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# MONETARY POLICY ALTERNATIVES

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Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

February 3, 1989

MONETARY POLICY ALTERNATIVES

Recent developments

(1) Open market operations over the intermeeting period were complicated by continuing uncertainty about the relationship between borrowing and money market conditions. Following the December 13-14 FOMC meeting, reserve paths initially were constructed assuming \$500 million of adjustment plus seasonal borrowing. Federal funds moved up from the prevailing 8-1/2 percent level to average 8-7/8 percent in the period ending December 28, although borrowing was only \$380 million. The borrowing assumption was raised further to \$600 million on January 5, in accordance with the Committee's decision at the December meeting, but heavy year-end recourse to the window pushed actual borrowing for the second maintenance period to \$840 million. In mid-January, based on historical evidence that reluctance to borrow at the window typically rises markedly in the early part of the year, the Desk adopted an extra measure of flexibility toward the borrowing target. Federal funds trading has centered between 9 and 9-1/8 percent in recent weeks; borrowing averaged \$500 million over the maintenance period ending January 25 and around \$250 million over the first eight days of the current period.

(2) Prior to the release of strong January employment data, Treasury bill rates had risen only about 1/4 percentage point over the intermeeting period, as some firming in policy had been widely anticipated. Private short-term rates were unchanged or lower, reflecting as well the

unwinding of year-end pressures. After the employment report, money market rates rose about 5 to 10 basis points, as markets seemed to anticipate some additional policy tightening in the near term. Longer-term interest rates have generally fallen 15 to 40 basis points and stock price indices have risen 7 to 10 percent on average; these markets benefited from generally strong demand for dollar assets apparently engendered in part by damped inflation expectations against a backdrop of actual and expected monetary policy restraint. The further flattening of the yield curve has nearly eliminated the spread between the investment yields on 30-year and 3-month Treasury securities, which had been around 65 basis points at the time of the last meeting.

(3) The strength of the demand for dollar assets bolstered the dollar on foreign exchange markets, raising its weighted-average value by about 6-1/4 percent since the last Committee meeting. The rise occurred despite two releases of disappointing monthly trade data, sizable intervention sales of dollars, and two rounds of increases in official lending rates by European central banks. As a consequence of the last, the differential between U.S. Treasury bill interest rates and a weighted average of foreign short-term rates was little changed; foreign long-term rates rose moderately while U.S. bond rates fell.

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Desk accounting for \$2.1 billion of this total.

(4) Preliminary data indicate a pause in money growth in January after moderate increases in December. For the two months combined, M2 growth averaged 2-1/2 percent, a bit below the Committee's expectation for

the November through March period, while M1 has been about flat.<sup>1</sup> The sluggish expansion of these aggregates appears to reflect recent increases in money market yields, which have widened the opportunity costs of holding deposits; this widening has been accentuated by slower-than-usual adjustment of most retail offering rates over recent months. Administrative pressure on some thrifts to restrain deposit pricing may be holding down their deposit rates and, by reducing competitive pressures, may be curbing increases in deposit rates generally. Evidence of shifts from M2 balances may be seen in the large volume of noncompetitive tenders at recent Treasury auctions and in a resumption of inflows to stock and bond mutual funds. Reflecting less aggressive pricing of thrift deposits, and perhaps also some concerns about the resolution of this industry's problems, retail deposit flows at these institutions, which had slowed over the summer, have been especially weak in recent months. M3 growth has averaged 3-3/4 percent over the past two months, falling well short of expectations. Banks' funding needs have not increased as rapidly as projected, owing mostly to a shortfall in business loans; weakness in these loans was accounted for partly by repayment of previous corporate restructuring loans and partly by subdued credit demands for non-merger-related purposes. At thrifts, greater reliance on Federal Home Loan Bank advances may have substituted for deposits.

(5) Although business borrowing at banks was less than expected, commercial paper soared. Problems in the investment-grade industrial bond

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1. Monetary data presented in the bluebook incorporate benchmark and seasonal factor revisions, described briefly in the appendix. The revised data should be considered confidential until their release, planned for February 9.

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

	November	December	January <sup>P</sup>	November to January <sup>P</sup>	QIV '88 to January <sup>P</sup>
<u>Money and credit aggregates</u> <sup>1</sup>					
M1	2.0	5.5	-4.7	0.4	-0.2
M2	7.0	5.2	-0.4	2.4	2.7
M3	6.9	5.6	2.0	3.8	4.0
Domestic nonfinancial debt	8.7	8.3	7.9	8.1	8.2
Bank credit	6.0	0.1	2.5	1.3	2.3
<u>Reserve measures</u> <sup>2</sup>					
Nonborrowed reserves <sup>3</sup>	1.5	-0.2	-13.7	-7.0	-6.7
Total reserves	1.9	-1.5	-10.3	-5.9	-5.3
Monetary base	3.9	5.0	4.7	4.9	4.7
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	539	472	640	--	--
Excess reserves	1119	1038	1059	--	--

p--preliminary.

1. Money stock data incorporate benchmark and seasonal factor revisions.
2. Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months. The January figures assume an average level of adjustment plus seasonal borrowing of \$600 million and excess reserves of \$1.2 billion for the reserve period ending February 8. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.
3. Includes "other extended credit" from the Federal Reserve.

market and expectations by some issuers that longer-term interest rates will decline may have shifted some issuers toward shorter-term debt. Junk bond issuance has been moderate, but a heavy flow stemming from impending deals is expected in the near future. Consumer borrowing and mortgage activity appear to have been well maintained. Overall, domestic nonfinancial debt appears to have grown in January near the pace of recent months.

Longer-run strategies

(6) As background for the Committee's consideration of the ranges for 1989, projected effects of three alternative longer-run monetary policy strategies are presented below. Strategy I is a baseline, embodying the monetary policy and economic outlook of the greenbook forecast, extended judgmentally into 1991. Strategies II and III are based on somewhat tighter and somewhat easier monetary policies, respectively, as indexed by M2 growth that is one percentage point less and one percentage point more than in the baseline over each of the three years. Staff econometric models were used to derive deviations of the forecasts from the baseline under the two alternative policy strategies.

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
M2 (QIV to QIV)				
I (Baseline)	5-1/4	3-1/2	5	6
II		2-1/2	4	5
III		4-1/2	6	7
Prices: Fixed-weight deflator (QIV to QIV)				
I	4-1/2	4-1/2	4-3/4	4-1/4
II		4-1/4	4	3-1/2
III		4-1/2	5-1/4	5-1/4
Real GNP (QIV to QIV) <sup>1</sup>				
I	2-3/4 (3-1/2)	3 (2-1/4)	1	1-3/4
II		2	3/4	1-3/4
III		3-3/4	2-1/4	2
Unemployment rates (QIV)				
I	5-1/4	5-1/2	6	6-1/2
II		5-3/4	6-3/4	7-1/4
III		5-1/4	5-1/2	5-3/4

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1. Drought-adjusted GNP in parentheses.

(7) Under the baseline of strategy I, policy exerts some restraint on output, putting in place conditions that lead to some moderation in the pace of inflation starting in 1991. Given the rise in real interest rates over the near term to a fairly high level, nominal rates can begin to edge off in the latter part of the forecast period, as inflation moderates. Even so, real rates remain high enough to keep real output below its potential. The behavior of nominal rates means that velocity will level out, and the associated acceleration of M2 growth is still consistent with restraint on inflation.

(8) The tighter policy of strategy II would lead to quicker and larger decreases in inflation. That result, however, involves still higher real interest rates over the forecast horizon in order to induce a substantial slowing of output growth and an appreciable rise in unemployment to well above the rate associated with steady inflation--assumed to be around 5-3/4 percent in these simulations. The level of the unemployment rate at the end of 1991 implies even greater progress against inflation in 1992, absent a sharp turnaround in policy. The dollar would be higher under this strategy than in the staff forecast. The negative effects of this on the improvement in trade, however, might be offset by the additional restraint on domestic demand and the better performance of prices and costs for U.S. producers.

(9) The faster money growth of strategy III would avoid a marked slowing in economic growth, keeping the unemployment rate at or a little below its current level over the near term and allowing only a small rise through 1991. Inflation accelerates substantially in 1990, before leveling out. Faster expansion of domestic demand tends to deepen external

imbalances, and the greater downward movement of the dollar contributes to the higher inflation. Nominal interest rates initially are somewhat lower under this strategy, but the pressure of faster income growth and higher inflation results in nominal rates equal to those under the other two strategies by 1991.

(10) The table below gives inflation projections for the three M2 paths based on the single-equation model relating the level of prices to M2 presented to the FOMC in November. In this model, M2 determines a long-run level of prices, assuming velocity and output are at their trend levels. Inflation would accelerate or decelerate depending on whether actual prices were below or above this long-run level. The results of the equation simulation tend to give a little more optimistic outlook for inflation under the three alternatives.

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Prices: Fixed-weight deflator (QIV to QIV)				
I	4-1/2	4-1/2	4-1/4	3-1/2
II		4-1/2	4	3
III		4-3/4	4-1/2	4-1/4

Long-run ranges for 1989

(12) The table below gives two alternative sets of ranges for growth in M2, M3, and the debt of nonfinancial sectors from the fourth quarter of 1988 to the fourth quarter of 1989. The ranges of alternative I are those adopted on a tentative basis by the Committee in late June. Alternative II would reduce the money ranges somewhat further, more comfortably encompassing staff expectations for growth in M2 and M3 in the greenbook forecast, and allowing for the slower money growth strategy outlined in the previous section.

