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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

June 26, 1992

# MONETARY POLICY ALTERNATIVES

## Recent Developments

(1) Reserve pressures have been left unchanged since the FOMC meeting on May 19. The federal funds rate has averaged very close to its expected level of 3-3/4 percent. To account for rising demands for seasonal credit, the allowance for adjustment and seasonal borrowing was raised from $100 to $225 million in three steps during the intermeeting period. Actual borrowing has come in somewhat above its allowance, in part owing to a stronger-than-expected rise in seasonal borrowing.

(2) In the days following the May FOMC meeting, the failure of the System to signal an easing action and news reports that a symmetric directive had been adopted at that meeting prompted a backup in interest rates. Later in the period, however, monetary and economic data strengthened the notion that the recovery and credit demands would remain modest, and interest rates moved lower, especially at intermediate maturities. On balance, money market yields were unchanged to up 10 basis points over the intermeeting period; long-term corporate and Treasury rates were about unchanged on the period, while fixed-rate conventional mortgages were marked down about 20 basis points. Most long- and intermediate-term yields, although still somewhat above lows set early in the year, ended the period 1/4 to 1 percentage point below highs reached in early March. In the stock market, price indexes declined 3 to 5 percent over the intermeeting period owing to downward revisions to the markets' ebullient earnings forecast.

(3) The dollar's weighted average exchange value has declined 2-3/4 percent, on balance, since the May Committee meeting. With this decline, the dollar has retraced all of the increase from its January low. The growing realization that the pace of the U.S. recovery was not

likely to be strong contributed to the softness in the dollar over the intermeeting period and since its peak in March. Moreover, German money growth has remained high in recent months, which has been seen as likely to postpone any significant easing of German and associated European interest rates. The German mark was particularly strong against the dollar in the wake of the confusion over prospects for European monetary union produced by the Danish referendum on June 2. Monetary authorities in some European countries, Italy in particular, had to push interest rates up fairly sharply to reassure exchange market participants after the referendum's defeat in Denmark. Weakness in Japanese stock prices re-emerged, along with gloomier prospects for economic activity and profits; major indices declined 12 to 16 percent over the period, and the Nikkei index reached a six-year low. Short-and long-term interest rates in Japan fell somewhat.

. The Desk did not intervene.

(4) The monetary aggregates remained weak in May and June. Over the two months, M2 and M3 are estimated to have fallen at 1-1/4 and 1-3/4 percent annual rates, respectively, in contrast to expectations at the last FOMC meeting that the two aggregates would increase at about 2-1/2 and 1-3/4 percent rates. M1 growth rebounded strongly in May but also has turned negative in June.[1] The recent contraction in M2 brought its quarterly average growth to zero, far short of the prediction of the standard money demand model using the staff GDP estimate and short-term market and deposit interest rates. Correspondingly, the velocity of M2 is estimated to have risen at a 5 percent rate during the

1. Over May and June, total reserves expanded at a 2-1/2 percent rate, while the monetary base rose at a 5-3/4 percent pace.

current quarter in the face of substantial declines in the second half of last year in this conventional measure of the opportunity cost of M2. The weakness over the second quarter has depressed the growth of both aggregates through June by about a percentage point below their annual ranges. At the time of the February FOMC meeting, the staff was projecting M2 and M3 growth over the first half of the year at 3-1/4 and 1-3/4 percent, respectively. The shortfall in broad money growth relative to expectations has occurred despite slightly lower short-term interest rates than envisioned in the staff forecast at the time of the February FOMC meeting and expansion of nominal GDP over the first half of the year that, at an estimated 5-1/4 percent, was somewhat above the projection for the February meeting. A rise in velocities in the first half of the year was anticipated, but by significantly less than the estimated increases of around 3-1/4 and 5 percent at annual rates for M2 and M3, respectively.

(5) Sluggish monetary growth and sharply rising velocities during the first half of 1992 appear to reflect an intensification of some of the influences that depressed the demand for money and buoyed velocity over 1990 and 1991. In contrast to expectations at the February meeting, the yield curve steepened further and banks priced deposits especially unattractively, reflecting weaker loan demand than forecast and incentives to limit balance sheet expansion. Retail time deposit rates at intermediate-term maturities have been particularly low relative to market rates and relative to the original yields on maturing deposits; rates on liquid deposits have adjusted down more quickly than has been typical, with sizable reductions in the last few weeks; generally, depositories have made the largest cuts in the highest-rate liquid

deposits, which may have been held by the most interest-sensitive depositors. The combination of still-elevated yields on bonds and low returns on deposits evidently prompted heavy flows out of deposits and into capital markets, either directly or through mutual funds. In addition, high consumer borrowing costs relative to deposit interest rates likely have encouraged households to emphasize debt repayment at the expense of M2 asset accumulation. And RTC activity, at least until mid-April when resolutions ceased because of the expiration of spending authority, evidently disrupted banking relationships and prompted depositors to seek alternative investment outlets. These factors are associated, in varying degrees, with impediments to the flow of credit through depository institutions, and thus are likely to be reflected in both weak monetary growth and, to a lesser extent, some restraint on spending and output.

(6) Despite heavy federal borrowing, nonfinancial sector debt is estimated to have expanded at only a 4-1/2 percent rate through May, leaving this aggregate at the lower end of its monitoring range. Nonfederal debt growth, at 2-1/2 percent, has been especially weak relative to GDP, partly reflecting efforts to restructure balance sheets. Spending apparently has been financed out of internal funds, borrowers have opted to pay down debt rather than hold low-yielding monetary assets, and equity issuance has been used to reduce indebtedness. On the supply side, evidence suggests that lending restraint by intermediaries, though not abating, probably has stabilized, while open markets have become more receptive to private borrowers, partly reflecting the diversion of savings from depositories.

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

| | April | May | June pe | April to June pe | QIV'91 to June pe |
|---|---|---|---|---|---|
| Money and credit aggregates | | | | | |
| M1 | 5.0 | 14.8 | -1.5 | 6.6 | 12.2 |
| M2 | -2.1 | .6 | -3.0 | -1.2 | 1.6 |
| M3 | -3.9 | -.4 | -3.2 | -1.8 | 0.0 |
| Domestic nonfinancial debt | 5.1 | 5.2 | -- | -- | 4.5[1] |
| Bank credit | 5.2 | -.8 | 2.7 | .9 | 2.9 |
| Reserve measures | | | | | |
| Nonborrowed reserves[2] | 13.1 | 10.5 | -7.5 | 1.4 | 16.8 |
| Total reserves | 13.0 | 12.1 | -6.8 | 2.6 | 16.7 |
| Monetary base | 7.4 | 7.7 | 3.9 | 5.8 | 7.8 |
| Memo: (Millions of dollars) | | | | | |
| Adjustment plus seasonal borrowing | 88 | 155 | 183 | -- | -- |
| Excess reserves | 1137 | 1001 | 902 | -- | -- |

pe - preliminary estimate based on partial data through June 22.
1. 1991:Q4 to May.
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. Reserve data incorporate adjustments for discontinuities associated with changes in reserve requirements.

