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Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

February 5, 1988

MONETARY POLICY ALTERNATIVES

Recent developments

(1) In the conduct of open market operations over the intermeeting period, the Desk increasingly placed more emphasis on reserve positions when feasible and less on day-to-day money market conditions, in accordance with the Committee's assessment that reductions in financial market fragility since the crash permitted a cautious return to more normal operating procedures. Still, informal adjustments to borrowing objectives were needed to take account of unusual borrowing behavior. After the December 15-16 FOMC meeting, reserve paths continued to be constructed assuming $300 million of adjustment plus seasonal borrowing, and the federal funds rate was expected to remain centered on 6-3/4 to 6-7/8 percent. Despite difficulties in estimating demands for excess reserves near the year-end, actual borrowing, at $355 million, turned out fairly close to path in the first reserve period. It was substantially higher in the next period at $1,460 million, however, owing to unusually heavy borrowing over the 4-day New Year's weekend and to subsequent borrowing resulting from a fire at a large bank; the Desk made allowance for both developments in its provision of nonborrowed reserves. Late in the next maintenance period ended January 27, with average borrowing running very low, an informal downward adjustment in the borrowing assumption was made to avoid forcing a bulge in borrowing in the final days of the period, and borrowing averaged $176 million.

(2) With incoming data suggesting some weakening in economic expansion, the borrowing assumption for the current period was formally reduced to $250 million, with funds expected to trade in a range of 6-1/2 to 6-3/4 percent. Over the first eight days, borrowing has averaged only about $165 million. The low borrowing in the current and previous maintenance periods may reflect a retrenchment after heavy discount window usage at year-end and in early January, as well as some remaining reluctance to be seen at the window given still unsettled financial markets and sensitivity to the financial condition especially of large banks. The funds rate averaged 6.82 percent over the three complete maintenance periods since the December FOMC meeting; in recent days funds have moved down toward 6-1/2 percent. Total reserves contracted in December with the continued weakness in transactions deposits, but rebounded strongly in January as reservable deposits grew rapidly and excess reserves increased as well.

(3) Year-end pressures in money markets proved much milder than expected by many market participants. A greatly reduced need for funds compared with the previous year, the timing of the statement date at the beginning of a maintenance period rather than on the settlement date, more advance planning by banks and others, and fairly generous reserve provision all contributed to this outcome. When pressures failed to develop as anticipated, rates on money market instruments of private issuers plummeted in late December. Yields on Treasury securities of all maturities and on longer-term debt of private borrowers changed little on balance over the first few weeks of the intermeeting period, despite considerable weakness in the dollar. More recently, rates have fallen as the dollar firmed on

evidence of improved trade data for November and as subsequent economic data were interpreted as pointing to a softer economy and modest price pressures, increasing the odds on a near-term easing of monetary policy. Short rates have fallen about 1/4 percentage point since mid-January, and the prime rate was reduced 1/4 point on February 2. Longer rates have dropped more, about 3/4 of a percentage point in recent weeks, leaving them at nine-month lows. Broad equity indexes are up 1-1/2 to 3-1/2 percent on balance since mid-December, though daily price movements still were unusually large on occasion. Spreads between short-term private and Treasury issues narrowed substantially with the unwinding of year-end pressures, and have fallen a little further in recent weeks. However, these spreads remain well above their lows of last summer.

(4) The dollar weakened sharply on foreign exchange markets in the last half of December.

. The dollar jumped further in mid-January with the release of better-than-expected U.S. trade figures, and since then has traded in a fairly narrow range, even as U.S. interest rates declined relative to those abroad. On balance, the weighted average dollar is up about 3-1/4 percent from the time of the December Committee meeting.

. The Desk's intervention accounted for nearly $2-1/4 billion ,
divided about equally between System and Treasury accounts.

(5) Preliminary data show a strong rebound in money growth in January after weakness in December. Over the two months combined, M2 and M3 grew at 6 and 5 percent rates respectively, close to the Committee's short-run paths of 5 and 6 percent, and M1 expanded at a 5 percent pace.[1] Demand deposits were particularly weak late last year, reflecting in part incentives to adjust compensating balances downward before year-end, but other checkable deposits also fell in November and December without a corresponding increase in other deposits in M2. The pickup of money growth in January was widespread over various components of the aggregates. Reasons for the extent of the weakness late last year and strength in January are not entirely clear. However, the decline in interest rates generally after mid-October and in private rates around year-end probably has begun to boost money demand this year. Within M2, small time deposits have continued stronger than the liquid components, though by a smaller margin as their yield advantage erodes. Flows into money market mutual funds in both M2 and M3 were especially strong in January as rates on these funds reflected higher pre-year-end yields on short-term instruments. Even so, for the two months combined, the non-M2 component of M3 moderated from its rapid growth earlier in the fall, owing to slower growth in large CDs and term RPs. Core deposit inflows quickened over the two months, and with bank credit growth little changed on average from the previous few months, banks reduced their reliance on managed liabilities.

1. Monetary data presented in the bluebook are based on new benchmarks and seasonal factors and incorporate minor redefinitions of M1. A discussion of these changes is presented in the Appendix. The revised data should be considered confidential until their release, planned for February 18.

(6) Domestic nonfinancial debt is estimated to have grown at a reduced 8 percent pace on average over December and January. In January, business offerings of bonds rose as yields fell, while shorter-term borrowing in the form of bank loans and paper moderated. Households stepped up consumer credit borrowing in December while their mortgage borrowing remained moderate. Tax-exempt bond offerings continued light, despite a pickup in refunding issues. Federal borrowing contracted in January, as the Treasury cut back on offerings in light of a relatively high cash balance.

Key Monetary Aggregates
(Seasonally adjusted annual rates of growth)

	November	December	January^p	November to January^p	QIV '87 to January^p
Money and credit aggregates					
M1	-5.6	-3.0	13.3	5.1	4.7
M2	.9	2.4	9.8	6.1	5.9
M3	4.9	2.1	8.3	5.2	5.7
Domestic nonfinancial debt	10.8	8.4	7.8	8.2	8.5
Bank credit	-1.1	-0.9	11.8	5.5	5.4
Reserve measures[1]					
Nonborrowed reserves[2]	-5.1	-12.8	8.9	-2.0	-0.7
Total reserves	-10.4	-11.4	17.8	3.1	3.3
Monetary base	8.3	3.1	16.6	9.9	10.8
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	231	294	723	--	--
Excess reserves	923	1028	1247	--	--

p - Preliminary.
1. The January figures assume a level of adjustment plus seasonal borrowing of $250 million over the reserve period ending February 10 and excess reserves of $850 million.
2. Includes "other extended credit" from the Federal Reserve.
NOTES: 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 changes in reserve requirements. Money stock data incorporate benchmark and seasonal updates and minor definitional adjustments.

Long-run alternatives

(7) The table below gives three alternative specifications for growth in the money and credit aggregates from the fourth quarter of 1987 to the fourth quarter of 1988. Alternative I would carry over to 1988 the ranges that were in effect for 1987; the ranges for 1988 adopted on a tentative basis in July are given in alternative II; alternative III would involve a reduction in the ranges. The table includes ranges for M1 thought to be consistent with those for the broader aggregates, should the Committee wish to re-establish an objective for this aggregate.

	Alt. I	Alt. II	Alt. III
Growth from QIV '87 to QIV '88			
M2	5-1/2 to 8-1/2	5 to 8	4-1/2 to 7-1/2
M3	5-1/2 to 8-1/2	5 to 8	4-1/2 to 7-1/2
Debt of domestic nonfinancial sectors	8 to 11	7-1/2 to 10-1/2	7 to 10
Memo:			
M1	4 to 10	3 to 9	2 to 8

(8) The growth in money and debt the staff considers consistent with its forecast for the economy would be encompassed under any of the alternatives. The greenbook forecast is for nominal GNP growth of around 5-3/4 percent, and is thought to involve interest rates at or only a little lower than current reduced levels in the first half of the year when the economy may be relatively soft, with some upward drift in the second half as the economy strengthens. M2 velocity should decline in the first half in response to the drop in market interest rates from October peaks and then strengthen somewhat toward year-end. Given the pattern of interest rate movements, changes in opportunity costs in 1988 are projected to have little

net effect on demand for M2 for the year. This aggregate would be expected to expand about 6 percent, roughly in line with the growth in income, and consistent with the long-run behavior of its velocity. (Charts of velocity behavior for the various aggregates, including the velocities implied by 1988 projections, are on the following pages.) Projected M2 growth in 1988 also presumes the absence of special factors that apparently were damping money demand in 1987. Econometric models of M2 demand tended to over-predict growth of this aggregate in 1987, given actual income and interest rates, by about a percentage point; the projection for 1988 assumes any such shortfall would be smaller. The behavior of household saving may tend to bolster M2 growth this year; saving was especially weak last year, but is expected to increase substantially in 1988, and some of this should find its way into liquid forms of wealth holding. In addition, IRAs and Keoghs, whose use in the first part of 1987 to reduce taxable income in 1986 was still unrestricted, will be less attractive this year, perhaps bolstering demand for savings vehicles in M2.

