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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

October 28, 1988

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Since the September FOMC meeting, reserve paths have continued to specify adjustment plus seasonal borrowing of \$600 million. Over the two complete maintenance periods since the meeting, borrowing averaged about \$630 million, with borrowing in the first period well above the targeted level, boosted by unexpectedly strong demands for excess reserves. Federal funds have averaged around the upper end of the 8 to 8-1/4 percent range expected to be associated with the borrowing objective. Early in the intermeeting period, this firmness partly reflected pressures related to the quarter-end. More recently demands for discount window credit have been weaker than expected. In part this may reflect some reluctance by larger banks to tap discount credit as a consequence of unusually heavy borrowing on several successive settlements Wednesdays. In addition discount window usage by smaller banks has been quite light in October, perhaps in association with reduced needs for this source of liquidity; credit growth at these banks is estimated to have slackened, while household deposits have continued to expand and Treasury note balances have remained at unusually high levels. The weaker demand for discount credit seems to have persisted through recent days, with borrowing averaging \$440 million in the first eight days of the current maintenance period and federal funds still trading around 8-1/4 percent, about 1/8 percentage point above the average in the weeks leading up to the September FOMC meeting. Seasonal

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

	August	September	October ^{pe}	August to October ^{pe}	QIV '87 to October ^{pe}
<u>Money and credit aggregates</u>					
M1	.3	-.2	3/4	1/4	4-1/4
M2	2.3	1.2	1-1/2	1-1/2	5-1/4
M3	3.8	1.6	4-3/4	3	6-1/4
Domestic nonfinancial debt	8.7	8.9	--	--	8-1/2 ³
Bank credit	7.2	-.6	7-1/4	3-1/4	7-1/2
<u>Reserve measures¹</u>					
Nonborrowed reserves ²	3.3	-5.6	1-1/2	-2	3
Total reserves	-2.9	-1.7	-2-1/4	-2	3-1/4
Monetary base	2.5	5.6	5-1/4	5-1/2	7-1/4
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	588	781	587	--	--
Excess reserves	953	982	1010	--	--

pe--preliminary estimate.

1. Reserves data for October incorporate assumptions of \$600 million of adjustment plus seasonal borrowing and \$950 million of excess reserves for the maintenance period ending November 2.

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

3. QIV'87 to September.

NOTES: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

borrowing has averaged about \$300 million in the current period, down from peak levels of around \$430 million a few weeks ago. Total reserves contracted at about a 2 percent annual rate over September and October as a drop in required reserves more than offset some increase in excess reserves, but the monetary base expanded at about a 5-1/2 percent rate, buoyed by continued moderate growth in currency.

(2) Other short-term interest rates generally climbed 10 to 25 basis points over the intermeeting period, perhaps reflecting the firmer federal funds rate as well as increased supplies of Treasury bills and CDs. Bond yields, though, declined somewhat in response to lower oil prices and the incoming economic data, which were seen by market participants as indicating moderate growth and reduced risk of greater inflation and Federal Reserve tightening. However, rates on many corporate bond issues subsequently rose substantially following announcements of the Kraft and RJR Nabisco buyouts as investors reacted to concerns about further leveraging. The shift in preference away from bonds issued by companies now thought vulnerable to restructuring contributed to lower rates on bonds of other issuers, including utilities, financial corporations, sponsored agencies, and the Treasury. The recent passage of legislation permitting renewed issuance of Treasury bonds led to a small backup in yields on such securities, but on balance Treasury bond rates are down about a quarter of a percentage point over the period. The merger announcements, along with the drop in yields on most bonds, tended to boost stock price indexes, which rose 2 percent or so over the intermeeting period.

(3) The dollar's exchange value against G-10 currencies declined by 4-1/2 percent since the last Committee meeting. The decline in the dollar from its summer peak has been relatively orderly,

;

the dollar still remains 5 percent above its average of last December. The recent decline was in response to indications of more moderate U.S. economic growth and to information suggesting that U.S. external adjustment may not be proceeding as rapidly as had been thought. Short-term interest rates abroad were little changed on balance, though in recent days they have edged down in Germany and Japan. Long-term rates declined by nearly 1/2 percentage point in Japan and around 1/4 percentage point in Germany, influenced by lower oil prices and by reduced prospects for monetary tightening as the currencies of these countries have appreciated.

(4) Growth of all the monetary aggregates slowed further in September, and preliminary data suggest that expansion of M1 and M2 has remained quite weak in October, as higher interest rates and opportunity costs continue to curb demands for monetary assets. M3, however, appears to have rebounded this month in association with a resumption of growth in bank credit. For the two months combined, M2 has expanded at about a 1-1/2 percent rate, below the 3 percent August-to-December rate specified by the FOMC at its September meeting, and M3 has increased at about a 3 percent rate, compared with its 5 percent path. Since the

fourth quarter of 1987, M2 has risen at a 5-1/4 pace, placing that aggregate below the middle of its target range, while M3 has expanded at a 6-1/4 percent rate, leaving it a bit above the midpoint of its range.

(5) Retail-type balances within M2 have grown at about a 3-1/2 percent rate over the last two months, about in line with expectations at the last FOMC meeting. Issuance of consumer CDs has picked up sharply while liquid deposits have run off, consistent with the further steepening of the deposit yield curve over the summer. The shortfall in M2 has been concentrated in its volatile wholesale components--overnight RPs and Eurodollars--and in demand deposits. With respect to demand deposits, the decline in compensating balances may be a little stronger than expected, while the weakness in the other components reflects reduced needs for funding owing to a sharp rise in Treasury balances and a sluggish pace of bank credit growth on balance over the two months. However, credit growth still has exceeded expansion of core deposits at large banks; with Eurodollar rates tending to rise relative to domestic rates as the dollar declined, commercial banks have been issuing large time deposits in the United States at a rapid pace, helping to sustain expansion of M3 above the pace of M2.