Long-Run Ranges

(7) The table below presents staff projections of growth of the monetary and debt aggregates for 1992 and 1993 thought to be consistent with the greenbook outlook for the economy and interest rates.[2] The table also contains the ranges for these aggregates chosen in February and actual growth through June.

Money and Debt Growth
(Percent change, annual rate)

| | Current 1992 range | Q4:1991 to June | Staff projections 1992 | Staff projections 1993 |
|---|---|---|---|---|
| M2 | 2-1/2 to 6-1/2 | 1-1/2 | 2 | 2-1/2 |
| M3 | 1 to 5 | 0 | 1/4 | 1/2 |
| Debt | 4-1/2 to 8-1/2 | 4-1/2[1] | 5 | 5-3/4 |
| M1 | | 12-1/4 | 10 | 6-3/4 |
| Memo: Nominal GDP | | 5-1/4[2] | 5-1/4 | 5-3/4 |

1. Q4:1991 to May 1992.
2. Q4:1991 to Q2:1992, greenbook projection.

Projections for 1992 and 1993

(8) As discussed above, the broader monetary aggregates have proven to be weaker in the first half of 1992 than envisioned early this year. Moreover, relative to our expectations early in the year, we now expect the factors damping money growth and raising velocity in the

2. This bluebook has omitted the 5-year simulation of alternative monetary policy strategies that had become customary in February and July. Our view is that questions about money demand relationships are sufficient to cast considerable doubts about the value of alternative policies keyed to 1 percent greater or lesser M2 growth. Alternatives based on relationships between nominal interest rates and the economy also are unreliable very far into the future. Paragraphs (12) and (13) below discuss strategies involving different outcomes for output and inflation that the Committee might follow through 1994 and their rough implications for money growth and interest rates.

period ahead to be more persistent and the restoration of more normal relationships between growth in the monetary aggregates and income to be more gradual. As a consequence, we now anticipate considerably slower expansion of the broad money aggregates this year, associated with about the same GDP that was projected in February, and we expect this sluggish pattern to persist in 1993. Obviously, substantial uncertainty surrounds our estimates of the relationship of money to spending, and in making the forecast, we have balanced several factors. On the one hand, bank and thrift asset growth is likely to remain damped, and credit will continue to be channeled away from these intermediaries. In particular, implementation of the FDIC Improvement Act (FDICIA) will constrain the activity of many depositories, raise costs, and accentuate incentives to bolster capital ratios. Capital itself is likely to remain under some pressure at a number of banks and thrifts--stemming importantly from continuing difficulties in the commercial real estate sector. The RTC, though likely to be dormant over the balance of the year, should resume closing thrifts in 1993, again damping depository credit and the monetary aggregates. And, demand for depository credit at the wider spreads that have developed is not expected to pick up much. Under these circumstances, deposit rates are likely to continue to be adjusted downward under the greenbook assumption of flat federal funds rates and declining long-term yields. On the other hand, the effects of these restraining forces should diminish gradually as: capital positions improve; some better capitalized banks, including those with ready access to equity markets, more actively seek profitable lending opportunities; and steady improvements in business profits and household earnings alleviate some of the reluctance to lend. Moreover, households' efforts to pare liabilities and to shift assets toward capital market instruments should abate as their balance sheets are bought into closer alignment with desired levels.

(9) M2 is expected to pick up some in the months ahead, but only enough to produce growth for the year of 2 percent, below the current annual range. Expansion of nominal income is projected at about the same average pace in the second half as in the first. Acting to restrain M2 growth relative to income over the balance of this year are further downward movements in deposit rates--especially as liquid deposit rates move into closer alignment with market rates and as FDICIA limits begin to constrain some banks' offering rates. In addition, FDICIA limitations on brokered deposits as well as other provisions that tend to raise intermediation costs should reinforce tendencies to hold down deposit growth and spur further portfolio realignments. Partly offsetting these influences should be recent and prospective declines in consumer loan rates and capital market yields. The shortfall of M2 growth from standard model predictions is expected to be unprecedented, on the order of 4 percent this year, and V2 is expected to rise by more than 3 percent. Slightly faster growth of M2 is projected for 1993. By then, the portfolio adjustment process will be further along, and GDP growth in the staff economic forecast is projected to pick up a bit. However, a decline in short-term interest rates, as occurred in late 1991 and on net likely helped boost M2 in early 1992, is not assumed in the outlook. Furthermore, a number of additional provisions of FDICIA that will come into effect in late 1992, including asset growth restrictions and early closure of weaker depositories, as well as limitations on pass-through insurance and on payments to uninsured depositors, will likely contribute to restraints on growth of the depository sector. On balance V2 would rise about 3 percent next year as well.

(10) M3 also is projected to remain below the lower bound of its current range over the balance of 1992. Weakness in bank credit should abate a little as businesses shift from inventory liquidation to modest restocking and as other businesses and household outlays expand. Funding this credit imparts a slight upward tilt to M3 in the second half of 1992 and in 1993. Over the balance of this year and next, expansion in core deposits will continue to be more than ample to cover that growth, implying that managed liabilities in M3 will continue to run off at a brisk clip. Also tending to buoy M3 over the rest of 1992 is the likelihood that RTC resolution activity will be dormant, owing to funding constraints that are unlikely to be removed by congressional action before next winter. In 1993, when depository resolutions by the RTC and the FDIC pick up, M3 is expected to grow 1/2 percent, only marginally faster than this year, extending the exceptionally weak performance of this aggregate in recent years.

(11) Growth of debt of domestic nonfinancial sectors is anticipated to pick up a bit over the remainder of 1992 and to firm a little more in 1993. Business credit demands will be boosted by the swing in inventories and a rise in fixed capital spending that outstrips the improvement in internal funds. Moreover, firms' borrowing will be augmented by some slowing in net equity issuance from the extraordinary pace of recent quarters, as opportunities to reduce overall capital costs by unwinding over-leveraged balance sheets have been more fully exploited. Further gains in earnings also should ease debt servicing strains and improve access to credit. Still, restraints on credit supplies at banks and insurance companies, while abating, are likely to remain pronounced as these institutions continue to grapple with asset-

quality problems and regulatory constraints. Consequently, loan takedowns at both types of institutions are expected to rise only slowly, and those borrowers with access to open markets are likely to continue to concentrate their credit demands on the bond market. Household borrowing is expected to strengthen a little, in line with modest expansion in outlays on consumer goods and housing activity and a moderation in the deleveraging process. With banks seeking to limit asset growth and thrifts continuing to run off assets, securitization is expected to remain the major source of mortgage credit and to be an important source of funding for consumer credit as well. Borrowing by state and local governments will be held in check by fiscal pressures that restrain their capital outlays and by large scheduled retirements of pre-refunded bonds. In contrast, debt of the federal government will continue to rise rapidly over the next year and a half, although funding constraints on the RTC limit federal borrowing over the rest of this year before an expected return to more normal activity early next year. Total debt of nonfinancial sectors is projected to grow 5 percent this year, rising above the lower bound of its range, and 5-3/4 percent next year; such expansion is in line with growth in nominal GDP in both years.