	<u>Alt. I</u> (tentative ranges)	<u>Alt. II</u>	<u>Memo:</u> <u>1988 ranges</u>
Growth from QIV '88 to QIV '89			
M2	3 to 7	2-1/2 to 6-1/2	4 to 8
M3	3-1/2 to 7-1/2	3 to 7	4 to 8
Debt	6-1/2 to 10-1/2	6-1/2 to 10-1/2	7 to 11

(13) The proposed alternatives retain the 4 percentage point widths for all the ranges, first adopted last February.<sup>2</sup> The rationale for widening the range for M2 rested primarily on the combined effects of the rather interest-sensitive nature of this aggregate over the one-year target period and uncertainty about levels of interest rates that would accompany pursuit of policy objectives over the year. M3 and debt are

2. The report of the Senate Banking Committee following the July monetary policy hearings recommended that the ranges be narrowed. In addition, it implied that the ranges should be centered on the Committee's expected outcome, in that the Committee report asked for ex post explanations of any deviations from the center of the ranges. The report also recommended consideration of a range for the monetary base as a replacement for M1; a Board staff report summarizing material that served as a basis for earlier FOMC discussions of this issue was sent to the Banking Committee in December.

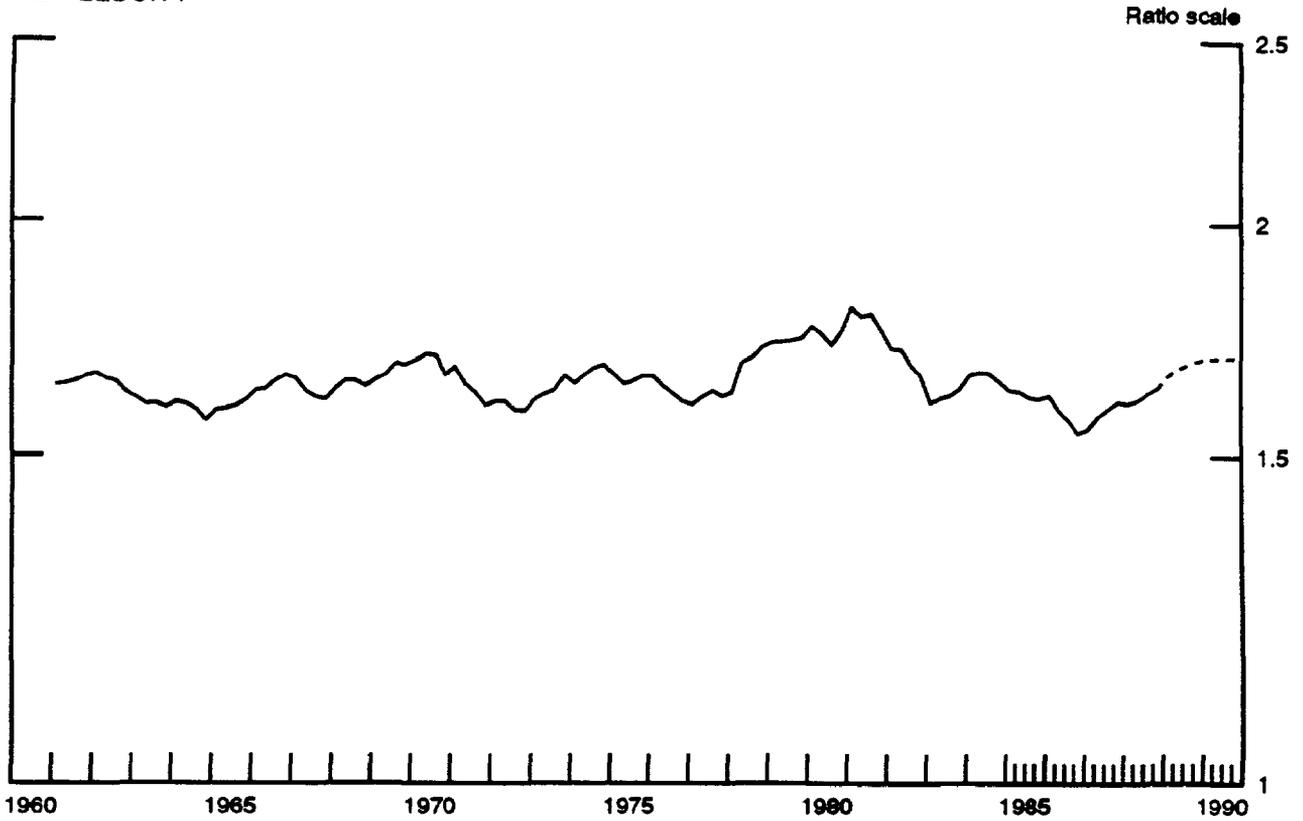
less sensitive to intermediate-term variations in interest rates. However, some special uncertainties in the financial sector in 1989 might argue against narrowing any of the ranges. As noted below, the approach to resolving thrift difficulties could affect both M2 and M3. In addition, the unpredictable outlook for corporate restructuring activity, which might be affected by, among other things, actual or proposed legislative action, adds to uncertainties with respect to growth of debt and M3.

(14) The staff expects that M2 growth of only 3-1/2 percent in 1989 will be associated with the greenbook forecast. The sluggish growth of M2 is an aspect of the tighter monetary policy in the latter part of 1988 and the additional firming of interest rates in 1989 thought likely to be needed to contain inflation. Although nominal GNP is projected to increase 7 percent this year, the same as in 1988, the upward movement in rates and associated rise in opportunity costs are expected to increase M2 velocity 3-1/2 percent this year, compared with 1-1/2 percent last year. (See chart 1.) A substantial part of the velocity increase would seem already to be in train from the lagged effects of the interest rate increases that have occurred over the second half of 1988. Even with no additional increase in rates, velocity would be expected to rise nearly 3 percent in 1989. The projection for M2 is a little below model forecasts for this aggregate, given greenbook income and market interest rates. This is based on the assumption that the usual relationship of deposit to market interest rates is not restored in 1989, leaving opportunity costs a bit higher than generated by the models. Moreover, future steps to deal with the thrift situation could further adversely affect