(6) The slowing in bank credit growth over September and October combined does not seem to have shown through to overall domestic nonfinancial debt, as part of the weakness in bank credit was accounted for by loan sales and a drop in loans to financial borrowers. Debt growth appears to have remained around its 8-1/2 percent average pace for the year to date. Issuance of bonds by nonfinancial corporations

was again relatively light in September and October and sales by investment-grade industrial corporations have virtually ceased in the last few days, following the large buyout announcements. Business borrowing from shorter-term sources, while picking up this month, also has remained sluggish. The slower pace of business borrowing in the third quarter occurred despite an estimated widening in the financing gap, and is mostly explained by a temporary drop-off in completed mergers and buyouts. However, available data suggest borrowing by the household sector has been well-maintained in recent months, partly in association with fairly robust home sales. And, borrowing by both federal and state and local governments picked up somewhat--the latter in anticipation of possible expiration of the tax-exempt status of certain revenue bonds.

Policy Alternatives

(7) The standard three policy alternatives are presented below. Under alternative B, reserve paths would continue to be built with seasonal plus adjustment borrowing of \$600 million, while under alternatives A and C reserve paths would incorporate borrowing levels of \$400 million and \$800 million, respectively.

(8) The table below presents monetary growth rates over the September-to-December period associated with the policy alternatives.¹ M2 growth, though picking up a bit, would remain sluggish under all of the alternatives, with its M1 component continuing especially weak. Further adjustment of portfolios to the previous rise in interest rates and opportunity costs is expected to continue to restrain retail accounts in M2 over the remainder of this year, while efforts by businesses to pare demand deposits in association with lowered compensating balance requirements should depress M1 and to a lesser extent M2 increasingly as year-end approaches. Despite the expected slight acceleration in M2, its earlier weakness should keep growth of this aggregate from its August base a bit below the 3 percent specification in the directive issued at the September FOMC meeting. For the year, M2 growth is expected to come in at around 5-1/4 percent under all the alternatives.

1. The current directive specifies monetary growth expectations from an August base. However, with monetary data for the entire month of September now available, the standard practice of using the last month of the previous quarter has been followed in specifying the alternatives. Growth rates for the aggregates from their August base implied by each alternative are given in the detailed tables on page 8.

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									
1988 July	3025.9	3025.9	3025.9	3834.9	3834.9	3834.9	782.3	782.3	782.3
August	3031.8	3031.8	3031.8	3847.1	3847.1	3847.1	782.5	782.5	782.5
September	3034.8	3034.8	3034.8	3852.1	3852.1	3852.1	782.4	782.4	782.4
October	3038.8	3038.8	3038.8	3867.1	3867.1	3867.1	782.9	782.9	782.9
November	3048.7	3046.7	3044.7	3886.8	3885.8	3884.8	783.9	783.3	782.7
December	3060.2	3054.5	3048.8	3911.4	3909.0	3906.6	784.6	782.6	780.6
Monthly Growth Rates									
1988 July	3.7	3.7	3.7	7.1	7.1	7.1	9.0	9.0	9.0
August	2.3	2.3	2.3	3.8	3.8	3.8	0.3	0.3	0.3
September	1.2	1.2	1.2	1.6	1.6	1.6	-0.2	-0.2	-0.2
October	1.6	1.6	1.6	4.7	4.7	4.7	0.8	0.8	0.8
November	3.9	3.1	2.3	6.1	5.8	5.5	1.5	0.6	-0.3
December	4.5	3.1	1.6	7.6	7.2	6.7	1.1	-1.1	-3.2
Quarterly Ave. Growth Rates									
1987 Q4	3.9	3.9	3.9	5.5	5.5	5.5	3.9	3.9	3.9
1988 Q1	6.8	6.8	6.8	7.0	7.0	7.0	3.8	3.8	3.8
Q2	7.7	7.7	7.7	7.6	7.6	7.6	6.3	6.3	6.3
Q3	3.7	3.7	3.7	5.7	5.7	5.7	5.2	5.2	5.2
Q4	2.4	2.1	1.8	4.6	4.4	4.3	0.7	0.3	-0.2
Aug. 88 to Dec. 88	2.8	2.2	1.7	5.0	4.8	4.6	0.8	0.0	-0.7
Sep. 88 to Dec. 88	3.3	2.6	1.8	6.2	5.9	5.7	1.1	0.1	-0.9
Oct. 88 to Dec. 88	4.2	3.1	2.0	6.9	6.5	6.1	1.2	-0.2	-1.7
Q4 87 to Q3 88	6.1	6.1	6.1	6.9	6.9	6.9	5.2	5.2	5.2
Q4 87 to Q4 88	5.2	5.2	5.1	6.4	6.3	6.3	4.1	3.9	3.8
Q4 87 to Sept 88	5.7	5.7	5.7	6.4	6.4	6.4	4.6	4.6	4.6
Q4 87 to Oct. 88	5.3	5.3	5.3	6.3	6.3	6.3	4.3	4.3	4.3
Q4 87 to Dec. 88	5.2	5.0	4.8	6.4	6.4	6.3	3.8	3.6	3.4
1988 Target Ranges:	4.0 to 8.0			4.0 to 8.0					