(9) M3 would be expected to accelerate to around a 6-1/2 percent rate of growth under the staff economic forecast, implying a small decline in its velocity, nearly in line with its secular downtrend. Expansion of bank and thrift credit is expected to moderate somewhat in 1988 relative to 1987. These institutions are likely to continue to securitize and sell assets, given pressures on capital, holding down the growth of their credit next year. However, to fund asset growth depository institutions are expected to rely less in 1988 than in 1987 on sources of funds from outside M3. In part, this reflects stronger expansion of core deposits in M2, and

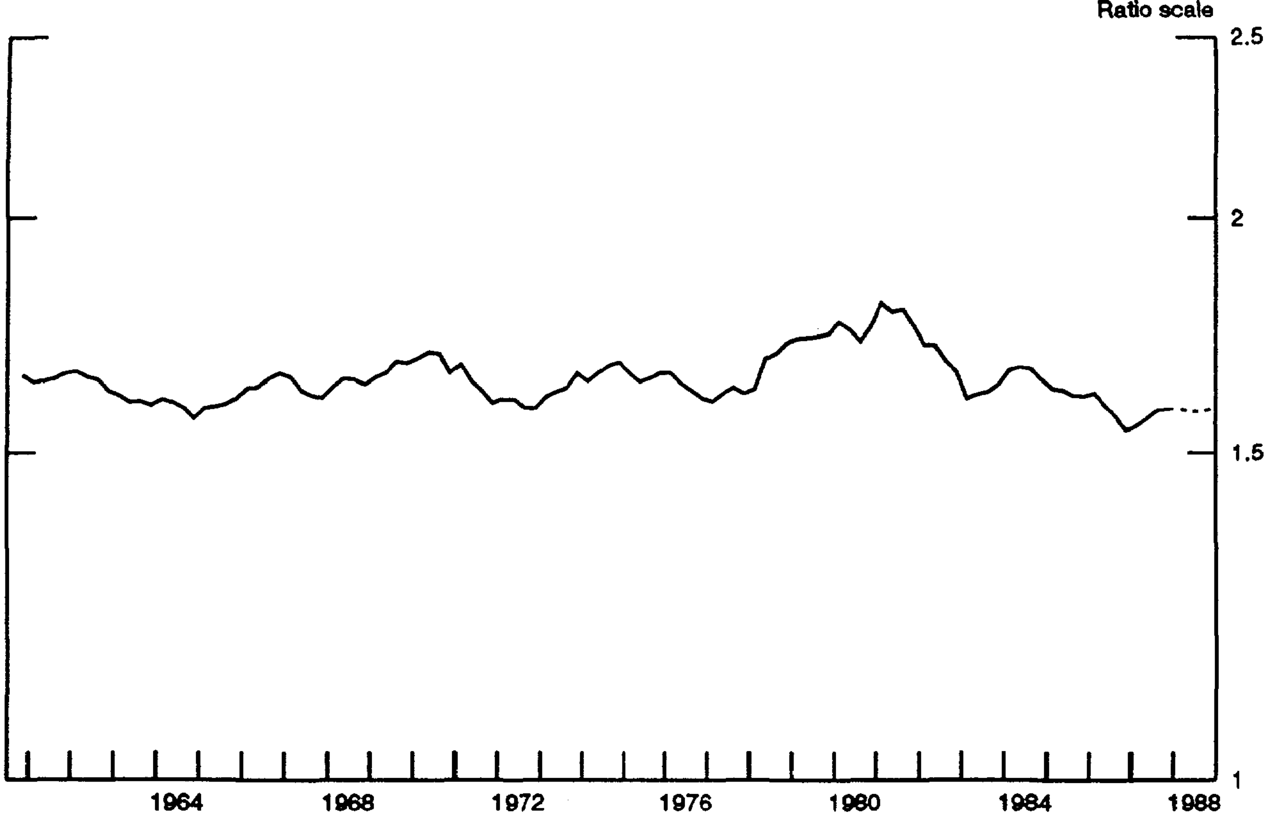
a reduced need to rely on managed liabilities, some of which likely would be outside M3. For example, borrowing from foreign branches in the Eurodollar market is expected to be less than in 1987--though still above the relatively low totals of 1985 and 1986. In addition, Treasury deposits at commercial banks, which increased substantially in 1987, are not expected to rise further on balance over the year.

(10) The growth of the debt of nonfinancial sectors is projected to slow in 1988, to a rate of 8-1/2 percent, also within the ranges under any of the alternatives. Consequently, debt growth would remain well in excess of the expansion of GNP. Borrowing will continue to be boosted by sizable net equity retirements by businesses, owing partly to a dropoff in gross stock issuance at lower share prices, and business credit demands also will be augmented by an increase in the financing gap. In the household sector, the recent pattern of credit usage is projected to persist in 1988, with sluggish consumer credit and robust growth of mortgages, some of which would represent home equity borrowing to substitute for consumer debt. Among governments, federal borrowing should decrease as the deficit falls on a calendar year basis, and debt issuance by state and local entities is projected to remain quite light as capital spending by many of these governments is restrained by budget problems as well as the continuing effects of tax reform. The foreign sector will remain an important source of funds in 1988, as the current account deficit, while declining, stays very high. The placement of foreign inflows in various financial assets depends in part on the extent of intervention purchases of dollars and the disposition of those funds. Implicit in the staff expectation of a lower