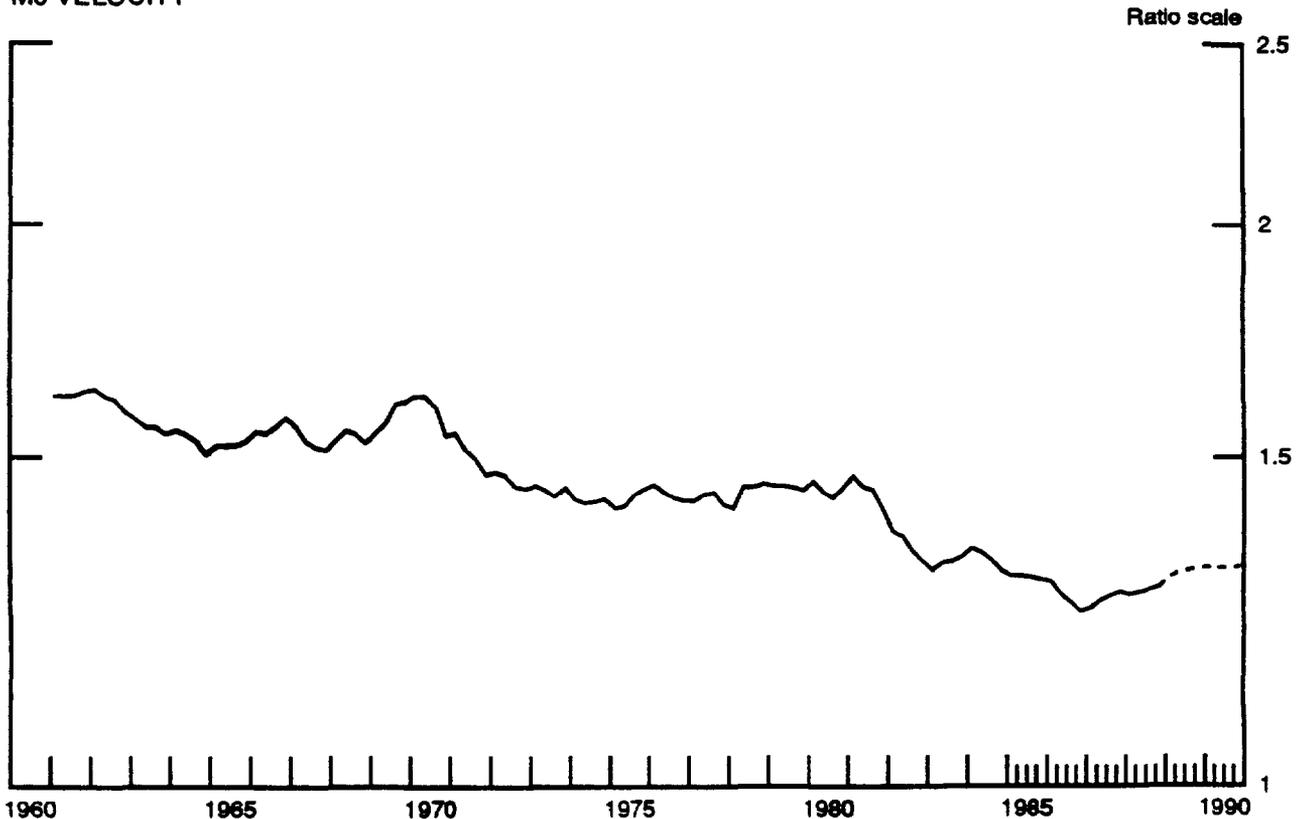
Chart 1

ACTUAL AND PROJECTED VELOCITY OF M2 AND M3\*

M2 VELOCITY



M3 VELOCITY

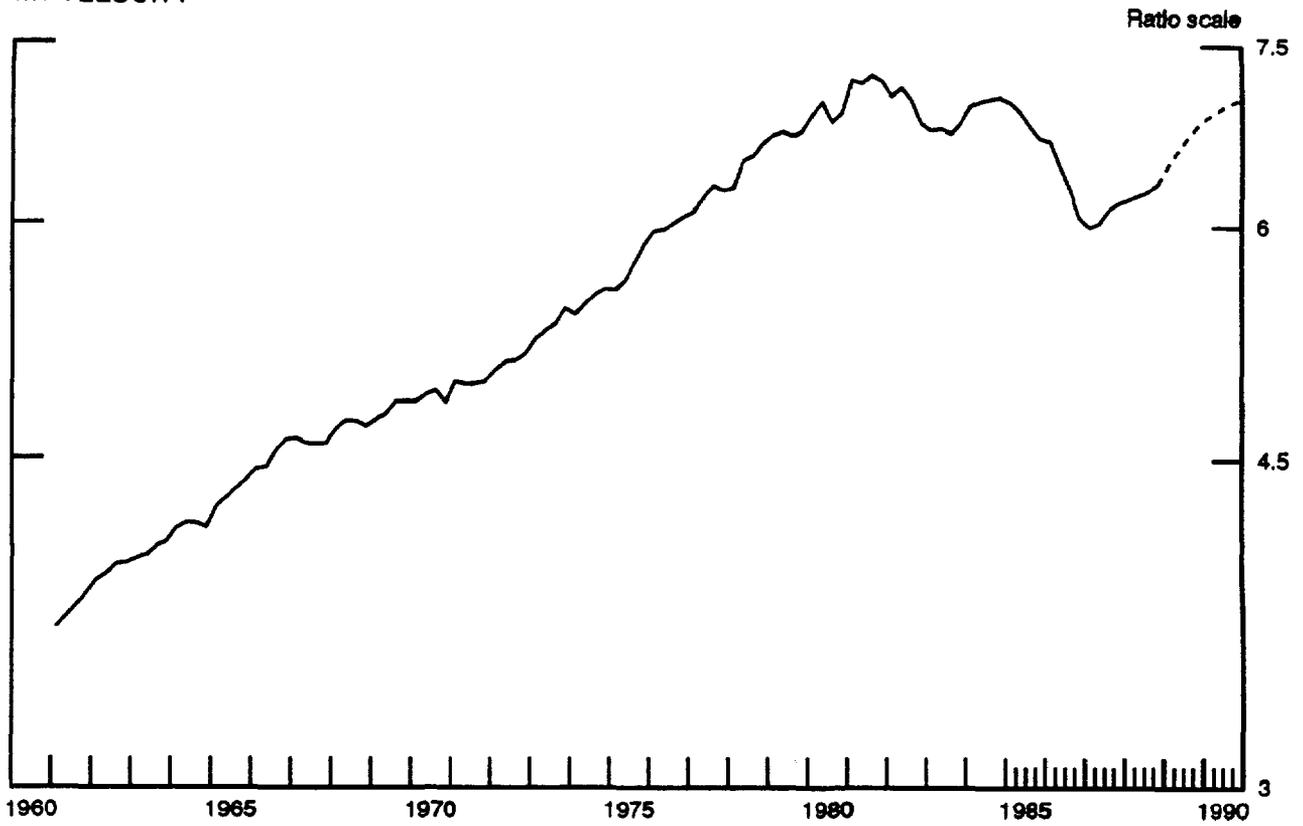


\* Projections are based on staff forecasts of GNP and money.

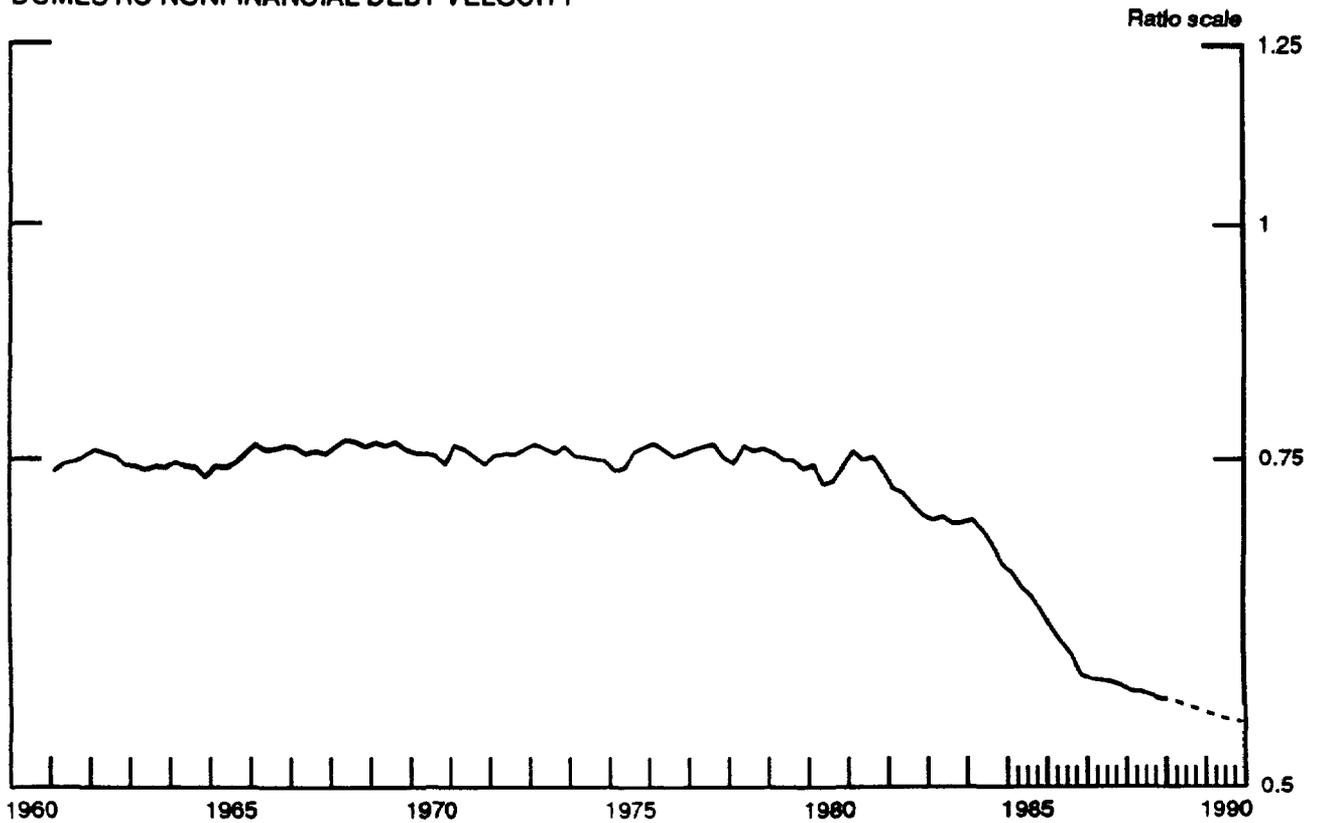
Chart 2

ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT\*

M1 VELOCITY



DOMESTIC NONFINANCIAL DEBT VELOCITY



\* Projections are based on staff forecasts of GNP, money, and debt.

returns on deposits, for example through an increase in insurance premiums.<sup>3</sup>

(15) M3 growth also is expected to slow substantially this year--to about a 4-3/4 percent pace--under the greenbook forecast. This slowing reflects a projected deceleration in asset expansion and associated funding needs at thrifts as well as greater reliance on managed liabilities outside M3 at all depository institutions as core deposit growth moderates. At banks, credit growth is expected to be supported by increased demands from businesses, which will be funding greater external credit needs from short-term sources in a rising rate environment. Even so, capital requirements will foster continued securitization and sale of loans, contributing to a slight moderation in credit growth at these institutions in 1989. At thrifts, some easing in the demands for mortgage credit together with administrative restraints on lending by insolvent or undercapitalized thrifts, should depress overall thrift asset growth appreciably. The staff forecast has thrift credit growth slowing substantially in 1989--to 6-1/4 percent from 7-3/4 percent in 1988--but risks may be on the side of even slower growth of assets and liabilities. Moreover,

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3. In assessing the demand for money, no special allowance has been made for any distorting effects of the recovery from the drought on nominal GNP. In terms of affecting the demand for money and velocity, such effects might go in offsetting directions. The lower level of spending relative to income as inventories were rebuilt might raise V2 growth to the extent demands for M2 were related to spending, but lower V2 growth to the extent that higher savings rates were associated with greater accumulation of financial assets.

Conceptually, the retirement of equity in corporate restructurings may have boosted the demand for M2 by those receiving the proceeds. Aside from some short-run effects as funds are held temporarily in the process of completing these transactions, however, little effect of this phenomenon has been apparent, and no allowance in the M2 forecast has been made for the projected slackening of share retirements over coming quarters this year.

assistance to troubled thrifts from the government could substitute in part for deposit sources of funds. Thrifts already have been using FSLIC notes to collateralize FHLB advances, and any cash infusions might have similar effects on their appetite for deposits.

(16) Debt of domestic nonfinancial sectors is projected to grow 8-1/2 percent in 1989, marginally below its 1988 rate. Federal borrowing moderates a little, reflecting a drawdown of cash balances rather than a reduction of the deficit and underlying pressures on financial markets. Overall, nonfederal borrowing is projected to be maintained at about its 1988 pace. In the corporate sector, borrowing is expected to strengthen somewhat as the financing gap widens and corporate restructuring and equity retirement activity remains brisk, though trending down from the record pace in late 1988 and early 1989. In the household sector, growth of mortgage debt is expected to slow as higher interest rates restrain housing activity; consumer credit expansion also should moderate, in line with a smaller rise in outlays on consumer durables.