Chart 2

ACTUAL AND TARGETED M3

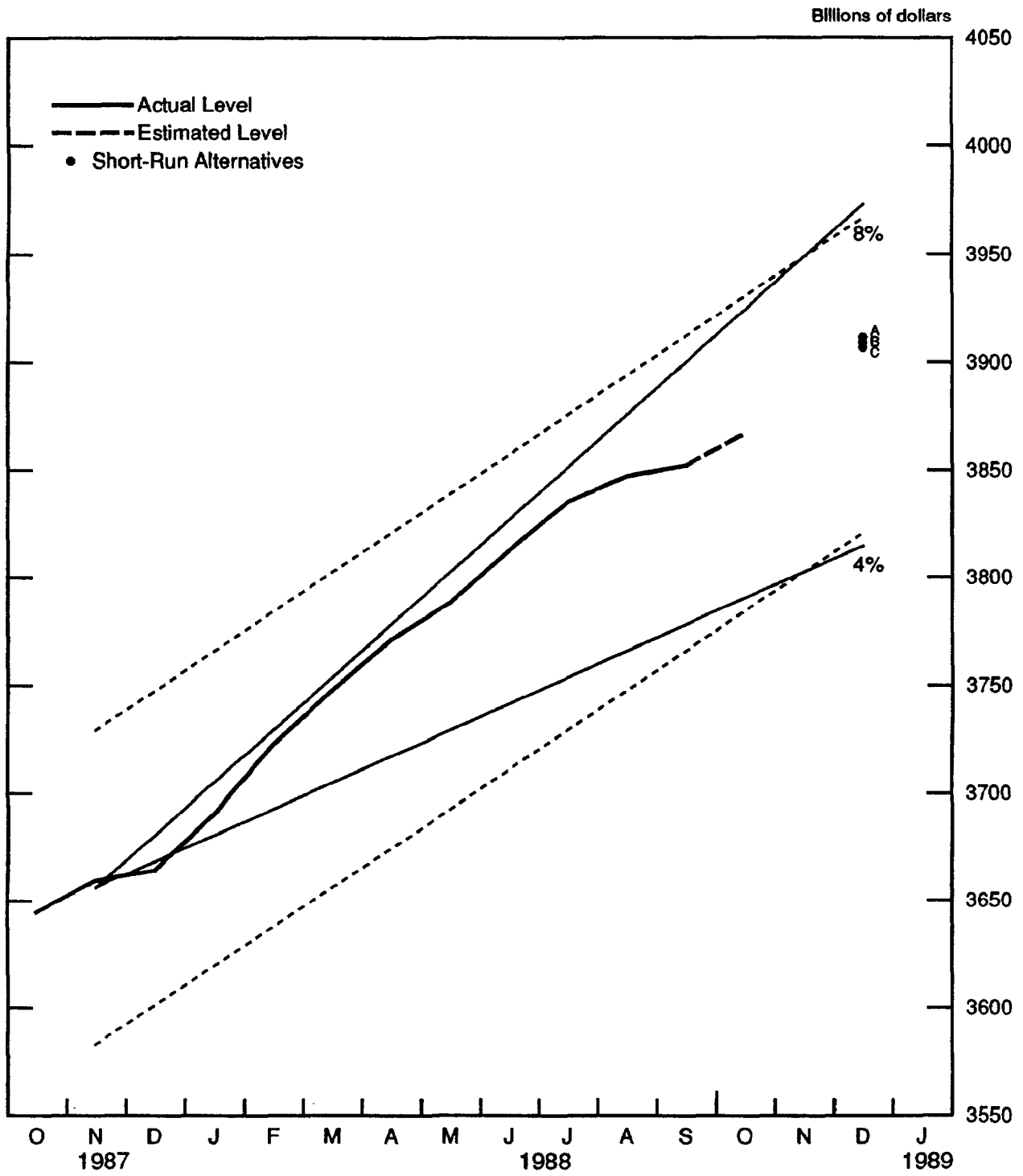


Chart 3

