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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

March 24, 1989

MONETARY POLICY ALTERNATIVES

Recent developments

(1) Monetary policy was tightened in two steps over the intermeeting period. On February 14, in view of mounting evidence of inflationary pressures, the borrowing assumption was raised to $700 million from the $600 million level that had been continued after the February FOMC meeting. Federal funds were expected to trade around 9-1/4 to 9-3/8 percent, up from 9 to 9-1/8 percent at the time of the meeting. Although federal funds did trade mostly in this higher range, borrowing averaged only $366 million in the maintenance period ending February 22. In association with the increase in the discount rate to 7 percent on February 24, federal funds moved up to average a little above 9-3/4 percent. Borrowing continued to fall short of the $700 million allowance, coming in at just $550 million for the maintenance period ending March 8. In light of these indications of additional weakening in borrowing demands, the borrowing assumption was reduced to $500 million in the maintenance period beginning March 9 as a technical adjustment to make it more consistent with expected conditions in reserve markets. In that maintenance period, which ended March 22, adjustment plus seasonal borrowing was $422 million and the federal funds rate averaged 9.85 percent.

(2) The tightening of policy, together with renewed concerns about inflation and associated future policy moves, propelled other interest rates higher across the maturity spectrum over the intermeeting period. Increases in private short-term rates have totaled nearly 1 percentage

point, including two half-point increases in the prime rate, somewhat more than the almost 3/4 percentage point rise in the funds rate. The additional increase in these rates followed release of the second large jump in producer prices, which was seen as raising the odds of a further near-term firming of policy. It may also have reflected greater supplies of short-term paper, especially bank CDs to fund stronger bank credit and sponsored agency obligations to meet demands for FHLB advances as thrift deposits ran off. By contrast, Treasury bill supplies have been flat, and with substantial retail demand for these instruments through noncompetitive tenders, bill rates rose only about half a percentage point.

(3) Long-term rates rose immediately following the FOMC meeting, when an unchanged Federal Reserve policy stance in the face of strong economic data apparently led to renewed concerns about the possible intensification of inflation, especially since the dollar weakened as well. Further increases in long-term rates were registered as incoming price data--both broad indexes and prices of oil and other commodities--were interpreted as signalling an actual pickup in inflation and a need for further policy firming. On balance, yields on Treasury bonds are 40 to 50 basis points higher over the intermeeting period. Actual and anticipated sales of mortgages and mortgage-backed securities by thrifts may have contributed to larger increases in yields on these instruments in both primary and secondary markets. In the primary market, rates on fixed-rate mortgages rose nearly 70 basis points to 11.22 percent over the intermeeting period, while the spread between secondary market mortgage securities and Treasuries widened around 15 to 35 basis points.

(4) The dollar's weighted-average foreign exchange value rose marginally on balance over the intermeeting period. The dollar weakened early in the period, given the restrained response of the Federal Reserve to incoming economic and price data and in view of expected further monetary tightening by foreign central banks, especially the Bundesbank. Market perceptions reversed and the dollar strengthened substantially, however, shortly after the Federal Reserve's discount rate increase and amid clear signals from the Bundesbank and other central banks that they would not raise rates in the near term. As the dollar moved back toward its earlier peak against the Deutschmark, the Desk sold $650 million for marks.

(5) After considerable weakness in January, growth of M2 and M3 strengthened in February and is estimated to have picked up further in March. Still, expansion of the aggregates so far this year has remained subdued, reflecting high opportunity costs and probably also the problems of the thrift industry. M2 growth of 1-1/2 percent since December is slightly slower than the 2 percent specification of the Committee, which, however, did not embody the policy tightening that occurred. Growth of M3 for the December-to-March period at a 3-3/4 percent rate is in line with the Committee's expectations for this interval. The levels of M2 and M3

in March are estimated to be a little below and a little above the lower bounds of their respective annual growth cones.

(6) Within M2, liquid deposits have remained quite weak--M1 was about unchanged over February and March--and small time deposits relatively strong. Offering rates on retail time deposits have moved up substantially, but remain unusually low relative to Treasury yields, especially at thrifts. Deposits at thrift institutions with FSLIC insurance have continued to decline, though outflows in late February and early March may have abated from earlier in the quarter. While most of these funds seem to have remained within M2, the thrift situation still appears to have depressed growth of this aggregate in the first quarter. Some apprehensive depositors seem to have opted for market instruments, and regulatory pressures on deposit rates at thrifts have held down offering rates more generally and widened the opportunity cost of holding M2 assets. Thrift behavior may also have affected M3. S&Ls have substituted non-M3 sources--FHLB advances--for deposits and probably have restrained credit expansion; S&L assets declined in January, the latest month for which data are available. On the other hand, the expansion of M3 over the past two months has been supported by the strong reliance of commercial banks on managed liabilities, particularly large time deposits, to fund increased lending. Bank credit growth was spurred in February by borrowing used to retire shares in RJR Nabisco.