(17) Although alternative I encompasses staff money growth forecasts thought to be consistent with the greenbook economic projection for 1989, both M2 and M3 likely would be well down in the lower halves of their ranges. Alternative II would more nearly center projected growth within the annual ranges, although still involving some expected shortfall from the midpoints, especially for M2. Alternative II affords more room for unexpectedly slow money growth, for example should offering rates adjust even more sluggishly than the staff envisions. Alternative II also provides more scope for greater monetary policy tightening than in the staff forecast, should additional restraint on aggregate demand be needed

to check inflation pressures or should the Committee wish to make more progress against inflation than in the staff projection. At the same time, should constant or moderately declining interest rates prove consistent with satisfactory economic performance, the upper bound of alternative II would provide adequate room for the implied faster money growth.

(18) On the other hand, alternative I already represents reductions in the M2 and M3 ranges for 1989 of 1 and 1/2 percentage point, respectively, from those for last year, and the Federal Reserve's resolve at least to resist any increase in inflation is not widely questioned. Moreover, should a major initiative to close the deficit over time be forthcoming, market interest rates would come under downward pressure, and alternative I would better encompass the somewhat faster money growth needed should the System wish to assure that economic growth would not slacken over the near term. Alternative I may be a more natural transition to the appropriate sequence of monetary ranges in future years, when nominal interest rates may not be rising and velocity would level out or even decline. For example, in 1990 M2 and M3 are seen as accelerating to 5 and 5-1/2 percent, as interest rates are assumed to move lower later in the year. If the Committee wishes to have scope to continue reducing the ranges in 1990 and beyond, it may be desirable to avoid larger decreases at this time.

(19) Under the staff forecast, M1 would be about unchanged on balance over 1989, as declines in demands for both demand deposits and NOW accounts, stemming from the projected rise in opportunity costs and declines in required compensating balances, are about offset by growth in currency in line with that of nominal GNP. This currency growth would

support expansion in the monetary base over 1989 of 4-1/2 percent, 2-1/2 percentage points slower than last year.

Short-run policy alternatives

(20) The two near-term policy alternatives presented involve adjustment plus seasonal discount borrowing of \$600 million for alternative B with funds trading at around 9 percent or a bit above, and borrowing of \$800 million for alternative C with funds 1/2 percentage point higher. The funds rate that is likely to be associated with a particular borrowing level and with the current 6-1/2 percent discount rate clearly has become harder to predict in light of the substantial downward shift in the borrowing relationship that started around mid-October of last year.<sup>4</sup> Additional near-term uncertainties can be identified. If the beginning-of-year reluctance to borrow extends well into February or turns out to be a more fundamental shift, adhering to a given borrowing objective would be associated with somewhat higher federal funds rates. However, some temporary downward pressure on the funds rate relative to staff expectations might accompany the sizable boost to free reserves projected in coming weeks from market factors, as currency and required reserves decline seasonally and the Treasury balance runs off. In addition, massive flows of funds through the banking system in coming weeks, associated with payment for the RJR-Nabisco takeover and the Treasury's midquarter refunding, may contribute to temporary volatility in money market rates. In light of these considerations, it may be appropriate for the Desk to continue to view the borrowing assumption with some flexibility.

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4. Since that time, the borrowing shortfall has averaged around \$400 million, although it was even greater in the two maintenance periods ending December 14 and 28 and in the most recent period ending January 25. Anticipations of System tightening and year-end pressures in December and a usual beginning-of-year pullback in borrowing in January likely enlarged those shortfalls. Thus, the expected relationship assumes that only the average downward shift of approximately \$400 million since mid-October will prove permanent.

(21) Anticipated money growth rates from December to March are shown in the table below for both alternatives, along with implied growth through March from the fourth-quarter base of the annual targets. (Detailed data are presented on the table and charts on the following pages.) Under both alternatives, M2 would remain around the lower bound of its 3 to 7 percent tentative annual range by March, while M3 would stay in the lower half of its 3-1/2 to 7-1/2 percent tentative annual range.

	<u>Alt. B</u>	<u>Alt. C</u>
Growth from December to March		
M2	2	1-1/2
M3	3-1/2	3-1/4
M1	-2	-2-3/4
Growth from QIV '88 to March		
M2	3	2-3/4
M3	4-1/4	4
M1	-1/2	-2-1/2
Associated federal funds rate range	7 to 11	7-1/2 to 11-1/2

(22) Short-term rates seem to have built in a further firming step for policy in the near term. With funds continuing to trade at or a little above 9 percent, as expected under alternative B, some of the rate increases registered most recently may unwind, with Treasury bill rates moving back to around 8-3/8 percent or a little below. Bond yields are unlikely to move substantially, absent more indications of strength in the economy or intensifying pressures on prices. As maintaining the reserve pressures of alternative B causes international investors to begin reconsidering the likelihood of an imminent U.S. monetary policy tightening, the value of the dollar could begin to slip.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2		M3		M1	
	Alt. B	Alt. C	Alt. B	Alt. C	Alt. B	Alt. C
<b>Levels in billions</b>						
1988 October	3042.3	3042.3	3875.3	3875.3	785.4	785.4
November	3060.0	3060.0	3897.6	3897.6	786.7	786.7
December	3073.3	3073.3	3915.9	3915.9	790.3	790.3
1989 January	3072.4	3072.4	3922.4	3922.4	787.2	787.2
February	3080.8	3079.3	3937.8	3937.2	786.6	786.0
March	3088.8	3085.7	3950.9	3948.7	786.4	785.0
<b>Monthly Growth Rates</b>						
1988 October	2.8	2.8	5.3	5.3	2.6	2.6
November	7.0	7.0	6.9	6.9	2.0	2.0
December	5.2	5.2	5.6	5.6	5.5	5.5
1989 January	-0.4	-0.4	2.0	2.0	-4.7	-4.7
February	3.3	2.7	4.7	4.5	-0.9	-1.8
March	3.1	2.5	4.0	3.5	-0.3	-1.5
<b>Quarterly Ave. Growth Rates</b>						
1988 Q1	6.2	6.2	6.8	6.8	3.2	3.2
Q2	6.9	6.9	7.2	7.2	6.3	6.3
Q3	3.8	3.8	5.5	5.5	5.2	5.2
Q4	3.8	3.8	4.9	4.9	2.4	2.4
1989 Q1	2.9	2.7	4.2	4.1	-0.4	-0.7
Nov. 88 to Mar. 89	2.8	2.5	4.1	3.9	-0.1	-0.7
Dec. 88 to Mar. 89	2.0	1.6	3.6	3.3	-2.0	-2.7
Jan. 89 to Mar. 89	3.2	2.6	4.4	4.0	-0.6	-1.7
Q4 87 to Q4 88	5.3	5.3	6.2	6.2	4.3	4.3
Q4 88 to Q1 89	2.9	2.7	4.2	4.1	-0.4	-0.7
Q4 88 to Jan. 89	2.7	2.7	4.0	4.0	-0.2	-0.2
Q4 88 to Feb. 89	2.9	2.7	4.3	4.2	-0.4	-0.7
Q4 88 to Mar. 89	3.0	2.7	4.2	4.0	-0.4	-1.0
1988 Target Ranges:	4.0 to 8.0		4.0 to 8.0			
1989 Ranges (Tentative):	3.0 to 7.0		3.5 to 7.5			