**Alternative longer-run strategies**

(12) The staff's economic projection embodies gradual disinflation to about 2-3/4 percent on the GDP fixed-weight price deflator in the second half of 1993. Some further progress on inflation would be in train in 1994 since the level of the unemployment rate, at 6-3/4 percent at the end of 1993, would still be above the natural rate. Growth would have to remain moderate and unemployment rates elevated to extend mild disinflation through 1994 and beyond. With regard to the financial conditions necessary to achieve these results, the greenbook forecast

assumes a flat federal funds rate through 1993. Given its current low level, the real federal funds rate will need to rise at some point to keep downward pressure on inflation, perhaps requiring upward adjustments in the nominal funds rate as well. While this tightening of reserve conditions might await 1994, should the economy turn out more ebullient than expected, an earlier firming in the stance of policy would be consistent with the gradual disinflation path. Developments in financial markets that might necessitate an earlier firming would include a more rapid easing of credit supply constraints than incorporated in the forecast or a major downward adjustment of real long-term rates that brought them into better alignment with short-term rates. Normally, greater underlying strength in the economy would require slower money growth to hold to the disinflation path. However, declining long-term rates or ebbing credit restraints would work to lower velocity as well, complicating assessment of the appropriate money growth path.

(13) Alternatively, the Committee could strive for more rapid progress toward price stability, which would entail slower economic expansion and maintenance of greater slack in the economy for a longer period. Such a strategy would involve a prompter firming of short-term rates, probably by sometime early next year, to unwind a portion of the easing undertaken late last year and earlier this year. However, the greater progress in reducing inflation would imply that nominal short-term rates need not go much higher than they eventually would in the gradual disinflation case and likely would begin to retreat sooner. Money growth would have to be slower than in the former case, appreciably so in 1993. On the other hand, the Committee could put greater emphasis on reducing unemployment over the next few years, keeping core inflation around its current levels. Such a strategy would require a

significant easing of policy over the next year, perhaps involving a cut in the federal funds rate of a percentage point or so. However, given the already low level of the funds rate and the moderate degree of slack in the economy, an aggressive tightening of policy at some point in the next couple years would be needed to avoid an acceleration of wages and prices. With regard to money growth, if the staff's assessment of underlying money demand developments is about right, the initial stages of this strategy might be produced by hitting the lower end of the current M2 range. Thereafter, money growth would have to decelerate to avoid building in accelerating prices.

**Ranges for 1992**

(14) Shown below are two alternatives for money and debt growth in 1992.[3] Alternative I retains the current ranges for all three aggregates while alternative II lowers them by a full percentage point.

Money and Debt Growth Options for 1992
(Percent)

| | Alternative I (current ranges) | Alternative II | Memo: Staff projection |
|---|---|---|---|
| M2 | 2-1/2 to 6-1/2 | 1-1/2 to 5-1/2 | 2 |
| M3 | 1 to 5 | 0 to 4 | 1/4 |
| Debt | 4-1/2 to 8-1/2 | 3-1/2 to 7-1/2 | 5 |

(15) Alternative II would reduce the ranges, encompassing the staff projections for M2 and M3. Choice of this alternative would imply the Committee's readiness to tolerate shortfalls of M2 relative to earlier expectations, presumably because in the presence of the unusual

3. Ranges and outcomes for money and credit for years before 1992 are show in Appendix A.

behavior of money demand such slow growth was considered to be consistent with the Committee's desired outcome for spending in 1992 and early 1993. At the same time, this range would permit a substantial acceleration of M2 in the event of a quick return to a more normal relationship between M2 holdings and income and interest rates; indeed, M2 could expand at a 10 percent annual pace between June and December without breaching the upper end of this range. Still, reducing the ranges, especially if coupled with the choice of ranges for 1993 that were lower than the current 1992 ranges, might also be seen as pointing in the direction of the Committee's intention to make further progress toward price stability. Although the staff projection for M3 is just within the alternative II range, the chances that this aggregate could fall below the lower end are greater than for M2, especially in light of the size of the unexpected contraction in this aggregate in recent months. By contrast, the alternative II range for debt would be nearly centered on the staff's expectation for growth of this aggregate this year.

(16) Alternative I might be selected if the prospects for a return to more normal money demand and therefore M2 growth were seen as greater than envisioned by the staff. This range also might be preferred if recent weakness in M2 were thought to be signalling slower output growth than in the staff forecast--including a risk to the recovery itself. In addition, as noted, attempts to hit the lower end of this range would be more consistent with a strategy that endeavored to make greater progress in reducing unemployment rates than in the staff forecast. Depending on how it was presented, choice of this alternative could signal that the Committee would not be complacent about undershooting its current range; in these circumstances, pressure to reexamine the System's stance in reserve markets would be present with growth below the ranges. Instead, the Committee could choose to

retain the current range because it was so uncertain about money-income relationships that any change was seen as implying more knowledge of those relationships and commitment to achieving the new range than it felt appropriate. In that event, the Committee would need to explain that shortfalls from the unchanged range might not warrant policy action. Actions to return M2 to its alternative I range would tend to move M3 closer to its range; however, since any easing action to boost M2 growth would have less impact on M3 expansion, there is a greater chance that this aggregate would fail to move into its range.[4]

**Ranges for 1993**

(17) The alternatives shown for 1993 are the same as those suggested for 1992.[5]

Money and Debt Growth Options for 1993

| | Alt. I | Alt. II | Staff Projections |
|---|---|---|---|
| M2 | 2-1/2 to 6-1/2 | 1-1/2 to 5-1/2 | 2-1/2 |
| M3 | 1 to 5 | 0 to 4 | 1/2 |
| Debt | 4-1/2 to 8-1/2 | 3-1/2 to 7-1/2 | 5-3/4 |

(18) Alternative II would tend to be favored if it were thought that the same forces acting to depress broad money in 1992 were going to persist through next year. In the staff projections, M2 would be squarely in the lower half of this reduced range over 1993 and M3 would be a little above the lower end of its range. Thus, this lower

4. In the staff's judgment, a rather prompt and substantial easing of policy--lowering the federal funds rate by 3/4 percentage point in the third quarter--likely would be needed to hit the lower bound of the current M2 range by the end of the year.

5. The Committee, of course, could choose target ranges that lie between these alternatives, or even to widen the ranges, say by dropping the lower ends.

range would accommodate the staff forecast of an economy that was expanding at a pace slightly above its potential growth rate and inflationary pressures that were continuing to abate. While encompassing more scope for downward shifts in money demand, this alternative also would embody less room for an acceleration in M2 growth that might threaten progress toward price stability and greater scope for a rise in interest rates were that needed to preserve the downtrend in inflation or to seek an even faster deceleration than in the staff forecast.

