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June 30, 1989

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

June 30, 1989

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Immediately after the May FOMC meeting, the borrowing objective was raised to $600 million as a technical adjustment to take account of the effects of surging seasonal borrowing. Federal funds were expected to continue to trade in a 9-3/4 to 9-7/8 percent range. With reserves somewhat more plentiful than projected and markets coming to anticipate a near-term easing of policy, the federal funds rate edged down to around the lower end of the range, and borrowing averaged $500 million over the first complete maintenance period following the meeting. In early June, part way through the second maintenance period, the borrowing assumption was reduced to $500 million, and funds were expected to move down to trade mostly in a 9-1/2 to 9-5/8 percent range. This policy adjustment was made in light of information suggesting a prospective slackening in inflation pressures, as the monetary aggregates remained unusually sluggish, economic activity moderated, and the dollar firmed. In that and the next maintenance period, the federal funds rate averaged 9-1/2 percent. Borrowing jumped from $465 million in the second period to $680 million in the third and final maintenance period, with the latter including $470 million under the seasonal program. Seasonal borrowing this year has increased even more rapidly than might be suggested by rate relationships and past seasonal behavior; reports from Reserve Bank discount officers suggest that heavier demands for crop-production loans along with weak deposits have contributed to the strength in seasonal borrowing.

(2) Market interest rates declined further over the intermeeting period, with long-term rates dropping around 3/4 percentage point and short-term market rates 1/4 to 1/2 percentage point. The prime rate was reduced 1/2 percentage point to 11 percent in early June. Rates responded not only to the easing of policy, but also to indications of a continuing softness in the economy. Prospects for slow growth were seen as suggesting weaker demands for credit and greater scope for the Federal Reserve to reduce short-term rates further over the near term without adverse implications for inflation. The drop in bond rates brought them to their lowest levels since early 1987, and produced a slightly greater downward tilt to the yield curve, albeit through the unusual combination of a larger drop in long- than in short-term rates. Stock prices rallied through much of the intermeeting period to reach post-crash highs, fostered by lower interest rates along with the perception that containing inflation was more likely to be compatible with continued economic expansion. More recently, as doubts about the sustainability of the expansion emerged, stock prices retreated, generally reversing most of their previous gains.

(3) The dollar surged from mid-May to mid-June, even as U.S. interest rates declined and differentials with foreign rates narrowed. Factors supporting the dollar were better-than-expected U.S. trade data for March and April, heightened political uncertainties abroad, and demands for dollar assets given anticipated increases in bond and equity prices. After reaching highs against the mark and the yen on the morning of June 15 when April trade data were released, the dollar plummeted,

losing much of its earlier gains over the next two weeks. Reasons for the sudden drop are not clear,

In addition, net demand for dollars associated with turmoil in China may have abated following the initial reaction to developments in that country. Even so, the dollar has been buoyant in recent days, despite rising interest rates abroad .
On balance, the dollar rose by 1-3/4 percent on a weighted average basis over the period. Total intervention amounted to over the intermeeting period, of which almost $10 billion was accounted for by the Desk on behalf of the Federal Reserve and the Treasury.

(4) The broader monetary aggregates have rebounded following declines in late April and early May when transaction and other liquid deposit balances were drawn down by unexpectedly large federal tax payments for 1988. M2 is estimated to have expanded at a 6-1/2 percent rate in June, bringing growth for March to June to 1-1/2 percent--the rate specified by the Committee at its May meeting. Growth in June likely has been augmented by some rebuilding of tax-depleted balances as well as by the effect of declines in the opportunity costs of holding monetary assets. After strong runoffs in the first quarter, total thrift deposits have increased, and in May and June savings and small time deposits grew more rapidly at thrifts than at banks for the first time since mid-1988. The pattern for M2 carried through to M3, which expanded at a 6-1/4 percent rate in June after declining at a 1 percent rate in May, when bank

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

	April	May	June[p]	March to June[p]	QIV'88 to June[p]
Money and credit aggregates					
M1	-4.7	-15.0	-5.9	-8.5	-3.9
M2	1.0	-3.3	6.6	1.4	1.8
M3	2.5	-1.0	6.3	2.6	3.5
Domestic nonfinancial debt	7.0	7.5	n.a.	7.1[1]	7.9[2]
Bank credit	2.9	7.8	4.9	5.2	7.3
Reserve measures					
Nonborrowed reserves[3]	-10.0	-13.5	-10.3	-11.2	-7.3
Total reserves	-7.8	-14.6	-9.3	-10.5	-7.1
Monetary base	0.3	-1.5	3.9	0.9	2.9
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	582	523	569		--
Excess reserves	776	1031	948		--

p - preliminary.
1. March to May.
2. QIV'88 to May.
3. 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.

sources of funds were boosted by a large increase in Treasury deposits. Over the March-to-June period, M3 expanded at around a 2-1/2 percent rate, compared with the Committee's expectation of 4 percent. The shortfall seemed to reflect somewhat greater-than-expected reliance on non-M3 sources of funds given credit expansion about as anticipated.

(5) M1 is estimated to have contracted in June at a 6 percent rate, a much slower rate of decline than in May. Currency resumed a more normal rate of expansion in June and OCD runoffs slowed sharply, but demand deposits continued to drop at a double-digit rate. According to respondents to the Senior Financial Officer Survey conducted in June, recent weakness in demand deposits largely has reflected the previous runup in interest rates, working through both compensating balance and opportunity cost channels, and, for household deposits, tax payments effects as well. The fall in transaction deposits led to further declines in both total and nonborrowed reserves in June. With the pickup in currency, however, the monetary base expanded at about a 4 percent rate after decreasing on balance in the preceding two months.

(6) Through June, M2 and M3 had expanded from their fourth-quarter 1988 bases at rates of 1-3/4 and 3-1/2 percent, respectively. This left M2 in June a bit above the lower limit of the parallel band associated with its annual range and M3 at the lower edge of its growth cone. The relatively slow monetary growth over the first half of the year has reflected in part the restraining impact of the rise in market interest

rates through the first quarter.[1] The liquid deposit components of M2, whose rates adjusted sluggishly, were particularly affected; only small time deposits and MMMFs, which have yields that adjust fairly rapidly to market rates, showed robust growth during the first half. In addition, special circumstances contributed importantly to slow monetary growth this year. Earlier in the year, the thrift crisis led to considerable outflows from these institutions. Although staff estimates indicate that the bulk of these funds was redeployed to other components of M2, some apparently went outside the aggregates, particularly into Treasury securities, as suggested by the unusual strength in noncompetitive tenders early in the year. These outflows are estimated to have reduced first-quarter M2 growth by 1/2 percentage point at an annual rate. In the second quarter, the unexpectedly large individual tax payments to the Treasury are estimated to have taken a percentage point from the rate of M2 growth. Finally, the extreme weakness in demand deposits likely fed through to M2.

(7) Domestic nonfinancial debt is estimated to have continued to grow in May at a little below the first-quarter pace; fragmentary data for June do not suggest a significant change in the overall pace of credit expansion. Growth in federal government debt this quarter has been damped by the unusually strong tax inflows. Expansion of the debt of nonfederal sectors picked up a bit in May. Short-term borrowing by nonfinancial

1. A detailed examination of the determinants of monetary growth so far this year is presented in a memorandum, "The Behavior of the Monetary Aggregates During the First Half of 1989", which has been distributed with this bluebook. An appendix to this memorandum summarizes the results of the June Senior Financial Officer Survey.

businesses was much stronger in May even though identifiable merger-related demands in these markets net of paydowns were muted. Boosted by the RJR-Nabisco buyout financing in early May and by falling interest rates throughout the month, longer-term business borrowing likewise posted a sizable gain. Corporate bond issuance remained strong in June, but short-term business credit growth was held down by a large paydown of a merger-related bank loan as well as greater reliance on long-term funds. Municipal issuance was weak in May, although it picked up in early June in response to lower interest rates. Available evidence suggests that the household sector has cut back its credit demands in the second quarter. Nonfinancial debt is estimated to have expanded from the fourth quarter of 1988 through May at an 8 percent rate, below the 8-1/2 percent midpoint of its monitoring range.

Long-Run Strategies

(8) As background for Committee consideration of the ranges for money and credit for 1989 and 1990, the table below presents three alternative longer-run strategies for monetary policy through 1991 and their consequences for output and prices. Strategy I is the baseline forecast, encompassing the staff greenbook projections and associated policy assumptions for 1989 and 1990, with an extension into 1991. Strategies II and III embody somewhat tighter and easier monetary policies, respectively, as indexed by 1 percentage point slower and faster M2 growth beginning in the third quarter and extending through the forecast horizon. The baseline forecast is judgmental; however, the deviations from baseline associated

	1988	1989	1990	1991
M2 (Q4/Q4 % change)				
I (baseline)	5.2	4	6-1/2	7
II		3-1/2	5-1/2	6
III		4-1/2	7-1/2	8
Prices: GNP fixed-weight deflator (Q4/Q4 % change)				
I	4.5	4-1/2	4-1/2	4
II		4-1/2	4-1/4	3-1/4
III		4-1/2	4-3/4	4-3/4
Real GNP (Q4/Q4 % change)[1]				
I	2.8 (3.5)	2-1/4 (1-3/4)	1-1/2	2-1/2
II		2 (1-1/2)	1/2	2
III		2-1/2 (2)	2-1/2	3
Unemployment rate (Q4 level)				
I	5.3	5-1/2	6	6-1/4
II		5-1/2	6-1/2	7
III		5-1/2	5-1/2	5-1/2

1. The numbers in parentheses abstract from the effects of the 1988 drought on real GNP.

with the alternative strategies were derived through econometric model simulations.