Chart 3  
**ACTUAL AND TARGETED M2**

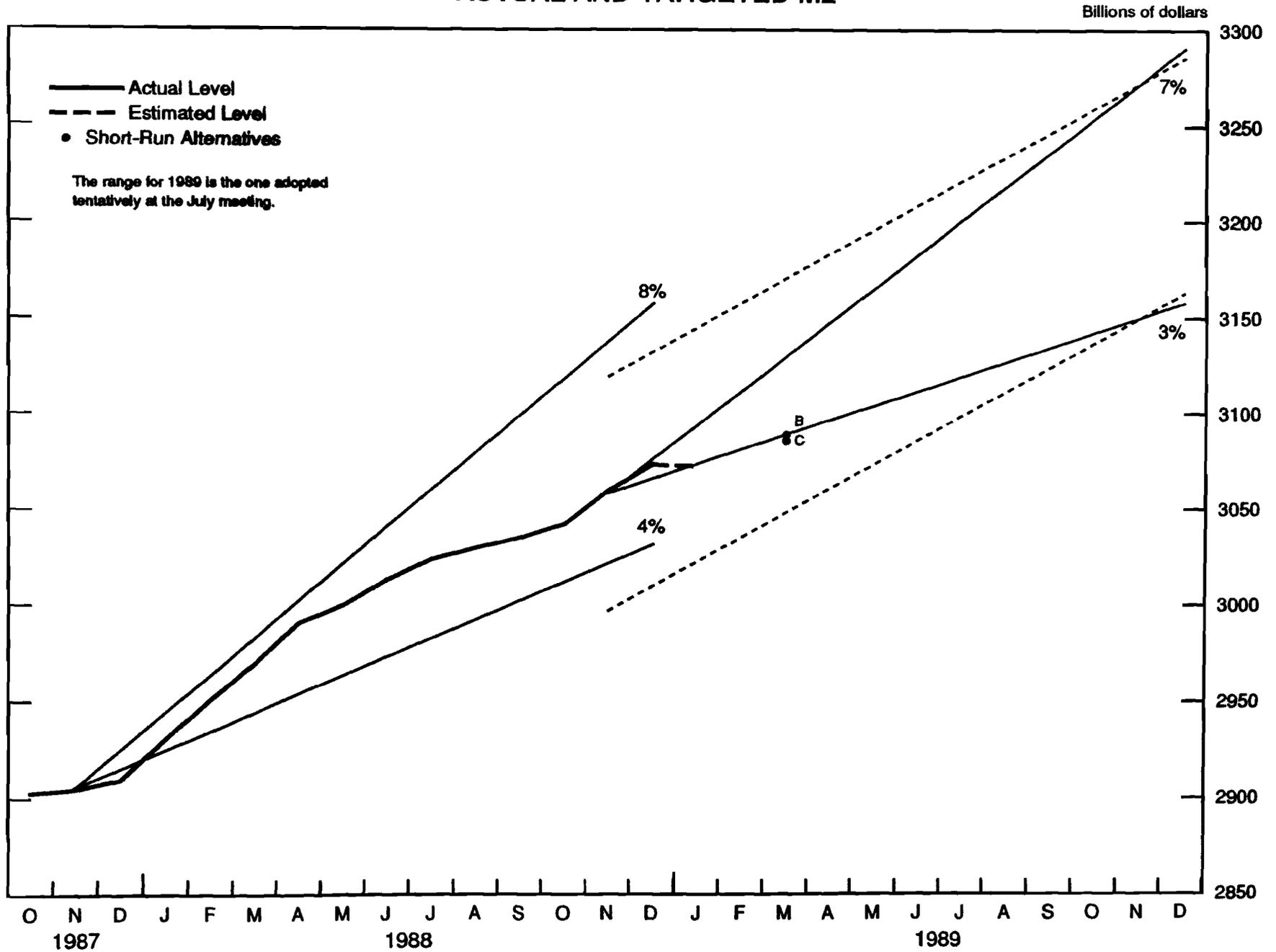


Chart 4  
**ACTUAL AND TARGETED M3**

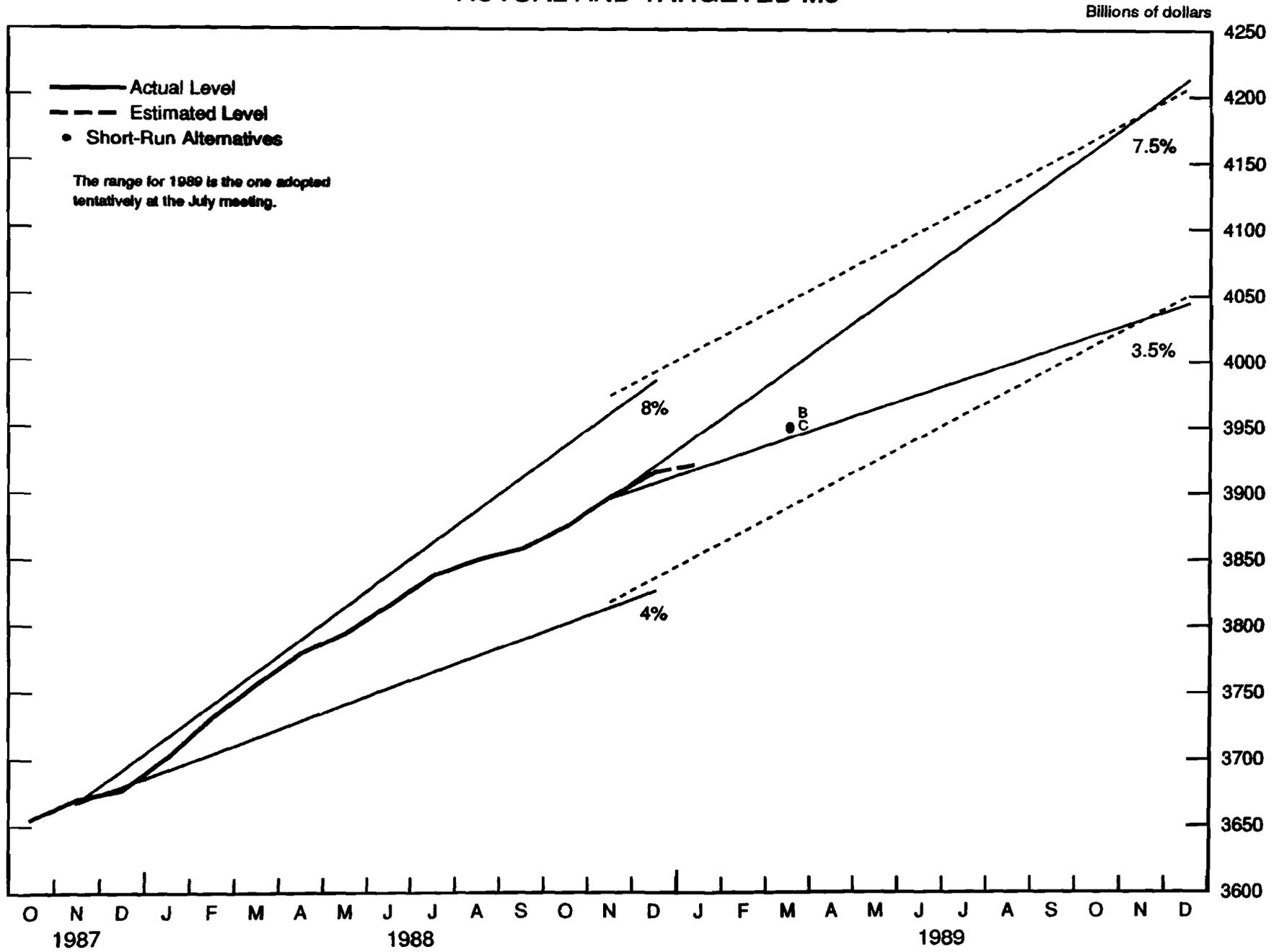


Chart 5  
M1

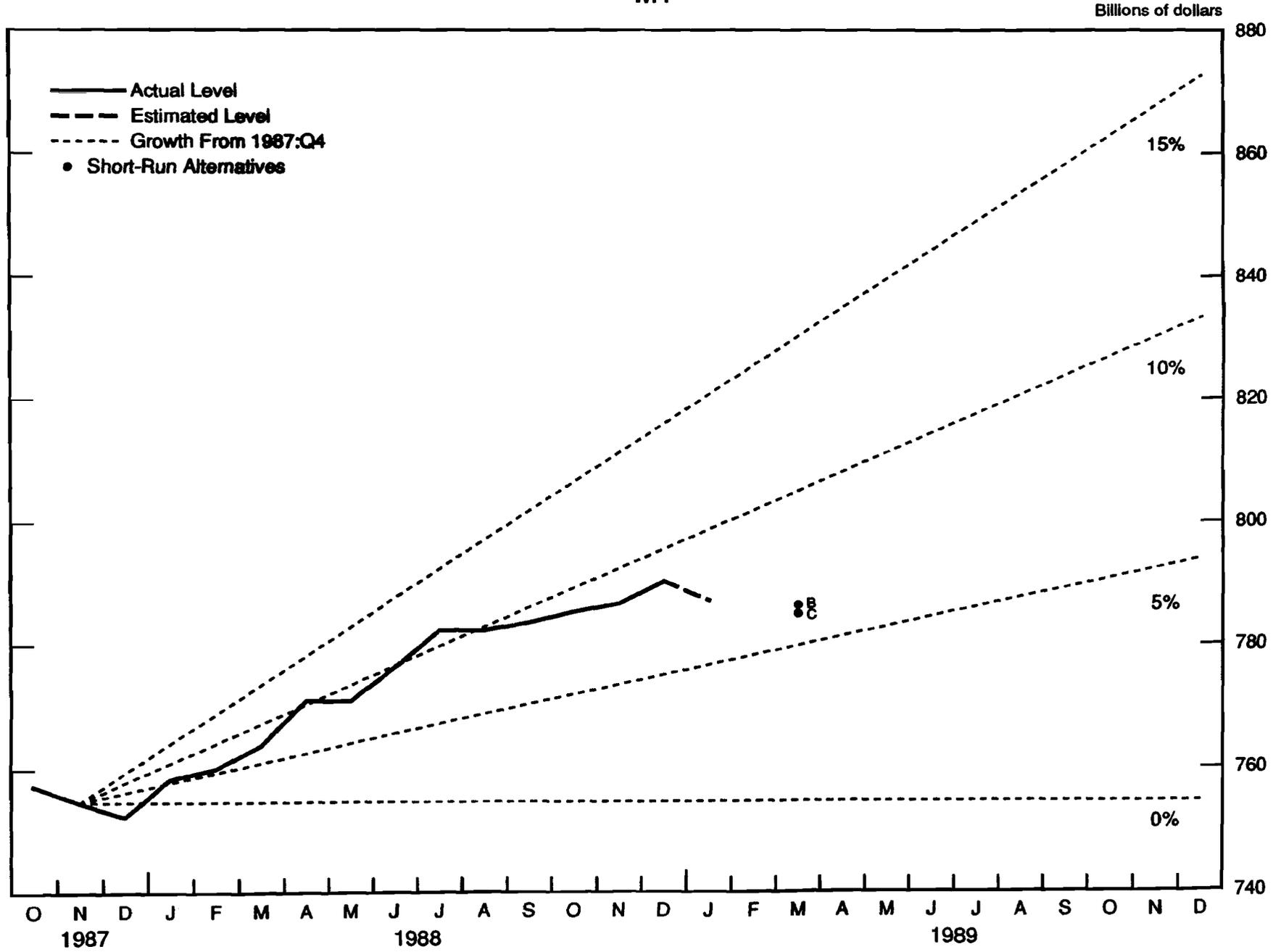
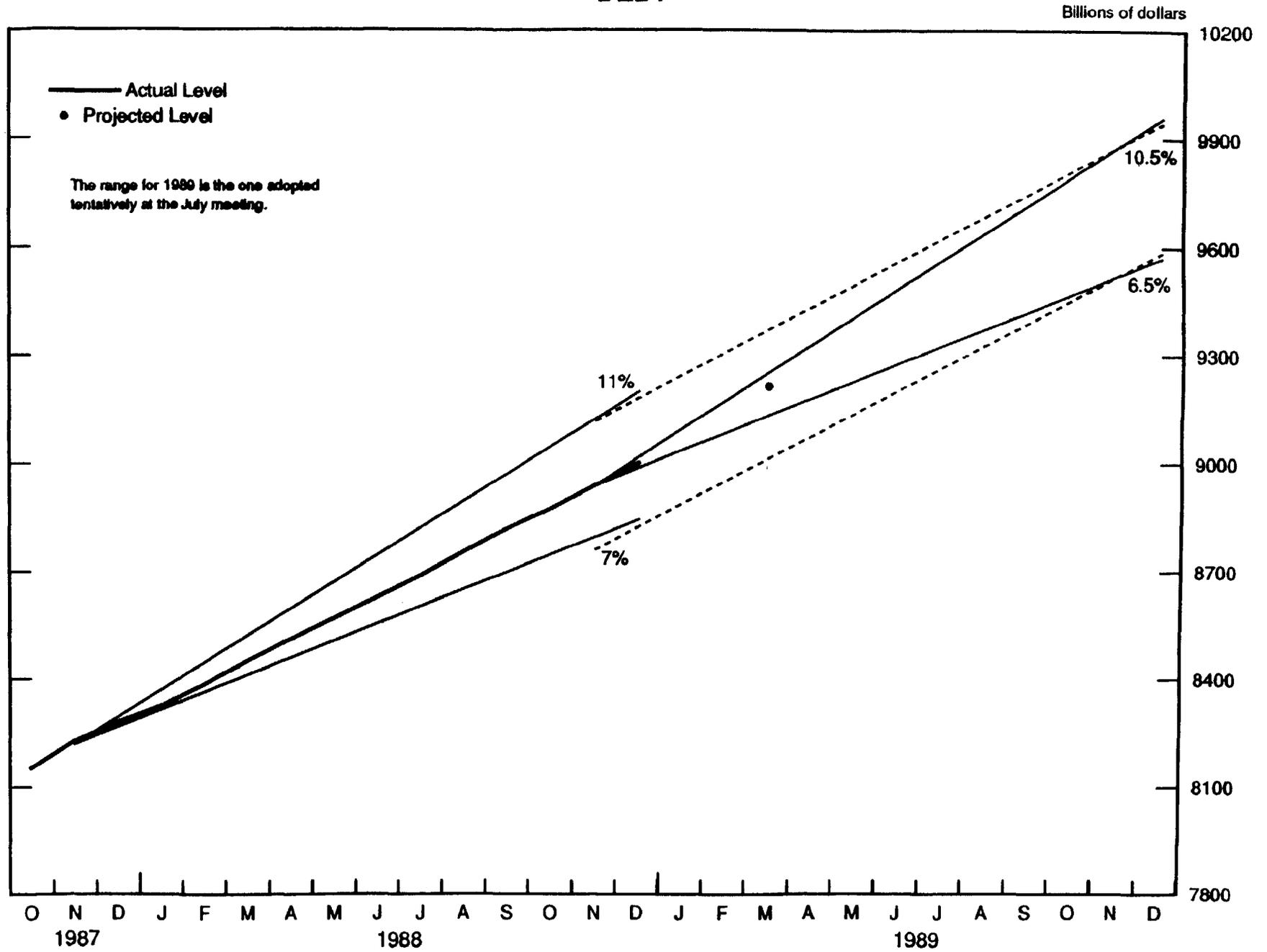


