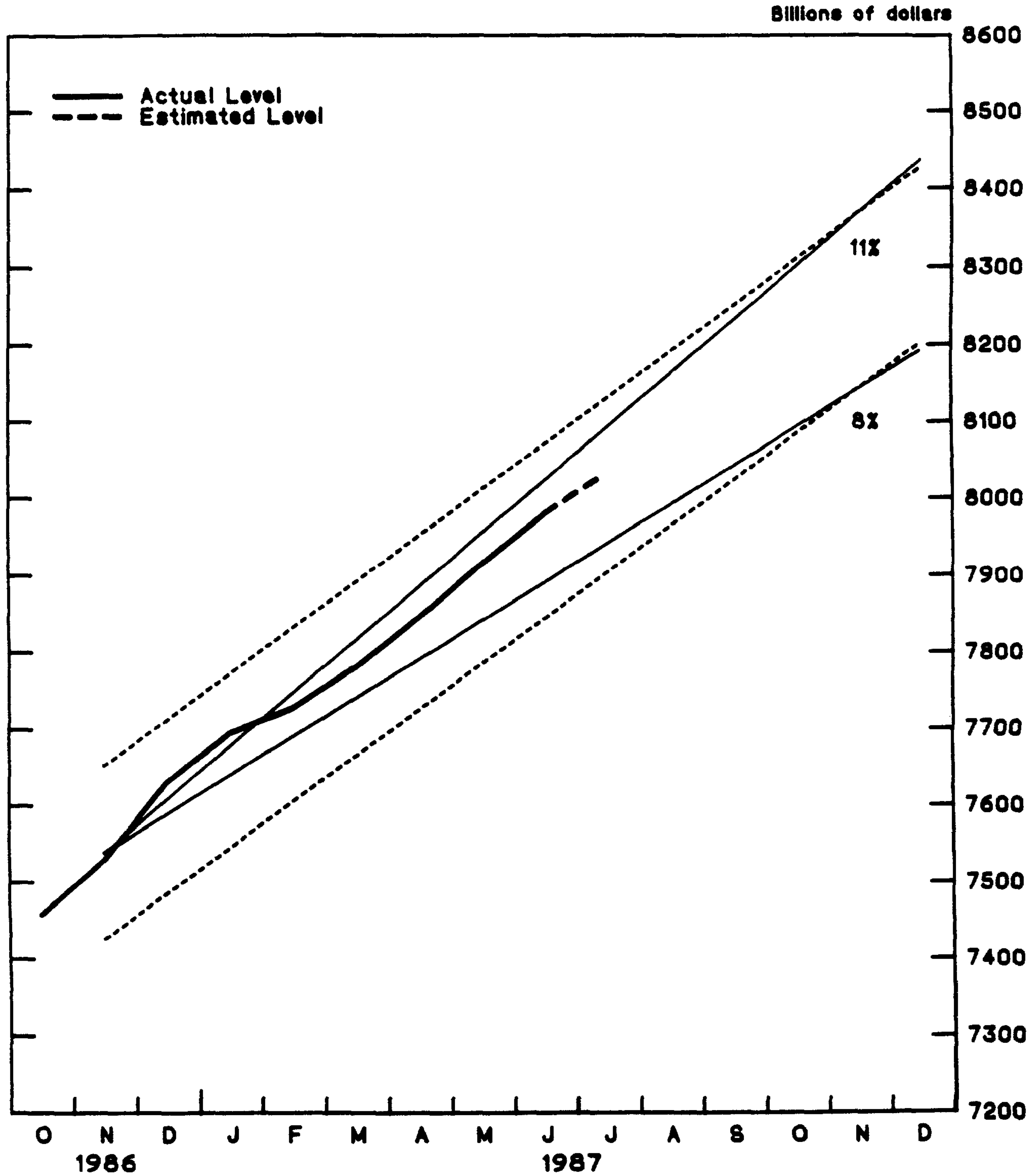
M1



Billions of dollars
Actual Level
Growth From Fourth Quarter
Short Run Alternatives
15%
10%
5%
0%
A
B
C
840
830
820
810
800
790
780
770
760
750
740
730
720
710
700
690
680
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1986
1987

Chart 4

DEBT



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

recent levels into the late summer, though they should remain sensitive to developments in the Persian Gulf and other factors bearing on the inflation outlook and the dollar.