(9) The baseline forecast is built on a monetary policy designed to bring about a gradual reduction in inflation. That outcome is judged to require sufficient restraint on demand to reduce the expansion of output to below its potential rate of growth for a period in order to relieve pressure on resources. Once a margin of slack in resource markets has been created, economic growth can pick up somewhat while inflation rates recede slowly, and the extension into 1991 incorporates such a pattern. Against a background of moderately restrictive fiscal policy through 1991 on the one hand and a resumption of dollar decline on the other, the monetary policy restraint of the past year is judged about sufficient to produce this result in the baseline. As a consequence, real interest rates need move very little from here, and nominal rates can edge down as inflation and inflation expectations moderate. In this environment, velocity will no longer rise and should begin to decline. Thus, a pickup in money growth from recent years will be needed to support the projected pattern of output and prices in 1990 and 1991.

(10) The effects of the alternative growth paths for money are felt most immediately in output, and then with a lag in inflation rates. Eventually, the 1 percentage point money growth differentials would be reflected in 1 percentage point inflation differentials, but this does not occur for some time. Even so, the slower M2 growth of alternative II results in more noticeable progress toward price stability by 1991. But this outcome entails the virtual cessation of economic growth next year

and a rise in the unemployment rate to 7 percent; this results from the effects of higher real interest rates and a stronger dollar relative to the baseline. The faster money growth of alternative III is sufficient to maintain real growth at around its potential rate and to forestall an appreciable rise in the unemployment rate. This policy would not result in any progress against inflation; indeed, inflation would be poised to accelerate slightly further in 1992.

(11) The table below gives predictions of inflation rates derived from the P* model using the M2 growth rates of the three strategies. Interestingly, the P* model prediction using the baseline money path is indistinguishable from the staff's baseline forecast of inflation. Moreover, at the end of 1991 the predicted level of P would be above its long-run equilibrium implied by the M2 path (P*), reinforcing the suggestion of a further moderation of inflation with this strategy. While inflation rates under the other two alternatives differ from those on the previous table derived from the large macro model, the contours are very similar: under strategy II, inflation decelerates by 1991 and would continue to drop in 1992; under strategy III inflation does not change much through 1991, but because more rapid expansion of M2 would push P* above P during 1991, inflation would accelerate in 1992.

	1989	1990	1991
Prices: GNP fixed-weight deflator (Q4/Q4 % change)			
I (baseline M2)	4-1/2	4-1/2	4
II	4-1/2	4-1/4	3-3/4
III	4-1/2	4-1/2	4-1/2

Long-Run Ranges

(12) The table below gives the current ranges for the money and debt aggregates in 1989 along with the staff forecast for the growth of these measures consistent with the income and interest rate outlook in the greenbook. All three aggregates are projected to be comfortably within their 1989 ranges, with M2 rising well into the lower half of its range by the fourth quarter of the year, while M3 and debt come in somewhat below the midpoints of their ranges.

Growth from QIV '88 to QIV '89	Current Ranges	Memo: Staff Forecast
M2	3 to 7	4
M3	3-1/2 to 7-1/2	5
Debt	6-1/2 to 10-1/2	7-3/4
Memo:		
M1		-1-3/4
Nominal GNP		6-1/2

(13) An acceleration of M2 growth to 6 percent over the third and fourth quarters of the year is anticipated. In the greenbook forecast, nominal GNP growth of 5 percent over the second half of the year is associated with short-term interest rates remaining essentially at current levels. Under these circumstances, deposit offering rates on average are unlikely to move appreciably further over the second half, implying fairly stable opportunity costs. However, some impetus to M2 growth relative to GNP will be provided during the second half by the narrowing in opportunity costs in the second quarter. Also, M2 growth is expected to be boosted by the continued rebuilding of tax-depleted liquid balances. Overall, M2 velocity would decline by about 1 percentage point at an

annual rate over the second half. (The historical and projected behavior of M2 velocity is shown on the chart on the following page.) The forecasted M2 growth over the balance of the year would reverse most of its first-half shortfall relative to the staff money demand model, so that for a year as a whole, M2 growth of 4 percent is close to the model's prediction. Along with other liquid components of M2, M1 should strengthen over the second half, as demand deposit growth resumes and outflows from OCDs abate. On a June-to-December basis, M1 is expected to grow at a 1-1/4 percent rate, though given its weakness in May and June, this aggregate would be about flat from the second to the fourth quarter. The first-half drop in M1 implies a decline of almost 2 percent for the year.

(14) M3 is anticipated to accelerate in the second half of the year to about a 6-1/2 percent pace, producing growth of about 5 percent for the year. Bank credit, buoyed by a strengthening in C&I lending, is expected to expand a little faster than in the first half of the year. At thrifts, net credit extensions are projected to remain sluggish, held down by regulatory pressure and action to shrink insolvent institutions, as well as by continued slow overall mortgage activity. However, with core deposits picking up, depository institutions are projected to need to rely less on non-M3 managed liabilities to finance asset growth.

(15) Overall debt growth is anticipated to be maintained in the second half of the year at close to the 7-3/4 percent average pace of the first two quarters of the year. Business credit demands may strengthen; net equity retirements are projected to continue at the record pace of the first half and the gap between capital spending and internal funds to rise

a little. The growth of household debt, however, is thought likely to expand at the reduced pace of the first half, restrained by the upward trend of interest rates since early 1988. In the mortgage market, while mortgage lending by thrifts is expected to be subdued, mortgage demands are expected to be met by other lenders--either directly or through the process of securitization--without any further widening of spreads. The Treasury likely will issue debt at a slower pace over the second half, seasonally adjusted, as outsized April tax payments have reduced its financing needs.[2]

(16) The current ranges for 1989 would appear adequate to encompass not only the greenbook forecast, but also money and debt growth accompanying economic outcomes or policy strategies somewhat at variance with that forecast. For example, the further 1/2 percentage point easing of the federal funds rate over the next several months that appears to be built into the structure of short-term interest rates would not boost money growth enough to threaten the upper ends of the current ranges, given the low June starting points. Alternatively, should the first-half slowdown in the economy prove to represent only a pause, and should an associated intensification of inflationary pressures induce some policy firming later in the year, the aggregates still would be likely to run above their lower bounds. In this circumstance, the effect of higher short-term interest rates on the aggregates might be partly offset by higher nominal spending.

2. Treasury borrowing projections for this year and next assume off-budget financing of the resolution of the thrift crisis.

(17) For 1990, the table below presents three alternative long-run ranges for Committee consideration, along with the staff forecast based on greenbook GNP and associated interest rates. Alternative I would retain the current M3 and debt ranges, but raise the M2 range to encompass more comfortably the pickup in this aggregate projected for next year. Alternative II reduces the M3 and debt ranges from 1989, but retains the M2 range. Under alternative III, ranges for both M2 and M3 would be reduced by 1/2 percentage point from 1989, and that of debt by a full percentage point. All the ranges retain the 4 percentage point width that the Committee adopted for the 1988 and 1989 ranges.[3] Such a width seems appropriate in light of the implications of the relatively high intermediate-run interest elasticity of M2 combined with considerable

Alternative Tentative Ranges for 1990

				Memo:	
	Alt. I	Alt. II	Alt. III	Staff Forecast	Current 1989 Ranges
Growth from Q4 '89 to Q4 '90					
M2	3-1/2 to 7-1/2	3 to 7	2-1/2 to 6-1/2	6-1/2	3 to 7
M3	3-1/2 to 7-1/2	3 to 7	3 to 7	6	3-1/2 to 7-1/2
Debt	6-1/2 to 10-1/2	6 to 10	5-1/2 to 9-1/2	7-1/2	6-1/2 to 10-1/2
Memo:					
M1				3	
Nominal GNP				6	

3. The long-run ranges since 1979--as well as the outcomes as they appeared at the time they were first announced to the Congress--are given in the first table following the directive.

uncertainty about the appropriate path for short-term market rates, along with continuing questions about the evolution of deposit pricing strategies. In addition, the resolution of the thrift crisis may have an unexpected impact on all the money and debt aggregates, if, for example, it affects the trajectory of S&L asset growth, their funding patterns, or their deposit pricing.[4]

(18) M2 is expected to grow about in line with the increase in nominal income next year. In the staff GNP projections, the slowing of inflation over the course of 1990 could well be accompanied by slightly lower short-term interest rates than at the end of 1989. As a consequence velocity might decline a little (chart). This outlook presumes that the relationship of offering rates at thrifts relative to those at banks is unlikely to vary much as a result of changes in the regulatory environment. Demand deposits are expected to expand, albeit less rapidly than the volume of transactions in keeping with the longer-run trend to economize on these deposits, as compensating balance requirements stop falling, and perhaps edge higher. M1 as a whole is expected to record 3 percent growth over the four quarters of next year, accompanying M2 growth of 6-1/2 percent.