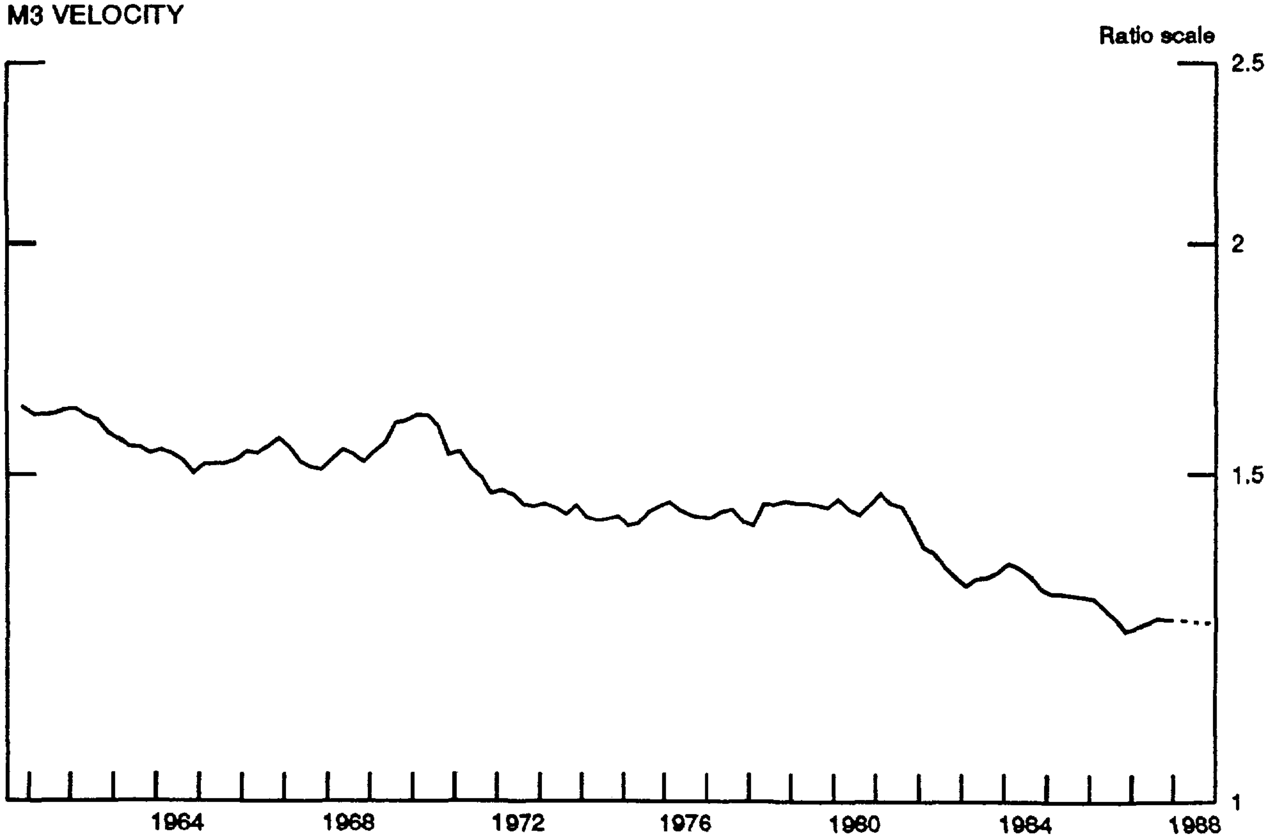
Chart 1

ACTUAL AND PROJECTED VELOCITY OF M2 AND M3*

M2 VELOCITY



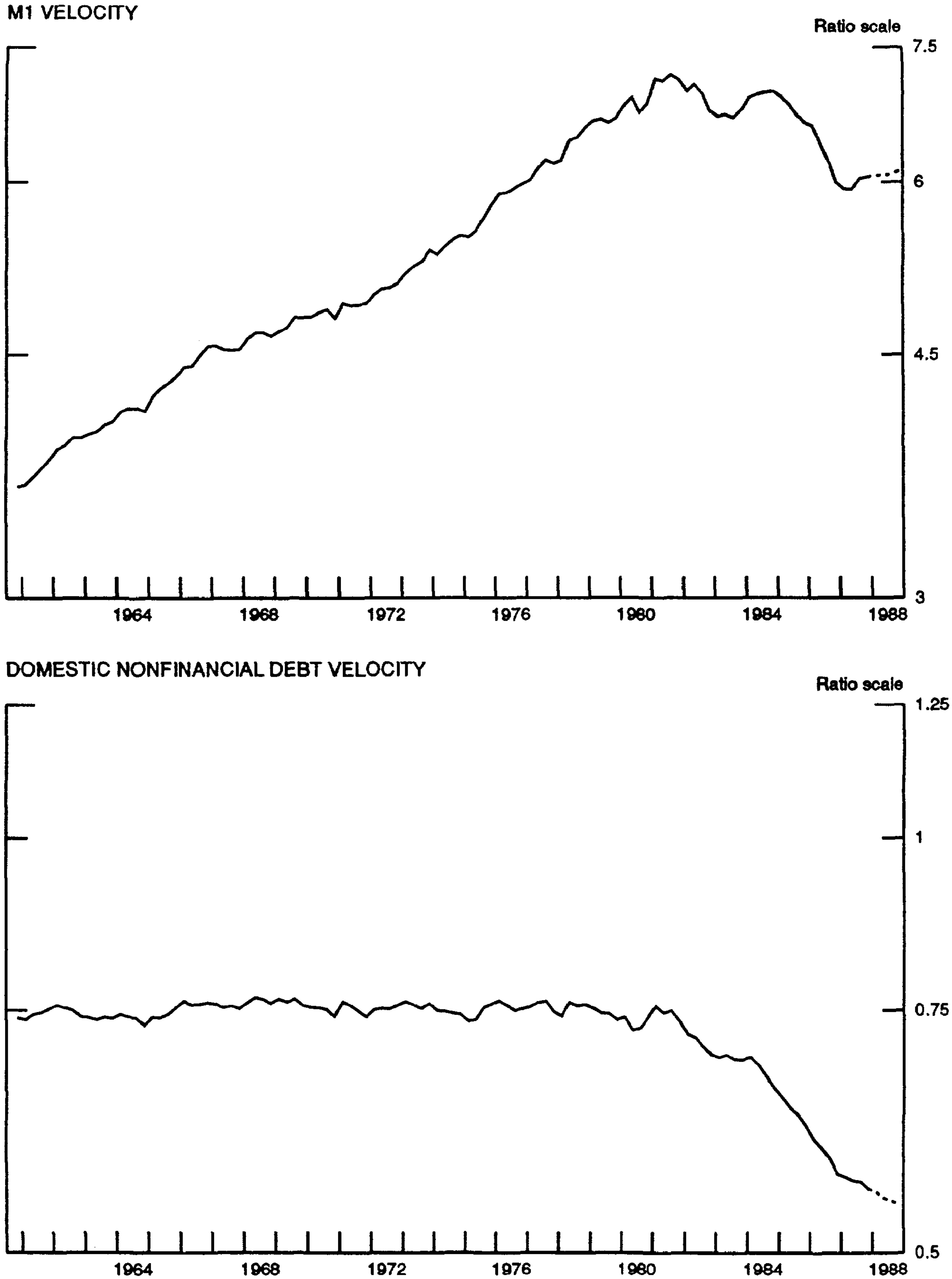
M3 VELOCITY



* Projections for 1988 are based on staff forecast of GNP and money.

Chart 2

ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT*



* Projections for 1988 based on staff forecast of GNP and money or debt.

dollar by the end of 1988 is the view that dollar assets of a magnitude corresponding to the projected current account deficit will not be willingly accumulated by private investors at existing exchange rates and interest rate differentials.

(11) The staff's expectations for growth in money and credit would be around the middle of the Committee's tentative ranges, given in alternative II. They are also near the middle of the slightly lower growth rates associated with alternative III. But the alternative III ranges would better allow for another shortfall in money demand in 1988, if, for example, households finance spending more from liquid assets and less from borrowing as the tax deductibility of consumer debt interest is phased down further, or if banks once again tap the Eurodollar market in size. The alternative III ranges would also leave room for greater restraint on demand should the possibility of a strengthening of inflation pressures emerge as a substantial risk. With the economy already at higher levels of resource utilization, such a risk could arise in the process of continuing adjustment of our external imbalances, especially should real net exports advance more rapidly than projected, or domestic demand be insufficiently damped to release the needed resources. In addition, a flight from dollar assets could cause a sharp drop in the exchange value of the dollar, boosting expectations of future price and resource pressures. In any of these circumstances, with fiscal policy unlikely to move toward greater restraint, the responsibility would fall on monetary policy to promote better balance between internal spending and production. If, for example, circumstances called for a rise in interest rates beginning in the first half of the year,

money growth later in the year might need to be around, or even below, the lower end of the alternative II ranges, accelerating relatively little from 1987. Alternative III would leave open this possibility. A further reduction in ranges would underscore the Committee's intention to resist inflation pressures, should they arise, and continue to move toward price stability.

(12) The more rapid growth associated with the Alternative I ranges could be considered necessary to offset the shortfall from last year, if that shortfall were thought to point to substantial risks on the side of weak demands in the economy. Significantly lower interest rates might be needed to support income growth if demands in the U.S. economy from domestic or foreign sources were appreciably below expectations. Such a fall in rates is likely to involve much faster M2 growth, perhaps even exceeding the upper end of its tentative range, and a substantial decline in velocity would be anticipated, as in 1985 and 1986. This alternative also would allow room for a reversal of the unexplained portion of weakness in money growth in 1987. If this were to occur, relatively high rates of money growth might be needed to promote satisfactory economic performance.

(13) M1 would be expected to expand around 5 percent with the staff's economic forecast. Given the projected pattern of interest rates, OCDs should expand about in line with income, but with domestic spending sluggish, currency expansion might be damped. The velocity of demand deposits should rise at a moderate pace reflecting continuing efforts to economize on zero-interest deposits and ongoing shifts from compensating balances to fees to pay for services. Because of the higher interest

elasticities of M1, a range about twice the width of those for M2 and M3 would be needed to encompass the same set of possible outcomes for income and interest rates. Thus a range for M1 of 3 to 9 percent would appear consistent with alternative II, placing expected M1 growth a little below the midpoint of its range, as would be the case for M2 under this alternative. Alternatives I and III would seem to be consistent with M1 ranges of a percentage point more and less, respectively.[2]

2. M1A might increase at about 4-1/2 percent over the year. Over an annual horizon, M1A is less interest elastic than M2, but given uncertainties about the behavior of demand deposits in recent years, a 3 percentage point range might also be appropriate for this aggregate, should the Committee choose to set one. An M1A range consistent with alternative II might be 3-1/2 to 6-1/2 percent, with 1/2 of a percentage point more or less for alternatives I and III respectively.

Short-run policy alternatives

(14) Three short-run policy alternatives are presented for consideration by the Committee. Current reserve and money market conditions would be maintained under alternative B while alternatives A and C would involve somewhat easier or somewhat tighter conditions, respectively. The level of adjustment plus seasonal borrowing associated with alternative B, $250 million, is expected to entail federal funds trading around recent 6-1/2 to 6-3/4 percent levels. Such a relationship between borrowing and the funds rate would be broadly consistent with recent behavior but would involve a lower amount of borrowing than indicated by model relationships, reflecting some continued unusual reluctance by banks to borrow from the window. Remaining uncertainties about the borrowing relationship, as well as lingering sensitivities in financial markets, might call for some continued flexibility in implementing open market operations. Alternative A would be associated with a reduction in the federal funds rate of about 1/2 percentage point--achieved by a lowering of the borrowing objective to $100 million, a near-frictional level--or by a 1/2 percentage point cut in the discount rate. Alternative C would be associated with an increase in the borrowing objective to about $450 million and a rise in the federal funds rate of approximately 1/2 percentage point.

(15) Expected growth rates of the monetary aggregates from November to March under each alternative are shown in the table below, along with associated federal funds rate ranges. Implied December to March growth rates, which are higher owing to the weakness in December, also are shown, should the Committee wish to shift the base for short-run money growth from

November to December, the more usual starting point for quarterly growth specifications. (More detailed data are shown on the table and charts on the following pages).

	Alt. A	Alt. B	Alt. C
Growth from November to March			
M2	7	6-1/2	6
M3	6-1/4	6	5-3/4
M1	6-3/4	6	5-1/4
Associated federal funds rate range	4 to 8	4 to 8	5 to 9
Implied growth from December to March			
M2	8-1/2	8	7-1/2
M3	7-1/2	7-1/4	7
M1	10	9	8

(16) Alternative B contemplates a continuation of reserve conditions now expected to prevail after the recent slight easing. Although market participants may be uncertain as to whether a reduction in reserve pressures has already occurred, the structure of market interest rates suggests that some easing has already been discounted. With federal funds around the 6-5/8 percent area, the three-month Treasury bill rate would likely fluctuate around or a little above its recent 5-5/8 percent level. This bill rate is unusually low relative to the expected funds rate, but public supplies of Treasury bills continue to be reduced by Treasury paydowns. Rates on private money market instruments also would be expected to remain around current reduced levels prompting another 1/4 percentage point cut in the prime rate as the spread between the prime and money market yields still remains wide after this week's reduction. The recent rally in