(7) Even abstracting from the RJR Nabisco deal, business borrowing has shown renewed vigor in February and March. Concerns about event risk and the higher level of interest rates have pushed these demands into

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

	Jan.	Feb.	Mar.[pe]	Jan. to Mar.[pe]	QIV'88 to Mar.[pe]
Money and credit aggregates					
M1	-6.1	1.8	-1	1/2	-1/4
M2	-1.3	1.7	4-1/4	3	2-1/2
M3	1.6	3.2	6-1/4	4-3/4	4-1/4
Domestic nonfinancial debt	6.9	10.1	n.a.	n.a.	8.5 [1]
Bank credit	2.4	14.4	n.a.	n.a.	7.0 [1]
Reserve measures					
Nonborrowed reserves[2]	-11.5	2.4	-9	-3-1/4	-4-1/2
Total reserves	-8.5	-1.1	-8-1/4	-4-3/4	-4-1/2
Monetary base	4.0	4.4	5-3/4	5	4-3/4
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	616	437	478	--	--
Excess reserves	1145	1153	885	--	--

pe - preliminary estimate.
1. Fourth quarter to February.
2. Includes "other extended credit" from the Federal Reserve.
NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. The March figures assume an average level of adjustment plus seasonal borrowing of $500 million and excess reserves of $950 million for the maintenance period ending April 6. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

shorter-term areas: both bank lending and commercial paper issuance net of merger effects picked up in February, and at least for commercial paper, this strength has continued into March. In addition, recent weeks have seen a flurry of new investment-grade industrial bonds concentrated in short maturities, often of one year. Mortgage lending has strengthened somewhat from late 1988, and consumer borrowing has held steady. With government borrowing also picking up in February, overall domestic non-financial debt accelerated that month, lifting this aggregate to the mid-point of its range.

Policy alternatives

(8) Three alternatives are presented below for Committee consideration. Alternative B maintains the current degree of reserve market pressure, with federal funds trading around 9-3/4 percent or slightly higher in association with adjustment plus seasonal borrowing of $500 million. Alternative A entails federal funds around 9-1/4 percent and borrowing of $300 million, and alternative C involves funds around 10-1/4 percent and borrowing of $700 million. These relationships assume that the heightened reluctance of banks to tap the discount window of recent weeks will persist over the intermeeting period. Uncertainties about the relationship between borrowing and the spread of the funds rate over the discount rate suggest a continued flexible approach to the borrowing objective in open market operations. Even with this approach, funds could temporarily trade above expected levels in coming days should significant quarter-end pressures emerge and again in the latter half of April should individual income tax payments prove to be larger than anticipated, leading to a sharper advance in required reserves and a larger drain in bank reserves.

(9) Projections of growth in the monetary aggregates for March to June are presented below for the three alternatives, together with implied growth from the fourth-quarter base to June.[1] (Detailed data are presented on the table and charts on the following pages.) Under all three alternatives, monetary growth would remain subdued, largely reflecting

1. The funds rate range suggested for alternatives B and C is a percentage point above the 7 to 11 percent range now in the directive, better centering the range on current (alternative B) or somewhat higher (alternative C) expected funds rates.

recent increases in market interest rates and slow adjustment of offering rates on liquid accounts. In addition, the thrift situation is expected to depress growth of the broader aggregates in the second quarter, though to a lesser extent than in the first quarter. The reduced impact should result from a tendency for the most concerned depositors to flee first, and assumes no new information that would exacerbate depositors' fears, such as a Congressional stalemate on the proposed legislation. It also assumes no greater regulatory pressure on thrift deposit offering rates; changes in the average own rate on M2 components are likely to respond in more typical ways to changes in market rates, although the level of opportunity costs should remain unusually wide. M2 growth rates under the alternatives are a bit lower than would be suggested by various models of money demand given the staff GNP forecast. At the M3 level, further substitutions of FHLB advances for deposits and restraint on asset growth at thrifts are expected to have a continuing but diminishing effect on growth.[2]

2. Tax payments are not expected to have much impact on the pattern of monetary growth over the March-to-June period, in contrast to the last two years. There are no extraordinary influences on tax payments this year and current seasonal adjustment factors capture expected tax- and refund-related deposit swings.

However, M2 and M3 growth is expected to be depressed slightly in May by a transfer of the government securities trading operation of a major bank dealer, with associated RP financing, to a nonbank affiliate. RP liabilities of nonbank dealers are not included in the definition of the money aggregates.

	Alt. A	Alt. B	Alt. C
Growth from March to June			
M2	4	3	2
M3	5-1/2	5	4-1/2
M1	1	-1/2	-2
Growth from QIV'88 to June			
M2	3-1/4	2-3/4	2-1/4
M3	4-3/4	4-1/2	4-1/4
M1	1/2	-1/4	-1
Associated federal funds rate ranges	7 to 11	8 to 12	8 to 12

(10) The existing structure of interest rates appears to incorporate some expectation that monetary policy may be a little firmer in the near term than is assumed under alternative B. As a consequence, with federal funds continuing around 9-3/4 percent or even a little above under alternative B, money market rates might tend to decline a bit. Three-month Treasury bills at the current level of 9 percent would seem appropriately priced in relation to the prevailing federal funds rate under usual supply and demand conditions; but if strong retail demands continue, these rates also might edge lower, especially once the early-April cash management bill is absorbed. The dollar might come under some downward pressure as short-term rates softened and the prospects for further near-term monetary tightening in the United States were reassessed. Given recent mixed signals about the strength of the expansion, bond markets are