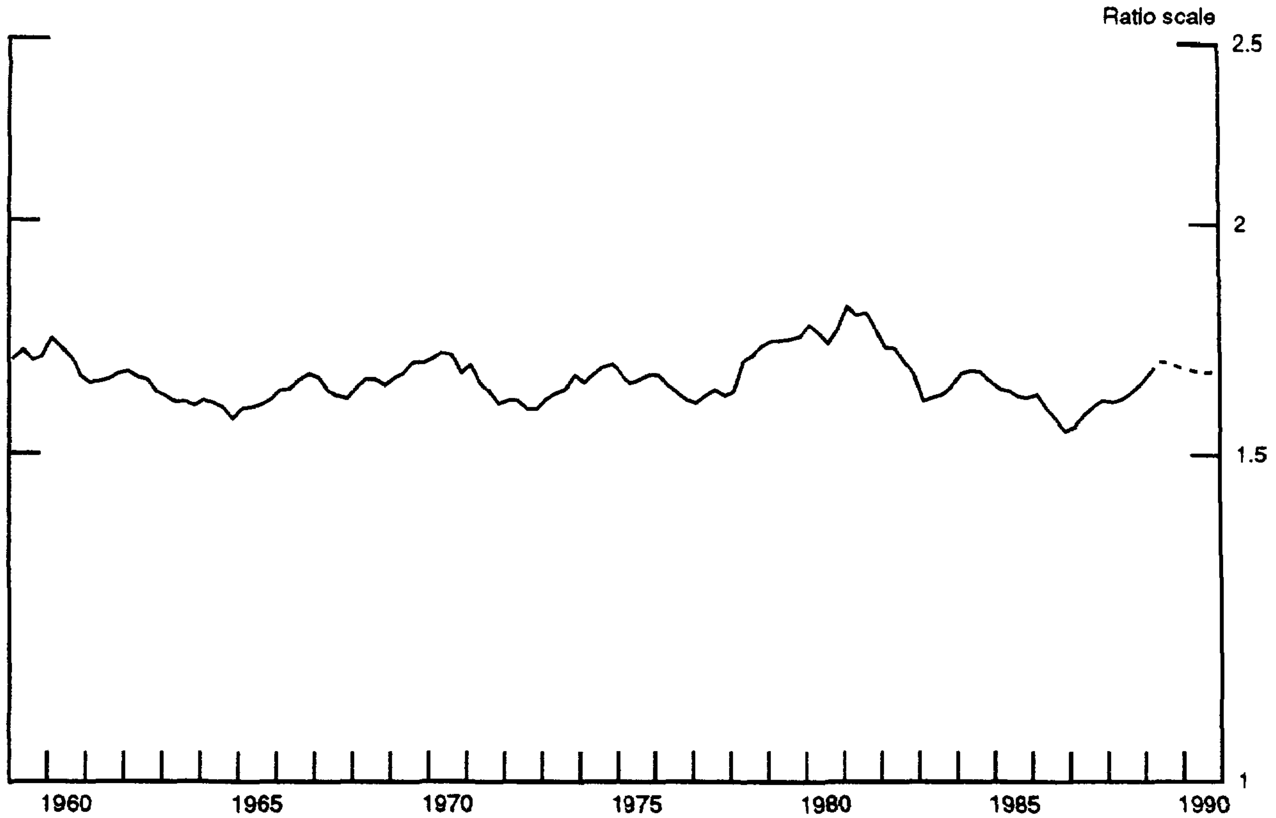
(19) The pickup in M2 shows through to M3, but less than fully. Credit expansion by depositories is projected to about maintain its 1989

4. The introduction in January of foreign currency deposits, which will not be included in the aggregates, is not expected to affect the aggregates materially. Holders of U.S. deposits are not projected to shift significant amounts from dollar to foreign currency deposits. If banks did receive an influx of foreign currency deposits that previously were held abroad, it could affect funding decisions and M3, but such inflows are not likely to be large given reserve requirements in the United States.

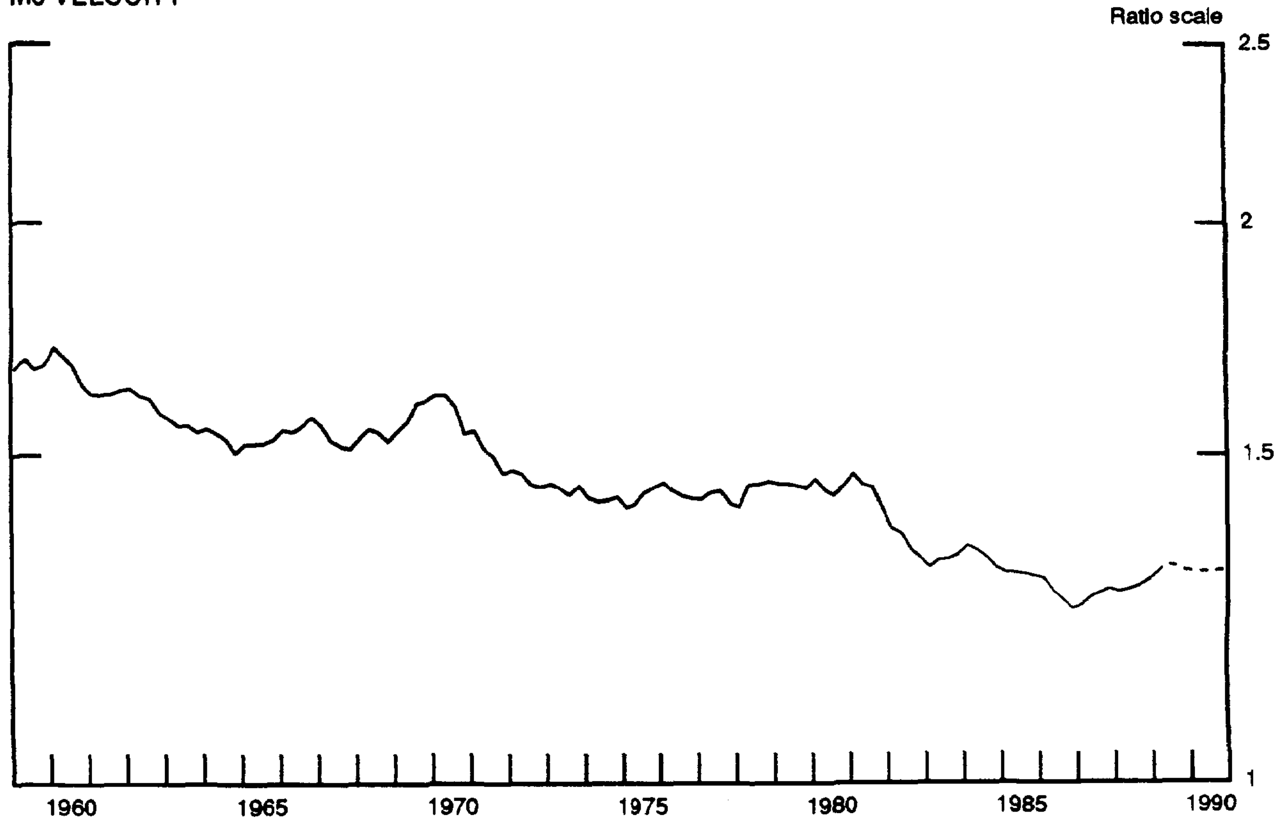
Chart 1

ACTUAL AND PROJECTED VELOCITY OF M2 AND M3*

M2 VELOCITY



M3 VELOCITY



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

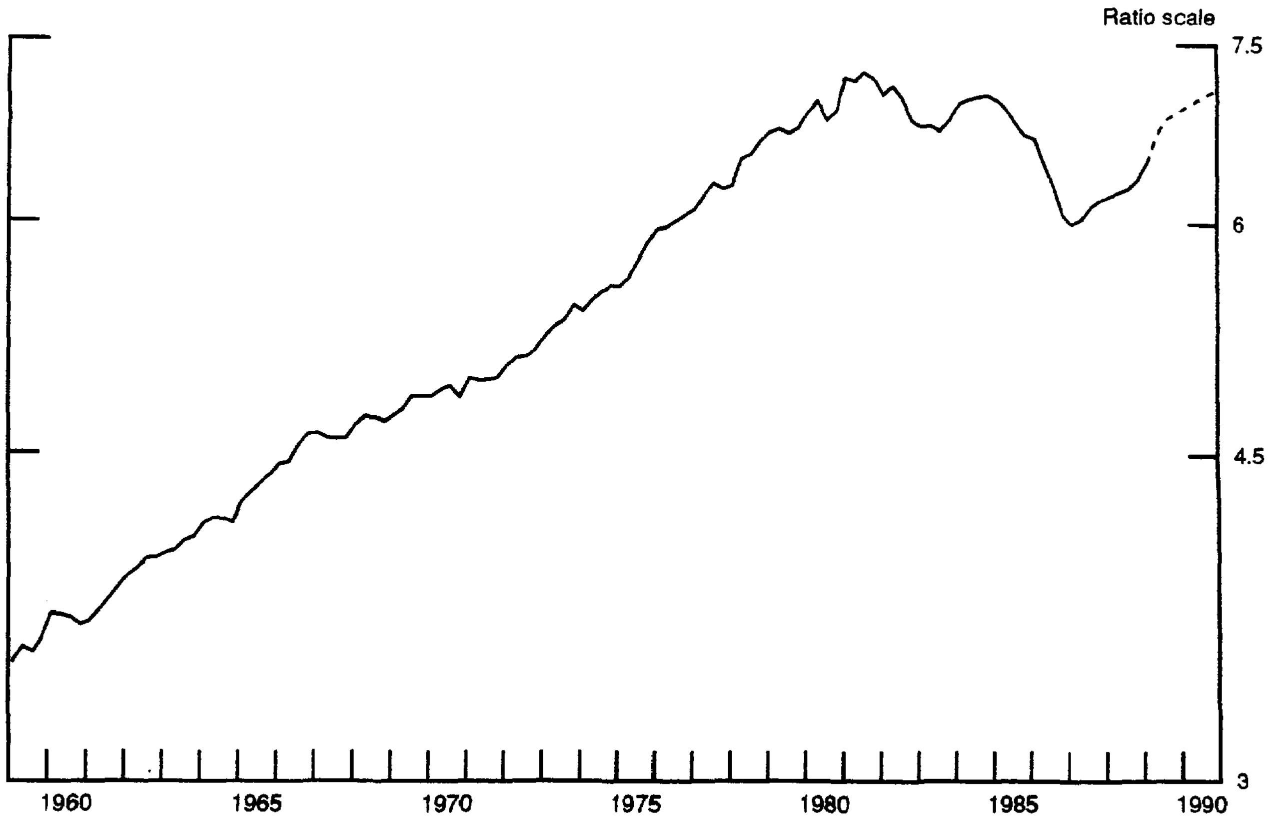
pace, and with core deposits stronger, depositories could be expected to cut back on their issuance of non-M3 managed liabilities, as well as those in M3, resulting in a net boost to M3 growth. Regarding the effects of the resolution of the thrift crisis on M3, the impact of new capital requirements on the behavior of solvent S&Ls will depend on the particular provisions of the bill. In addition, the procedures followed by the RTC for dealing with insolvent institutions may influence thrift credit growth, funding needs, and M3. In the staff forecast, asset expansion at thrifts remains quite subdued, and these institutions provide a declining share of mortgage credit.