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 October	2894.8	2894.8	2894.8	3643.7	3643.7	3643.7	756.2	756.2	756.2
November	2897.0	2897.0	2897.0	3658.5	3658.5	3658.5	752.7	752.7	752.7
December	2902.7	2902.7	2902.7	3664.8	3664.8	3664.8	750.8	750.8	750.8
1988 January	2926.5	2926.5	2926.5	3690.3	3690.3	3690.3	759.1	759.1	759.1
February	2944.8	2943.3	2941.8	3713.0	3712.4	3711.8	764.2	763.4	762.6
March	2963.9	2960.0	2956.1	3734.1	3731.7	3729.3	769.4	767.5	765.6
Monthly Growth Rates									
1987 October	6.0	6.0	6.0	7.5	7.5	7.5	14.0	14.0	14.0
November	0.9	0.9	0.9	4.9	4.9	4.9	-5.6	-5.6	-5.6
December	2.4	2.4	2.4	2.1	2.1	2.1	-3.0	-3.0	-3.0
1988 January	9.8	9.8	9.8	8.3	8.3	8.3	13.3	13.3	13.3
February	7.5	6.9	6.3	7.4	7.2	7.0	8.1	6.8	5.5
March	7.8	6.8	5.8	6.8	6.2	5.7	8.2	6.4	4.7
Quarterly Ave. Growth Rates									
1987 Q1	6.5	6.5	6.5	6.5	6.5	6.5	13.2	13.2	13.2
Q2	2.6	2.6	2.6	4.7	4.7	4.7	6.6	6.6	6.6
Q3	2.8	2.8	2.8	4.5	4.5	4.5	0.8	0.8	0.8
Q4	4.1	4.1	4.1	5.6	5.6	5.6	3.9	3.9	3.9
1988 Q1	6.5	6.2	6.0	6.2	6.1	6.0	5.9	5.4	4.9
Nov. 87 to Mar. 88	6.9	6.5	6.1	6.2	6.0	5.8	6.7	5.9	5.2
Dec. 87 to Mar. 88	8.4	7.9	7.4	7.6	7.3	7.0	9.9	8.9	7.9
Jan. 88 to Mar. 88	7.7	6.9	6.1	7.1	6.7	6.3	8.1	6.6	5.1
Q4 86 to Q4 87	4.0	4.0	4.0	5.4	5.4	5.4	6.3	6.3	6.3
Q4 87 to Q1 88	6.5	6.2	6.0	6.2	6.1	6.0	5.9	5.4	4.9
Q4 87 to Jan. 88	5.9	5.9	5.9	5.7	5.7	5.7	4.7	4.7	4.7
Q4 87 to Feb. 88	6.4	6.2	6.0	6.3	6.2	6.1	5.8	5.4	5.0
Q4 87 to Mar. 88	6.8	6.4	6.0	6.4	6.2	6.0	6.4	5.7	4.9
1987 Target Ranges:		5.5 to 8.5			5.5 to 8.5				
1988 Ranges (Tentative):		5.0 to 8.0			5.0 to 8.0				

Chart 1

ACTUAL AND TARGETED M2

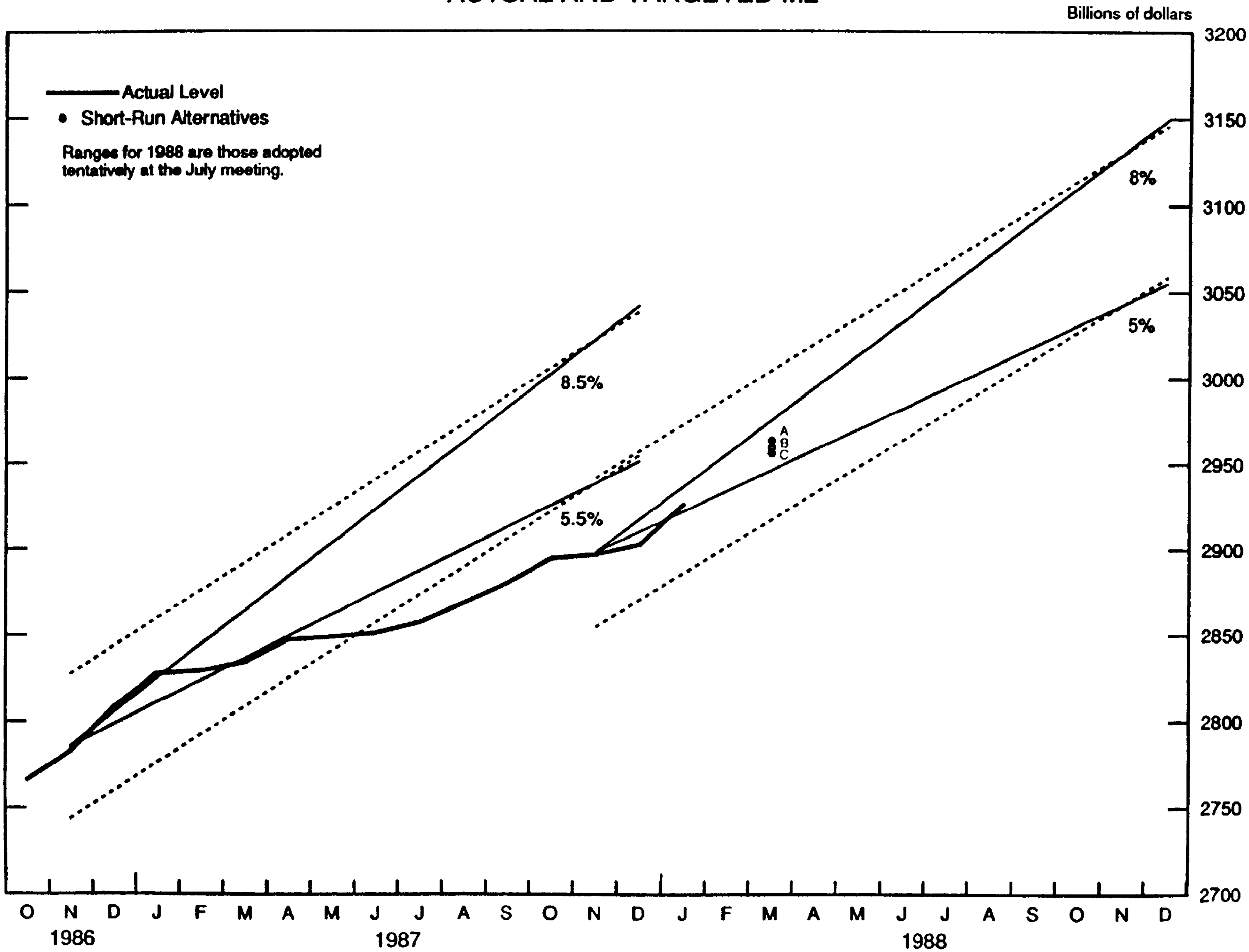


Chart 2

ACTUAL AND TARGETED M3

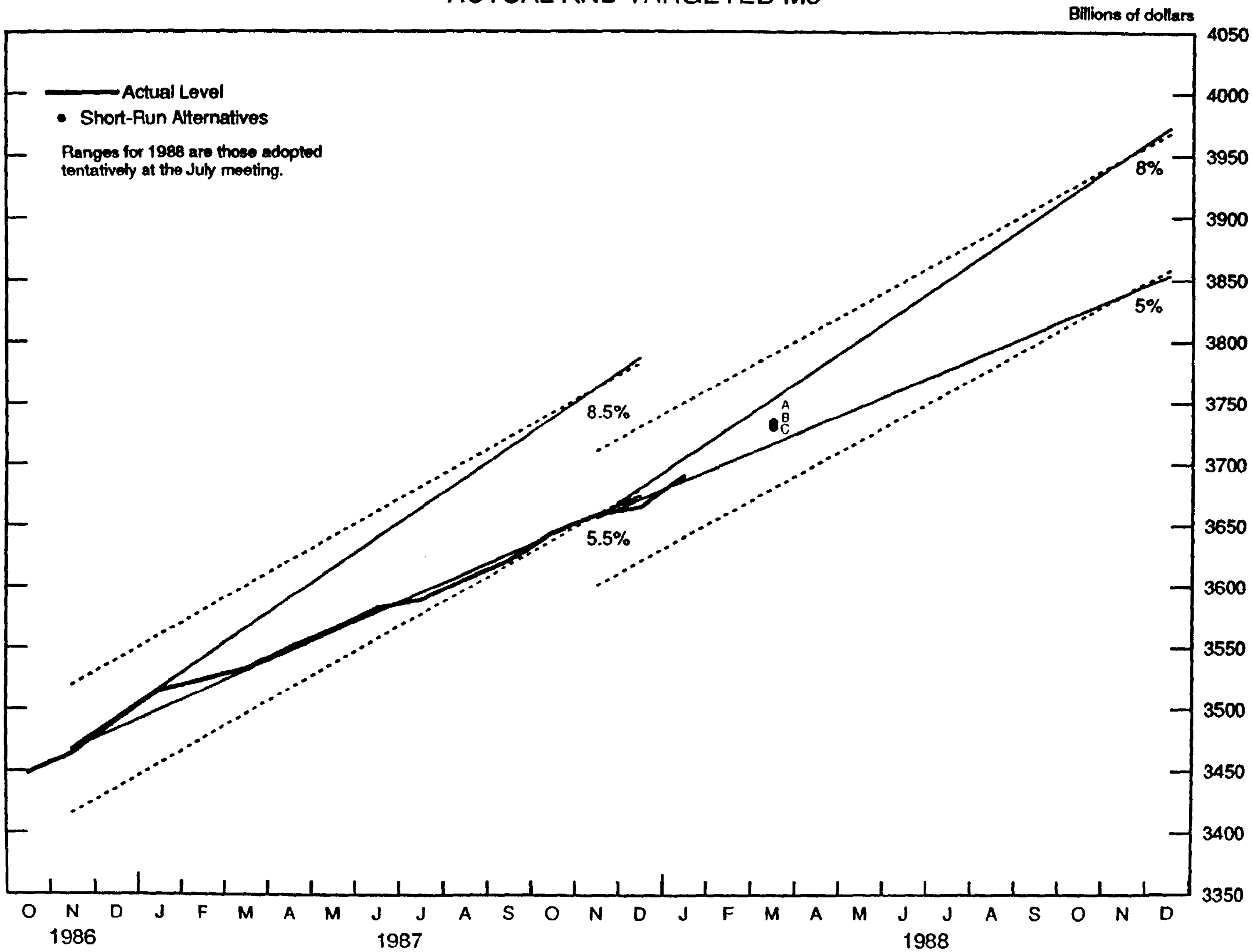
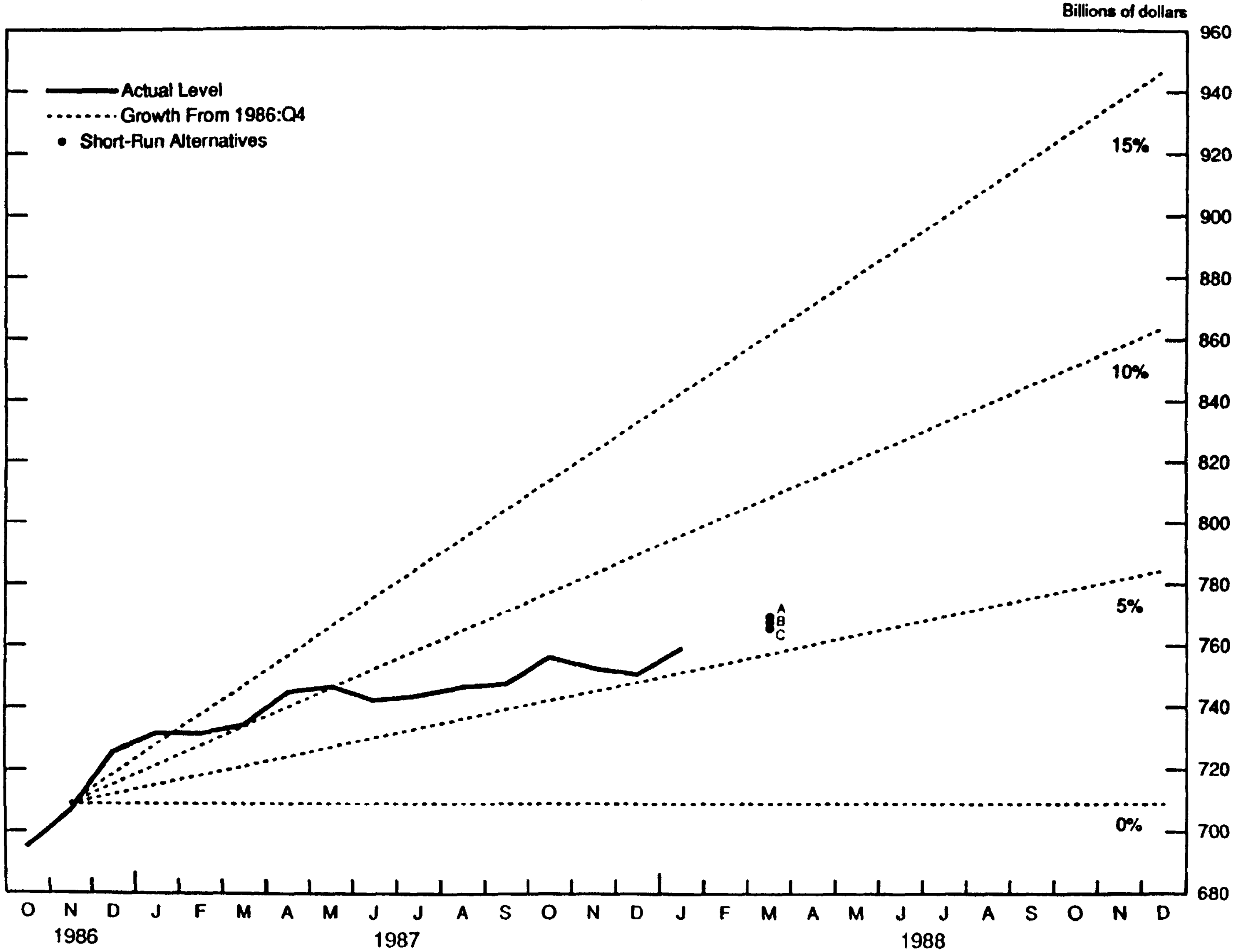