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									
1989 January	3066.0	3066.0	3066.0	3923.2	3923.2	3923.2	786.2	786.2	786.2
February	3070.3	3070.3	3070.3	3933.5	3933.5	3933.5	787.4	787.4	787.4
March	3081.4	3081.4	3081.4	3953.8	3953.8	3953.8	786.9	786.9	786.9
April	3090.4	3089.1	3087.8	3971.0	3970.3	3969.6	787.0	786.5	786.0
May	3099.7	3096.3	3092.9	3987.8	3985.8	3983.8	787.5	786.2	784.9
June	3113.1	3104.5	3095.9	4008.2	4003.2	3998.2	789.1	786.1	783.1
Monthly Growth Rates									
1989 January	-1.3	-1.3	-1.3	1.6	1.6	1.6	-6.1	-6.1	-6.1
February	1.7	1.7	1.7	3.2	3.2	3.2	1.8	1.8	1.8
March	4.3	4.3	4.3	6.2	6.2	6.2	-0.8	-0.8	-0.8
April	3.5	3.0	2.5	5.2	5.0	4.8	0.2	-0.6	-1.4
May	3.6	2.8	2.0	5.1	4.7	4.3	0.7	-0.5	-1.7
June	5.2	3.2	1.2	6.1	5.2	4.3	2.4	-0.2	-2.8
Quarterly Ave. Growth Rates									
1988 Q2	6.9	6.9	6.9	7.2	7.2	7.2	6.4	6.4	6.4
Q3	3.8	3.8	3.8	5.7	5.7	5.7	5.2	5.2	5.2
Q4	3.6	3.6	3.6	5.0	5.0	5.0	2.3	2.3	2.3
1989 Q1	2.1	2.1	2.1	3.8	3.8	3.8	-0.3	-0.3	-0.3
Q2	3.7	3.1	2.6	5.3	5.0	4.8	0.5	-0.3	-1.1
Dec. 88 to Mar. 89	1.6	1.6	1.6	3.7	3.7	3.7	-1.7	-1.7	-1.7
Mar. 89 to June 89	4.1	3.0	1.9	5.5	5.0	4.5	1.1	-0.4	-1.9
Q4 87 to Q4 88	5.2	5.2	5.2	6.3	6.3	6.3	4.3	4.3	4.3
Q4 88 to Q2 89	2.9	2.6	2.3	4.6	4.5	4.3	0.1	-0.3	-0.7
Q4 88 to Mar. 89	2.4	2.4	2.4	4.2	4.2	4.2	-0.2	-0.2	-0.2
Q4 88 to June 89	3.2	2.7	2.2	4.8	4.6	4.3	0.4	-0.3	-0.9
1989 Target Ranges:		3.0 to 7.0			3.5 to 7.5				