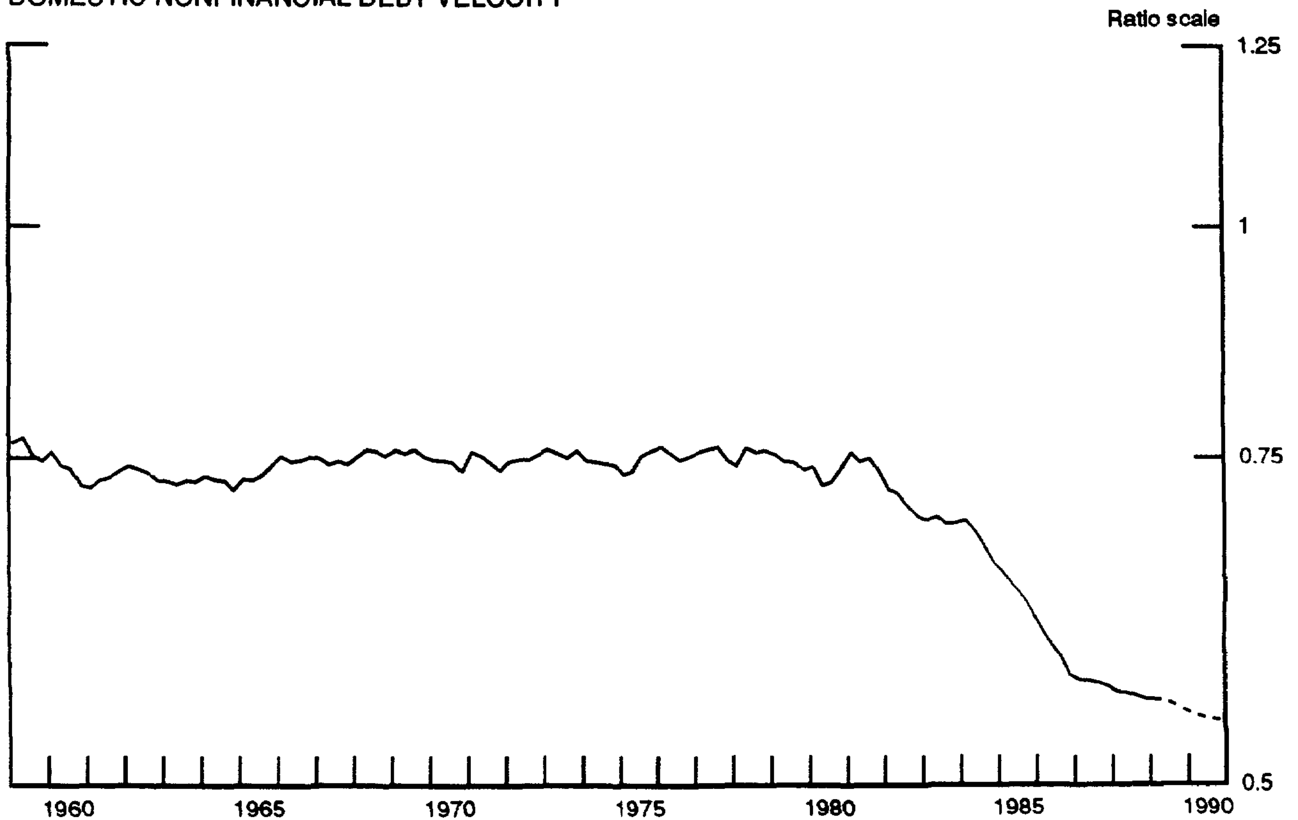
(20) Growth of total domestic nonfinancial debt for 1990 is likely to slow a little to about 7-1/2 percent. Growth in Treasury debt is anticipated to ebb further next year as the federal deficit drops. Despite some further widening of the gap between capital spending and internally generated funds, corporate debt should grow a bit more slowly next year if, as assumed, net equity retirements decline appreciably from this year's elevated pace. For households, the rate of mortgage debt formation should strengthen as housing activity next year is supported by reduced mortgage rates. But consumer installment debt likely will slow further reflecting restrained consumption spending. In the aggregate, the growth of debt in 1990 will continue to outpace income by about the same amount as in recent years (chart).

(21) Alternative I gives the most scope for even faster growth of the aggregates than in the staff forecast. That room might be needed, especially for M2, should the Committee wish to avert a slackening in

Chart 2

ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT*





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

resource utilization as under the long-term strategy III discussed above. In addition, the money and debt specifications of alternative I would seem most compatible with a view that the risks for aggregate demand predominantly are on the side of more weakness than in the greenbook. In these circumstances, faster money growth would be needed to offset the potential effects of a shortfall in aggregate demand on spending and output. The increases in the bounds for M2 from the current year's range, though, could be interpreted by the public as insufficiently guarding against the possibility of faster inflation.

(22) If, in contrast, inflationary pressures turn out to be more intense than in the greenbook forecast, perhaps because increases in labor costs return to a more normal relationship to resource use or the dollar falls more rapidly than expected by the staff, a substantial uptrend in interest rates in 1990 might be appropriate. The lower bound of the M2 range in alternative III would allow the most scope for such an outcome, although those of alternative I or II could accommodate some policy firming. But only alternative III involves a further reduction in all the current money ranges and might seem most in accord with reinforcing the Committee's longer-term commitment to price stability. Scope at the lower end of the ranges also might be needed if regulatory pressure on thrifts caused them to be substantially less aggressive in bidding for retail deposits. However, this alternative allows no margin for faster M2 growth than in the staff forecast, should that be warranted.

(23) Alternative II lowers two of the ranges, M3 and debt, underscoring the Committee's intention to restrain growth rates of money and

credit over time in moving towards price stability. Retaining the current M2 range allows some scope for a small decline in velocity should interest rates trend down in association with either a weaker economy or improving inflation expectations. At the same time, the M2 range would appear sufficiently low to trigger some policy restraint should inflation pressures turn out to be stronger than expected and GNP begin to accelerate appreciably.

Short-Run Policy Alternatives

(24) Three short-run policy alternatives are presented below. Under alternative B, federal funds would continue to trade in the 9-1/2 to 9-5/8 percent area. Consistent with such unchanged reserve market conditions, adjustment plus seasonal borrowing would be expected to average $650 million over the coming intermeeting period, up from the present $500 million assumption. That adjustment is suggested in light of recent experience; seasonal borrowing rose to $500 million near the end of the last maintenance period and is likely to increase somewhat further over the coming intermeeting period. Under alternative C, funds would trade around 10 percent or a bit higher with borrowings of $850 million. The easing of policy under alternative A might be associated with less than the usual $200 million reduction in borrowing. Since adjustment borrowing is close to frictional levels it is not likely to decline much in response to decreases in the spread, and seasonal borrowing has a fairly low interest sensitivity. As a consequence, the staff estimates that a funds rate in the 9 to 9-1/8 percent area under alternative A would be consistent with borrowing of perhaps around $550 million. In any event, the rather high degree of uncertainty about the borrowing relationship suggests that the Desk again should pursue the borrowing objective flexibly.

(25) Growth of the monetary aggregates over the June-to-September period under the three alternatives is presented below, along with implied growth through September from their fourth-quarter bases. (More detailed data are shown on the table and charts on the following pages.) Under all the alternatives, the monetary aggregates would strengthen from their

average pace of recent months as the full impact of recent declines in rates takes hold. In addition the public is assumed to continue to rebuild balances depleted by unexpectedly large final tax payments in April.

	Alt. A	Alt. B	Alt. C
Growth from June to September			
M2	8	6-1/2	5
M3	7-1/2	7	6-1/2
M1	2	1/2	-1
Growth from Q4 '88 to September			
M2	3-3/4	3-1/4	2-3/4
M3	4-3/4	4-1/2	4-1/2
M1	-2	-2-1/2	-3
Associated federal funds rate range	7 to 11	8 to 12	8 to 12

(26) Money market rates currently have built in some further near-term easing of policy and would likely firm if federal funds continued to trade around 9-1/2 to 9-5/8 percent. Short-term rates would climb around a quarter of a percentage point. Bond rates could rise as well, but probably to a limited degree, given the recent softness in the economy, which is expected to continue in the staff forecast. The approaching debt-ceiling constraint, which could well affect the mid-quarter refunding in August, might lead to unusual movements in rate relationships involving Treasury securities in coming weeks. At the long end of the market, rates might react temporarily to impending supplies of Refcorp bonds, should the legislation pass with off-budget financing. The