Chart 3

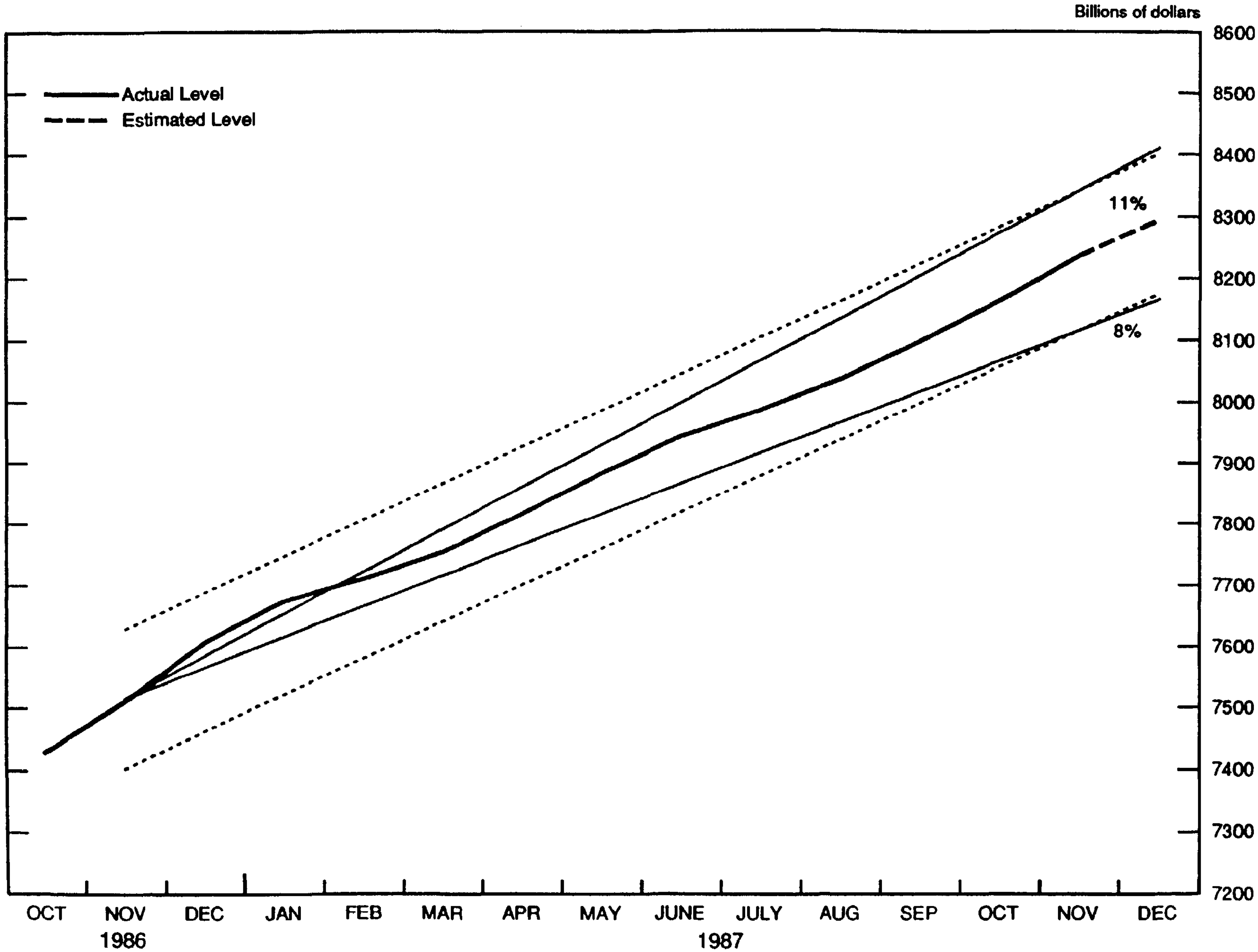
M1



Billions of dollars
Actual Level
Growth From 1986:Q4
Short-Run Alternatives
15%
10%
5%
0%
A
B
C
960
940
920
900
880
860
840
820
800
780
760
740
720
700
680
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1986
1987
1988

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
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUNE
JULY
AUG
SEP
OCT
NOV
DEC
1986
1987

the long-term credit markets appears to reflect an outlook for sluggish economic growth, broadly consistent with the staff forecast; consequently, long-term rates are expected to vary around current levels, absent renewed substantial downward pressure on the dollar.

(17) Under the specifications of alternative B, M2 would be expected to grow in February and March at nearly a 7 percent annual rate, a little above the average pace of December and January. On a quarterly average basis, growth would accelerate from 4 percent in the fourth quarter to 6-1/4 percent in the current quarter as the response of demand to the drop in interest rates since October more than offsets the effects of slower income growth. Consequently, M2 velocity would decline at around a 1 percent rate--the first drop in more than a year. From its fourth-quarter base, M2 by March would advance at a 6-1/2 percent annual rate, the midpoint of its tentative long-run range. Within M2, rate relationships would tend to increase the attractiveness of the more liquid interest-earning components owing to the stickier adjustment of their offering rates following the recent declines in market rates. From the fourth quarter, M1 by March would rise at a 5-3/4 percent rate.

(18) M3, under alternative B, would advance at a 6 percent annual rate from November to March as growth over February and March strengthens somewhat from the 5 percent average of December and January. By March, M3 would be 6-1/4 percent above its fourth-quarter base, also near the center of the tentative range. Inflows to core deposits at banks and thrifts are likely to fall short of credit demands, leading both types of institutions to issue a moderate volume of managed liabilities in M3. Credit growth at

banks is expected to slow somewhat in February and March from its exceptional January pace, which was boosted by a resurgence of security lending. Overall credit growth is forecast to increase slightly over coming months, reflecting primarily a pickup in borrowing by the federal government from its recent reduced pace. A continued wide financing gap along with a quickening pace of corporate acquisitions and restructurings are expected to give rise to sizable business credit demands. In addition to heavier borrowing from banks and in the commercial paper market, businesses are expected to tap the bond markets to avail themselves of reduced long-term borrowing costs. By March domestic nonfinancial debt is expected to be around 9 percent above its fourth-quarter base, also in the middle of its tentative range.