Chart 1

ACTUAL AND TARGETED M2

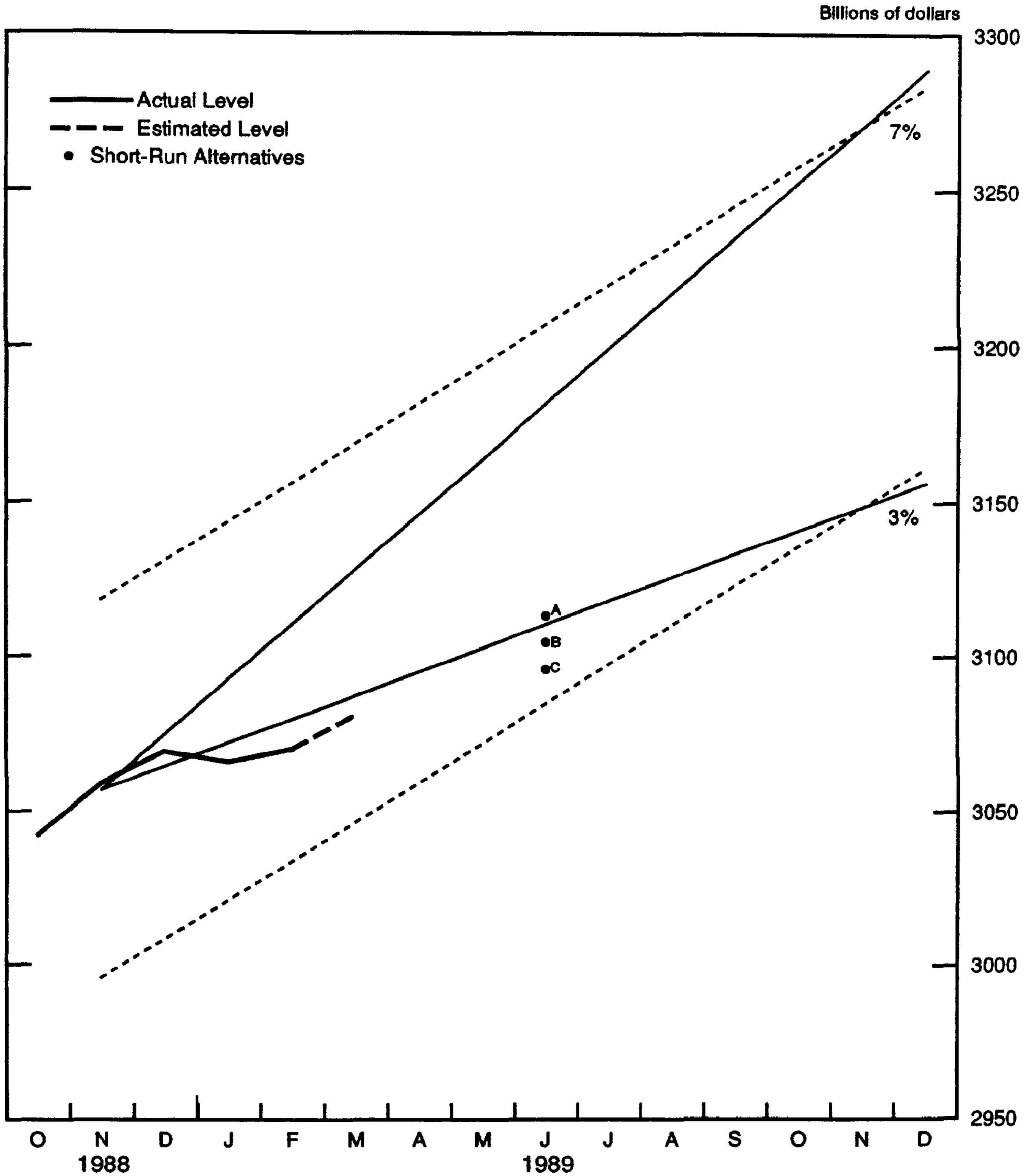


Chart 2