(19) Alternative I, the current 1992 ranges, might be chosen if the Committee wished to temporize about its 1993 choice, given velocity uncertainties. This alternative would seem a more plausible choice should the Committee choose to maintain, rather than lower, the 1992 ranges. However, lowering the ranges in 1992 and raising them again in 1993 could be appropriate if the Committee saw chances of less robust velocity growth next year. This alternative also could be communicated as connoting a willingness to take action to counter any potential stalling out of the economic expansion; the 2-1/2 percent lower end of this range is equal to the staff's projection, implying that only a modest shortfall from this expectation would tend to prompt an easing of policy. Particularly if the money demand shifts do not persist, this alternative might be more consistent with efforts to promote somewhat stronger growth in the economy than contained in the staff forecast. In the staff forecast, M3 expansion would stay below the lower end of the alternative I range as RTC and FDIC resolutions pick up. The staff's projection for debt of domestic nonfinancial sectors is below the midpoint of the alternative I range, but about centered on the midpoint of the alternative II range.

<u>Short-Run Policy Alternatives</u>

(20) Three short-run policy alternatives are presented below for Committee consideration. Under alternative B, the federal funds rate would continue to center on 3-3/4 percent. Maintaining that unchanged stance likely would entail retaining the assumption for adjustment plus seasonal borrowing at its $225 million level. Under the easier alternative A, the funds rate would be reduced to 3-1/4 percent, placing it 1/4 percentage point below the discount rate, in association with a borrowing assumption of $200 million. Or this same funds rate could be achieved by keeping a $225 million borrowing assumption and reducing the discount rate 1/2 percentage point to 3 percent. Under alternative C, the funds rate would be raised to around 4-1/4 percent by selecting a borrowing specification of $250 million. Further upward technical adjustments to the borrowing assumption likely will be needed over the intermeeting period with any of the alternatives to account for a continued upswing in seasonal borrowing.

(21) Market participants appear to have built into interest and exchange rates some probability of a near-term easing in the stance of monetary policy next week after the FOMC meeting and release of June employment data. Thus, in the near-term, rates would rise somewhat under alternative B. Over the course of the third quarter, with inflation pressures subdued and the pace of economic expansion moderate, as in the staff forecast, short-term and long-term rates might come back down. Long-term rates could well end up below current levels, especially if the lack of Federal Reserve action ultimately contributes to downward adjustments to inflation expectations. The exchange value of the dollar would probably average around current levels.

(22) Under alternative A, most of the drop of 50 basis points in the funds rate would be transmitted to other money market interest rates. The prime rate would be cut a half percentage point. The reaction of bond yields is difficult to anticipate. To the extent market participants saw the easing as warranted by prospective economic weakness, long-term rates would decline further on the policy easing. On the other hand, to the degree that the action was interpreted as more aggressive than was justified by economic fundamentals and by the prospects for continued disinflation, heightened inflation concerns and an enhanced possibility that a policy tightening may be needed in the not-too-distant future would temper such a decline and could even bring about some increase in nominal bond rates. Still, the easing would provide some stimulus to economic activity as real long-term yields moved lower and the recent weakening in the exchange value of the dollar was extended.

(23) The increase of 50 basis points in the funds rate under alternative C would come as a considerable surprise to market participants. Short-term rates would back up by at least as much, and the dollar exchange rate would strengthen appreciably. The surprise element itself could well trigger a flurry of selling pressures on longer-term securities. Later, market reflection about the System's anti-inflationary resolve, combined with favorable incoming price data, might well engender a bond-market rally, leaving nominal long-term rates not much above their current levels.

(24) The table below presents anticipated growth of the monetary aggregates from June to September under the three short-run policy alternatives. (The charts and table on the following pages show more detailed data.) Under all the alternatives, M2 and M3 in September

would remain below the lower bounds of their current ranges. Even under alternative A, M2 would be on a trajectory that would bring it closer to, though still a bit below, its lower bound in the fourth quarter, and M3 also would be expected to remain somewhat below its current range through year-end. The response of M2 under alternatives A and C incorporates the reduced interest elasticity now thought to be embodied in demand for this aggregate, partly as a consequence of heightened depositor sensitivity to the slope of the yield curve.

| | Alt. A | Alt. B | Alt. C |
|---|---|---|---|
| Growth from June to September | | | |
| M2 | 2-3/4 | 2 | 1-1/4 |
| M3 | 1 | 1/2 | 0 |
| M1 | 8 | 6-1/2 | 5 |
| Growth from QIV'91 to September | | | |
| M2 | 2 | 1-3/4 | 1-1/2 |
| M3 | 1/4 | 0 | 0 |
| M1 | 11 | 10-1/2 | 10 |

(25) While M2 under all three alternatives appears likely to resume growth over the June-to-September period, under alternative B this aggregate still is projected to grow at only a 2 percent annual rate. The same forces that have been evident in recent years will continue to depress the demand for broad money. Growth in M2 likely will be damped additionally by runoffs of demand deposits associated with the slowing in the pace of mortgage refinancing. Partly as a result, M1 growth probably will be held down to a 6-1/2 percent annual

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** | | | | | | | | | |
| 1992 April | 3468.0 | 3468.0 | 3468.0 | 4177.6 | 4177.6 | 4177.6 | 942.9 | 942.9 | 942.9 |
| May | 3469.6 | 3469.6 | 3469.6 | 4176.1 | 4176.1 | 4176.1 | 954.5 | 954.5 | 954.5 |
| June | 3461.0 | 3461.0 | 3461.0 | 4164.9 | 4164.9 | 4164.9 | 953.3 | 953.3 | 953.3 |
| July | 3467.6 | 3466.8 | 3466.0 | 4167.2 | 4166.3 | 4165.4 | 959.1 | 958.5 | 957.9 |
| August | 3475.7 | 3472.8 | 3469.9 | 4170.6 | 4168.0 | 4165.4 | 965.6 | 963.7 | 961.8 |
| September | 3485.0 | 3479.2 | 3473.4 | 4175.0 | 4169.8 | 4164.6 | 972.4 | 968.9 | 965.4 |
| **Monthly Growth Rates** | | | | | | | | | |
| 1992 April | -2.1 | -2.1 | -2.1 | -3.9 | -3.9 | -3.9 | 5.0 | 5.0 | 5.0 |
| May | 0.6 | 0.6 | 0.6 | -0.4 | -0.4 | -0.4 | 14.8 | 14.8 | 14.8 |
| June | -3.0 | -3.0 | -3.0 | -3.2 | -3.2 | -3.2 | -1.5 | -1.5 | -1.5 |
| July | 2.3 | 2.0 | 1.7 | 0.7 | 0.4 | 0.2 | 7.3 | 6.5 | 5.7 |
| August | 2.8 | 2.1 | 1.4 | 1.0 | 0.5 | 0.0 | 8.1 | 6.5 | 4.9 |
| September | 3.2 | 2.2 | 1.1 | 1.3 | 0.5 | -0.3 | 8.5 | 6.5 | 4.5 |
| **Quarterly Ave. Growth Rates** | | | | | | | | | |
| 1991 Q2 | 4.4 | 4.4 | 4.4 | 1.8 | 1.8 | 1.8 | 7.4 | 7.4 | 7.4 |
| Q3 | 0.6 | 0.6 | 0.6 | -1.3 | -1.3 | -1.3 | 7.5 | 7.5 | 7.5 |
| Q4 | 2.3 | 2.3 | 2.3 | 1.0 | 1.0 | 1.0 | 11.1 | 11.1 | 11.1 |
| 1992 Q1 | 4.3 | 4.3 | 4.3 | 2.3 | 2.3 | 2.3 | 16.4 | 16.4 | 16.4 |
| Q2 | 0.0 | 0.0 | 0.0 | -1.5 | -1.5 | -1.5 | 10.1 | 10.1 | 10.1 |
| Q3 | 1.1 | 0.8 | 0.4 | -0.2 | -0.5 | -0.7 | 6.5 | 5.7 | 4.8 |
| Mar 92 to Jun 92 | -1.5 | -1.5 | -1.5 | -2.5 | -2.5 | -2.5 | 6.1 | 6.1 | 6.1 |
| Jun 92 to Sep 92 | 2.8 | 2.1 | 1.3 | 1.0 | 0.5 | 0.0 | 8.0 | 6.5 | 5.0 |
| Q4 91 to Q2 92 | 2.2 | 2.2 | 2.2 | 0.4 | 0.4 | 0.4 | 13.5 | 13.5 | 13.5 |
| Q4 91 to Q3 92 | 1.7 | 1.7 | 1.6 | 0.2 | 0.1 | 0.0 | 11.3 | 11.0 | 10.7 |
| Q4 91 to Jun 92 | 1.6 | 1.6 | 1.6 | 0.0 | 0.0 | 0.0 | 12.2 | 12.2 | 12.2 |
| Q4 91 to Sep 92 | 2.0 | 1.8 | 1.6 | 0.3 | 0.1 | 0.0 | 11.1 | 10.6 | 10.1 |
| 1992 Target Ranges: | | 2.5 to 6.5 | | | 1.0 to 5.0 | | | | |