(19) Although some easing of reserve conditions is now thought by market participants to be in train or at least in prospect, the reserve specifications of alternative A embody a larger move by the Federal Reserve than has been anticipated in market rates. The downward movement of rates associated with this alternative might be especially large if it were accomplished through open market operations, since the resultant narrow spread of the funds rate over the discount rate could foster expectations that a further easing through a discount rate cut was imminent. The easier conditions of alternative A are likely to put considerable downward pressure on the dollar, though the extent to which this would show through in dollar declines over the near-term would be affected by the incoming trade data. The response of bond yields to an easing of policies and possible drop in the dollar would depend importantly on perceptions of the situation in the

economy at the time. If economic conditions were thought to be quite soft--weaker than consistent with the staff forecast--and incoming price data suggested no more inflationary pressures, the drop in the dollar would be less likely to adversely affect the bond market, which could register further substantial gains.

(20) The tightening of conditions under alternative C would be entirely unexpected, and probably would result in substantial increases in both short- and, at least initially, long-term interest rates. Stock prices could drop, perhaps sharply, if the higher rates were seen as contributing to weakness in the economy as well as raising the rate at which future earnings are discounted, and risk premiums could widen again. The effects on long-term rates and markets might be muted over time, however, if this policy initiative bolstered confidence in the future purchasing power of the dollar, in circumstances in which inflation concerns had been aggravated by strong downward pressure on the dollar or greater economic strength than now generally anticipated.

(21) The changes in reserve conditions under alternatives A and C would have fairly small effects on money growth in the current quarter, which has less than two months to run. Under alternative A, growth of the aggregates would accelerate noticeably relative to the pace of the last two months, leaving both M2 and M3 at or a little above the midpoints of their tentative long-run ranges in March. The delayed effects of the declines in interest rates contemplated under this alternative could push these aggregates well into the upper halves of those ranges during the second quarter, given the staff's GNP forecast. Thus, this alternative might be

considered most consistent with the higher paths for money growth envisioned under long-run alternative I. Under the tighter reserve conditions of alternative C, the broad aggregates would remain within the lower halves of their tentative ranges through March. By reversing most of the interest rate declines since October, Alternative C would tend to keep money growth on a fairly slow path over coming months, dropping further below the midpoint of the tentative ranges, and might be most consistent with the growth rates in long-run alternative III.

Directive language

1988 Ranges

(23) Presented below for Committee consideration is draft directive language relating to the decisions on the longer-run ranges (draft language for the operating paragraph is shown in (24) below). As is now the case, a separate paragraph would be devoted to M1. The draft assumes in light of the discussion at the December meeting that the Committee will continue its practice of not setting a numerical range for M1. The proposed paragraph explaining this decision is drawn from that in the current directive, but it has been shortened and modified somewhat.

> The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee ~~agreed~~ at THIS ~~its~~ meeting ~~in July to reaffirm the ranges~~ established ~~in February for~~ growth RANGES of ~~5-1/2 to 8-1/2~~ ___ TO ___ percent for ~~both~~ M2 and ___ TO ___ PERCENT FOR M3, measured from the fourth quarter of ~~1986~~ 1987 to the fourth quarter of ~~1987~~ 1988. ~~The Committee agreed that growth in these aggregates around the lower ends of their ranges might be appropriate in light of developments with respect to velocity and signs of the potential for some strengthening in underlying inflationary pressures, provided that~~

~~economic activity was expanding at an acceptable pace~~. The monitoring range for growth in total domestic nonfinancial debt WAS set ~~in February for the year was left unchanged~~ at ___ TO ___ ~~8 to 11~~ percent FOR THE YEAR.

~~For 1988, the Committee agreed in July on tentative ranges of monetary growth, measured from the fourth quarter of 1987 to the fourth quarter of 1988, of 5 to 8 percent for both M2 and M3. The Committee provisionally set the associated range for growth in total domestic nonfinancial debt at 7-1/2 to 10-1/2 percent~~.

With respect to M1, ~~the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. Because of this sensitivity, which had been reflected in a sharp slowing of the decline in M1 velocity over the first half of the year~~, the Committee again decided ~~at the July meeting~~ not to establish a specific target for 1988 ~~growth in M1 over the remainder of 1987 and no tentative range was set for 1988~~. THE BEHAVIOR OF THIS AGGREGATE IN RELATION TO ECONOMIC ACTIVITY AND PRICES HAS BECOME VERY SENSITIVE TO CHANGES IN INTEREST RATES, AMONG OTHER FACTORS, AS EVIDENCED BY SHARP SWINGS IN ITS VELOCITY IN RECENT YEARS.

CONSEQUENTLY, the appropriateness of changes in M1 this year WILL ~~would~~ continue to be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures. ~~The Committee welcomed substantially slower growth of M1 in 1987 than in 1986 in the context of continuing economic expansion and some evidence of greater inflationary pressures. The Committee indicated in July that in reaching operational decisions over the balance of the year it would take account of growth in M1 in the light of circumstances then prevailing. The issues involved with establishing a target for M1 will be carefully reappraised at the beginning of 1988.~~

Operational Paragraph

(24) Draft language for the operational paragraph, including the usual options, is shown below. Should the Committee wish to retain a sentence on its operating procedures, an updated version of the second sentence in the current directive [shown in brackets] could be used.

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. [The Committee agrees that ~~the passing of time and the year end should permit further progress toward restoring a~~ THE CURRENT MORE normal approach to open market operations REMAINS

APPROPRIATE; ~~although~~ still sensitive conditions in financial markets and uncertainties in the economic outlook may continue to call for some flexibility in operations.] Taking account of conditions in financial markets, somewhat (SLIGHTLY) lesser reserve restraint (WOULD) (MIGHT), or somewhat (SLIGHTLY) greater reserve restraint would (MIGHT) be acceptable depending on the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from November through March at annual rates of about 5 __ percent and 6 __ percent, respectively. Over the same period, growth in M1 is expected to remain relatively limited. 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.

APPENDIX A

MONEY STOCK REVISIONS

Measures of the money stock have been revised to incorporate annual benchmark and seasonal adjustments as well as certain technical redefinitions affecting M1. This appendix discusses and presents tables comparing growth rates of the old and new series. These revisions are to be regarded as **strictly confidential** until their release scheduled for February 18.

Redefinitions

The redefinitions make the treatment of thrift institutions identical with that of commercial banks in the construction of the monetary aggregates. Under the new definitions, all vault cash held by thrift institutions is excluded from the currency component of M1, and all demand deposits and other checkable deposits (OCDs) held by thrifts are excluded from the demand deposit and OCD components, respectively. Previously, only a portion of the vault cash and transaction deposits held by thrifts were excluded at the M1 level--representing the estimated amount held to service their OCD liabilities--while the remainder were subtracted at the M2 level. In practice, however, it was impossible to estimate this allocation with any degree of confidence since, unlike other components of the monetary aggregates, these estimates could not be benchmarked from reported data.

In addition to the redefinitions noted above, automatic transfer service (ATS) accounts at credit unions--like those at commercial banks and all other thrift institutions--are now included in the OCD component of M1, rather than in the savings deposit component of M2. This change is consistent with the inclusion of all ATS accounts as transaction deposits for purposes of reserve requirements, and reflects accumulating evidence that under deposit deregulation credit union ATS accounts have behaved more like OCDs than like savings deposits at these institutions.

On balance, the redefinitions lowered M1 by $6.2 billion in January 1988, but increased the growth rate of this aggregate over 1987 by 0.3 percentage point. The redefinitions had no effect on levels of M2 or M3.

Benchmark Revisions

Deposits of commercial banks and thrifts have been benchmarked using call reports through June 1987 and incorporate revisions from other sources as well. The benchmark revisions had negligible impacts on monetary growth over 1987 and on the quarterly pattern of growth within the year.

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 effects on the broad patterns of growth in 1987, 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 0.2 percentage point in the second half, while lowering second half growth for M2 and M3 by a similar amount.

Table A-1

Comparison of Revised and Old M1 Growth Rates
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to Redefinition (4)	Benchmark (5)	Seasonals (6)
Monthly						
1986--Oct.	13.1	14.4	-1.3	0.1	-0.2	-1.2
Nov.	19.9	18.8	1.1	0.5	0.1	0.5
Dec.	32.3	30.5	1.8	0.7	-0.3	1.4
1987--Jan.	9.9	11.8	-1.9	-0.8	-0.8	-0.3
Feb.	-0.2	-0.5	0.3	0.5	0.3	-0.5
Mar.	4.8	3.4	1.4	0.6	0.8	0.0
Apr.	17.2	17.5	-0.3	0.7	0.3	-1.3
May	2.9	4.5	-1.6	-0.3	0.2	-1.5
June	-7.1	-10.4	3.3	0.5	0.0	2.8
July	2.4	1.6	0.8	0.1	0.0	0.7
Aug.	4.7	5.5	-0.8	0.5	0.0	-1.3
Sept.	1.6	0.3	1.3	0.3	0.0	1.0
Oct.	14.0	15.3	-1.3	-0.1	0.5	-1.7
Nov.	-5.6	-6.5	0.9	0.2	0.2	0.5
Dec.	-3.0	-5.6	2.6	0.6	0.1	1.9
1988--Jan.	13.3	15.1	-1.8	-1.2	0.0	-0.6
Quarterly						
1986--QIV	17.2	17.0	0.2	0.4	-0.1	-0.1
1987--QI	13.2	13.2	0.0	0.1	-0.1	0.0
QII	6.6	6.4	0.2	0.4	0.3	-0.5
QIII	0.8	0.0	0.8	0.3	0.0	0.5
QIV	4.0	3.7	0.3	0.2	0.2	-0.1
Semi-Annual						
1987--QIV '86 to QII '87	10.0	9.9	0.1	0.2	0.2	-0.3
QII '87 to QIV '87	2.4	1.8	0.6	0.3	0.1	0.2
Annual (QIV TO QIV)						
1986	15.6	15.2	0.4	0.2	0.2	0.0
1987	6.3	5.9	0.4	0.3	0.1	-0.0