M1

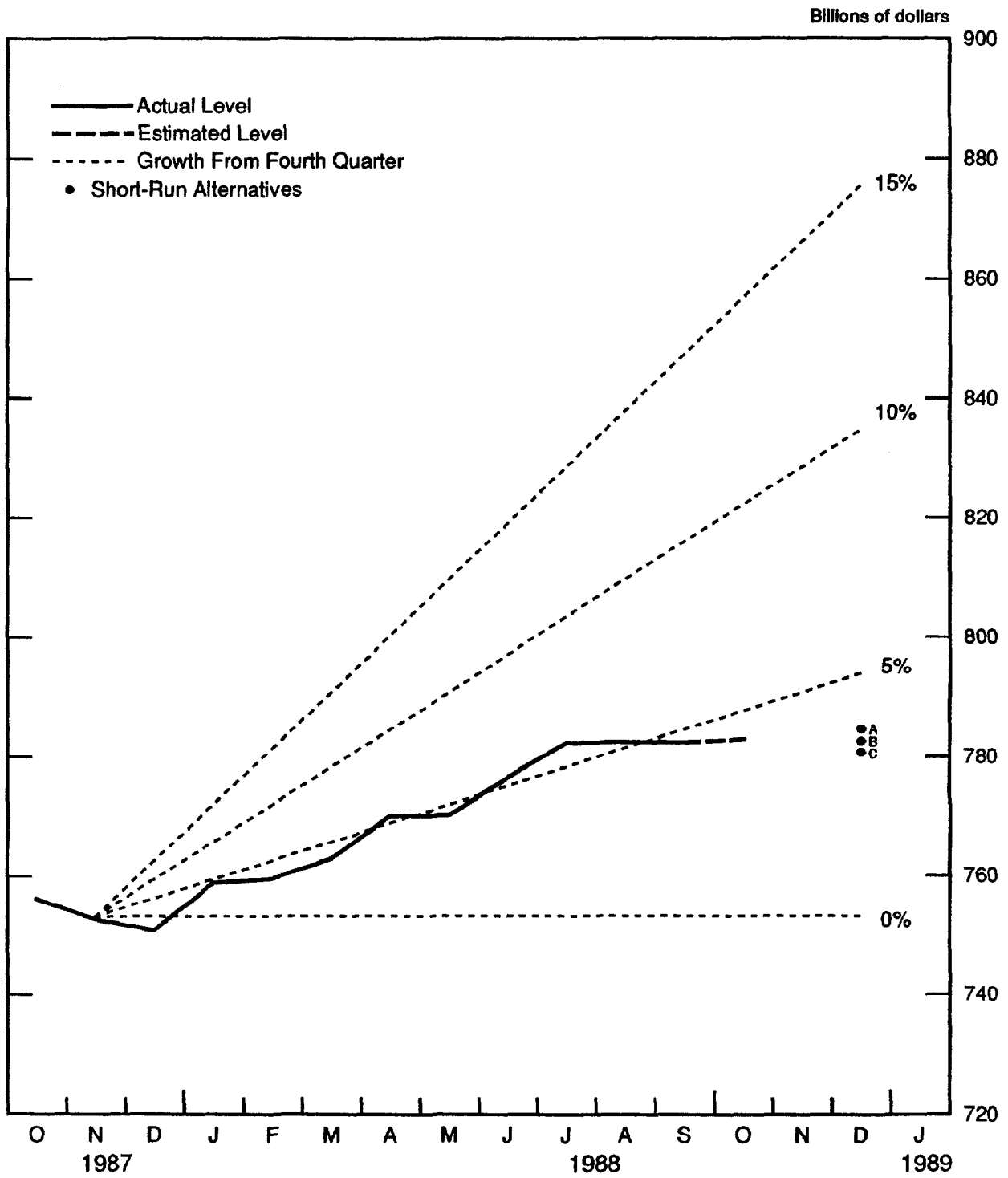
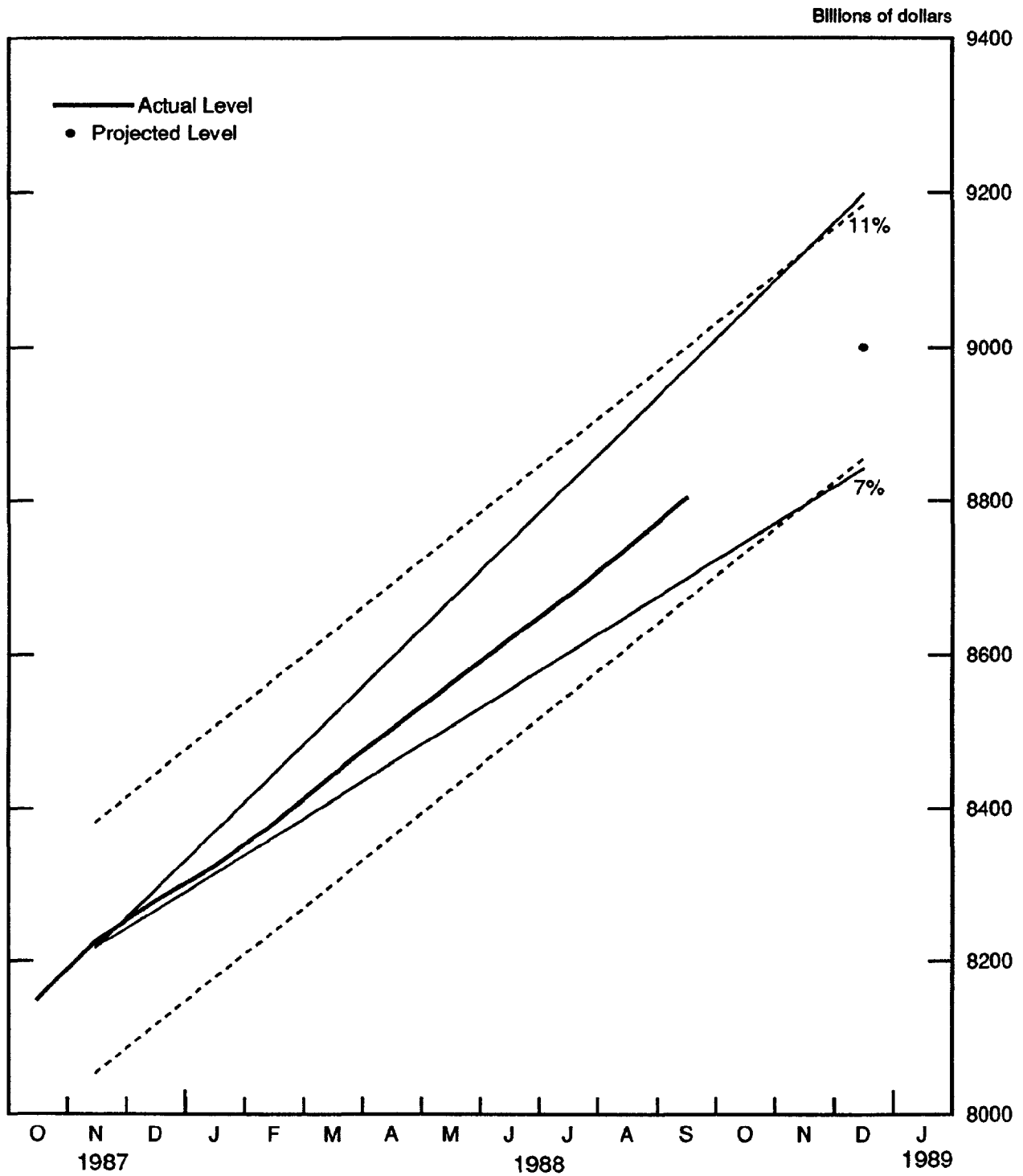