(10) Under alternative B, and the other alternatives as well, M2 growth is projected to strengthen in August and September relative to the weak expansion of recent months. This pickup would reflect primarily a waning of the damping influence of previous increases in market rates and opportunity costs. Offering rates on very liquid deposits now seem roughly in line with the current levels of short-term market rates; however, some additional upward adjustment in rates on longer-term small time deposits probably can be expected, given recent increases in yields on market instruments of comparable maturity. With opportunity costs unchanged or narrowing a bit under this alternative, growth in M2 over the balance of the quarter is expected to average near 6 percent, around the trend of income. This growth would bring expansion over June to September to the 5 percent short-run growth path specified by the Committee at its last meeting. Owing to its recent weakness, largely reflecting the earlier widening of opportunity costs, M2 would expand this quarter at only a 3-1/4 percent annual rate on a quarterly average basis. Given the staff's greenbook projection for nominal GNP, M2 velocity would be expected to increase at a 3 percent rate, around the pace of the first half of the year.

(11) M3 growth over August and September would be expected to accelerate substantially from its unusually depressed July pace, to a rate of 7 percent under alternative B. Bank credit should resume its expansion, boosting issuance of large CDs. Demand for adjustable rate mortgages likely will continue to support thrift asset growth, funded in part by continued

expansion of large CDs, especially if the recent tendency to pull back from reliance on FHLB advances continues. Even with the pickup in M3 growth, this aggregate would fall short of the Committee's current 7-1/2 percent short-run range for June to September by about 2 percentage points. Total debt of nonfinancial sectors is expected to grow in August and September around the more moderate July pace, leaving the debt aggregate in September about 9-1/2 percent at an annual rate above its fourth-quarter base. While federal government borrowing has picked up following the debt ceiling disruption, private credit demands may be damped a bit, especially in long-term credit markets in response to the higher level of bond yields.

(12) Moderate increases in M1 also are expected over the balance of the quarter as interest-rate effects recede. Since mid-July, growth of both demand deposit balances and NOW accounts has resumed, and expansion of M1 at a 5-1/4 percent rate is expected on average over August and September under alternative B. But the arithmetic effect of weakness in June and July implies quarterly average growth of less than 1 percent in the current quarter and a velocity increase of almost 6 percent, the largest advance since early 1984.

(13) With respect to the long-run ranges, M2 growth from the fourth quarter to September is expected to come to only 4-1/4 percent under alternative B. Expansion at around an 11-1/2 percent rate over September to December would be required to hit the lower end of the long-run range in the fourth quarter; 9-1/2 percent growth would be needed to bring this aggregate to the lower end of its growth cone in December. While a further strengthening of M2 growth is possible over the fourth quarter should some of the unusual weakness of earlier this year be reversed, an acceleration of this

magnitude would seem unlikely without a very substantial decline in interest rates by early in the fourth quarter. M3 growth from its fourth-quarter base would be at a 5-1/4 percent rate by September under alternative B. With moderate increases in bank and thrift credit projected, this aggregate is likely to climb to within the lower portion of its range in the fourth quarter, even if interest rates moved a little higher in the latter part of the year, as in the staff forecast. Nonfinancial debt is still expected to grow 9-1/2 percent in 1987 on a quarterly average basis, in the middle of its 8 to 11 percent range. Growth of M1 from the fourth quarter of 1986 to September is projected at 6-1/2 percent under alternative B; with rates remaining close to current levels under this alternative through the third quarter, M1 growth for the year is not likely to differ very much from its growth through September.

(14) Alternative A assumes adjustment plus seasonal borrowing of $300 million would be used to construct reserve paths. The federal funds rate would fall to within a 6 to 6-1/4 percent range, probably gravitating toward the lower end once the market perceived the extent of the easing of reserve pressures. Other short-term rates would follow suit, with the 3-month Treasury bill rate probably slipping to around 5-1/2 percent. Given the easing of reserve pressures under this alternative, against the background of recent signs of monetary policy firming in some other major industrial countries, the dollar probably would come under renewed downward pressure. Bond market participants, recently preoccupied with inflationary concerns, might react negatively to a less restrictive stance of Federal Reserve policy, especially should it be accompanied by a substantial weakening of the dollar. In such circumstances, bond yields might not fall much, if at all, over the intermeeting period, absent a sharp break in oil prices.