ACTUAL AND TARGETED M3

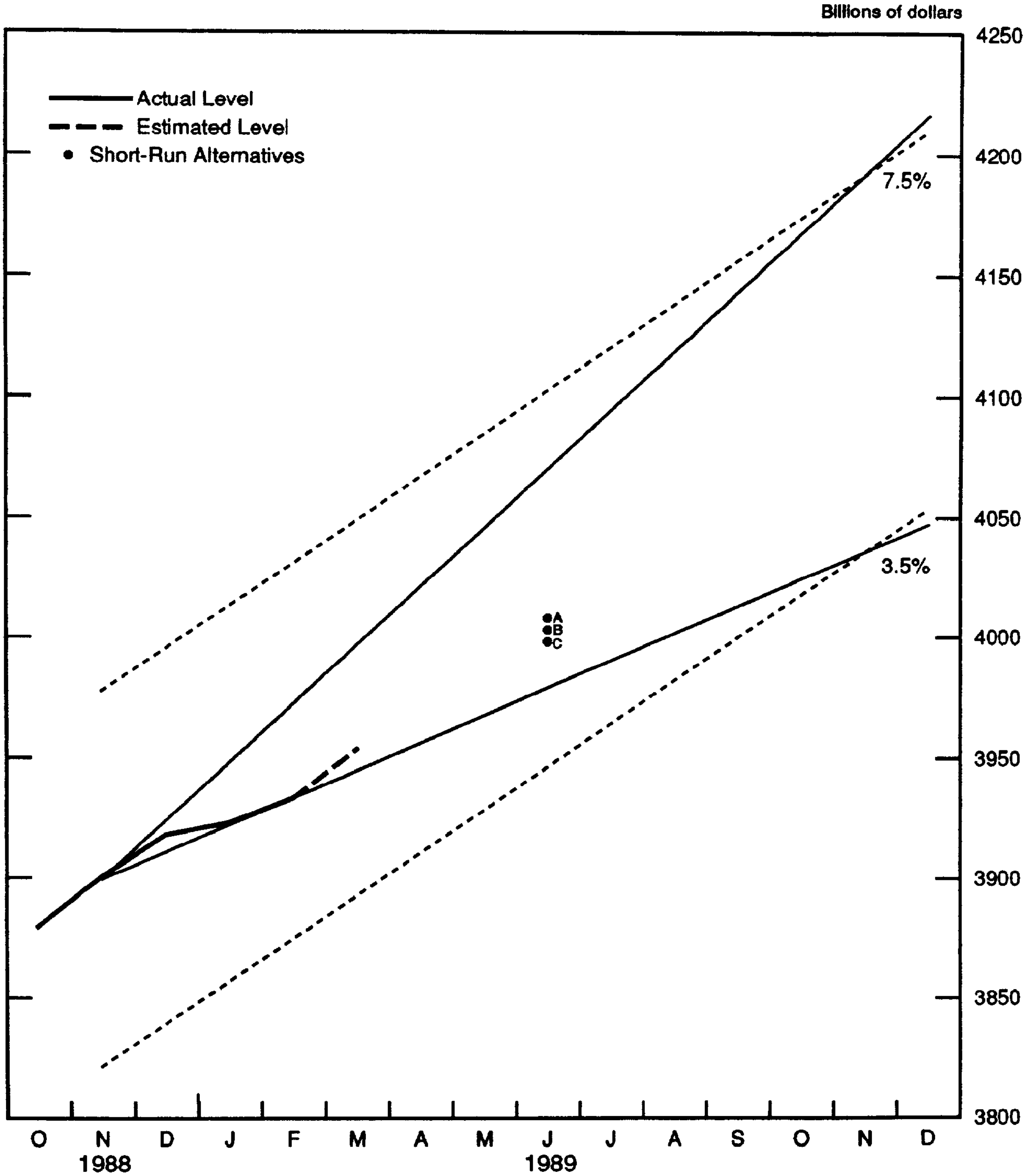
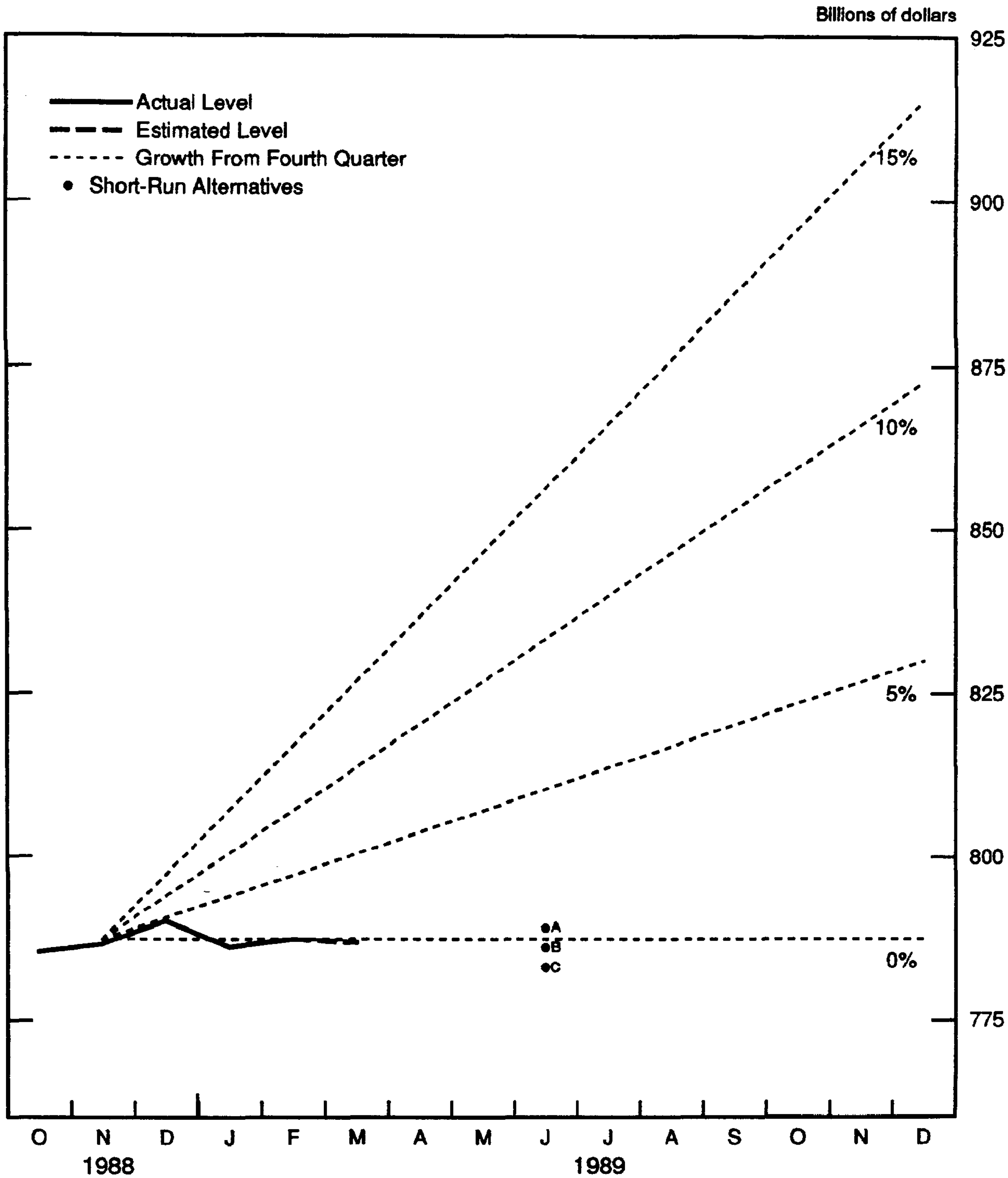