Table A-2

Comparison of Revised and Old M2 Growth Rates
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to: Redefinition (4)	Benchmark (5)	Seasonals (6)
Monthly						
1986--Oct.	9.8	10.8	-1.0	0.0	-0.2	-0.8
Nov.	7.2	6.5	0.7	0.0	-0.5	1.2
Dec.	10.8	10.8	0.0	0.0	-0.2	0.2
1987--Jan.	8.5	9.6	-1.1	0.0	-0.3	-0.8
Feb.	0.6	-0.2	0.8	0.0	0.0	0.8
Mar.	2.1	1.5	0.6	0.0	0.1	0.5
Apr.	5.5	5.7	-0.2	0.0	0.1	-0.3
May	0.7	0.2	0.5	0.0	0.0	0.5
June	1.0	0.5	0.5	0.0	0.2	0.3
July	2.7	2.7	0.0	0.0	0.0	0.0
Aug.	4.8	6.2	-1.4	0.0	-0.1	-1.3
Sept.	4.8	5.4	-0.6	0.0	0.1	-0.7
Oct.	6.0	6.9	-0.9	0.0	0.1	-1.0
Nov.	0.9	-0.5	1.4	0.0	0.0	1.4
Dec.	2.4	1.9	0.5	0.0	0.0	0.5
1988--Jan.	9.8	10.8	-1.0	0.0	0.0	-1.0
Quarterly						
1986--QIV	10.4	10.7	-0.3	0.0	-0.1	-0.2
1987--QI	7.5	7.5	0.0	0.0	-0.2	0.2
QII	2.9	2.6	0.3	0.0	0.1	0.2
QIII	2.2	2.2	0.0	0.0	0.0	0.0
QIV	4.2	4.6	-0.4	0.0	0.1	-0.5
Semi-Annual						
1987--QIV '86 to QII '87	5.2	5.1	0.1	0.0	-0.1	0.2
QII '87 to QIV '87	3.2	3.4	-0.2	0.0	0.0	-0.2
Annual (QIV TO QIV)						
1986	10.1	9.8	0.3	0.0	0.4	-0.1
1987	4.3	4.3	0.0	0.0	-0.1	0.1

Table A-3

Comparison of Revised and Old M3 Growth Rates
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to Redefinition (4)	Benchmark (5)	Seasonals (6)
Monthly						
1986--Oct.	7.0	7.4	-0.4	0.0	-0.1	-0.3
Nov.	5.4	6.5	-1.1	0.0	-1.5	0.4
Dec.	9.2	10.3	-1.1	0.0	-1.4	0.3
1987--Jan.	8.5	8.9	-0.4	0.0	-0.5	0.1
Feb.	3.0	1.2	1.8	0.0	0.6	1.2
Mar.	3.0	1.6	1.4	0.0	0.7	0.7
Apr.	5.8	5.6	0.2	0.0	0.4	-0.2
May	5.0	5.5	-0.5	0.0	-0.2	-0.3
June	5.8	5.8	0.0	0.0	0.1	-0.1
July	2.3	2.2	0.1	0.0	0.1	0.0
Aug.	5.7	6.9	-1.2	0.0	0.0	-1.2
Sept.	5.1	5.4	-0.3	0.0	0.0	-0.3
Oct.	7.5	7.7	-0.2	0.0	0.2	-0.4
Nov.	4.9	4.4	0.5	0.0	-0.1	0.6
Dec.	2.1	1.6	0.5	0.0	0.0	0.5
1988--Jan.	8.3	8.3	0.0	0.0	0.0	0.0
Quarterly						
1986--QIV	9.2	9.7	-0.5	0.0	-0.5	0.0
1987--QI	7.1	7.5	-0.4	0.0	-0.4	0.0
QII	4.3	3.6	0.7	0.0	0.3	0.4
QIII	4.4	4.5	-0.1	0.0	0.0	-0.1
QIV	5.6	5.8	-0.2	0.0	0.0	-0.2
Semi-Annual						
1987--QIV '86 to QII '87	5.7	5.6	0.1	0.0	0.0	0.1
QII '87 to QIV '87	5.0	5.2	-0.2	0.0	0.0	-0.2
Annual (QIV TO QIV)						
1986	9.8	9.6	0.2	0.0	0.3	-0.1
1987	5.4	5.5	-0.1	0.0	0.0	-0.1

February 8, 1988

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
		Treasury bills secondary market							U.S. Gov't. constant maturity yields					conventional home mortgages		
														sec mkt	primary	market
	federal funds	3 month	6 month	12 month	cds sec mkt 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	3-year	10-year	30-year	corp. A utility rec off	muni. Bond Buyer	fixed-rate	fixed-rate	ARM
86--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	9.29	7.62
87--High	7.62	6.84	7.36	7.64	8.49	8.12	6.70	9.25	9.29	9.96	9.97	11.50	9.59	11.98	11.58	8.45
Low	5.95	5.24	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																
FEB 87	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	9.08	7.56
MAR 87	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	9.04	7.54
APR 87	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 87	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
JUN 87	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
JUL 87	6.58	5.69	5.76	6.24	6.70	6.57	6.02	8.25	7.74	8.45	8.64	10.17	8.09	10.20	10.28	7.81
AUG 87	6.73	6.04	6.15	6.54	6.75	6.62	6.00	8.25	8.03	8.76	8.97	10.37	8.11	10.39	10.33	7.76
SEP 87	7.22	6.40	6.64	7.11	7.37	7.26	6.22	8.70	8.67	9.42	9.59	10.84	8.61	11.01	10.89	7.95
OCT 87	7.29	6.13	6.69	7.05	8.02	7.38	6.57	9.07	8.75	9.52	9.61	11.07	9.06	11.42	11.26	8.25
NOV 87	6.69	5.69	6.19	6.50	7.24	6.77	6.45	8.78	7.99	8.86	8.95	10.39	8.39	10.73	10.65	8.00
DEC 87	6.77	5.77	6.36	6.69	7.66	7.76	..	8.75	8.13	8.99	9.12	10.42	8.43	10.82	10.65	7.96
JAN 88	6.83	5.81	6.25	6.52	6.92	6.76	..	8.75	7.87	8.67	8.83	10.05	8.11	10.43	10.43	7.85
Weekly																
NOV 4 87	6.43	5.42	6.03	6.38	7.40	6.91	6.47	9.00	8.01	8.90	9.04	10.39	8.28	10.81	10.79	8.11
NOV 11 87	6.68	5.67	6.12	6.41	7.08	6.67	6.49	8.75	7.90	8.76	8.85	10.38	8.41	10.73	10.66	7.98
NOV 18 87	6.77	5.85	6.32	6.57	7.17	6.78	6.68	8.75	7.99	8.83	8.92	10.31	8.44	10.62	10.60	7.97
NOV 25 87	6.78	5.73	6.18	6.51	7.19	6.75	6.43	8.75	7.98	8.86	8.95	10.40	8.43	10.74	10.55	7.94
DEC 2 87	6.89	5.47	6.17	6.58	7.60	7.03	6.42	8.75	8.10	9.03	9.15	10.42	8.40	10.73	10.60	7.95
DEC 9 87	6.84	5.66	6.31	6.64	7.64	7.62	6.46	8.75	8.09	9.02	9.18	10.70	8.57	10.98	10.66	7.91
DEC 16 87	6.58	5.90	6.45	6.76	7.92	8.12	6.53	8.75	8.25	9.17	9.33	10.41	8.47	10.83	10.69	7.99
DEC 23 87	6.75	5.88	6.44	6.72	7.67	7.97	6.61	8.75	8.11	8.92	9.02	10.21	8.40	10.73	10.64	7.98
DEC 30 87	6.81	5.75	6.32	6.68	7.50	7.67	6.69	8.75	8.09	8.85	8.94	10.25	8.29	10.66	10.61	7.95
JAN 6 88	7.02	5.83	6.29	6.64	7.05	6.88	6.79	8.75	8.02	8.81	8.94	10.30	8.28	10.68	10.50	7.87
JAN 13 88	6.81	5.79	6.35	6.67	7.02	6.83	6.57	8.75	8.06	8.91	9.07	9.99	8.31	10.43	10.53	7.88
JAN 20 88	6.89	5.88	6.28	6.56	6.92	6.77	6.48	8.75	7.88	8.68	8.85	9.92	8.00	10.28	10.34	7.82
JAN 27 88	6.66	5.80	6.17	6.38	6.83	6.70	6.38	8.75	7.73	8.48	8.65	9.76	7.84	10.08	10.16	7.74
FEB 3 88	6.77	5.68	6.07	6.25	6.66	6.62	6.33	8.68	7.47	8.25	8.41	9.59	7.84	10.00	9.94	7.64
Daily																
JAN 29 88	6.79	5.64	6.03	6.23	6.67	6.63	..	8.75	7.48	8.26	8.42	..	..	..	..	..
FEB 4 88	6.57	5.65	6.05	6.23	6.63	6.57	..	8.50	7.44	8.24	8.46	..	..	..	..	..
FEB 5 88	6.56p	5.64	5.96	6.13	6.57	6.52	..	8.50	7.32p	8.12p	8.29p	..	..	..	..	..