(15) Owing to the decline of short-term market interest rates relative to offering rates on deposits, M2 growth under alternative A would be expected to jump to 7 percent over August and September. Its M1 component likely would accelerate to a 6-3/4 percent rate over the two months. Growth of M2 would move noticeably closer to its long-term range, but in September this aggregate still would have increased at only a 4-1/2 percent annual rate from its fourth-quarter base. While the easing contemplated under this alternative probably would have a pronounced effect on money growth in the fourth quarter, whether M2 could hit the 5-1/2 percent lower bound of its range without a further easing is uncertain. To make up the shortfall, a 10-1/2 percent September-to-December growth rate would be needed (or 8-3/4 percent to hit the bottom of the growth cone by December). For M3, the 7-1/2 percent growth foreseen for August and September under alternative A would lift this aggregate to around the lower bound of its annual range. Prospects would be good that the aggregate would move well within its range in the fourth quarter; the steeper yield curve expected under this alternative would provide additional incentives for businesses to focus credit demands on banks and for home mortgage credit to be met through ARMs at thrifts.

(16) Alternative C assumes an increase in the reserve path allowance for discount window borrowing to $700 million. Federal funds probably would trade in a 7 to 7-1/4 percent range and bill rates would move commensurately higher. A near-term firming of monetary policy does not now seem widely anticipated and long-term rates probably would tend to rise under this alternative. However, any such backup might be limited if such a policy action were seen as indicative of continued Federal Reserve commitment to restraining inflation. The dollar's recent firmness in exchange markets would be more likely to persist, at least for a time.

(17) The backup in short-term market rates under alternative C, together with lagging returns on deposits, would widen opportunity costs of holding liquid monetary assets. Expansion of M2 over August and September would be expected to average 5-1/4 percent, bringing growth from the fourth quarter through September to around 4 percent. Given the continuing effects of the rise in interest rates, this aggregate would be unlikely to accelerate much in the fourth quarter. The 6-3/4 percent growth anticipated for M3 over the last two months of this quarter would imply that growth of this aggregate from the fourth quarter base to September would be around 1/4 percentage point below the lower limit of its 1987 range. Even so, this aggregate could climb to the lower end of its range in the fourth quarter, assuming continued moderate expansion of assets at depository institutions. M1 might expand at only a 3 percent rate from June to September under this alternative, with growth for the year decelerating further to 6-1/4 percent by September, and dropping noticeably below 6 percent for the year.

Directive language

(18) Draft language for the operational paragraph, with the usual options for alternative specifications of reserve pressures, is presented below for Committee consideration. With regard to the language on intermeeting adjustments, the draft provides for the usual options regarding the symmetry or asymmetry of such adjustments with appropriate use of "would" or "might," and "somewhat" or "slightly".

If the Committee wished to change the implicit weighting of the various factors conditioning intermeeting reserve adjustments, it could shift or delete the language in the first two sets of brackets. For example, if the Committee wished to retain the current added emphasis on resisting inflation but to reduce that on the dollar in light of its recent strength, it might shift the "as well as" expression to before the reference to the foreign exchange market. Alternatively, it could delete the language in both brackets to give the various factors more equal weight.