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 April	3081.3	3081.3	3081.3	3957.6	3957.6	3957.6	783.2	783.2	783.2
May	3072.8	3072.8	3072.8	3954.3	3954.3	3954.3	773.4	773.4	773.4
June	3089.6	3089.6	3089.6	3975.0	3975.0	3975.0	769.6	769.6	769.6
July	3107.5	3105.0	3102.5	3998.2	3997.2	3996.2	769.5	768.8	768.1
August	3127.5	3121.1	3114.7	4021.8	4019.2	4016.6	771.3	769.6	767.9
September	3150.6	3139.0	3127.4	4048.2	4043.2	4038.2	773.5	770.6	767.7
Monthly Growth Rates									
1989 April	1.0	1.0	1.0	2.5	2.5	2.5	-4.7	-4.7	-4.7
May	-3.3	-3.3	-3.3	-1.0	-1.0	-1.0	-15.0	-15.0	-15.0
June	6.6	6.6	6.6	6.3	6.3	6.3	-5.9	-5.9	-5.9
July	7.0	6.0	5.0	7.0	6.7	6.4	-0.1	-1.2	-2.3
August	7.7	6.2	4.7	7.1	6.6	6.1	2.7	1.2	-0.3
September	8.9	6.9	4.9	7.9	7.2	6.5	3.4	1.6	-0.3
Quarterly Ave. Growth Rates									
1988 Q3	3.8	3.8	3.8	5.5	5.5	5.5	5.2	5.2	5.2
Q4	3.6	3.6	3.6	4.8	4.8	4.8	2.3	2.3	2.3
1989 Q1	1.9	1.9	1.9	3.8	3.8	3.8	-0.4	-0.4	-0.4
Q2	1.3	1.3	1.3	3.1	3.1	3.1	-5.7	-5.7	-5.7
Q3	6.2	5.3	4.4	6.1	5.8	5.5	-2.1	-2.9	-3.9
Mar. 89 to June 89	1.4	1.4	1.4	2.6	2.6	2.6	-8.5	-8.5	-8.5
June 89 to Sept. 89	7.9	6.4	4.9	7.4	6.9	6.4	2.0	0.5	-1.0
Q4 88 to Q2 89	1.6	1.6	1.6	3.5	3.5	3.5	-3.1	-3.1	-3.1
Q4 88 to June 89	1.8	1.8	1.8	3.5	3.5	3.5	-3.9	-3.9	-3.9
Q4 88 to Aug. 89	3.1	2.8	2.5	4.3	4.3	4.2	-2.7	-3.0	-3.3
Q4 88 to Sept. 89	3.7	3.2	2.8	4.7	4.6	4.4	-2.1	-2.6	-3.0
1989 Target Ranges:		3.0 to 7.0			3.5 to 7.5				