Chart 4
DEBT



(9) Projections of M2 and M3 incorporate some allowance for the effects of a surge in merger and buyout activity that now seems likely in the fourth quarter. Banks are expected to provide a substantial portion of the initial financing, boosting their funding needs. The overnight Eurodollar component of M2 may be lifted as banks become more aggressive bidders in Eurodollar markets. In addition, M2 may be affected temporarily if equity sellers hold liquid balances while deciding on how to realign their portfolios. However, the greater effect is likely to be on M3, given its broader range of managed liabilities. This aggregate would have been expected to strengthen even in the absence of the new buyouts, as bank credit rebounded further and Treasury deposit balances were drawn down, but the pickup is now seen as somewhat greater. The effect is likely to be quite uneven, depending on the timing of the transactions, but on balance M3 over November and December now is projected to accelerate sufficiently under all three alternatives to imply growth from August at nearly the 5 percent path specified at the last FOMC meeting. This growth will keep M3 expansion for the year at around 6-1/4 percent, a little above its midpoint.

	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
Growth from September to December			
M2	3-1/4	2-1/2	1-3/4
M3	6-1/4	6	5-3/4
M1	1	0	-1
Associated federal funds rate range	5-1/2 to 9-1/2	6 to 10	6-1/2 to 10-1/2

(10) Maintenance of current reserve conditions under alternative B is in line with market expectations about the near-term course of policy, and as a consequence any changes in interest rates and dollar exchange rates are likely to be relatively small. The federal funds rate under the borrowing specifications of this alternative would be expected to remain mostly in an 8 to 8-1/4 percent range. While continuation of the recent firmness cannot be ruled out, the funds rate may move a little lower in this range as the effects of the temporary factors that appear to have reduced demands for borrowed reserves wear off. In this case, other short-term rates would edge down as well. However, very short-term rates could firm a bit in December as banks and other borrowers position themselves in anticipation of year-end pressures; some year-end pressures have already begun to show through in short-term rates, though far less than last year. While rates already have adjusted to an extent to anticipated buyouts, further temporary effects may accompany the financial flows associated with the actual transactions. CD and commercial paper issuance should balloon, possibly putting some upward pressure on private short-term rates, and substantial new supplies of low-grade corporate bonds also may be forthcoming. In the Treasury market, some increases in bond rates could occur if the Treasury were to announce a larger-than-usual offering on the mid-quarter refunding to take advantage of the shortage of bonds created by the absence of a long bond at the previous refunding as well as by skimpy offerings of investment-grade corporate bonds.

(11) Under alternative B, M2 growth would strengthen modestly--to a 3 percent rate--from the 1-1/4 percent pace of September and October, largely reflecting some turnaround in overnight RPs and Eurodollars. In addition, growth in retail accounts in M2 would firm a little; the damping influence of earlier increases in market interest rates should diminish, in part as opportunity costs edge down with rising deposit offering rates. M1 would be expected to be about unchanged over November and December as demand deposits and OCDs continue to run off through year-end. On a quarterly average basis, M1 would be about flat in the fourth quarter and growth in its velocity would strengthen to a 6-1/2 percent rate given the staff GNP forecast. M2 would grow at only a 2 percent rate in the fourth quarter on this basis, implying a 4-1/2 percent rate of increase in its velocity. Such an increase in velocity is a little larger than implied by the staff models of M2 demand, which show the rise in interest rates from earlier this year damping M2 growth in the fourth quarter by about 3-1/2 percent, but within their usual margin of error. Under this alternative, M2 would enter the year at around the lower end of its provisional range for 1989, and absent a significant subsequent change in policy, would strengthen only gradually next year, remaining well down in its range for some time.

(12) M3 growth is expected to pick up to a 6-1/2 percent rate over November and December under alternative B, implying quarterly average growth of 4-1/2 percent in the current quarter and a further rise in its velocity--at a 2 percent rate. Under this alternative, M3

would begin the year in the upper half of its tentative range. However, M3 growth might weaken a bit in the early part of 1989 as bank loans to finance buyouts were repaid or sold to other investors. And, in general, trend growth in bank and thrift credit should remain damped in response to capital requirements and regulatory pressures.

(13) Growth of domestic nonfinancial debt is projected to strengthen to a 9 percent pace over November and December, leaving growth for 1988 at 8-3/4 percent and placing the debt aggregate on a path around year-end near the middle of its tentative monitoring range for next year. In addition to the financing of equity retirements, business demands for funds will be augmented by a larger shortfall of internal funds in relation to investment spending. Household borrowing is expected to be well maintained through year-end, with mortgage demands tilting more in the direction of fixed-rate contracts in response to their narrower spread over ARM borrowing costs. Borrowing by the federal government should drop substantially on a seasonally adjusted basis, but this would not represent any abatement of underlying pressures by this sector on financial markets as a somewhat larger deficit is financed by a drawdown of cash balances. Issuance of tax-exempt debt is expected to moderate somewhat, especially now that authority to issue tax-exempt revenue bonds has been extended another year.

(14) Under alternative A, money market interest rates would decline about 1/2 percentage point, with the 3-month Treasury bill dropping to a little below 7 percent. The dollar would come under sharp

downward pressure, especially in view of the remote prospects for a comparable easing of policy abroad. Long-term interest rates would decline further but the extent of the drop might be limited by the weaker tone of the dollar and would depend in any event on market interpretations as to whether incoming data suggested a sustained easing of pressures on domestic resources and prices. In the absence of particularly weak economic data, the yield curve could steepen a bit.

(15) The decline in money market rates and opportunity costs would strengthen M2 growth over November and December to a 4-1/4 percent average rate. Its M1 component also would pick up over the final two months of the year, though demand deposits would still run off as compensating balances were adjusted to previous increases in rates. Early next year, M2 would be close to the midpoint of its provisional range and on a trajectory that would lift it into the upper half of that range. M3 growth would pick up to a 7 percent rate over November and December, placing this aggregate on a path above the midpoint of its provisional range early next year.