The language in the third set of brackets is suggested should the Committee wish to indicate that somewhat faster growth in M2 and M3 than currently expected would be acceptable, under certain conditions, given their shortfall from the long-run ranges, which would be expected to persist through the third quarter under any of the alternatives.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain (Alt. B)/INCREASE SOMEWHAT (Alt. C) the existing degree of pressure on reserve positions. Somewhat (SLIGHTLY) greater reserve restraint (WOULD/MIGHT), or somewhat (SLIGHTLY) lesser reserve restraint would (MIGHT), be acceptable depending on indications of inflationary pressures [and on] developments in foreign exchange markets, [as well as] the behavior of the aggregates and the strength of the business expansion. This approach is expected to be consistent with growth in M2 and M3 over the period from June through September at annual rates around 5 ____ and ~~7-1/2~~ ___ percent, respectively. [SOMEWHAT FASTER GROWTH IN THE BROAD AGGREGATES WOULD BE ACCEPTABLE IN THE ABSENCE OF INDICATIONS OF WORSENING PRICE PRESSURES AND SUBSTANTIAL WEAKNESS IN THE DOLLAR, GIVEN THE SHORTFALL OF THESE AGGREGATES FROM THEIR ANNUAL RANGES.] Growth in M1, while picking up from recent levels, is expected to remain well below its pace during 1986. 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 ~~4 to 8~~ ___ TO ___ percent.

Selected Interest Rates

Percent

August 17, 1987

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
1986--High	9.55	7.21	7.30	7.35	7.94	7.91	7.21	9.50	8.60	9.38	9.52	10.83	8.72	10.97	10.99	9.09
Low	5.75	5.09	5.16	5.32	5.47	5.60	5.17	7.50	6.24	7.02	7.16	9.03	7.15	9.31	9.30	7.62
1987--High	7.62	5.98	6.20	6.72	7.15	6.91	6.19	8.25	8.19	8.78	8.95	10.45	8.68	10.80	10.81	8.01
Low	5.95	5.33	5.36	5.40	5.83	5.88	5.28	7.50	6.37	7.03	7.34	8.79	6.92	8.97	9.03	7.47
Monthly																
1987 July	6.56	5.83	5.86	5.90	6.37	6.42	6.02	8.16	6.86	7.30	7.27	9.57	7.95	10.18	10.51	8.52
Aug.	6.17	5.53	5.55	5.60	5.92	6.02	5.74	7.90	6.49	7.17	7.33	9.51	7.59	9.82	10.20	8.40
Sep.	5.89	5.21	5.35	5.45	5.71	5.74	5.34	7.50	6.62	7.45	7.62	9.56	7.53	9.98	10.01	8.20
Oct.	5.85	5.18	5.26	5.41	5.69	5.74	5.22	7.50	6.56	7.43	7.70	9.48	7.47	9.82	9.97	8.06
Nov.	6.04	5.35	5.41	5.48	5.76	5.84	5.21	7.50	6.46	7.25	7.52	9.31	7.23	9.56	9.70	7.90