Chart 3

ACTUAL AND TARGETED M2

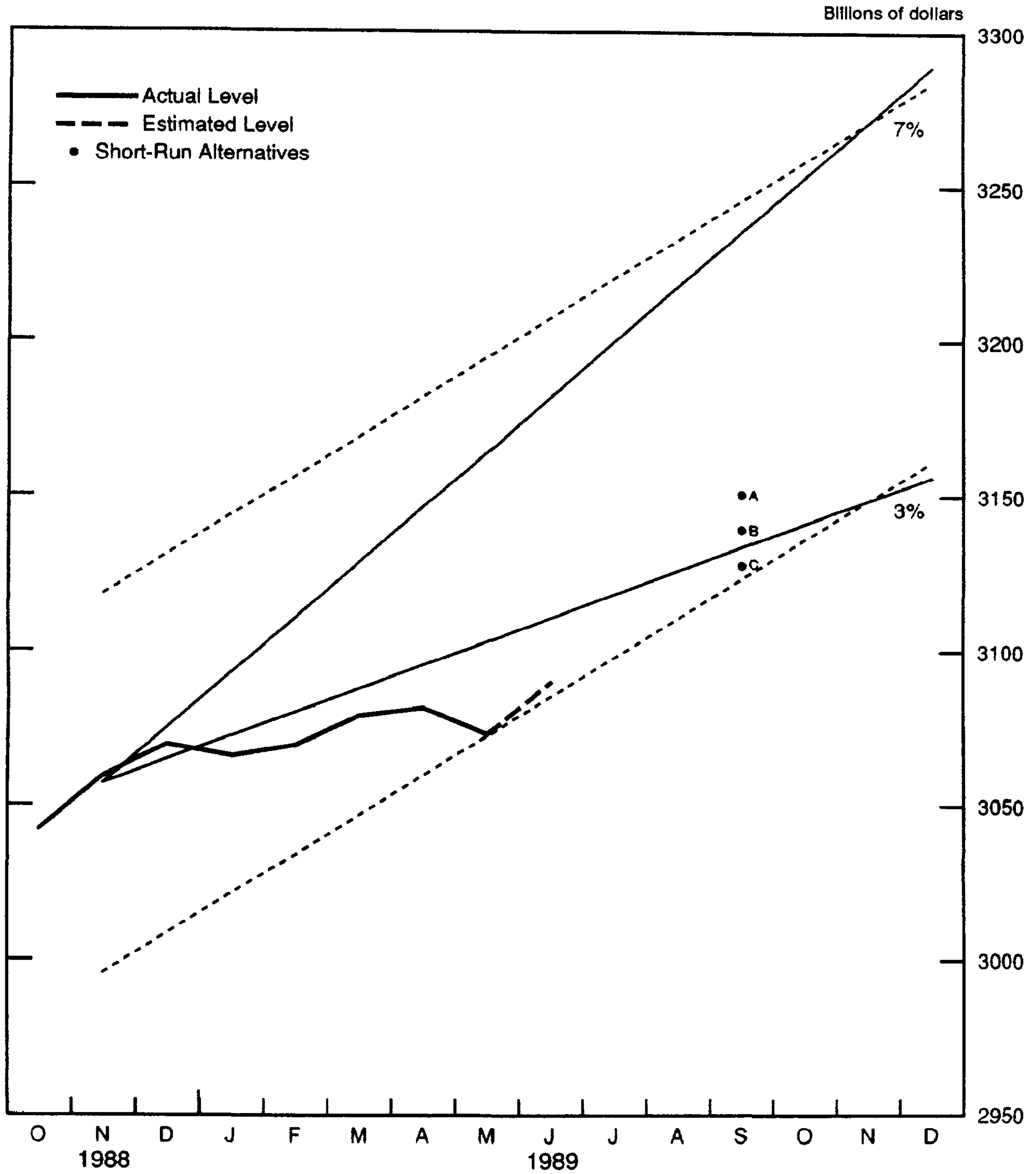


Chart 4

ACTUAL AND TARGETED M3

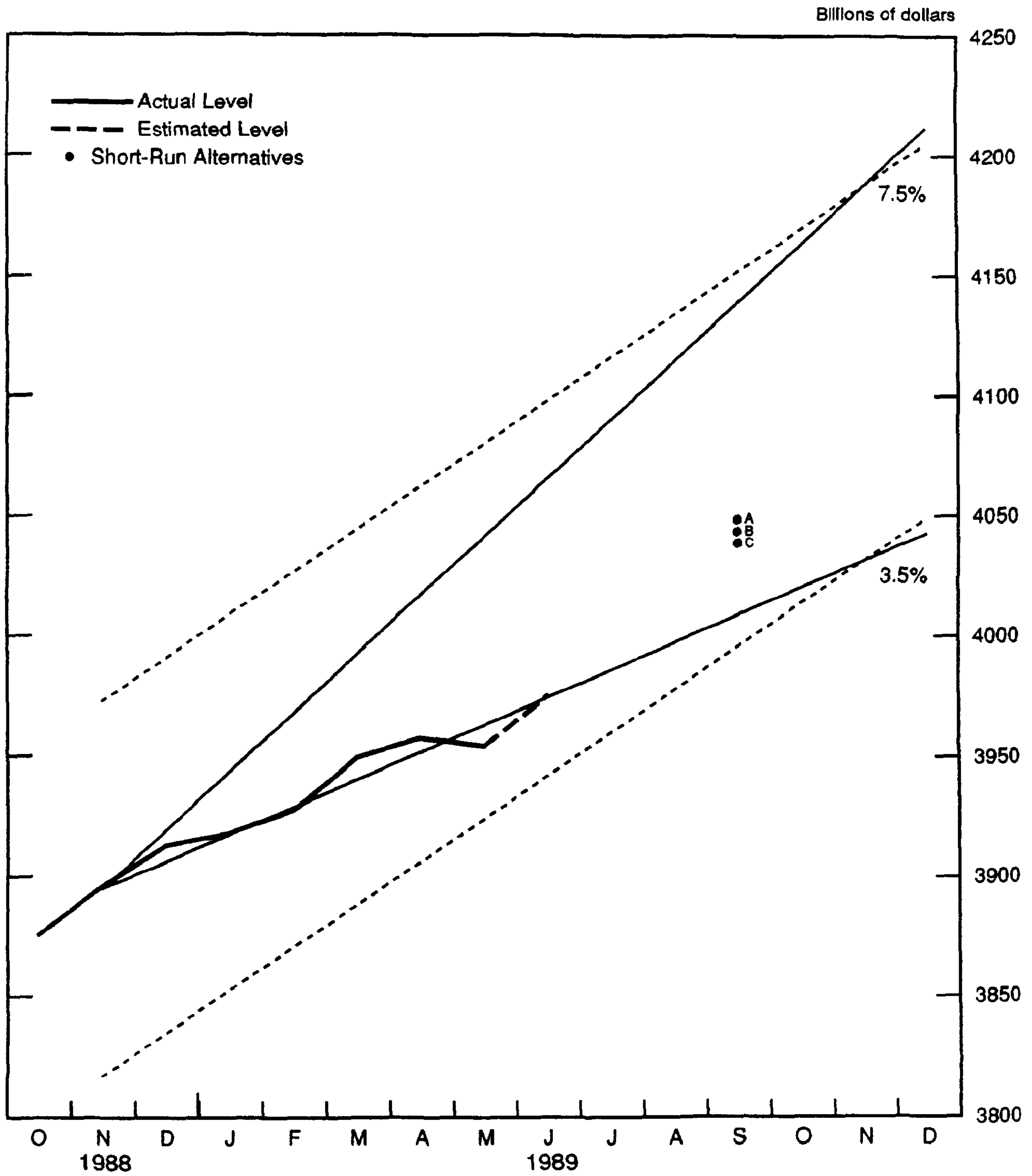


Chart 5

M1

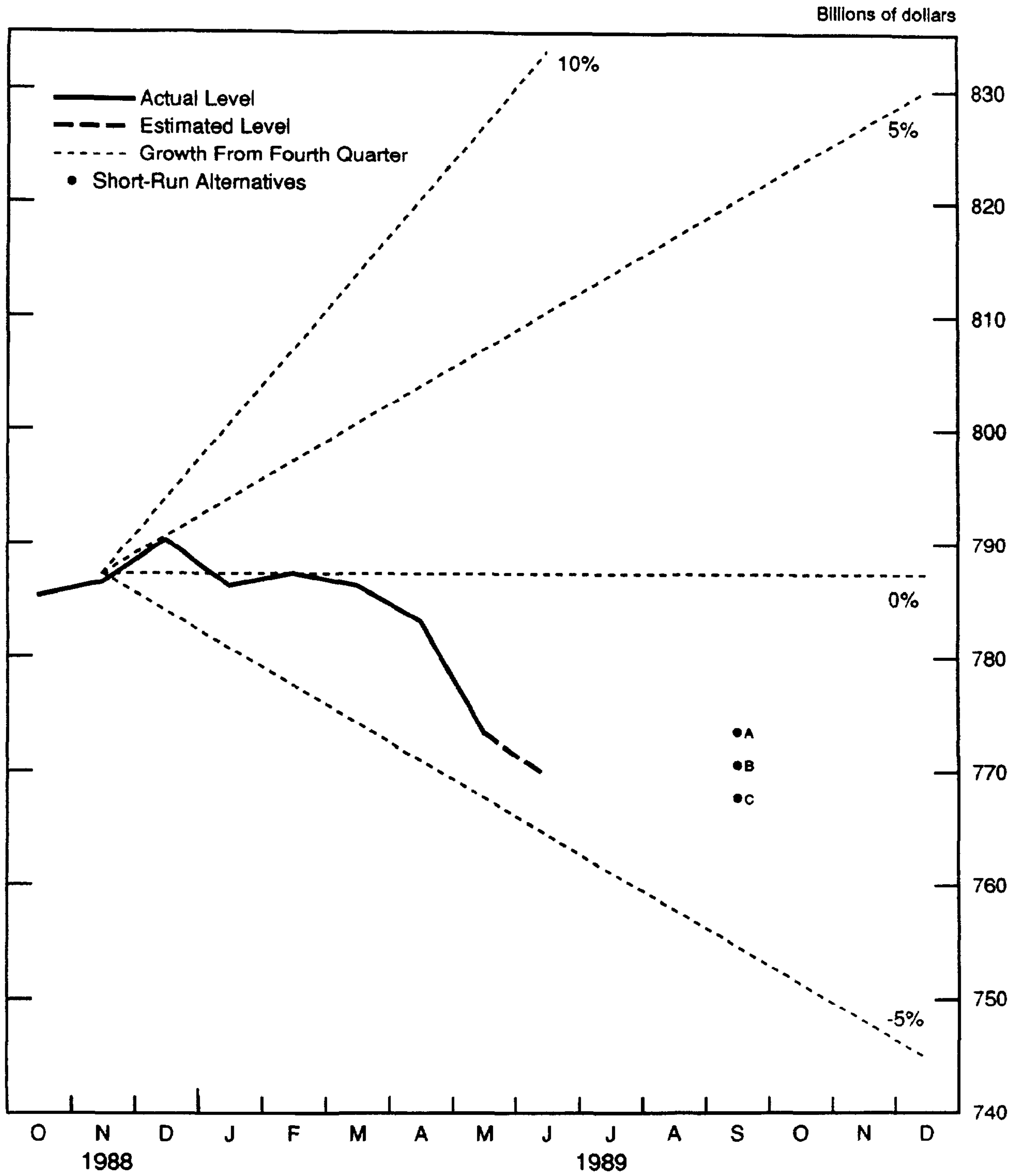
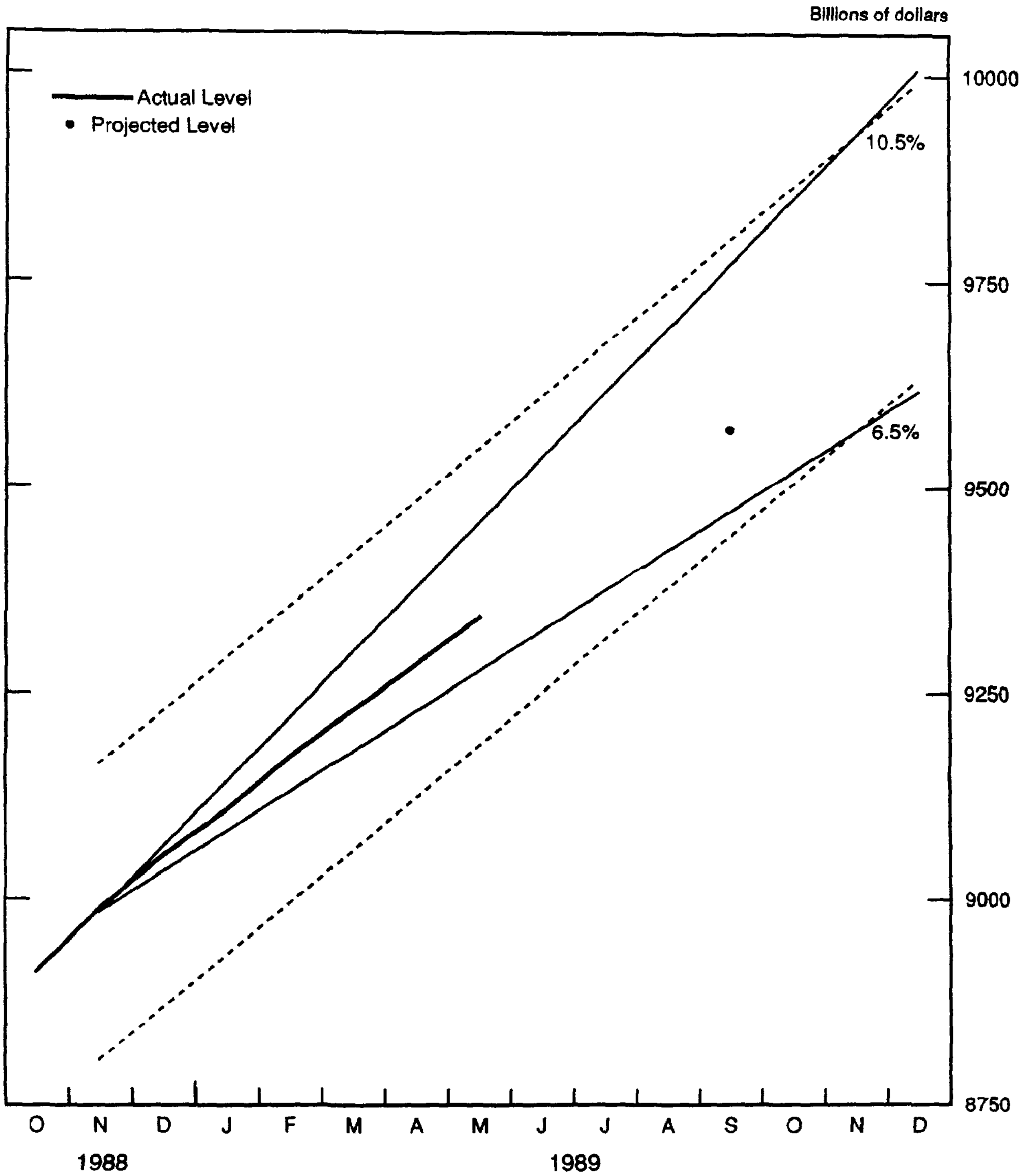


Chart 6

DEBT



higher level of U.S. interest rates could postpone the projected depreciation of the dollar for a time.

(27) Under alternative B, M2 would grow at a 6-1/2 percent rate over the June-to-September period, lifting this aggregate to the bottom of its annual target cone in September. Despite the small rise in short-term interest rates expected under this alternative, opportunity costs of holding M2 balances would remain below levels of the first quarter. Further contributing to a pickup in M2 growth is the likelihood that outflows from demand deposits--which have been much larger than expected--will diminish appreciably and possibly cease over this period, as the recent decline in market rates is reflected in compensating balance requirements. Retail deposit growth at thrifts should remain near that of commercial banks, as it has recently. On a quarterly average basis, M2 would grow at about a 5-1/4 percent annual rate in the third quarter, a bit above the rate of expansion of nominal GNP in the staff forecast. Its M1 component would edge higher over the June-to-September period, but owing to the declines in May and June would decline at a 3 percent rate on a quarterly average basis.

(28) M3 growth would strengthen to a 7 percent clip over the June-to-September period under alternative B. Bank credit is projected to be somewhat stronger in coming months, partly reflecting the possibility of major corporate restructuring activity, which would be funded initially by banks. On a quarterly average basis, M3 would grow at a 5-3/4 percent rate, implying some decline in its velocity. Domestic nonfinancial debt is expected to expand at a 7-1/2 percent rate from June to September,

leaving this aggregate 7-3/4 percent at an annual rate above its fourth-quarter base.

(29) The extent of the easing of policy embodied in alternative A would be larger than expected by market participants for the very near term, although the current structure of market rates appears to reflect expectations of a drop in rates of this magnitude in the next few months. With federal funds moving immediately to around 9 percent or a bit above, short-term rates would edge lower. The three-month Treasury bill rate would settle below 8 percent. The dollar likely would come under downward pressure, especially if, in light of the recent increases in monetary restraint abroad, policy easing were viewed by the market as, in part, a coordinated effort to stem strength in the dollar. Long-term rates would tend to move lower, although with some easing already built into the yield curve the decline could be minor.