Chart 1

# ACTUAL AND TARGETED M2

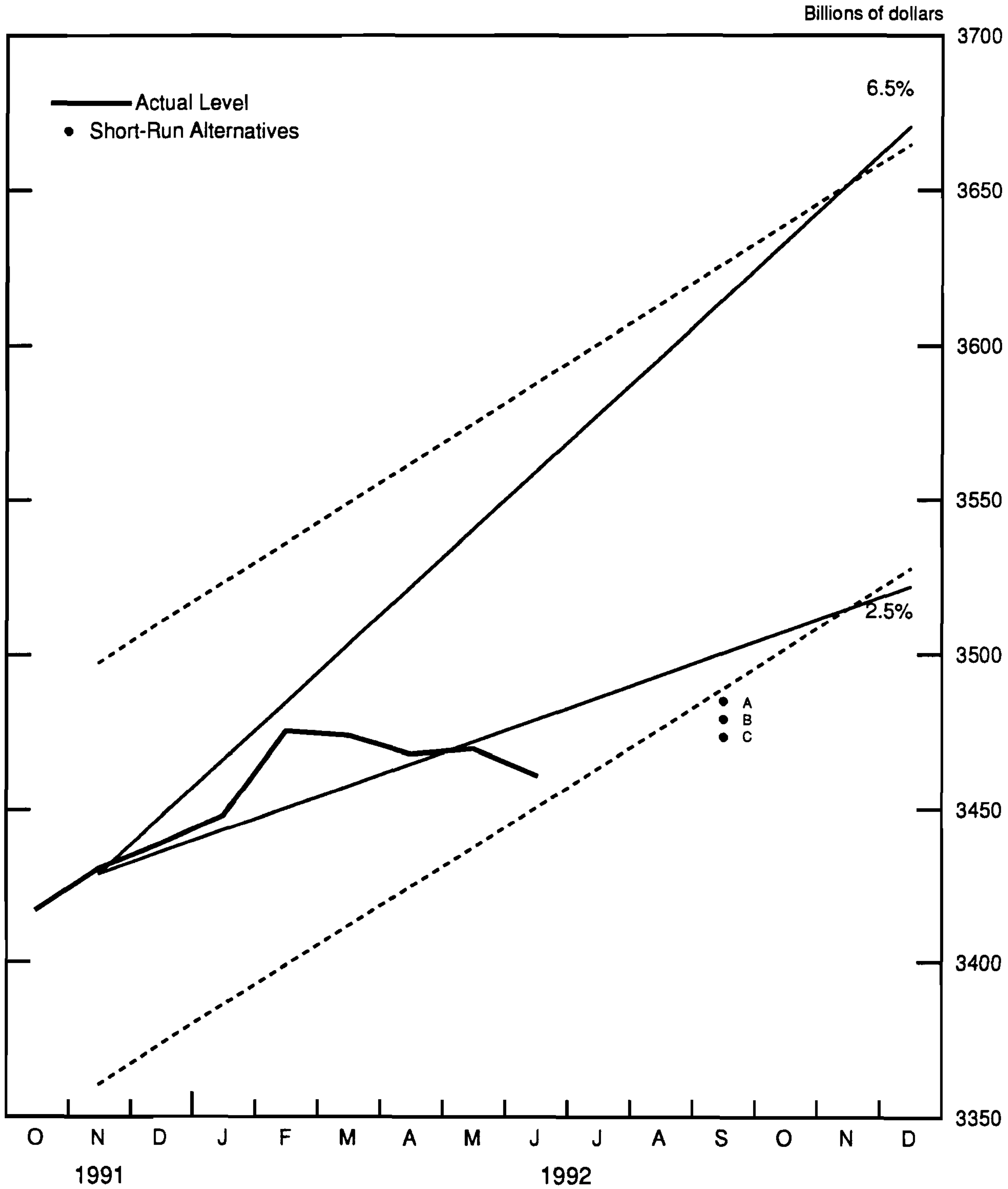


Chart 2