Dec.	6.91	5.53	5.55	5.55	6.04	6.63	5.45	7.50	6.43	7.11	7.37	9.08	7.23	9.34	9.31	7.68
1987--Jan.	6.43	5.43	5.44	5.46	5.87	5.95	5.50	7.50	6.41	7.08	7.39	8.92	6.99	9.15	9.23	7.62
Feb.	6.10	5.59	5.59	5.63	6.10	6.12	5.32	7.50	6.56	7.25	7.54	8.82	7.03	9.04	9.12	7.56
Mar.	6.13	5.59	5.60	5.68	6.17	6.22	5.32	7.50	6.58	7.25	7.55	8.84	7.03	9.01	9.08	7.54
Apr.	6.37	5.64	5.90	6.09	6.52	6.39	5.49	7.75	7.32	8.02	8.25	9.51	7.87	10.05	9.83	7.58
May	6.85	5.66	6.05	6.52	6.99	6.83	5.79	8.14	8.02	8.61	8.78	10.05	8.35	10.58	10.60	7.88
June	6.73	5.67	5.99	6.35	6.94	6.86	6.01	8.25	7.82	8.40	8.57	10.05	8.13	10.38	10.54	7.93
July	6.58	5.69	5.76	6.24	6.70	6.57	--	8.25	7.74	8.45	8.64	10.17	8.09	10.20	10.28	7.81
Weekly																
May 6	7.30	5.62	5.97	6.35	6.85	6.72	5.62	7.96	7.80	8.42	8.63	9.87	8.20	10.39	10.52	7.85
13	6.75	5.57	5.84	6.41	6.85	6.76	5.75	8.00	7.90	8.52	8.69	10.10	8.20	10.73	10.48	7.87
20	6.77	5.80	6.20	6.72	7.10	6.89	5.78	8.21	8.19	8.78	8.93	10.27	8.68	10.83	10.81	7.99
27	6.80	5.61	6.15	6.57	7.15	6.91	5.88	8.25	8.16	8.70	8.86	10.05	8.33	10.58	10.70	8.01
June 3	6.65	5.69	6.15	6.44	7.01	6.87	5.93	8.25	8.01	8.57	8.74	10.14	8.29	10.56	10.70	7.97
10	6.70	5.60	5.95	6.41	6.99	6.87	5.97	8.25	7.95	8.55	8.71	10.04	8.16	10.38	10.66	7.97
17	6.75	5.60	5.92	6.30	6.90	6.85	6.01	8.25	7.73	8.33	8.51	10.00	7.96	10.28	10.44	7.91
24	6.79	5.70	5.97	6.30	6.89	6.87	6.04	8.25	7.69	8.27	8.44	10.03	8.10	10.28	10.35	7.88
July 1	6.61	5.73	5.99	6.29	6.92	6.86	6.04	8.25	7.76	8.34	8.48	10.01	8.16	10.20	10.36	7.86
8	6.64	5.63	5.65	6.22	6.76	6.69	6.06	8.25	7.65	8.30	8.43	10.07	8.05	10.18	10.30	7.86
15	6.52	5.59	5.52	6.13	6.68	6.58	6.05	8.25	7.65	8.37	8.53	10.12	8.03	10.13	10.23	7.81
22	6.57	5.61	5.69	6.18	6.63	6.49	6.01	8.25	7.70	8.44	8.65	10.34	8.08	10.23	10.23	7.77
29	6.63	5.79	6.01	6.37	6.70	6.53	5.95	8.25	7.86	8.59	8.84	10.44	8.14	10.28	10.27	7.75
Aug. 5	6.75	5.98	6.13	6.46	6.76	6.62	5.99	8.25	8.01	8.72	8.95	10.45	8.20	10.36	10.35	7.73
Aug. 12	6.58	5.88	6.07	6.48	6.72	6.60	6.00	8.25	7.98	8.72	8.95	10.24	8.04	10.27	10.34	7.78
Daily																
Aug 7	6.57	5.85	6.08	6.51	6.78	6.61	--	8.25	7.99	8.70	8.93	--	--	--	--	--
Aug. 13	6.67	5.96	6.01	6.43	6.69	6.59	--	8.25	7.90	8.63	8.85	--	--	--	--	--
Aug. 14	6.74p	5.96	6.04	6.45	6.69	6.60	--	8.25	7.86p	8.57p	8.77p	--	--	--	--	--