(30) With money market rates and opportunity costs dropping under alternative A, M2 growth would strengthen to an 8 percent rate over the June-to-September period, bringing this aggregate into the lower end of its annual target cone in August. The pickup in M2 would be most evident in its liquid components, and M1 would strengthen to a 2 percent rate of expansion over the three-month period ending in September. M3 growth would firm under this alternative to a 7-1/2 percent rate, boosted in part by larger inflows to institution-only money funds.

(31) The tightening of reserve conditions under alternative C would come as a surprise to the financial markets. With federal funds moving to 10 percent or a bit higher, money market rates would climb about

1/2 percentage point or more. The dollar could well take on a firmer tone on foreign exchange markets. Bond rates would tend to rise under this alternative, although the extent of any such rise would be limited to the degree that market participants saw the move as unsustainable or focused on its impact on inflation pressures over time.

(32) Under alternative C, M2 would expand over the June-to-September period at a 5 percent rate and would remain below the lower bound of its annual growth cone in September (though on a trajectory to touch that lower bound in the fourth quarter). Growth of liquid retail accounts in M2 would be weak and M1 would decline further. M3 would be expected to grow at a 6-1/2 percent pace over June to September under this alternative, moving up only gradually within the lower portion of its annual target range.

Directive Language

(33) Presented below for Committee consideration is a draft directive giving standard alternative language relating to the ranges for 1989, the tentative ranges for 1990, and the operating paragraph for the intermeeting period.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee REAFFIRMED at THIS ~~its~~ meeting THE RANGES IT HAD ~~in February~~ established IN FEBRUARY ~~ranges~~ for growth of M2 and M3 of 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. [IN FURTHERANCE OF THESE OBJECTIVES, THE COMMITTEE AT THIS MEETING RAISED/LOWERED THE RANGES IT HAD ESTABLISHED IN FEBRUARY FOR GROWTH OF M2 AND M3 TO RANGES OF __ TO __ AND __ TO __ PERCENT RESPECTIVELY, MEASURED FROM THE FOURTH QUARTER OF 1988 TO THE FOURTH QUARTER OF 1989.] The monitoring range for growth of total domestic nonfinancial debt was ALSO MAINTAINED ~~set~~ at 6-1/2 to 10-1/2 percent [WAS (ALSO) RAISED/LOWERED TO __ TO __ PERCENT] for the year. FOR 1990, THE COMMITTEE AGREED ON TENTATIVE RANGES FOR MONETARY GROWTH, MEASURED FROM

THE FOURTH QUARTER OF 1989 TO THE FOURTH QUARTER OF 1990, OF __ TO __ PERCENT FOR M2 AND __ TO __ PERCENT FOR M3. THE COMMITTEE PROVISIONALLY SET THE ASSOCIATED MONITORING RANGE FOR GROWTH OF TOTAL DOMESTIC NONFINANCIAL DEBT AT __ TO __ PERCENT. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

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 JUNE ~~March~~ through SEPTEMBER ~~June~~ at annual rates of about __ ~~1-1/2~~ and __ ~~4~~ 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 __ ~~8~~ to __ ~~12~~ percent.

ADOPTED LONGER-RUN GROWTH RATE RANGES FOR THE MONETARY AND CREDIT AGGREGATES
(percent annual rates; numbers in parentheses are actual growth rates as reported at end of policy period in February Monetary Policy Report to Congress)

	M1		M2		M3		Bank Credit or Domestic Non-financial Debt[1]	
QIV 1978 - QIV 1979[2]	3 - 6	(5.5)	5 - 8	(8.3)	6 - 9	(8.1)	7.5 - 10.5	(12.2)
QIV 1979 - QIV 1980	4 - 6.5	(7.3)[3,4]	6 - 9	(9.8)	6.5 - 9.5	(10.0)	6 - 9	(7.9)
QIV 1980 - QIV 1981	3.5 - 6	(2.3)[3,5]	6 - 9	(9.4)	6.5 - 9.5	(11.3)	6 - 9	(8.8)[6]
QIV 1981 - QIV 1982	2.5 - 5.5	(8.5)[3]	6 - 9	(9.2)	6.5 - 9.5	(10.1)	6 - 9[7]	(7.8)[6]
QIV 1982 - QIV 1983	5 - 9[8]	(7.2)	7 - 10[9]	(8.3)	6.5 - 9.5	(9.7)	8.5 - 11.5	(10.5)
QIV 1983 - QIV 1984	4 - 8	(5.2)	6 - 9	(7.7)	6 - 9	(10.5)	8 - 11	(13.4)
QIV 1984 - QIV 1985	3 - 8[10]	(12.7)	6 - 9	(8.6)	6 - 9.5	(7.4)	9 - 12	(13.4)
QIV 1985 - QIV 1986	3 - 8	(15.2)	6 - 9	(8.9)	6 - 9	(8.8)	8 - 11	(12.9)
QIV 1986 - QIV 1987	n.s[11]	(5.9)	5.5 - 8.5	(4.1)	5.5 - 8.5	(5.4)	8 - 11	(9.6)
QIV 1987 - QIV 1988	n.s	(4.3)	4 - 8	(5.2)	4 - 8	(6.3)	7 - 11	(8.7)
QIV 1988 - QIV 1989	n.s	(-3.9)*	3 - 7	(1.8)*	3.5 - 7.5	(3.5)*	6.5 - 10.5	(7.9)*

n.s.--not specified.
* Figures for M1, M2, and M3 are annualized growth rates from the fourth quarter of 1988 through June; the figure for domestic nonfinancial debt is growth from the fourth quarter of 1988 through May.
1. Targets are for bank credit until 1983; from 1983 onward targets are for domestic nonfinancial sector debt.
2. At the February 1979 meeting the FOMC adopted a QIV'78 to QIV'79 range for M1 of 1-1/2 to 4-1/2 percent. This range anticipated that shifting to ATS and NOW accounts in New York State would slow M1 growth by 3 percentage points. At the October meeting it was noted that ATS/NOW shifts would reduce M1 by no more than 1-1/2 percentage points. Thus, the longer-run range for M1 was modified to 3-6 percent.
3. The figures shown reflect target and actual growth of M1-B in 1980 and shift-adjusted M1-B in 1981. M1-B was relabeled M1 in Janauary 1982. The targeted growth for M1-A was 3-1/2 to 6 percent in 1980 (actual growth was 5.0 percent); in 1981 targeted growth for shift-adjusted M1-A was 3 to 5-1/2 percent (actual growth was 1.3 percent).
4. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.

(Footnotes are continued on next page)

Footnotes continued)

5. Adjusted for the effects of shifts out of demand deposits and savings deposits into other checkable deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -4-1/2 to -2 and 6 to 8-1/2 percent, respectively. Actual M1-B growth (not shift adjusted) was 5.0 percent.
6. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.
7. Range for bank credit is annualized growth from the December 1981-January 1982 average level through the fourth quarter of 1982.
8. Base period, adopted at the July 1983 FOMC meeting, is QII'83. At the February 1983 meeting, the FOMC had adopted a QIV'82 to QIV'83 target range for M1 of 4 to 8 percent.
9. Base period is the February-March 1983 average.
10. Base period, adopted at the July 1985 FOMC meeting, is QII'85. At the February 1985 meeting the FOMC had adopted a QIV'84 to QIV'85 target range for M1 of 4 to 7 percent.
11. No range for M1 was specified at the February FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.

6/29/89

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
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	9.95	9.04	9.07	8.96	10.23	9.98	9.19	11.50	9.77	9.46	9.26	10.47	7.95	11.73	11.22	9.41
Low	9.06	8.08	7.83	7.77	9.08	9.00	8.28	10.50	8.30	8.21	8.18	9.59	7.27	10.26	10.04	8.53
Monthly																
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	10.26	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
FEB 89	9.36	8.53	8.55	8.55	9.51	9.29	8.79	10.93	9.32	9.17	9.01	10.25	7.72	11.03	10.64	8.64
MAR 89	9.85	8.82	8.85	8.82	10.09	9.88	8.89	11.50	9.61	9.36	9.17	10.37	7.85	11.47	11.03	9.09
APR 89	9.84	8.65	8.65	8.64	9.94	9.77	9.14	11.50	9.40	9.18	9.03	10.33	7.73	11.32	11.05	9.39
MAY 89	9.81	8.43	8.41	8.31	9.59	9.58	9.13	11.50	8.98	8.86	8.83	10.09	7.51	10.90	10.77	9.29
Weekly																
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
MAR 29 89	9.88	9.04	9.07	8.96	10.19	9.98	9.04	11.50	9.77	9.41	9.20	10.32	7.87	11.46	11.19	9.31
APR 5 89	9.71	8.86	8.87	8.80	10.07	9.87	9.08	11.50	9.54	9.24	9.07	10.40	7.80	11.39	11.07	9.39
APR 12 89	9.82	8.74	8.77	8.75	10.03	9.82	9.13	11.50	9.53	9.26	9.09	10.33	7.82	11.38	11.11	9.41
APR 19 89	9.95	8.57	8.58	8.59	9.93	9.77	9.19	11.50	9.39	9.17	9.03	10.33	7.69	11.29	10.99	9.40
APR 26 89	9.86	8.62	8.60	8.60	9.88	9.74	9.19	11.50	9.35	9.15	8.99	10.22	7.61	11.22	11.02	9.38
MAY 3 89	9.88	8.51	8.54	8.50	9.82	9.70	9.14	11.50	9.20	9.07	8.95	10.26	7.62	11.09	10.97	9.36
MAY 10 89	9.86	8.49	8.47	8.41	9.76	9.69	9.14	11.50	9.14	9.08	9.03	10.13	7.64	10.89	10.93	9.36
MAY 17 89	9.75	8.28	8.31	8.22	9.56	9.54	9.15	11.50	8.92	8.87	8.88	10.03	7.38	10.86	10.69	9.28
MAY 24 89	9.74	8.34	8.35	8.20	9.41	9.46	9.13	11.50	8.83	8.66	8.67	9.94	7.38	10.77	10.50	9.18
MAY 31 89	9.84	8.56	8.43	8.25	9.45	9.51	9.11	11.50	8.83	8.64	8.63	9.80	7.43	10.52	10.48	9.21
JUN 7 89	9.68	8.31	8.06	7.93	9.27	9.42	9.08	11.29	8.48	8.41	8.46	9.63	7.28	10.28	10.20	9.09
JUN 14 89	9.35	8.16	7.83	7.77	9.08	9.25	8.94	11.00	8.30	8.21	8.19	9.70	7.27	10.47	10.04	8.95
JUN 21 89	9.48	8.13	8.00	7.93	9.25	9.33	8.88	11.00	8.47	8.35	8.31	9.59	7.42	10.42	10.19	9.00
JUN 28 89	9.58	8.08	7.92	7.83	9.23	9.35	8.88	11.00	8.33	8.22	8.18	9.49	7.34	10.26	10.07	8.92
Daily																
JUN 23 89	9.57	8.05	7.96	7.81	9.31	9.37	..	11.00	8.34	8.25	8.20	..	..	..	..	..
JUN 29 89	9.69	7.95	7.74	7.64	9.20	9.36	..	11.00	8.14	8.12	8.09	..	..	..	..	..
JUN 30 89	9.85p	7.99	7.72	7.55	9.08	9.38	..	11.00	8.06p	8.09p	8.04p	..	..	..	..	..