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, 13 and 14 are 1-day quotes for Friday, Thursday or Friday, respectively, following the end of the statement week. Column 13 is the Bond Buyer revenue index. Column 14 is the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments. Column 15 is the average contract rate on new commitments for fixed-rate mortgages(FRMs) with 80 percent loan-to-value ratios at a sample of savings and loans. Column 16 is the average initial contract rate on new commitments for 1-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

FEB. 8, 1988

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	M1	M2	nontransactions components		M3	L	total loans and investments[1]	U.S. government[2]	other[2]	total[2]
			in M2	in M3 only						
	1	2	3	4	5	6	7	8	9	10
PERCENT ANNUAL GROWTH:										
ANNUALLY (QIV TO QIV)										
1985	12.1	8.8	7.8	3.3	7.7	8.5	10.2	15.2	12.7	13.3
1986	15.3	9.0	6.9	8.9	8.9	8.1	9.7	14.7	12.8	13.2
1987	5.9	4.1	3.4	10.9	5.4		7.5	8.9	9.7	9.5
QUARTERLY AVERAGE										
1ST QTR. 1987	13.1	6.4	4.1	6.6	6.5	6.2	10.1	12.2	10.0	10.5
2ND QTR. 1987	6.4	2.3	0.9	12.2	4.3	3.3	7.0	8.7	8.7	8.7
3RD QTR. 1987	-0.1	3.0	4.1	11.8	4.8	4.1	5.7	5.9	8.8	8.1
4TH QTR. 1987	3.7	4.3	4.5	11.2	5.7		6.4	7.5	10.2	9.5
MONTHLY										
1987--JAN.	11.8	9.6	8.7	6.4	8.9	9.4	16.1	9.4	11.1	10.6
FEB.	-0.5	-0.2	-0.1	6.9	1.2	2.2	0.8	9.4	4.7	5.8
MAR.	3.4	1.5	0.9	2.2	1.6	-3.2	3.8	11.2	5.4	6.8
APR.	17.5	5.7	1.4	5.5	5.6	3.5	11.9	7.6	10.1	9.5
MAY	4.5	0.2	-1.3	26.9	5.5	9.8	7.4	8.2	11.0	10.3
JUNE	-10.4	0.5	4.4	26.7	5.8	4.2	3.9	7.4	9.7	9.2
JULY	1.6	2.7	3.0	0.7	2.2	-1.3	1.4	1.8	7.9	6.5
AUG.	5.5	6.2	6.6	9.3	6.9	7.4	10.8	8.8	7.4	7.8
SEPT.	0.3	5.4	7.2	5.7	5.4	8.1	9.7	6.5	9.8	9.0
OCT.	15.3	6.9	4.0	10.8	7.7	10.0	10.2	3.9	11.5	9.7
NOV.	-6.5	-0.5	1.6	23.6	4.4	4.2	-1.1	12.6	10.2	10.8
DEC.	-5.6	1.9	4.5	0.3	1.6		-0.1	8.0	8.6	8.4
1988--JAN. PE	15	11	9.	-1.	8.					
MONTHLY LEVELS ($BILLIONS)										
1987--AUG.	751.0	2862.7	2111.7	742.0	3604.8	4252.1	2189.0	1902.8	6134.7	8037.5
SEPT.	751.2	2875.7	2124.4	745.5	3621.1	4280.7	2206.7	1913.1	6184.9	8098.0
OCT.	760.8	2892.2	2131.4	752.2	3644.4	4316.5	2225.5	1919.3	6244.4	8163.7
NOV.	756.7	2890.9	2134.2	767.0	3657.8	4331.5	2223.4	1939.5	6297.6	8237.1
DEC.	753.2	2895.4	2142.2	767.2	3662.6		2222.4	1952.5	6342.5	8294.9
WEEKLY LEVELS ($BILLIONS)										
1987-DEC. 7	754.8									
14	751.1									
21	752.3									
28	752.3									
1988-JAN. 4	756.8									
11	758.4									
18 P	761.4									
25 P	766.3									

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

PE-PRELIMINARY ESTIMATE

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

FEB. 8, 1988

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):																
1985	169.7	268.6	175.9	67.2	509.2	301.9	880.3	176.6	64.7	433.3	62.7	77.4	78.9	294.7	201.7	43.2
1986	182.4	299.8	226.1	78.0	568.2	358.4	858.4	207.2	84.3	446.1	82.2	81.0	89.7	287.0	229.0	37.7
1987	198.1	296.0	255.8	80.6	527.5	413.1	899.2	219.7	86.2	483.2	107.8	93.2				
MONTHLY																
1986-DEC.	183.5	308.3	232.3	78.4	571.4	366.3	853.5	207.6	84.1	447.1	84.0	83.8	91.7	288.1	230.2	37.5
1987-JAN.	186.0	305.1	240.1	84.7	574.3	376.7	851.6	209.0	84.0	449.7	83.6	85.4	92.7	284.1	239.7	37.8
FEB.	187.2	300.8	242.9	80.1	570.8	387.2	848.5	210.7	84.7	448.2	87.2	88.0	93.5	285.6	239.8	39.3
MAR.	187.7	299.3	245.7	76.9	570.6	396.3	846.1	211.6	84.9	450.1	87.2	88.4	94.3	269.2	239.1	39.8
APR.	188.9	303.9	250.7	76.8	565.5	406.1	843.9	211.0	83.1	454.6	94.5	83.8	95.1	256.5	244.9	41.2
MAY	190.2	303.9	252.2	75.9	557.1	411.7	843.2	208.9	81.8	459.7	102.8	87.0	95.9	262.9	254.3	42.4
JUNE	191.1	297.4	251.2	74.5	553.5	415.2	850.1	209.6	81.3	465.1	107.8	89.7	96.5	261.1	252.1	43.5
JULY	192.1	296.2	252.6	75.1	548.1	416.7	858.5	209.6	83.4	465.1	107.5	85.7	97.3	252.9	248.4	43.4
AUG.	193.2	296.4	254.6	79.2	543.7	419.9	865.5	212.2	83.4	466.8	108.0	90.5	97.8	256.3	250.2	42.9
SEPT.	194.5	294.1	255.6	82.8	539.2	419.3	871.5	215.4	80.7	468.9	109.7	94.8	98.2	260.1	267.5	43.8
OCT.	196.2	300.5	257.1	85.4	532.6	416.8	882.5	217.9	81.6	476.0	106.9	93.7	98.7	272.5	256.4	44.5
NOV.	198.4	295.8	255.5	79.0	526.3	412.0	900.9	219.9	88.5	485.1	109.7	93.1	99.5	278.5	260.6	45.1
DEC.	199.7	291.7	254.7	77.5	523.7	410.6	914.1	221.2	88.6	488.6	106.7	92.7				

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

February 8, 1988

Net Changes in System Holdings of Securities[1]
Millions of dollars, not seasonally adjusted

STRICTLY CONFIDENTIAL (FR)
CLASS II--FOMC

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (–)	Net change outright holdings total[4]	Net RPs[5]
	Net purchases[2]	Redemptions (–)	Net change	Net purchases[3] within 1-year	1–5	5–10	over 10	Redemptions (–)	Net change			
1982	8,698	3,000	5,698	312	1,797	388	307	--	2,803	189	8,312	1,461
1983	15,468	2,400	13,068	484	1,896	890	383	87	3,566	292	16,342	-5,445
1984	11,479	7,700	3,779	826	1,938	236	441	--	3,440	256	6,964	1,450
1985	18,096	3,500	14,596	1,349	2,185	358	293	--	4,185	162	18,619	3,001
1986	20,099	1,000	19,099	190	893	236	158	--	1,476	398	20,178	10,033
1987	12,933	9,029	3,905	3,358	9,779	2,441	1,858	70	17,366	276	20,994	-11,033
1986--Q3	4,668	--	4,668	--	--	--	--	--	--	90	4,577	4,044
Q4	9,668	--	9,668	190	893	236	158	--	1,476	218	10,927	9,925
1987--Q1	-1,914	800	-2,714	--	-252	--	--	--	-252	110	-3,076	-14,254
Q2	5,823	--	5,823	1,767	5,036	1,226	920	--	8,948	37	14,735	2,121
Q3	4,690	8,229	-3,539	143	2,356	619	493	--	3,610	59	12	-1,433
Q4	4,334	--	4,334	1,449	2,639	596	445	70	5,059	70	9,323	2,533
1987--Sept.	4,528	3,657	871	143	2,551	619	493	--	3,805	--	4,676	26
Oct.	795	--	795	300	--	--	--	--	300	56	1,039	7,493
Nov.	3,388	--	3,388	670	50	--	--	70	650	1	4,038	-3,331
Dec.	150	--	150	479	2,589	596	445	--	4,109	13	4,246	-1,629
1988--Jan.												
1987--Nov. 4	644	--	644	150	--	--	--	--	150	--	794	-14,095
11	198	--	198	195	--	--	--	--	195	--	393	3,744
18	2,953	--	2,953	185	--	--	--	70	115	--	3,068	-4,309
25	51	--	51	120	--	--	--	--	120	--	171	1,982
Dec. 2	127	--	127	20	50	--	--	--	70	1	196	9,998
9	100	--	100	479	2,589	596	445	--	4,109	--	4,210	-10,780
16	--	--	--	--	--	--	--	--	--	11	-11	-2,443
23	--	--	--	--	--	--	--	--	--	--	--	2,334
30	--	--	--	--	--	--	--	--	--	3	-3	5,130
Jan. 6	--	--	--	--	--	--	--	--	--	--	--	-2,320
13	--	--	--	--	--	--	--	--	--	--	--	-2,527
20	--	600	-600	--	--	--	--	--	--	131	-731	-290
27	--	--	--	--	--	--	--	--	--	--	--	2,451
Feb. 3	-330	--	-330	--	-350	--	--	--	-350	21	-701	-4,565
LEVEL--Feb. 3	--	--	111.5	23.2	47.1	15.2	25.4	--	110.9	--	229.8	-6.8

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

within 1-year	1–5	5–10	over 10	total
2.6	3.3	1.3	.2	7.4