Chart 3

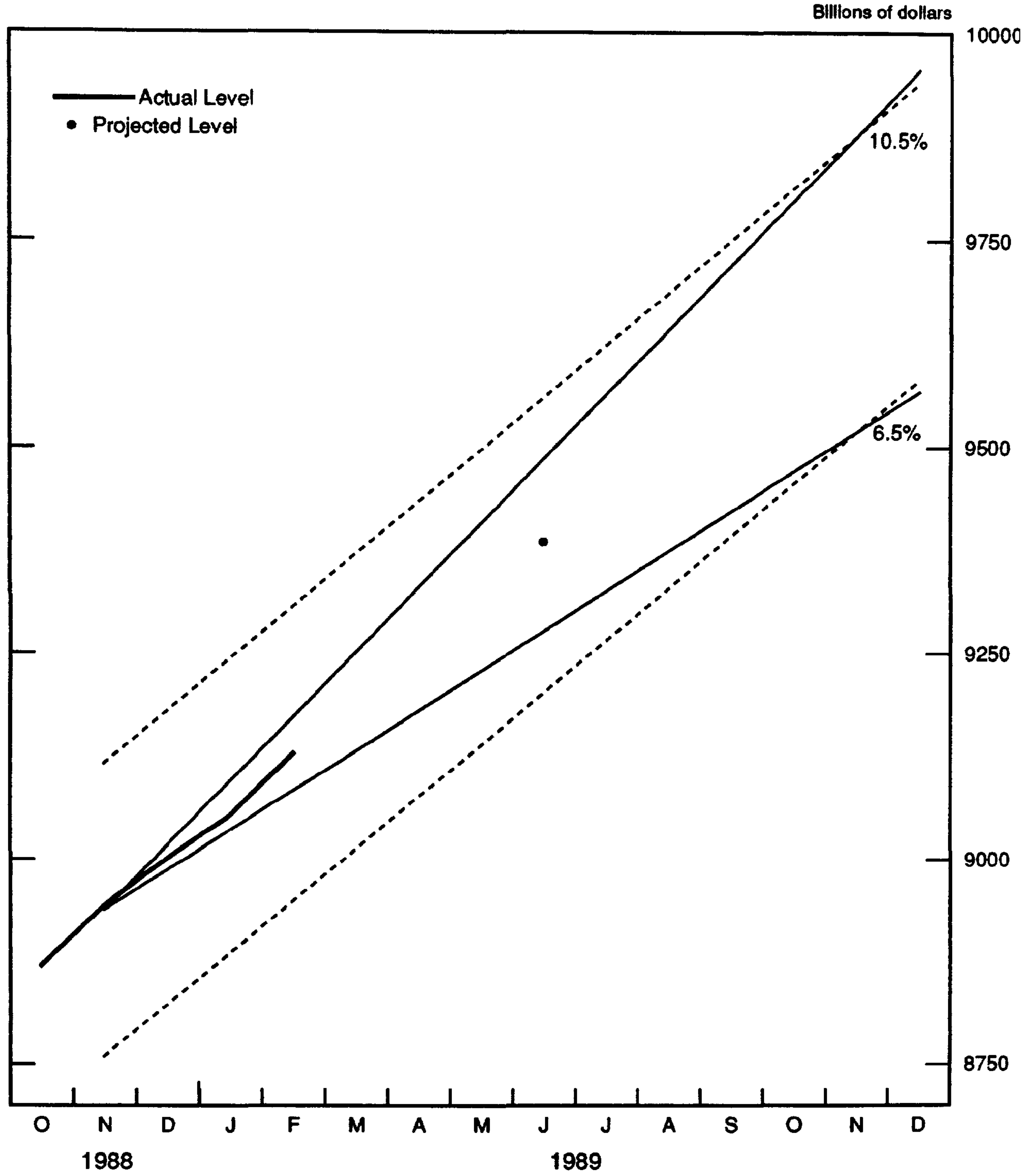
M1



Billions of dollars
925
900
875
850
825
800
775
Actual Level
Estimated Level
Growth From Fourth Quarter
Short-Run Alternatives
15%
10%
5%
0%
A
B
C
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1988
1989

Chart 4

DEBT


Billions of dollars
Actual Level
Projected Level
10.5%
6.5%
10000
9750
9500
9250
9000
8750
O N D J F M A M J J A S O N D
1988
1989

likely to be especially sensitive to incoming information about developments in the economy. Should the incoming data point more clearly to continued strength in the economy and prices, consistent with the greenbook forecast, bond yields would be unlikely to fall with an unchanged System policy stance and could even move higher.

(11) Growth in M2 under alternative B, at 3 percent from March to June, would be stronger on average than over the first three months of this year. As discussed above, deposit weakness at thrifts is expected to continue, but to abate. In addition, with short-term market rates moving a bit below current levels and rates on deposits edging higher in response to previous increases in market rates, opportunity costs would be narrowing, rather than rising as in recent months. Even so, the lagged effects of earlier substantial increases in opportunity costs would continue to restrain M2 growth and result in a 4-1/2 percent increase in its velocity in the second quarter, somewhat faster than in the second half of 1988. M1 would continue about flat over the March-to-June period as outflows of transactions deposits about match growth in currency; consequently, its velocity would increase at around the projected 7-3/4 percent increase in nominal GNP.

(12) M3 is projected to grow at a 5 percent annual rate over the March-to-June period under alternative B, somewhat faster than from December to March. Commercial banks are expected to continue issuing substantial amounts of large CDs to fund still strong merger-related loan demands. At thrifts, even if asset growth doesn't pick up, M3 could still be boosted relative to earlier this year as less weakness in retail

deposits is reflected in reduced reliance on FHLB advances. Contributing to the pickup in M3 growth would be a resumption of inflows to institution-only money funds as their returns catch up to market rates. On a quarterly average basis, M3 would grow at a 5 percent rate, implying an increase of 2-1/2 percent in its velocity.

(13) In credit markets, the smaller role of thrifts in acquiring and perhaps even originating mortgage loans is not expected to have a material impact on overall mortgage debt growth, which is projected to taper off only a little in the second quarter in response to the recent climb in mortgage rates. Business borrowing should diminish as corporate restructuring activity and associated borrowing to finance share retirements fall off somewhat from the record first-quarter pace. Reflecting elevated bond rates and investor concern about event risk, firms are likely to continue to focus their credit demands on bank loans and shorter-term paper. Aggregate growth in the debt of nonfinancial sectors is projected at an 8 percent annual rate over the second quarter, bringing expansion through June to around the middle of its 6-1/2 to 10-1/2 percent annual monitoring range.

(14) The extent of immediate policy tightening embodied in alternative C is more than currently seems to be built into market interest rates. In response to the federal funds rate moving into the 10-1/4 percent area, other short-term market rates would be expected to rise somewhat less; the prime rate would be hiked again, probably by 1/2 percentage point. The dollar would be expected to firm. Bond rates are likely to increase under this alternative, but the extent of any rise might be

limited, and over time yields could drop back, if market participants saw the tightening action as reducing the risks of greater inflation and raising the odds on an appreciable moderation in economic growth. With the further rise in market rates, M2 would expand at a 2 percent annual rate over the March-to-June period under alternative C, only a bit faster than the December-to-March pace. Growth at this rate would place this aggregate noticeably below its 3 to 7 percent growth cone by June. Higher market rates along with the lagged adjustment of offering rates on M3 type-money market mutual funds would weaken inflows to such funds. M3 expansion, at 4-1/2 percent over the March-to-June period, while picking up some from the sluggish rate of recent months, would remain in the lower portion of its long-run range.

(15) With the lower money market rates of alternative A, M2 growth would strengthen to a 4 percent pace, lifting it above the lower bound of its growth cone by June. M3 would move more into the middle portion of its range. The decline in other short-term market rates might be less than the one-half point drop in the federal funds rate, depending on perceptions of the sustainability of the policy easing. The dollar could fall substantially. Investors are likely to be confounded by this policy action, which would be seen as reversing the thrust of policy over the past year. Unless subsequent data suggested substantial weakness in the economy and price pressures, inflation expectations and bond yields ultimately could rise under this alternative.

Directive language

(16) Draft language for the operational paragraph, including the usual options and updating, is shown below.

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 through~~ March THROUGH JUNE at annual rates of about __ ~~2~~ and __ ~~3-1/2~~ 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.