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 major institutional lenders. Column 16 is the average initial contract rate on new commitments for 1-year, adjustable-rate mortgages(ARMs) at major institutional lenders 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

JUL. 3, 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	13.0	13.4
1987	6.4	4.2	3.5	11.7	5.7	5.5	7.9	9.0	10.1	9.8
1988	4.3	5.2	5.5	10.0	6.2	7.0	7.3	8.0	9.2	8.9
QUARTERLY AVERAGE										
1988-3rd QTR.	5.2	3.8	3.3	12.1	5.5	7.1	7.5	7.1	9.1	8.6
1988-4th QTR.	2.3	3.6	4.1	9.1	4.8	5.4	5.7	7.8	9.5	9.1
1989-1st QTR.	-0.4	1.9	2.6	10.8	3.8	4.8	6.1	7.7	8.4	8.2
1989-2nd QTR. pe	-5¼	1¼	3¼	9½	3					
MONTHLY										
1988-JUNE	8.4	5.3	4.2	11.8	6.6	4.6	9.2	6.0	9.0	8.3
JULY	9.3	4.3	2.6	17.5	7.1	11.6	7.7	5.5	9.1	8.3
AUG.	-0.2	2.3	3.2	9.1	3.8	4.9	6.6	9.9	8.8	9.0
SEP.	2.0	2.1	2.1	5.6	2.8	2.0	1.0	11.9	8.1	9.0
OCT.	2.6	2.8	2.9	13.8	5.2	5.4	9.8	5.1	9.5	8.5
NOV.	1.8	6.7	8.5	4.8	6.3	6.9	4.7	6.8	11.3	10.3
DEC.	5.6	4.0	3.4	9.9	5.2	9.4	3.7	7.7	8.7	8.5
1989-JAN.	-6.1	-1.4	0.1	12.5	1.6	1.0	2.4	4.7	8.1	7.3
FEB.	1.7	1.4	1.3	8.6	2.9	3.2	14.4	10.2	8.1	8.6
MAR.	-1.7	3.7	5.6	17.2	6.7	8.5	6.4	12.4	5.9	7.5
APR.	-4.7	1.0	3.0	7.7	2.5	4.1	2.9	5.1	7.6	7.0
MAY	-15.0	-3.3	0.7	7.0	-1.0		7.8	2.9	8.9	7.5
JUNE pe	-6	7	11	5	6					
LEVELS ($BILLIONS):										
MONTHLY										
1989-JAN.	786.3	3065.7	2279.4	852.4	3918.1	4677.2	2412.8	2122.3	6984.9	9107.2
FEB.	787.4	3069.2	2281.8	858.5	3927.7	4689.7	2441.8	2140.4	7032.0	9172.3
MAR.	786.3	3078.7	2292.4	870.8	3949.5	4723.0	2454.9	2162.6	7066.7	9229.4
APR.	783.2	3081.3	2298.1	876.4	3957.6	4739.2	2460.9	2171.8	7111.7	9283.5
MAY	773.4	3072.8	2299.4	881.5	3954.3		2476.9	2177.0	7164.3	9341.3
WEEKLY										
1989-MAY 1	781.5	3072.2	2290.6	879.4	3951.6					
8	772.9	3070.0	2297.1	880.4	3950.3					
15	773.0	3070.8	2297.8	885.0	3955.9					
22	772.2	3073.0	2300.8	880.3	3953.3					
29	773.6	3076.4	2302.9	880.5	3956.9					
JUNE 5	776.1	3080.0	2303.9	883.2	3963.2					
12 p	769.6	3088.6	2319.0	883.2	3971.8					
19 p	768.3	3092.9	2324.6	886.1	3979.0					

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

JUL. 3, 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	266.0	257.0	44.6
1988	210.7	288.4	280.9	76.6	505.6	430.8	1017.6	236.0	86.5	534.7	125.1	101.2	108.7	272.2	323.9	40.8
MONTHLY																
1988-MAY	203.4	288.1	272.2	80.4	520.5	425.2	971.0	231.8	90.0	502.4	121.0	91.5	105.3	264.6	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	92.9	106.0	257.7	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	95.8	106.8	268.7	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	101.5	107.4	272.6	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	122.3	101.2	107.9	272.8	308.8	41.7
OCT.	209.7	288.9	279.4	76.0	507.5	429.2	1009.7	231.3	84.6	532.0	124.7	98.6	108.4	273.3	312.3	41.3
NOV.	210.5	287.7	281.0	75.6	506.7	431.8	1017.8	237.4	87.4	534.4	127.5	100.5	108.7	268.4	323.7	40.5
DEC.	211.8	288.6	282.3	78.3	502.7	431.3	1025.2	239.4	87.6	537.7	123.1	104.6	109.1	275.0	335.8	40.6
1989-JAN.	213.4	284.0	281.3	81.7	495.2	427.8	1035.7	241.7	89.3	544.4	124.1	99.9	109.7	274.0	334.9	40.6
FEB.	214.3	284.8	280.9	78.8	485.3	424.6	1048.3	247.2	89.6	551.6	127.1	99.8	110.6	267.3	344.2	39.9
MAR.	215.6	284.3	279.1	77.2	480.3	420.8	1061.0	256.0	87.6	558.8	129.4	105.5	111.5	271.6	349.2	41.2
APR.	215.9	281.5	278.5	73.8	471.3	412.9	1083.2	260.2	87.7	567.7	127.0	101.4	112.3	273.7	354.2	41.4
MAY	216.4	278.2	271.5	72.5	456.9	404.9	1106.1	259.9	91.6	572.0	127.6	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

July 3, 1989

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Period	Treasury bills: Net purchases[2]	Treasury bills: Redemptions (-)	Treasury bills: Net change	Treasury coupons: Net purchases[3] within 1-year	Treasury coupons: Net purchases[3] 1-5	Treasury coupons: Net purchases[3] 5-10	Treasury coupons: Net purchases[3] over 10	Treasury coupons: Redemptions (-)	Treasury coupons: Net change	Federal agencies redemptions (-)	Net change outright holdings total[4]	Net RPs[5]
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
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
1989--Q1	--	3,842	-6,042	--	-228	-20	--	--	-248	188	-6,477	-5,591
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
March	--	--	--	--	--	--	--	--	--	--	--	-856
April	3,077	--	3,077	172	1,436	286	284	--	2,179	125	-5,131	14,448
May	-10	1,200	-1,210	--	-75	--	--	--	-75	--	-1,285	-23,527
Mar. 1	-58	--	-58	--	--	--	--	--	--	--	-58	3,040
8	--	--	--	--	--	--	--	--	--	--	--	-375
15	--	--	--	--	--	--	--	--	--	--	--	1,945
22	--	--	--	--	--	--	--	--	--	--	--	-1,005
29	--	--	--	--	--	--	--	--	--	--	--	-283
Apr. 5	--	--	--	--	--	--	--	--	--	--	--	-3,608
12	20	--	20	172	1,436	287	284	--	2,179	--	2,199	3,935
19	236	--	236	--	--	--	--	--	--	--	236	4,310
26	218	--	218	--	--	--	--	--	--	125	94	2,846
May 3	2,734	--	2,734	--	--	--	--	--	--	--	2,734	4,511
10	179	--	179	--	--	--	--	--	--	--	179	-165
17	--	--	--	--	--	--	--	--	--	--	--	-12,088
24	-183	600	-783	--	-75	--	--	--	-75	--	-858	-7,774
31	-137	600	-737	--	--	--	--	--	--	--	-737	-327
June 7	-571	600	-1,171	--	--	--	--	--	--	--	-1,171	1,811
14	--	600	-600	--	--	--	--	--	--	--	-600	4,078
21	--	--	--	--	--	--	--	--	--	--	--	2,508
28	--	--	--	--	--	--	--	--	--	--	--	900
Memo: LEVEL (bil.$)[6] June 28	--	--	112.0	30.1	52.8	13.5	26.3	--	122.7	--	241.4	-3.6

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
2.1	3.4	1.0	.2	6.7