Chart 6  
DEBT



(23) Increases in short-term market rates over recent months should restrain M2 growth through this quarter under alternative B. Some rebound from a weak January seems in store in February and March, but M2 growth is expected to reach only about 3 percent over the next two months, given the glacial adjustment speed of offering rates recently, especially for liquid accounts.<sup>5</sup> With demand deposits expected to continue to run off in February and March, M1 would decline slightly further. The 2 percent M2 growth of alternative B from December to March implies quarterly average growth of only 3 percent for this aggregate. M2 demand is not expected to respond to the anticipated bulge in nominal GNP in the current quarter resulting from an imputed bounceback of farm activity from the drought last year. Consistent with the GNP outlook in the greenbook, the income velocity of M2 would increase this quarter at a 5-3/4 percent annual rate, nearly twice its rate of change over the second half of 1988.

(24) M3 growth under alternative B should strengthen from its January lull to a 4-1/2 percent annual rate over February and March, bringing growth from December to March to a 3-1/2 percent annual rate. Total thrift deposits, flat in December and January, are expected to expand weakly over February and March, and S&Ls should continue their reliance on new FHLB advances and other non-M3 borrowing. A bulge in bank credit associated with financing of the RJR-Nabisco takeover, while other LBO and merger-related lending remains heavy, should induce substantial issuance of large CDs this month and next. Corporate restructuring

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5. Growth of M2 may be somewhat elevated in February, and depressed in March, by short-term placement of funds borrowed for the RJR-Nabisco buyout. These funds reportedly will be held in highly liquid instruments for a time prior to disbursement to shareholders.

activity also will be boosting overall debt issuance by domestic nonfinancial sectors for a time. The debt aggregate is projected to grow at a 9-1/2 percent annual rate over the first quarter--somewhat faster than in 1988 and in the upper half of its tentative range. Net equity retirements are forecast at a record \$200 billion annual rate for the quarter, while the corporate financing gap holds steady at around an \$80 billion annual rate.

(25) The rise in the funds rate to around 9-1/2 percent or slightly higher associated with discount borrowing of \$800 million under alternative C would be larger than is currently built into market rates. Short-term rates would move up across the board, though by less than 1/2 percentage point, with the 3-month Treasury bill rate rising to around 8-3/4 percent. The upward pressure on bond rates from market perceptions of a higher path for short rates in the intermediate term might be largely offset by expectations that policy actions of this size and speed were likely to slow growth and reduce inflation. Higher short-term rates likely would induce some further firming of the exchange value of the dollar. The increase in short-term rates would further damp expansion of the monetary aggregates. The projected 1-1/2 percent growth of M2 over the first three months of the year under this alternative would place it in March a little below the lower bound of the cone associated with its tentative annual range, and the upward movement of rates is likely to keep M2 growth relatively damped into the spring. M3 growth of about 3-1/4 percent from December to March would leave this aggregate just 1/2 percentage point above its tentative lower bound by quarter end.

Directive language

(26) Presented below for Committee consideration is draft language relating to the ranges for 1989 and to the operating paragraph for the intermeeting period. With respect to the long-run ranges, alternative language is offered that would fold the M1 sentence into the first paragraph and apply to the broader aggregates as well as to M1 the notion that they are evaluated in light of conditions in the economy and financial markets. This might be considered more consistent with the treatment of the aggregates in the operational paragraph.

The Federal Open Market Committee seeks monetary and financial conditions that will foster 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 at THIS ~~its~~ meeting ESTABLISHED ~~in late June~~ reaffirmed the ranges ~~it~~ had established in February for growth of ~~\_\_\_~~ TO ~~\_\_\_~~ 4 to 8 percent for both M2 and ~~\_\_\_~~ TO ~~\_\_\_~~ PERCENT FOR M3, measured from the fourth quarter of 1988 ~~1987~~ to the fourth quarter of 1989 ~~1988~~. The monitoring range for growth of total domestic non-financial debt was SET ~~also maintained~~ at ~~\_\_\_~~ TO ~~\_\_\_~~ 7 to ~~11~~ percent for the year.

For 1989, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1988 to the fourth quarter of 1989, of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3. The Committee

set the associated monitoring range for growth of total domestic nonfinancial debt at 6-1/2 to 10-1/2 percent. It was understood that all these ranges were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

[No para] The Committee AGAIN DECIDED reaffirmed its decision in February not to establish a specific target for 1988 and also decided not to set a tentative range for M1 GROWTH IN 1989. The behavior of this aggregate [THE MONETARY AGGREGATES] will continue to be evaluated in the light of movements in its velocity [THEIR VELOCITIES], developments in the economy and financial markets, and the nature of emerging price pressures.

#### OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/ MAINTAIN/increase somewhat 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 DECEMBER ~~November~~ through March at annual rates of about \_\_\_\_ AND \_\_ 3 and 6-1/2 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 \_\_ 7 to 11 percent.

## APPENDIX

### MONEY STOCK REVISIONS

Measures of the money stock have been revised to incorporate the results of the annual benchmark and seasonal factor review. The attached tables compare growth rates of the old and the revised series. These data are to be regarded as **strictly confidential** until their release scheduled for February 9.

#### Benchmark Revisions

Deposits of commercial banks and thrifts have been benchmarked using call reports through June 1988 and incorporate revisions from other sources as well. The benchmark revisions had negligible impacts on monetary growth over 1988 and on the quarterly pattern of growth within the year.

#### Seasonal Revisions

The seasonal factor review continued to employ the X-11 ARIMA procedure. Although revisions to seasonal factors had little effects on the broad patterns of growth in 1988, some redistribution of growth occurred from the first to the second half of the year. Growth of M1 was increased by about 0.4 percentage point, M2 by 0.7 percent, and M3 by 0.5 percent, on a second quarter to fourth quarter basis.