(16) With little anticipation of a near-term tightening of policy remaining in the market, short-term interest rates would climb about 1/2 percentage point under alternative C. The dollar probably would reverse some of its recent decline, and long-term interest rates also would rise. The extent of this rise could be relatively small if the tightening of policy were interpreted as damping activity and reducing inflationary risks in an economy that was already seen to be experiencing more moderate growth.

(17) Under alternative C, M2 would expand at only a 2 percent rate over the remainder of the year. This aggregate would be well below the lower end of its provisional range at the beginning of 1989 and given the lagged effect of the change in interest rates, growth would remain quite damped for a while. Wider opportunity costs would reduce inflows to retail accounts, and M1 balances would contract. M3 still would continue to strengthen under this alternative--the pickup, though, being limited by rate-induced outflows from money funds--and enter 1989 well within its tentative range.

Directive Language

(18) Draft language for the operational paragraph, including the usual options, is shown below. Note that, consistent with the specifications presented above and past practice for meetings at this time of the year, the suggested base for the monetary aggregates has been moved from August to September.

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. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat (SLIGHTLY) greater reserve restraint would (MIGHT), or (SOMEWHAT) slightly lesser reserve restraint (WOULD) might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from ~~August~~ SEPTEMBER through December at annual rates of about ___ AND ___ 3-and-5 percent, respectively. 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 ___ TO ___ 6-to-10 percent.

October 31, 1988

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	Treasury bills secondary market				U.S. Gov't. constant maturity yields				conventional home mortgages							
	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	sec mkt fixed- rate	primary fixed- rate	market ARM
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
88--High	8.38	7.45	7.57	7.71	8.47	8.21	7.54	10.00	8.88	9.36	9.42	10.73	8.34	10.97	10.71	8.16
Low	6.38	5.61	5.81	6.15	6.58	6.50	6.03	8.50	7.33	8.16	8.40	9.63	7.70	9.98	9.84	7.49
Monthly																
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	6.57	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	6.57	8.75	7.87	8.67	8.83	10.05	8.11	10.43	10.43	7.85
FEB 88	6.58	5.66	5.93	6.21	6.60	6.55	6.22	8.51	7.38	8.21	8.43	9.75	7.83	10.02	9.89	7.61
MAR 88	6.58	5.70	5.91	6.28	6.63	6.57	6.04	8.50	7.50	8.37	8.63	9.91	8.08	10.12	9.93	7.52
APR 88	6.87	5.91	6.21	6.56	6.92	6.80	6.09	8.50	7.83	8.72	8.95	10.23	8.22	10.44	10.20	7.58
MAY 88	7.09	6.26	6.56	6.90	7.24	7.07	6.20	8.84	8.24	9.09	9.23	10.61	8.30	10.73	10.46	7.71
JUN 88	7.51	6.46	6.71	6.99	7.51	7.41	6.51	9.00	8.22	8.92	9.00	10.41	8.14	10.62	10.46	7.85
JUL 88	7.75	6.73	6.99	7.22	7.94	7.72	6.77	9.29	8.44	9.06	9.14	10.40	8.15	10.64	10.43	7.84
AUG 88	8.01	7.06	7.39	7.59	8.35	8.09	7.06	9.84	8.77	9.26	9.32	10.45	8.16	10.87	10.60	8.01
SEP 88	8.19	7.24	7.43	7.53	8.23	8.09	7.40	10.00	8.57	8.98	9.06	10.26	7.96	10.62	10.48	8.14
Weekly																
JUL 6 88	7.81	6.55	6.72	7.02	7.67	7.58	6.68	9.00	8.18	8.83	8.89	10.39	8.14	10.65	10.38	7.79
JUL 13 88	7.59	6.65	6.93	7.21	7.85	7.64	6.70	9.00	8.40	9.04	9.09	10.44	8.15	10.65	10.44	7.82
JUL 20 88	7.83	6.70	7.05	7.26	8.00	7.77	6.83	9.50	8.49	9.11	9.21	10.44	8.16	10.75	10.46	7.89
JUL 27 88	7.80	6.84	7.10	7.27	8.06	7.79	6.91	9.50	8.53	9.11	9.22	10.41	8.13	10.73	10.49	7.87
AUG 3 88	7.84	6.93	7.12	7.33	8.10	7.86	6.94	9.50	8.54	9.08	9.17	10.31	8.05	10.66	10.44	7.90
AUG 10 88	7.75	6.93	7.27	7.48	8.17	7.91	6.97	9.50	8.65	9.15	9.18	10.53	8.18	10.97	10.57	8.00
AUG 17 88	8.19	7.02	7.48	7.67	8.46	8.21	7.13	10.00	8.83	9.36	9.42	10.50	8.20	10.89	10.71	8.07
AUG 24 88	8.02	7.10	7.51	7.67	8.47	8.18	7.21	10.00	8.86	9.35	9.41	10.51	8.19	10.95	10.47	8.06
AUG 31 88	8.15	7.30	7.48	7.71	8.46	8.19	7.27	10.00	8.88	9.32	9.38	10.30	8.10	10.74	10.65	8.16
SEP 7 88	8.15	7.27	7.43	7.55	8.32	8.15	7.37	10.00	8.64	9.06	9.11	10.22	7.98	10.68	10.53	8.14
SEP 14 88	8.13	7.23	7.40	7.48	8.22	8.07	7.38	10.00	8.53	8.94	9.01	10.21	7.88	10.54	10.40	8.12
SEP 21 88	8.17	7.17	7.38	7.47	8.17	8.03	7.41	10.00	8.53	8.94	9.03	10.31	7.92	10.61	10.40	8.13
SEP 28 88	8.24	7.28	7.49	7.58	8.19	8.08	7.43	10.00	8.61	9.00	9.09	10.29	7.93	10.53	10.42	8.14
OCT 5 88	8.38	7.25	7.48	7.58	8.29	8.13	7.48	10.00	8.53	8.89	8.99	10.05	7.83	10.44	10.38	8.10
OCT 12 88	8.27	7.29	7.46	7.51	8.31	8.10	7.47	10.00	8.43	8.79	8.90	10.20	7.83	10.47	10.33	8.11
OCT 19 88	8.27	7.36	7.47	7.54	8.37	8.11	7.48	10.00	8.43	8.81	8.90	10.08	7.77	10.43	10.28	8.13
OCT 26 88	8.29	7.45	7.57	7.58	8.41	8.15	7.54	10.00	8.46	8.81	8.90	10.00	7.70	10.29	10.22	8.13
Daily																
OCT 21 88	8.29	7.44	7.59	7.58	8.40	8.14	..	10.00	8.46	8.83	8.89	..	..	..	..	..
OCT 27 88	8.27	7.38	7.48	7.51	8.43	8.15	..	10.00	8.35	8.72	8.84	..	..	..	..	..
OCT 28 88	8.27p	7.37	7.49	7.51	8.38	8.17	..	10.00	8.35p	8.69p	8.80p	..	..	..	..	..