# ACTUAL AND TARGETED M3

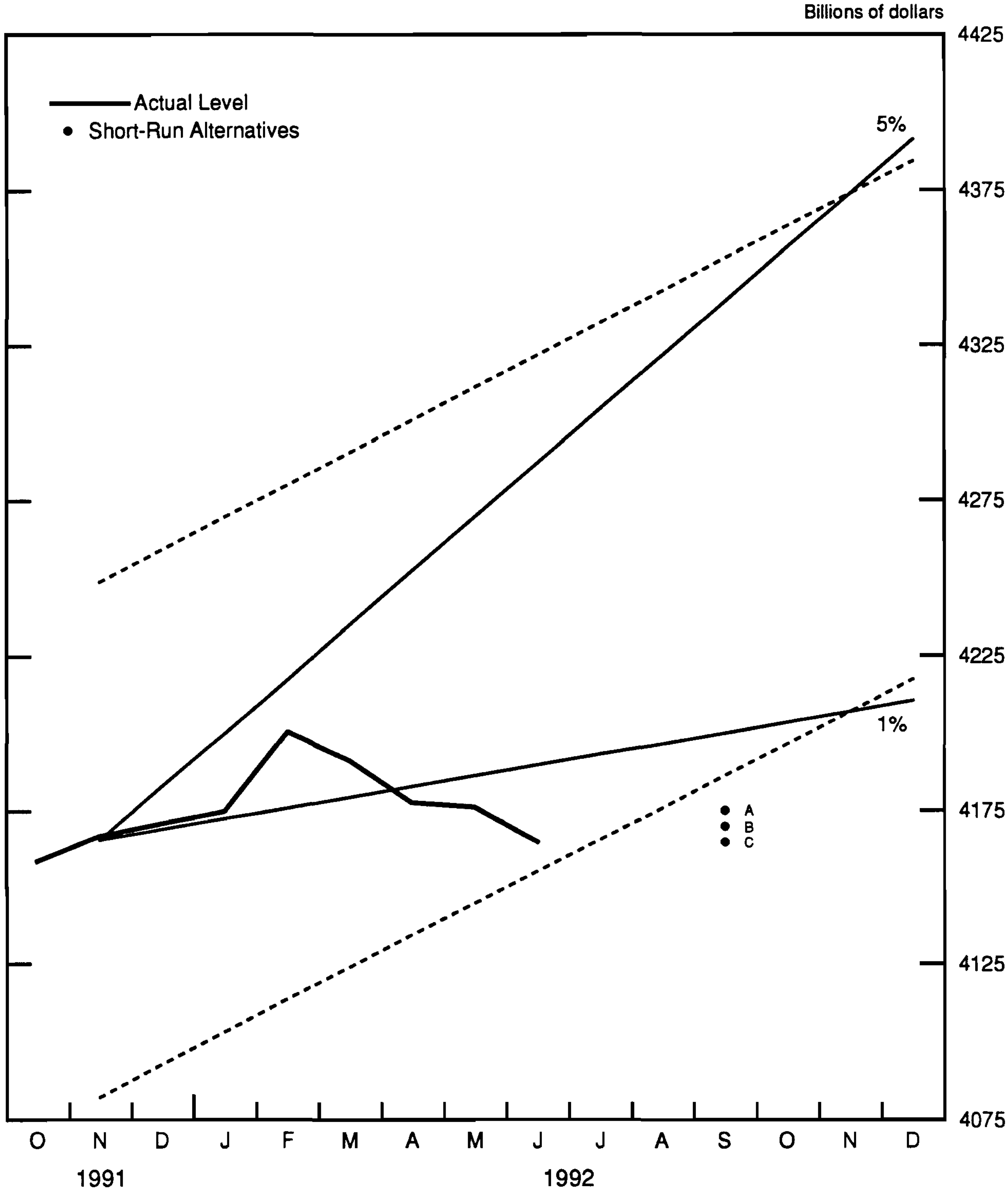
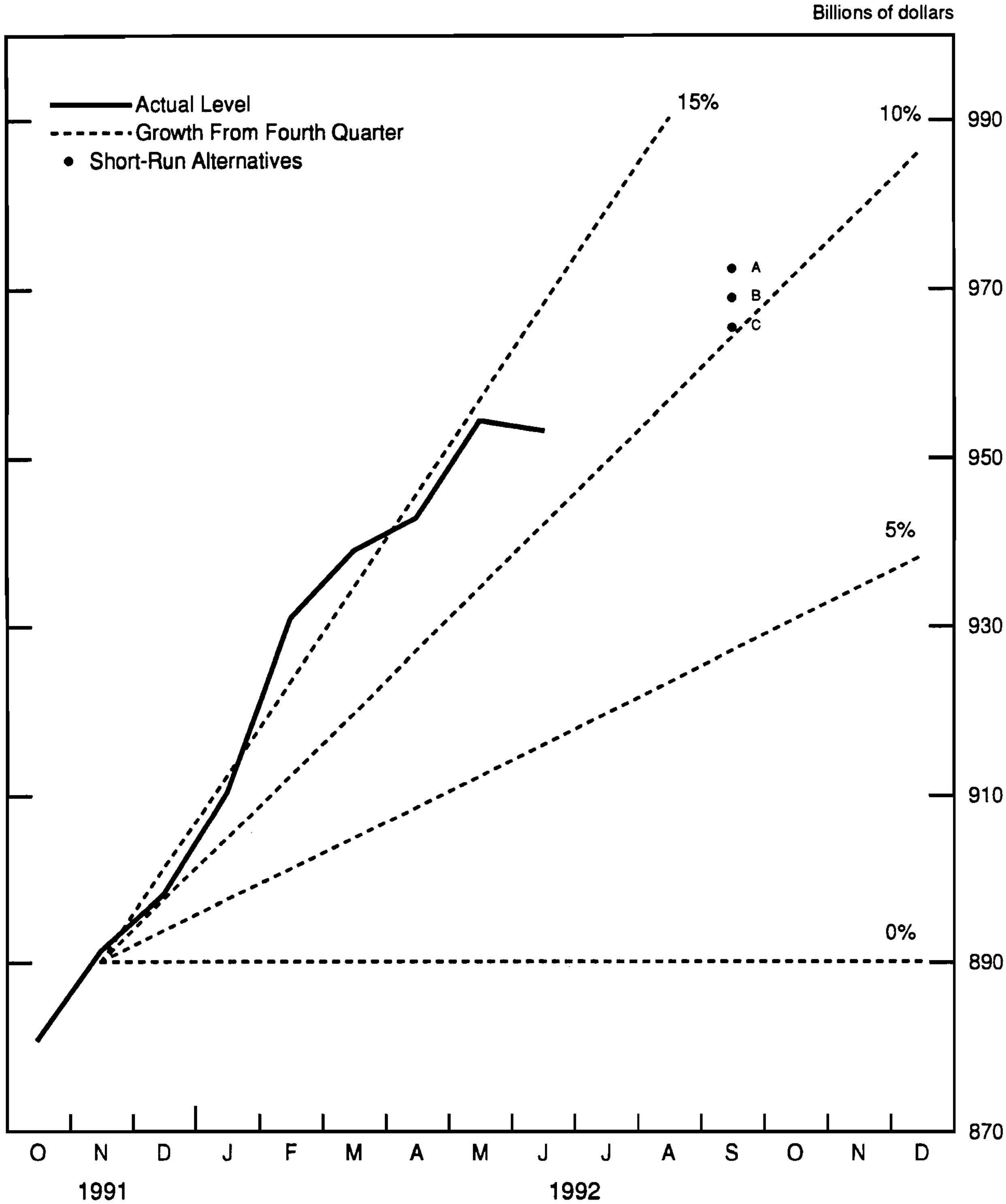