Appendix Table 1

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

	<u>Revised</u> (1)	<u>Old</u> (2)	<u>Difference</u> <u>(1) - (2)</u> (3)	<u>Difference due to</u>	
				<u>Benchmark</u> (4)	<u>Seasonals</u> (5)
<u>Monthly</u>					
1987--Oct.	15.1	14.0	1.1	0.1	1.0
Nov.	-4.3	-5.6	1.3	0.1	1.2
Dec.	-3.7	-3.0	-0.7	-0.2	-0.5
1988--Jan.	9.7	12.8	-3.1	0.2	-3.3
Feb.	2.7	1.1	1.6	0.0	1.6
Mar.	5.8	5.4	0.4	0.0	0.4
Apr.	11.5	11.3	0.2	0.3	-0.1
May	-0.2	0.2	-0.4	0.2	-0.6
June	8.4	9.8	-1.4	0.4	-1.8
July	9.3	9.0	0.3	0.5	-0.2
Aug.	0.0	0.3	-0.3	-0.4	0.1
Sept.	2.0	-0.2	2.2	0.2	2.0
Oct.	2.6	1.7	0.9	-0.1	1.0
Nov.	2.0	0.3	1.7	0.1	1.6
Dec.	5.5	6.3	-0.8	0.0	-0.8
1989--Jan.	-4.7	-1.2	-3.5	0.0	-3.5
<u>Quarterly</u>					
1987--QIV	5.0	3.9	1.1	0.1	1.0
1988--QI	3.2	3.8	-0.6	0.0	-0.6
QII	6.3	6.3	0.0	0.2	-0.2
QIII	5.2	5.2	0.0	0.2	-0.2
QIV	2.4	1.3	1.1	0.0	1.1
<u>Semi-Annual</u>					
1988--QIV '87 to QII '88	4.8	5.1	-0.3	0.1	-0.4
QII '88 to QIV '88	3.8	3.3	0.5	0.1	0.4
<u>Annual (QIV TO QIV)</u>					
1987	6.4	6.2	0.2	0.1	0.1
1988	4.3	4.2	0.1	0.1	0.0

Appendix Table 2

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

	<u>Revised</u>	<u>Old</u>	<u>Difference</u> <u>(1) - (2)</u>	<u>Difference due to</u>	
	(1)	(2)	(3)	<u>Benchmark</u>	<u>Seasonals</u>
				(4)	(5)
<u>Monthly</u>					
1987--Oct.	7.2	5.7	1.5	0.3	1.2
Nov.	0.8	0.8	0.0	0.0	0.0
Dec.	2.0	1.9	0.1	-0.1	0.2
1988--Jan.	8.7	10.1	-1.4	0.0	-1.4
Feb.	8.4	8.6	-0.2	0.5	-0.7
Mar.	7.6	8.7	-1.1	-0.4	-0.7
Apr.	8.5	9.5	-1.0	-0.3	-0.7
May	3.8	4.5	-0.7	-0.5	-0.2
June	5.2	5.7	-0.5	-0.2	-0.3
July	4.3	3.7	0.6	-0.1	0.7
Aug.	2.3	2.3	0.0	-0.6	0.6
Sept.	2.1	1.0	1.1	-0.2	1.3
Oct.	2.8	1.3	1.5	0.1	1.4
Nov.	7.0	7.0	0.0	0.0	0.0
Dec.	5.2	4.9	0.3	0.0	0.3
1989--Jan.	-0.4	1.2	-1.6	0.0	-1.6
<u>Quarterly</u>					
1987--QIV	4.9	3.9	1.0	0.3	0.7
1988--QI	6.2	6.8	-0.6	0.1	-0.7
QII	6.9	7.7	-0.8	-0.2	-0.6
QIII	3.8	3.6	0.2	-0.3	0.5
QIV	3.8	3.0	0.8	-0.1	0.9
<u>Semi-Annual</u>					
1988--QIV '87 to QII '88	6.6	7.3	-0.7	-0.1	-0.6
QII '88 to QIV '88	3.8	3.3	0.5	-0.2	0.7
<u>Annual (QIV TO QIV)</u>					
1987	4.2	4.0	0.2	0.2	0.0
1988	5.3	5.4	-0.1	-0.2	0.1

Appendix Table 3

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

	<u>Revised</u> (1)	<u>Old</u> (2)	<u>Difference</u> <u>(1) - (2)</u> (3)	<u>Difference due to</u> <u>Benchmark</u> (4)	<u>Seasonals</u> (5)
<u>Monthly</u>					
1987--Oct.	8.0	7.3	0.7	0.2	0.5
Nov.	4.9	4.9	0.0	-0.2	0.2
Dec.	2.2	1.6	0.6	-0.3	0.9
1988--Jan.	8.0	8.6	-0.6	0.0	-0.6
Feb.	9.7	10.5	-0.8	0.3	-1.1
Mar.	7.9	8.2	-0.3	0.4	-0.7
Apr.	7.6	7.6	0.0	-0.1	0.1
May	4.7	5.5	-0.8	-0.5	-0.3
June	6.6	7.8	-1.2	-0.3	-0.9
July	7.1	7.0	0.1	-0.3	0.4
Aug.	3.8	3.8	0.0	-0.2	0.2
Sept.	2.6	1.7	0.9	-0.2	1.1
Oct.	5.3	4.7	0.6	-0.1	0.7
Nov.	6.9	6.9	0.0	0.0	0.0
Dec.	5.6	4.5	1.1	0.0	1.1
1989--Jan.	2.0	2.6	-0.6	0.0	-0.6
<u>Quarterly</u>					
1987--QIV	6.4	5.5	0.9	0.2	0.7
1988--QI	6.8	7.0	-0.2	0.1	-0.3
QII	7.2	7.7	-0.5	0.0	-0.5
QIII	5.5	5.7	-0.2	-0.4	0.2
QIV	4.9	4.4	0.5	-0.1	0.6
<u>Semi-Annual</u>					
1988--QIV '87 to QII '88	7.0	7.4	-0.4	0.0	-0.4
QII '88 to QIV '88	5.3	5.1	0.2	-0.3	0.5
<u>Annual (QIV TO QIV)</u>					
1987	5.7	5.4	0.3	0.3	0.0
1988	6.2	6.4	-0.2	-0.1	-0.1

SELECTED INTEREST RATES  
(percent)

	Short-Term								Long-Term							
	Treasury bills				U.S. Gov't. constant				conventional home							
	secondary market				maturity yields				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	8.87	8.16	8.26	8.40	9.33	9.41	8.18	10.50	9.16	9.36	9.42	10.73	8.34	11.33	10.81	8.54
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	7.64	9.98	9.84	7.49
Monthly																
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
OCT 88	8.30	7.35	7.50	7.54	8.36	8.12	7.50	10.00	8.43	8.80	8.89	10.11	7.78	10.41	10.30	8.12
NOV 88	8.35	7.76	7.86	7.87	8.78	8.38	7.64	10.05	8.72	8.96	9.02	10.12	7.80	10.56	10.27	8.15
DEC 88	8.76	8.07	8.22	8.32	9.25	9.31	8.00	10.50	9.11	9.11	9.01	10.08	7.88	10.98	10.61	8.39
JAN 89	9.12	8.27	8.36	8.37	9.20	9.03	8.33	10.50	9.20	9.09	8.93	10.09	7.63	10.97	10.73	8.55
Weekly																
NOV 2 88	8.36	7.36	7.48	7.51	8.40	8.19	7.55	10.00	8.34	8.69	8.79	10.02	7.64	10.37	10.12	8.11
NOV 9 88	8.31	7.50	7.66	7.68	8.50	8.27	7.56	10.00	8.53	8.85	8.92	10.08	7.77	10.53	10.24	8.14
NOV 16 88	8.26	7.83	7.90	7.90	8.71	8.38	7.60	10.00	8.71	8.93	9.03	10.20	7.86	10.64	10.31	8.14
NOV 23 88	8.33	7.97	8.01	8.00	8.92	8.45	7.68	10.00	8.87	9.06	9.12	10.20	7.93	10.70	10.39	8.21
NOV 30 88	8.44	7.96	8.08	8.08	9.23	8.53	7.75	10.21	8.99	9.13	9.13	10.15	7.96	10.79	10.44	8.26
DEC 7 88	8.59	7.97	8.16	8.18	9.22	9.26	7.85	10.50	9.00	9.05	9.05	10.02	7.96	10.72	10.46	8.35
DEC 14 88	8.51	8.00	8.25	8.34	9.27	9.27	7.95	10.50	9.10	9.10	8.98	10.15	7.94	11.08	10.71	8.43
DEC 21 88	8.87	8.16	8.23	8.40	9.33	9.41	8.09	10.50	9.16	9.13	9.02	9.98	7.82	11.00	10.68	8.45
DEC 28 88	8.86	8.13	8.26	8.33	9.21	9.30	8.18	10.50	9.16	9.12	8.96	10.12	7.71	11.33	10.77	8.45
JAN 4 89	9.22	8.16	8.28	8.40	9.17	9.18	8.39	10.50	9.23	9.19	9.05	10.19	7.73	11.19	10.80	8.53
JAN 11 89	9.08	8.28	8.46	8.49	9.23	9.04	8.28	10.50	9.33	9.25	9.06	10.11	7.66	10.99	10.81	8.54
JAN 18 89	9.13	8.24	8.34	8.33	9.24	9.04	8.35	10.50	9.17	9.06	8.90	10.05	7.55	10.92	10.71	8.58
JAN 25 89	9.06	8.25	8.29	8.27	9.17	9.00	8.37	10.50	9.11	8.99	8.84	10.00	7.56	10.78	10.60	8.54
FEB 1 89	9.16	8.34	8.38	8.34	9.18	9.03	8.40	10.50	9.13	8.99	8.81	10.10	7.58	10.85	10.55	8.56
Daily																
JAN 27 89	9.17	8.33	8.35	8.31	9.18	9.02	..	10.50	9.09	8.95	8.76	..	..	..	..	..
FEB 2 89	9.03	8.38	8.41	8.36	9.19	9.03	..	10.50	9.12	8.98	8.82	..	..	..	..	..
FEB 3 89	9.04p	8.48	8.52	8.48	9.25	9.06	..	10.50	9.19p	9.01p	8.84p	..	..	..	..	..