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

Strictly Confidential (FR)-
Class II FOMC

Money and Credit Aggregate Measures

Seasonally adjusted

AUG. 17, 1987

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)										
1984	5.4	7.9	8.6	23.2	10.7	12.2	11.2	16.0	13.4	13.9
1985	12.1	8.8	7.8	3.4	7.7	8.5	10.2	15.3	12.9	13.4
1986	15.3	8.9	6.9	8.4	8.8	8.1	9.8	14.7	12.7	13.2
QUARTERLY AVERAGE										
3RD QTR. 1986	16.5	10.6	8.6	6.2	9.7	8.1	10.6	14.7	11.9	12.5
4TH QTR. 1986	17.0	9.2	6.6	3.2	8.0	8.2	8.8	11.5	12.3	12.1
1ST QTR. 1987	13.1	6.3	4.0	6.4	6.4	6.4	10.1	9.7	10.6	10.4
2ND QTR. 1987	6.4	2.4	0.9	10.3	3.9	3.1	7.0	9.5	9.1	9.2
MONTHLY										
1986--JULY	16.4	11.8	10.3	7.0	10.9	8.0	12.2	13.8	10.2	11.1
AUG.	18.4	11.0	8.4	6.9	10.2	8.7	14.8	10.0	15.2	14.0
SEPT.	10.7	7.9	7.0	12.9	8.9	8.7	12.7	10.8	14.3	13.5
OCT.	14.4	10.7	9.5	-7.4	7.1	7.6	3.6	7.2	9.7	9.1
NOV.	18.8	6.4	2.2	5.5	6.2	7.6	6.4	14.4	11.0	11.8
DEC.	30.5	10.7	3.8	7.7	10.1	9.5	15.0	20.0	14.7	16.0
1987--JAN.	11.8	9.5	8.6	6.3	8.8	9.6	16.1	6.8	11.2	10.2
FEB.	-0.5	-0.3	-0.3	7.4	1.2	2.4	0.9	3.0	5.7	5.1
MAR.	3.4	1.4	0.7	2.6	1.6	-2.9	3.8	5.9	9.0	8.3
APR.	17.5	5.7	1.6	4.3	5.4	3.9	11.9	8.5	10.4	9.9
MAY	4.5	0.3	-1.1	22.6	4.7	9.2	7.4	15.1	9.3	10.6
JUNE	-10.4	1.0	5.1	21.8	5.2	1.4	3.2	14.9	8.3	9.8
JULY P	1.8	2.8	3.2	-1.0	2.0		1.0	4.5	9.0	7.9
MONTHLY LEVELS ($BILLIONS)										
1987--MAR.	739.5	2824.7	2085.2	698.4	3523.1	4172.4	2126.2	1828.2	5952.5	7780.7
APR.	750.3	2838.2	2087.9	700.9	3539.1	4186.0	2147.3	1841.1	6004.0	7845.1
MAY	753.1	2839.0	2085.9	714.1	3553.0	4218.0	2160.6	1864.2	6050.3	7914.6
JUNE	746.6	2841.3	2094.7	727.1	3568.5	4222.8	2166.3	1887.4	6092.1	7979.5
JULY P	747.7	2847.9	2100.2	726.5	3574.4		2168.1	1894.4	6137.9	8032.3
WEEKLY LEVELS ($BILLIONS)										
1987-JULY 6	750.3									
13	743.5									
20	748.0									
27 P	749.2									
AUG. 3 P	751.8									

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.

P-PRELIMINARY

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

AUG. 17, 1987

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA	MMDAs NSA	Savings deposits	Small denomination time deposits[1]	Money market mutual funds, NSA: general purpose, and broker/dealer[2]	Money market mutual funds, NSA: institutions only	Large denomination time deposits[3]	Term RPs NSA	Term Eurodollars NSA	Savings bonds	Short-term Treasury securities	Commercial paper	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
ANNUALLY (4TH QTR):																
1984	157.8	246.6	143.9	56.1	405.4	290.5	880.0	161.7	57.7	413.6	65.3	81.7	73.9	267.3	161.2	45.7
1985	169.7	268.6	175.9	67.2	509.2	301.9	880.3	176.6	64.7	433.3	63.0	77.6	78.9	295.7	201.7	43.2
1986	182.4	299.8	226.1	77.1	568.2	358.4	858.4	207.2	84.3	446.1	80.8	80.1	89.7	290.4	229.0	37.7
MONTHLY																
1986-JULY	177.6	288.2	204.5	71.9	546.6	327.4	880.9	199.7	77.5	448.3	74.4	78.3	84.3	292.6	214.5	39.0
AUG.	179.0	291.2	210.4	74.7	553.6	334.6	876.7	200.5	80.8	449.4	75.2	78.0	85.3	288.7	219.7	37.3
SEPT.	179.7	292.2	214.7	72.7	558.8	341.4	872.2	202.2	84.4	448.4	77.9	81.4	86.4	287.9	223.9	36.9
OCT.	181.2	293.4	220.3	77.4	564.4	350.5	864.7	206.9	84.5	445.5	78.0	78.0	87.7	286.7	228.4	37.7
NOV.	182.4	297.8	225.8	76.7	568.7	358.5	857.1	207.1	84.4	445.8	82.4	79.3	89.8	292.2	228.4	38.0
DEC.	183.5	308.3	232.3	77.3	571.4	366.3	853.5	207.6	84.1	447.1	82.0	83.0	91.7	292.4	230.2	37.5
1987-JAN.	186.0	305.1	240.1	83.5	574.3	376.7	851.6	209.0	84.0	449.7	81.2	84.8	92.7	289.3	239.7	37.8
FEB.	187.2	300.8	242.9	78.7	570.8	387.2	848.3	210.7	84.7	448.2	84.9	87.6	93.5	291.7	239.8	39.3
MAR.	187.7	299.3	245.7	75.3	570.6	396.3	845.9	211.6	84.9	450.1	84.9	88.2	94.3	276.1	239.1	39.8
APR.	188.9	303.9	250.7	75.1	565.5	406.1	843.9	211.0	83.1	454.6	91.0	84.1	95.1	265.8	244.9	41.2
MAY	190.2	303.9	252.2	74.2	557.1	411.7	843.3	209.1	81.8	459.7	96.4	87.6	95.9	272.4	254.3	42.4
JUNE	191.1	297.4	251.2	73.4	553.5	415.2	850.4	210.2	81.3	465.1	98.4	90.3	96.5	265.6	248.8	43.5
JULY P	192.1	296.3	252.5	74.0	548.1	416.8	858.9	210.4	83.4	464.9	96.5	86.8				