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.

Money and Credit Aggregate Measures

Seasonally adjusted

OCT. 31, 1988

Period	Money stock measures and liquid assets					Bank credit	Domestic nonfinancial debt ¹			
	M1	M2	nontransactions components		M3	L	total loans and investments	U.S. government ¹	other ¹	total ¹
			in M2	in M3 only						
	1	2	3	4	5	6	7	8	9	10
ANN. GROWTH RATES (%) :										
ANNUALLY (Q4 TO Q4)										
1985	12.0	8.9	7.9	3.4	7.7	8.5	10.2	15.2	12.6	13.2
1986	15.6	9.4	7.4	8.2	9.1	8.3	9.9	14.7	12.9	13.3
1987	6.2	4.0	3.3	11.2	5.4	5.2	7.9	8.9	10.0	9.8
QUARTERLY AVERAGE										
1987-4th QTR.	3.9	3.9	3.9	11.9	5.5	5.8	5.3	7.6	10.7	10.0
1988-1st QTR.	3.8	6.8	7.8	8.0	7.0	6.6	5.4	8.0	8.0	8.0
1988-2nd QTR.	6.3	7.7	8.2	6.9	7.6	8.7	11.0	8.3	8.6	8.5
1988-3rd QTR.	5.2	3.7	3.1	13.5	5.7		7.3	7.0	8.7	8.3
MONTHLY										
1987-OCT.	14.0	5.7	2.8	13.3	7.3	8.1	4.4	4.1	12.2	10.3
NOV.	-5.6	0.8	3.0	20.8	4.9	3.1	2.7	11.0	11.3	11.3
DEC.	-3.0	1.9	3.6	0.3	1.5	0.3	-1.4	6.0	8.3	7.7
1988-JAN.	12.8	10.0	9.0	3.0	8.5	10.3	6.1	4.0	7.2	6.5
FEB.	1.1	8.7	11.4	17.6	10.5	8.6	10.3	10.6	7.3	8.1
MAR.	5.4	8.7	9.8	6.0	8.1	7.2	9.1	15.1	7.1	9.0
APR.	11.3	9.5	8.8	0.0	7.5	11.6	11.6	7.1	8.9	8.4
MAY	0.2	4.5	6.1	8.6	5.4	8.1	12.4	3.0	10.0	8.3
JUNE	9.8	5.7	4.3	15.6	7.8	3.8	10.3	5.9	8.8	8.1
JULY	9.0	3.7	1.9	19.6	7.1	11.5	6.3	5.4	8.5	7.8
AUG.	0.3	2.3	3.1	9.3	3.8	5.3	7.2	9.9	8.3	8.7
SEP.	-0.2	1.2	1.7	2.9	1.6		-0.6	12.2	7.8	8.9
OCT. pe	1	2	2	16	5					
LEVELS (\$BILLIONS) :										
MONTHLY										
1988-MAY	770.2	3002.2	2232.0	785.8	3788.0	4494.7	2328.5	2021.8	6539.7	8561.5
JUNE	776.5	3016.5	2240.0	796.0	3812.5	4509.1	2348.4	2031.7	6587.9	8619.6
JULY	782.3	3025.9	2243.5	809.0	3834.9	4552.2	2360.8	2040.8	6634.8	8675.6
AUG.	782.5	3031.8	2249.3	815.3	3847.1	4572.4	2374.9	2057.7	6680.5	8738.2
SEP.	782.4	3034.8	2252.4	817.3	3852.1		2373.7	2078.6	6724.1	8802.7
WEEKLY										
1988-SEP. 5	783.0	3036.5	2253.5	813.4	3849.9					
12	782.3	3038.6	2256.3	815.0	3853.6					
19	784.7	3037.8	2253.1	818.4	3856.3					
26	784.1	3033.8	2249.7	816.1	3849.8					
OCT. 3	782.3	3030.7	2248.4	825.7	3856.3					
10 p	784.8	3036.1	2251.2	828.6	3864.7					
17 p	783.6	3043.1	2259.5	827.4	3870.5					

1. Debt data are on a monthly average basis, derived by averaging end-of-month levels of adjacent months, and have been adjusted to remove discontinuities.
p-preliminary
pe-preliminary estimate

Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

OCT. 31, 1988

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA'	MMDAs NSA	Savings deposits	Small denomination time deposits'	Money market mutual funds, NSA		Large denomination time deposits'	Term RPs NSA'	Term Eurodollars NSA'	Savings bonds	Short-term Treasury securities	Commercial paper'	Bankers acceptances
								general purpose and broker/dealer'	institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LEVELS (\$BILLIONS) :																
ANNUALLY (4TH QTR.)																
1985	166.9	263.5	176.8	67.2	509.9	299.9	877.1	176.8	64.1	433.9	62.7	77.6	78.9	292.3	201.6	43.2
1986	179.3	294.6	228.6	77.9	569.2	362.2	858.9	207.6	84.7	441.5	82.6	81.0	89.7	283.8	228.5	37.8
1987	194.9	291.7	259.7	81.1	528.9	415.4	899.4	219.7	87.2	479.2	109.7	92.2	99.4	266.8	255.2	45.1
MONTHLY																
1987-SEP.	191.4	290.5	258.6	83.3	540.5	418.6	872.1	216.3	81.3	465.3	111.3	94.5	98.4	263.7	256.6	44.3
OCT.	193.1	295.9	260.3	85.9	533.9	417.0	883.3	218.2	82.5	472.3	108.7	93.0	98.8	272.7	254.2	44.5
NOV.	195.0	291.3	259.5	79.6	527.7	415.0	901.7	219.7	89.5	480.5	111.6	92.8	99.3	269.7	252.5	45.0
DEC.	196.5	288.0	259.3	77.9	525.2	414.3	913.1	221.1	89.6	484.7	108.7	90.8	100.2	258.0	258.9	45.7
1988-JAN.	198.4	289.9	263.3	82.9	524.1	414.4	924.6	225.0	94.4	482.6	109.5	85.3	101.4	259.9	269.0	43.6
FEB.	199.3	287.8	265.0	78.3	522.6	416.2	941.5	231.0	98.7	488.6	113.7	85.4	102.6	255.4	274.1	40.9
MAR.	200.9	287.9	266.9	75.0	524.7	419.8	953.5	234.8	97.4	490.3	111.4	89.7	103.5	249.6	280.3	40.6
APR.	202.5	290.2	270.1	76.1	523.3	422.7	964.8	235.8	91.9	492.1	113.8	88.7	104.6	259.3	288.2	41.2
MAY	203.6	287.4	271.9	80.8	519.6	425.1	972.0	231.8	90.0	495.4	119.5	91.5	105.4	259.2	301.1	40.9
JUNE	204.9	289.9	274.4	81.0	522.3	429.0	974.9	228.9	86.3	501.7	122.2	93.3	106.1	248.6	301.2	40.6
JULY	206.3	290.6	278.3	78.0	521.1	431.9	978.5	229.6	84.8	509.2	123.0	96.8	106.9	258.3	311.5	40.6
AUG.	207.2	290.0	278.1	80.4	517.1	433.9	985.7	230.8	84.0	514.8	121.0	103.1	107.4	264.4	312.5	41.1
SEP.	208.5	288.3	278.3	77.9	510.9	432.9	997.8	230.9	83.7	523.6	119.3	101.8				

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

Net Changes in System Holdings of Securities¹
Millions of dollars, not seasonally adjusted

October 31, 1988

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total ⁴	Net RPs ⁵
	Net purchases ²	Redemptions (-)	Net change	Net purchases ³				Redemptions (-)	Net change			
				within 1-year	1-5	5-10	over 10					
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
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
1988--Q1	319	2,200	-1,881	--	-800	-175	--	--	-975	155	-3,011	-3,514
Q2	423	--	423	1,092	3,661	1,017	966	--	6,737	130	7,030	5,220
Q3	1,795	--	1,795	--	--	--	--	--	--	77	1,717	1,393
1988--Jan.	-49	600	-649	--	--	--	--	--	--	131	-780	-4,807
Feb.	-192	1,600	-1,792	--	-800	-175	--	--	-975	21	-2,788	1,247
Mar.	560	--	560	--	--	--	--	--	--	3	557	45
Apr.	423	--	423	1,092	3,661	1,017	966	--	6,737	120	7,040	9,111
May	--	--	--	--	--	--	--	--	--	11	-11	-10,575
June	--	--	--	--	--	--	--	--	--	--	--	6,683
July	515	--	515	--	--	--	--	--	--	--	515	-5,941
August	--	--	--	--	--	--	--	--	--	10	-10	-1,655
September	1,280	--	1,280	--	--	--	--	--	--	--	1,280	8,989
Aug. 3	--	--	--	--	--	--	--	--	--	--	--	-2,825
10	--	--	--	--	--	--	--	--	--	--	--	-876
17	--	--	--	--	--	--	--	--	--	10	-10	476
24	--	--	--	--	--	--	--	--	--	--	--	-2,678
31	--	--	--	--	--	--	--	--	--	--	--	2,322
Sept. 7	104	--	104	--	--	--	--	--	--	--	104	-2,454
14	528	--	528	--	--	--	--	--	--	--	528	5,272
21	648	--	648	--	--	--	--	--	--	--	648	14,235
28	--	--	--	--	--	--	--	--	--	--	--	-9,176
Oct. 5	--	--	--	--	--	--	--	--	--	--	--	-12,315
12	--	--	--	--	--	--	--	--	--	5	-5	6,033
19	310	--	310	--	--	--	--	--	--	--	310	262
26	17	--	17	--	--	--	--	--	--	70	-53	-1,996
Memo: LEVEL (bil.\$) ⁶ Oct. 26	--	--	113.1	21.2	55.4	13.9	26.5	--	117.0	--	237.2	-5.9

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing 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
2.5	3.3	1.1	.2	7.1