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

FEB. 6, 1989

Period	Money stock measures and liquid assets					Bank credit	Domestic nonfinancial debt <sup>1</sup>			
	M1	M2	nontransactions components		M3	L	total loans and investments	U.S. government <sup>1</sup>	other <sup>1</sup>	total <sup>1</sup>
			in M2	in M3 only						
	1	2	3	4	5	6	7	8	9	10
<b>ANN. GROWTH RATES (%) :</b>										
<b>ANNUALLY (Q4 TO Q4)</b>										
1986	15.6	9.4	7.4	8.2	9.1	8.3	9.7	14.7	12.9	13.3
1987	6.2	4.0	3.3	11.2	5.4	5.3	7.9	8.9	10.0	9.8
1988	4.2	5.4	5.8	10.0	6.4		7.2	8.1	9.0	8.7
<b>QUARTERLY AVERAGE</b>										
1988-1st QTR.	3.8	6.8	7.8	8.1	7.0	6.8	5.3	8.0	8.2	8.1
1988-2nd QTR.	6.3	7.7	8.2	7.4	7.7	9.1	11.1	8.2	8.9	8.7
1988-3rd QTR.	5.2	3.6	3.1	13.7	5.7	7.2	7.3	7.3	9.0	8.6
1988-4th QTR.	1.3	3.0	3.6	9.4	4.4		4.4	7.9	8.5	8.4
<b>MONTHLY</b>										
1988-JAN.	12.8	10.1	9.2	3.1	8.6	10.5	6.1	4.0	7.4	6.6
FEB.	1.1	8.6	11.2	17.7	10.5	8.6	10.3	10.6	7.9	8.6
MAR.	5.4	8.7	9.8	6.2	8.2	7.3	9.1	15.1	7.5	9.3
APR.	11.3	9.5	8.8	0.6	7.6	11.9	11.6	7.1	9.2	8.7
MAY	0.2	4.5	6.1	9.4	5.5	8.7	12.5	2.7	10.0	8.3
JUNE	9.8	5.7	4.3	15.9	7.8	4.5	10.3	6.0	9.0	8.3
JULY	9.0	3.7	1.8	19.6	7.0	11.5	6.3	5.8	9.1	8.3
AUG.	0.3	2.3	3.1	9.3	3.8	5.4	7.2	10.5	8.8	9.2
SEP.	-0.2	1.0	1.4	4.0	1.7	1.7	-0.7	12.2	7.8	8.8
OCT.	1.7	1.3	1.2	17.1	4.7	5.1	7.1	5.1	8.2	7.5
NOV.	0.3	7.0	9.3	6.4	6.9	9.2	6.0	6.7	9.3	8.7
DEC.	6.3	4.9	4.5	2.7	4.5		0.1	7.6	8.4	8.3
1989-JAN. pe	-1	1	2	7	3		3			
<b>LEVELS (\$BILLIONS) :</b>										
<b>MONTHLY</b>										
1988-AUG.	782.5	3031.6	2249.2	816.9	3848.5	4582.6	2374.9	2059.0	6698.6	8757.6
SEP.	782.4	3034.2	2251.8	819.6	3853.8	4589.2	2373.6	2079.9	6742.1	8822.1
OCT.	783.5	3037.5	2254.0	831.3	3868.8	4608.8	2387.5	2088.7	6788.4	8877.1
NOV.	783.7	3055.2	2271.5	835.7	3890.9	4644.0	2398.1	2100.4	6841.0	8941.3
DEC.	787.8	3067.8	2280.0	837.6	3905.4		2398.3	2113.7	6889.1	9002.8
<b>WEEKLY</b>										
1988-DEC. 5	786.9	3067.8	2280.9	836.1	3903.9					
12	787.5	3067.6	2280.1	839.5	3907.1					
19	785.7	3067.5	2281.8	838.5	3906.0					
26	786.6	3066.7	2280.1	835.5	3902.2					
1989-JAN. 2	793.1	3070.5	2277.4	838.0	3908.6					
9	786.3	3064.6	2278.3	840.8	3905.4					
16 p	783.6	3070.4	2286.9	843.7	3914.2					
23 p	785.8	3072.6	2286.7	842.4	3914.9					

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

FEB. 6, 1989

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA <sup>1</sup>	MMDAs NSA	Savings deposits	Small denomination time deposits <sup>2</sup>	Money market mutual funds, NSA		Large denomination time deposits <sup>3</sup>	Term RPs NSA <sup>4</sup>	Term Eurodollars NSA <sup>4</sup>	Savings bonds	Short-term Treasury securities	Commercial paper <sup>4</sup>	Bankers acceptances
								general purpose and broker/dealer <sup>1</sup>	Institutions only							
								8	9							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
<b>LEVELS (\$BILLIONS) :</b>																
<b>ANNUALLY (4TH QTR.)</b>																
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	109.8	92.2	99.4	267.9	255.2	45.1
1988	210.5	287.9	279.2	77.0	504.9	432.1	1018.7	236.7	86.5	532.6	124.4	101.7				
<b>MONTHLY</b>																
<b>1987-DEC.</b>																
	196.5	288.0	259.3	77.9	525.2	414.3	913.1	221.1	89.6	484.7	108.9	90.8	100.2	260.1	258.9	45.7
<b>1988-</b>																
JAN.	198.4	289.9	263.3	82.9	524.1	414.4	924.6	225.2	94.4	482.6	109.6	85.4	101.4	262.5	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	113.9	85.5	102.6	258.3	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	111.7	90.0	103.5	252.8	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	114.3	89.1	104.6	263.5	288.2	41.2
MAY	203.6	287.4	271.9	80.7	519.6	425.1	972.0	231.8	90.0	495.4	120.6	91.8	105.4	265.1	301.1	40.9
JUNE	204.9	289.9	274.4	81.0	522.3	429.0	974.9	228.9	86.3	501.8	123.8	93.1	106.1	256.6	301.2	40.6
JULY	206.3	290.6	278.2	77.8	521.1	432.0	978.5	229.6	84.8	509.4	125.0	96.2	106.9	266.5	311.5	40.6
AUG.	207.2	290.1	278.0	80.1	517.0	434.2	985.7	230.8	84.0	515.3	123.1	102.3	107.4	273.1	312.5	41.1
SEP.	208.5	288.4	278.2	77.6	510.7	433.4	997.4	230.8	83.7	523.9	121.5	101.4	107.7	278.0	307.9	41.9
OCT.	209.5	288.6	278.0	76.0	506.8	431.2	1009.9	231.2	84.6	530.7	123.9	99.1	108.3	281.3	309.2	41.3
NOV.	210.3	286.9	279.1	75.2	505.9	433.6	1019.0	238.0	87.4	532.1	126.6	102.2	108.4	282.9	321.0	40.8
DEC.	211.7	288.1	280.5	79.9	502.0	431.6	1027.1	240.8	87.6	534.9	122.8	103.9				

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

February 6, 1989

**NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES<sup>1</sup>**  
 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 <sup>4</sup>	Net RPs <sup>5</sup>
	Net purchases <sup>2</sup>	Redemptions (-)	Net change	Net purchases <sup>3</sup>				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
1988	7,635	2,200	5,435	2,177	4,686	1,404	1,398	--	15,099	587	14,513	1,557
1987--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
Q4	5,098	2,200	5,098	1,084	1,824	562	432	--	3,903	224	8,776	-1,541
1988--July	515	--	515	--	--	--	--	--	--	--	515	-5,941
August	--	--	--	--	--	--	--	--	--	10	-10	-1,655
September	1,280	--	1,280	--	--	--	--	--	--	--	1,280	8,989
October	375	--	375	--	--	--	--	--	--	75	300	-6,150
November	3,599	--	3,599	--	--	--	--	--	--	14	3,585	3,096
December	1,125	--	1,125	1,084	1,824	562	432	--	3,903	135	4,892	1,512
1989--January	-154	600	-754	--	-3	-20	--	--	-23	148	-925	-6,813
Nov. 2	323	--	323	--	--	--	--	--	--	--	323	1,627
9	2,985	--	2,985	--	--	--	--	--	--	--	2,985	-1,362
16	--	--	--	--	--	--	--	--	--	14	-14	1,341
23	60	--	60	--	--	--	--	--	--	--	60	-1,160
30	278	--	278	--	--	--	--	--	--	--	278	5,629
Dec. 7	50	--	50	649	1,824	562	432	--	3,468	--	3,518	-4,050
14	702	--	702	75	--	--	--	--	75	84	693	-2,601
21	92	--	92	260	--	--	--	--	260	1	352	3,351
28	281	--	281	--	--	--	--	--	--	51	230	3,094
Jan. 4	--	--	--	100	--	--	--	--	100	--	100	4,882
11	--	--	--	--	--	--	--	--	--	--	--	-4,141
18	-20	--	-20	--	--	--	--	--	--	--	-20	-6,394
25	-134	--	-134	--	--	--	--	--	--	148	-282	4,259
Feb. 1	-30	600	-630	--	-3	-20	--	--	-23	--	-653	-3,729
Memo: LEVEL (bil.\$) <sup>6</sup> February 1	--	--	117.1	25.7	55.5	12.7	26.9	--	120.9	--	244.8	-5.1

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 change 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
2.3	3.3	1.0	.2	6.8