Chart 3

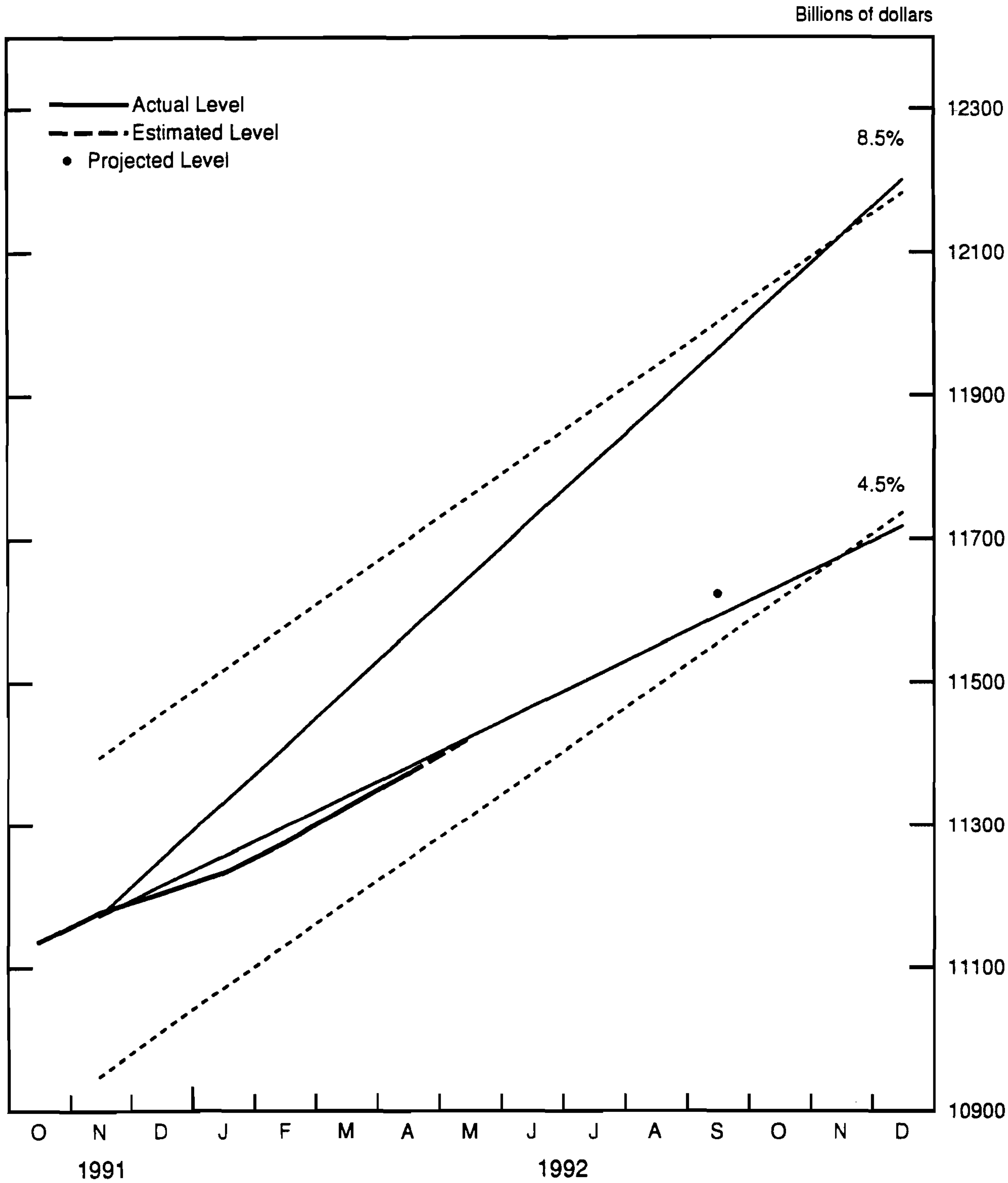
# M1



Billions of dollars
Actual Level
Growth From Fourth Quarter
Short-Run Alternatives
15%
10%
5%
0%
A
B
C
990
970
950
930
910
890
870
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1991
1992

Chart 4

DEBT


Billions of dollars
Actual Level
Estimated Level
Projected Level
8.5%
4.5%
12300
12100
11900
11700
11500
11300
11100
10900
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1991
1992

rate from June to September, about in line with its reduced March-to-June pace.[6] By contrast, the runoff of the non-M1 component of M2 is expected to come to an end, leaving its level about unchanged over the June-to-September period. The declines in intermediate-term market yields relative to rates on retail time deposits of comparable maturity during the spring, as well as a prospective flattening of the yield curve, should damp the shifting out of small time deposits.

(26) The turnaround in M2 growth under alternative B should show through to M3. After its decline over the second quarter, this aggregate is projected to expand at a 1/2 percent annual rate over the next three months. Bank credit growth should strengthen some from its torpid second-quarter pace, though loan demand would still be relatively weak. Domestic nonfinancial debt is projected to move gradually above its lower bound in coming months, placing its growth from the fourth quarter of last year through September at 4-3/4 percent. This strengthening owes almost entirely to heavy federal borrowing, as non-federal debt growth is expected to remain sluggish.

(27) Choice of alternatives A or C would entail somewhat stronger or weaker M2 over the third quarter. Most of the adjustment would come in liquid money balances, whose offering rates are unlikely to respond much to changes in short-term market interest rates. M2 growth from June to September could be expected to respond by about 3/4 percentage point to a lowering or raising of the funds rate by 1/2 percentage point. The effect of such a changed policy stance on M3 growth over the same interval would be smaller, however, perhaps on the order of 1/2 percentage point, reflecting the reaction of loans demanded to a movement in borrowing costs of this magnitude.

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6. With currency and total reserves projected to expand from June to September at 6 and 7 percent annual rates, respectively, growth of the monetary base is forecast to be 6-1/4 percent over the three months.

Directive Language

(28) Presented below for Committee consideration is a draft of the paragraph relating to the ranges for 1992 and 1993. The language in the first set of brackets is offered as a suggestion should the Committee reaffirm the current ranges and at the same time wish to indicate an expectation that acceptable growth could be around (implicitly including a little below) the lower ends of those ranges. The language in the second bracket would cover a decision to reduce the 1992 ranges. Were the Committee to chose this option, a second sentence, like the one suggested in this bracket, might be considered to explain the reason for the reduction.

(29) A draft operational paragraph follows that for the long-run ranges. The language in brackets at the end of that paragraph might be considered should the Committee wish to reduce the weight it places on the near-term growth of the monetary aggregates relative to Committee expectations as a guide to adjustments in reserve conditions over the coming intermeeting period.