SELECTED INTEREST RATES
(percent)

March 27, 1989

	Short-Term: federal funds	Short-Term: Treasury bills, secondary market: 3 month	Treasury bills, secondary market: 6 month	Treasury bills, secondary market: 12 month	cds sec mkt 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	Long-Term: U.S. Gov't. constant maturity yields: 3-year	U.S. Gov't. constant maturity yields: 10-year	U.S. Gov't. constant maturity yields: 30-year	corp. A utility rec off	muni. Bond Buyer	conventional home mortgages: sec mkt fixed-rate	conventional home mortgages: primary fixed-rate	conventional home mortgages: market ARM
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
89--High	9.86	8.93	8.96	8.94	10.23	9.98	8.94	11.50	9.76	9.46	9.26	10.47	7.95	11.73	10.98	9.02
Low	9.06	8.16	8.28	8.27	9.17	9.00	8.28	10.50	9.11	8.98	8.81	10.00	7.55	10.78	10.55	8.53
Monthly																
MAR 88	6.58	5.70	5.91	6.28	6.63	6.57	6.00	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	6.10	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	6.50	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	6.80	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	7.10	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	7.60	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	8.30	10.50	9.20	9.09	8.93	10.09	7.63	10.97	10.73	8.55
FEB 89	9.36	8.53	8.55	8.55	9.51	9.29	..	10.93	9.32	9.17	9.01	10.25	7.72	11.03	10.65	8.65
Weekly																
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
FEB 8 89	9.10	8.49	8.48	8.44	9.27	9.08	8.36	10.50	9.18	8.98	8.83	10.27	7.63	10.97	10.56	8.61
FEB 15 89	9.27	8.53	8.55	8.54	9.47	9.23	8.44	10.93	9.35	9.19	9.06	10.24	7.82	11.05	10.69	8.68
FEB 22 89	9.39	8.50	8.53	8.56	9.55	9.31	8.51	11.00	9.33	9.23	9.07	10.37	7.83	11.25	10.78	8.73
MAR 1 89	9.80	8.66	8.68	8.71	9.91	9.70	8.65	11.43	9.47	9.36	9.17	10.29	7.85	11.20	10.91	8.91
MAR 8 89	9.83	8.62	8.66	8.64	9.93	9.78	8.74	11.50	9.39	9.27	9.10	10.34	7.79	11.27	10.86	8.93
MAR 15 89	9.83	8.71	8.74	8.76	10.03	9.81	8.84	11.50	9.55	9.31	9.13	10.47	7.78	11.73	10.98	9.02
MAR 22 89	9.86	8.93	8.96	8.94	10.23	9.98	8.94	11.50	9.76	9.46	9.26	10.43	7.95	11.69	11.22	9.30
Daily																
MAR 17 89	9.81	8.85	8.92	8.94	10.26	9.97	..	11.50	9.76	9.49	9.30	..	..	..	..	..
MAR 23 89	9.92	9.04	9.02	8.93	10.18	9.98	..	11.50	9.76	9.43	9.23	..	..	..	..	..
MAR 24 89	9.88p	M	A	R	K	E	T	11.50	C	L	O	S	E	D	..	..

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

MAR. 27, 1989

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components in M2	nontransactions components in M3 only	M3	L	total loans and investments	U.S. government[1]	other[1]	total[1]
	1	2	3	4	5	6	7	8	9	10
ANN. GROWTH RATES (%) :										
ANNUALLY (Q4 TO Q4)										
1986	15.6	9.3	7.3	8.2	9.1	8.2	9.7	14.7	12.9	13.3
1987	6.4	4.2	3.5	11.8	5.7	5.5	7.9	9.0	10.0	9.8
1988	4.3	5.2	5.5	10.6	6.3	7.3	7.3	8.1	8.9	8.7
QUARTERLY AVERAGE										
1988-1st QTR.	3.2	6.1	7.2	9.1	6.8	6.6	5.6	8.0	8.0	8.0
1988-2nd QTR.	6.4	6.9	7.1	8.3	7.2	8.5	9.8	8.3	8.7	8.6
1988-3rd QTR.	5.2	3.8	3.3	13.1	5.7	7.4	7.5	7.1	8.8	8.4
1988-4th QTR.	2.3	3.6	4.1	10.2	5.0	6.1	5.7	8.0	9.0	8.8
MONTHLY										
1988-FEB.	2.7	8.3	10.2	14.8	9.7	8.2	9.2	10.6	7.5	8.3
MAR.	5.8	7.5	8.1	9.4	7.9	8.2	8.9	15.3	7.5	9.3
APR.	11.6	8.5	7.4	4.1	7.6	10.5	9.4	7.2	9.0	8.6
MAY	-0.2	3.8	5.2	8.4	4.8	7.6	11.5	3.0	9.7	8.1
JUNE	8.4	5.3	4.3	11.6	6.6	4.6	9.2	6.0	8.7	8.1
JULY	9.3	4.3	2.6	17.6	7.1	11.8	7.7	5.5	8.8	8.1
AUG.	-0.2	2.3	3.2	11.9	4.3	5.6	6.6	9.9	8.6	8.9
SEP.	2.0	2.1	2.1	7.9	3.3	2.6	1.0	11.9	7.8	8.8
OCT.	2.6	2.8	2.9	14.2	5.3	5.8	9.8	5.3	9.0	8.1
NOV.	1.8	6.7	8.4	5.3	6.4	8.0	4.7	7.1	10.7	9.9
DEC.	5.5	4.0	3.5	10.3	5.4	10.2	3.7	7.5	7.8	7.7
1989-JAN.	-6.1	-1.3	0.3	12.4	1.6	0.6	2.4	4.2	7.7	6.9
FEB. p	1.8	1.7	1.7	8.3	3.2		14.4	9.9	10.2	10.1
LEVELS ($BILLIONS) :										
MONTHLY										
1988-OCT.	785.4	3042.2	2256.7	837.6	3879.7	4618.7	2392.6	2089.1	6781.3	8870.3
NOV.	786.6	3059.1	2272.5	841.3	3900.5	4649.6	2400.6	2101.5	6841.9	8943.4
DEC.	790.2	3069.4	2279.2	848.5	3917.9	4689.3	2408.0	2114.7	6886.3	9001.0
1989-JAN.	786.2	3066.0	2279.7	857.3	3923.2	4691.6	2412.8	2122.1	6930.6	9052.7
FEB. p	787.4	3070.3	2282.9	863.2	3933.5		2441.8	2139.6	6989.4	9129.0
WEEKLY										
1989-FEB. 6	787.1	3063.6	2276.5	859.3	3922.9					
13	784.1	3065.9	2281.8	858.2	3924.0					
20	789.1	3072.7	2283.6	870.2	3942.9					
27	788.8	3076.2	2287.4	864.3	3940.5					
MAR. 6 p	791.5	3083.4	2291.9	865.4	3948.8					
13 p	784.0	3078.1	2294.1	873.5	3951.6					