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

August 17, 1987

Period	Treasury bills net change[2]	Treasury coupons net purchases[3]					Federal agencies net purchases[4]					Net change outright holdings total[5]	Net RPs[6]
		within 1-year	1-5	5-10	over 10	total	within 1-year	1-5	5-10	over 10	total		
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1982	5,698	312	1,794	388	307	2,803	--	--	--	--	--	8,312	1,461
1983	13,068	484	1,896	890	383	3,653	--	--	--	--	--	16,342	-5,445
1984	3,779	826	1,938	236	441	3,440	--	--	--	--	--	6,964	1,450
1985	14,596	1,349	2,185	358	293	4,185	--	--	--	--	--	18,619	3,001
1986	19,099	190	893	236	158	1,476	--	--	--	--	--	20,178	10,033
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
II	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
III	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
IV	9,668	190	893	236	158	1,476	--	--	--	--	--	10,927	9,925
1987--QTR. I	-2,714	--	-252	--	--	-252	--	--	--	--	--	-3,676	-14,254
QTR. II	5,823	1,767	5,036	1,226	920	8,948	--	--	--	--	--	14,735	2,121
1987--Jan.	414	--	--	--	--	--	--	--	--	--	--	304	-10,701
Feb.	-4,189	--	-252	--	--	-252	--	--	--	--	--	-4,441	-4,723
Mar.	1,062	--	--	--	--	--	--	--	--	--	--	1,062	1,170
Apr.	3,573	1,232	3,642	914	669	6,457	--	--	--	--	--	9,993	15,801
May	1,697	--	--	--	--	--	--	--	--	--	--	1,697	-16,634
June	553	535	1,394	312	251	2,491	--	--	--	--	--	3,044	2,954
July	-4,909	--	-200	--	--	-200	--	--	--	--	--	-5,168	906
May 6	1,427	--	--	--	--	--	--	--	--	--	--	1,427	975
13	446	--	--	--	--	--	--	--	--	--	--	446	78
20	141	--	--	--	--	--	--	--	--	--	--	141	- 15,104
27	47	--	--	--	--	--	--	--	--	--	--	47	11,595
June 3	29	--	--	--	--	--	--	--	--	--	--	29	- 11,981
10	334	--	--	--	--	--	--	--	--	--	--	334	2,247
17	185	--	--	--	--	--	--	--	--	--	--	185	3,632
24	27	535	1,394	312	251	2,491	--	--	--	--	--	2,518	4,236
July 1	-268	--	--	--	--	--	--	--	--	--	--	-268	-7,511
8	-306	--	-75	--	--	-75	--	--	--	--	--	-381	857
15	-246	--	-125	--	--	-125	--	--	--	--	--	-371	-2,249
22	-714	--	--	--	--	--	--	--	--	--	--	-773	2,484
29	-3,512	--	--	--	--	--	--	--	--	--	--	-3,512	578
Aug. 5	176	--	5	--	--	5	--	--	--	--	--	181	604
12	--	--	--	--	--	--	--	--	--	--	--	--	-1,392
LEVEL--Aug. 12 ($ billions)	103.3	22.4	41.0	14.7	24.3	102.4	2.3	3.7	1.3	.3	7.6	216.8	-3.5

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 (+).