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

Strictly Confidential (FR)-
Class II FOMC

Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

MAR. 27, 1989

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA[1]	MMDAs NSA	Savings deposits	Small denomination time deposits[2]	Money market mutual funds, NSA: general purpose and broker/dealer[3]	Money market mutual funds, NSA: institutions only	Large denomination time deposits[4]	Term RPs NSA[1]	Term Eurodollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LEVELS ($BILLIONS):																
ANNUALLY (4TH QTR.)																
1986	179.4	294.5	229.1	77.9	569.1	361.8	859.5	207.6	84.7	440.8	82.6	81.0	89.8	282.5	229.8	37.5
1987	194.9	292.0	260.8	81.3	529.9	416.7	900.8	219.7	87.2	481.6	110.0	92.2	99.6	266.2	257.0	44.6
1988	210.7	288.4	280.9	76.5	505.6	430.8	1017.6	236.1	86.5	534.7	126.5	104.5	108.7	279.7	323.9	40.8
MONTHLY																
1988-FEB.	199.4	288.1	265.4	78.0	523.6	418.8	942.4	231.0	98.7	492.3	114.2	85.5	102.5	257.3	274.2	41.0
MAR.	200.7	288.4	267.5	74.5	525.5	421.5	952.8	234.8	97.4	496.3	112.0	90.0	103.4	255.6	280.3	41.1
APR.	202.4	290.3	271.2	75.6	524.2	423.3	963.4	235.8	91.9	499.2	114.7	89.1	104.4	262.3	287.6	41.4
MAY	203.4	288.1	272.2	80.4	520.5	425.2	971.0	231.8	90.0	502.4	121.0	91.8	105.3	265.1	297.8	41.1
JUNE	204.7	289.8	274.7	80.8	523.2	427.6	975.7	228.9	86.3	507.8	124.3	93.1	106.0	258.3	300.4	40.7
JULY	206.4	290.4	278.5	77.6	522.0	429.7	981.0	229.6	84.8	514.0	125.6	96.2	106.8	269.8	309.8	40.7
AUG.	207.0	289.9	278.3	79.9	517.7	430.9	988.3	230.8	84.0	519.4	123.8	103.8	107.4	274.6	311.3	41.2
SEP.	208.6	288.8	279.0	77.3	511.4	430.5	998.7	231.0	83.7	526.7	122.4	105.0	107.9	275.2	308.8	41.7
OCT.	209.7	288.9	279.4	75.9	507.5	429.2	1009.7	231.3	84.6	532.0	125.2	102.3	108.4	277.0	312.3	41.3
NOV.	210.5	287.7	281.0	75.4	506.7	431.8	1017.8	237.4	87.4	534.4	128.9	103.8	108.7	276.3	323.7	40.5
DEC.	211.8	288.6	282.3	78.2	502.7	431.3	1025.3	239.6	87.6	537.7	125.3	107.3	109.1	285.9	335.8	40.6
1989-JAN.	213.4	284.0	281.2	81.6	495.1	427.8	1035.9	242.0	89.3	544.3	126.8	102.2	109.7	283.6	334.9	40.2
FEB. p	214.3	284.8	280.8	79.1	485.1	424.7	1048.5	247.9	89.6	551.4	129.8	101.4				

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

March 27, 1989

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES[1]
Millions of dollars, not seasonally adjusted

Period	Treasury bills			Treasury coupons						Feceral 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			
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
February	-3,688	1,600	-5,288	--	-225	--	--	--	-225	40	-5,553	2,079
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
8	-3,272	600	-3,872	--	--	--	--	--	--	--	-3,872	-9,969
15	-210	600	-810	--	-225	--	--	--	-225	40	-1,075	8,276
22	-118	400	-518	--	--	--	--	--	--	--	-518	-1,097
Mar. 1	-58	--	-58	--	--	--	--	--	--	--	-58	3,040
8	--	--	--	--	--	--	--	--	--	--	--	-375
15	--	--	--	--	--	--	--	--	--	--	--	1,945
22	--	--	--	--	--	--	--	--	--	--	--	-1,005
Memo: LEVEL (bil.$)[6] March 22	--	--	111.9	28.9	52.0	12.8	27.0	--	120.6	--	239.3	-4.3

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
2.2	3.4	1.0	.2	6.8