PARAGRAPH FOR 1992 AND 1993 RANGES

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee REAFFIRMED at THIS ~~its~~ meeting THE RANGES IT HAD ESTABLISHED in February ~~established ranges~~ for growth of M2 and M3 of 2-1/2 to 6-1/2 percent and 1 to 5 percent respectively, measured from the fourth quarter of 1991 to the fourth quarter of 1992. [THE COMMITTEE ANTICIPATED THAT DEVELOPMENTS CONTRIBUTING TO UNUSUAL VELOCITY INCREASES COULD PERSIST IN

THE SECOND HALF OF THE YEAR, AND UNDER THOSE CIRCUMSTANCES M2 AND M3 GROWTH AROUND THE LOWER ENDS OF THEIR RANGES WOULD BE CONSISTENT WITH ITS BROAD POLICY OBJECTIVES.] [IN FURTHERANCE OF THESE OBJECTIVES, THE COMMITTEE AT THIS MEETING 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 1991 TO THE FOURTH QUARTER OF 1992. THE COMMITTEE ANTICIPATED THAT DEVELOPMENTS CONTRIBUTING TO UNUSUAL VELOCITY INCREASES WOULD PERSIST OVER THE BALANCE OF THE YEAR, AND THAT MONEY GROWTH WITHIN THESE LOWER RANGES WOULD BE CONSISTENT WITH ITS BROAD POLICY OBJECTIVES.] The monitoring range for growth of total domestic nonfinancial debt ALSO was MAINTAINED ~~set~~ at 4-1/2 to 8-1/2 percent [(ALSO) WAS LOWERED TO __ TO __ PERCENT] for the year. ~~With regard to M3, the Committee anticipated that the ongoing restructuring of depository institutions would continue to depress the growth of this aggregate relative to spending and total credit.~~ FOR 1993, THE COMMITTEE AGREED ON TENTATIVE RANGES FOR MONETARY GROWTH, MEASURED FROM THE FOURTH QUARTER OF 1992 TO THE FOURTH QUARTER OF 1993, OF __ TO __ PERCENT FOR M2 AND __ TO __ PERCENT FOR M3. THE COMMITTEE PROVISIONALLY SET THE ASSOCIATED MONITORING RANGE FOR GROWTH OF DOMESTIC NONFINANCIAL DEBT AT __ TO __ PERCENT FOR 1993. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly (SOMEWHAT) greater reserve restraint (MIGHT/WOULD) or slightly (SOMEWHAT) lesser reserve restraint might (WOULD) 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 ~~April through~~ June THROUGH SEPTEMBER at annual rates of about ___ AND ___ ~~2-1/2 and 1-1/2~~ percent, respectively. [HOWEVER, THE RECENT UNUSUAL BEHAVIOR OF THESE AGGREGATES SUGGESTS THAT THE RELATIONSHIP BETWEEN THEIR GROWTH AND THE COMMITTEE'S LONG-RUN OBJECTIVES IS ESPECIALLY UNCERTAIN AT THIS TIME.]

## Appendix A

**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 | | 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 | (9.9) | 6 - 9 | (7.9) |
| QIV 1980 - QIV 1981 | 3.5 - 6 | (2.3)[3,5] | 6 - 9 | (9.4) | 6.5 - 9.5 | (11.4) | 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] | (7.1)[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 | (13.5) |
| 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] | (6.2) | 5.5 - 8.5 | (4.0) | 5.5 - 8.5 | (5.4) | 8 - 11 | (9.6) |
| QIV 1987 - QIV 1988 | n.s | (4.3) | 4 - 8 | (5.3) | 4 - 8 | (6.2) | 7 - 11 | (8.7) |
| QIV 1988 - QIV 1989 | n.s | (0.6) | 3 - 7 | (4.6) | 3.5 - 7.5 | (3.3) | 6.5 - 10.5 | (8.1) |
| QIV 1989 - QIV 1990 | n.s | (4.2) | 3 - 7 | (3.9) | 1 - 5[12] | (1.8) | 5 - 9 | (6.9) |
| QIV 1990 - QIV 1991 | n.s | (8.0) | 2.5 - 6.5 | (2.8) | 1 - 5 | (1.2) | 4.5 - 8.5 | (4.5) |

n.s.--not specified.
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 January 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)

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 has been specified since the February 1987 FOMC meeting because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to economic and financial circumstances.
12. At the February 1990 meeting the FOMC specified a range of 2-1/2 to 6-1/2 percent. This range was lowered to 1 to 5 percent at the July 1990 meeting.

6/26/92 (MARP)

# SELECTED INTEREST RATES
## (percent)

| | Short-Term | | | | | | | | Long-Term | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | federal funds | Treasury bills secondary market | | | CDs secondary market | comm. paper | money market mutual fund | bank prime loan | U.S. government constant maturity yields | | | corporate A-utility recently offered | municipal Bond Buyer | conventional home mortgages | | |
| | | | | | | | | | | | | | | secondary market | primary market | |
| | | 3-month | 6-month | 1-year | 3-month | 1-month | | | 3-year | 10-year | 30-year | | | fixed-rate | fixed-rate | ARM |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 91 -- High | 7.46 | 6.46 | 6.49 | 6.43 | 7.75 | 8.49 | 7.37 | 9.93 | 7.47 | 8.35 | 8.52 | 9.96 | 7.40 | 9.97 | 9.75 | 7.78 |
| -- Low | 4.22 | 3.84 | 3.93 | 4.01 | 4.25 | 4.88 | 4.53 | 7.07 | 5.24 | 6.96 | 7.58 | 8.49 | 6.76 | 8.38 | 8.35 | 6.02 |
| 92 -- High | 4.20 | 4.05 | 4.22 | 4.51 | 4.32 | 5.02 | 4.51 | 6.50 | 6.32 | 7.65 | 8.07 | 8.99 | 6.87 | 9.22 | 9.03 | 6.22 |
| -- Low | 3.47 | 3.57 | 3.67 | 3.88 | 3.76 | 3.82 | 3.42 | 6.50 | 5.11 | 6.79 | 7.44 | 8.46 | 6.53 | 8.36 | 8.23 | 5.78 |
| Monthly | | | | | | | | | | | | | | | | |
| Jun 91 | 5.90 | 5.57 | 5.75 | 5.96 | 6.07 | 6.06 | 5.49 | 8.50 | 7.39 | 8.28 | 8.47 | 9.53 | 7.30 | 9.93 | 9.62 | 7.24 |
| Jul 91 | 5.82 | 5.58 | 5.70 | 5.91 | 5.98 | 5.98 | 5.46 | 8.50 | 7.38 | 8.27 | 8.45 | 9.55 | 7.18 | 9.79 | 9.57 | 7.23 |
| Aug 91 | 5.66 | 5.33 | 5.39 | 5.45 | 5.65 | 5.72 | 5.38 | 8.50 | 6.80 | 7.90 | 8.14 | 9.25 | 7.05 | 9.44 | 9.24 | 7.08 |
| Sep 91 | 5.45 | 5.21 | 5.25 | 5.26 | 5.47 | 5.57 | 5.24 | 8.20 | 6.50 | 7.65 | 7.95 | 9.05 | 6.97 | 9.18 | 9.01 | 6.87 |
| Oct 91 | 5.21 | 4.99 | 5.04 | 5.04 | 5.33 | 5.29 | 5.03 | 8.00 | 6.23 | 7.53 | 7.93 | 9.02 | 6.89 | 9.04 | 8.86 | 6.71 |
| Nov 91 | 4.81 | 4.56 | 4.61 | 4.64 | 4.94 | 4.95 | 4.82 | 7.58 | 5.90 | 7.42 | 7.92 | 8.95 | 6.89 | 8.86 | 8.71 | 6.42 |
| Dec 91 | 4.43 | 4.07 | 4.10 | 4.17 | 4.47 | 4.98 | 4.61 | 7.21 | 5.39 | 7.09 | 7.70 | 8.68 | 6.87 | 8.56 | 8.50 | 6.19 |
| Jan 92 | 4.03 | 3.80 | 3.87 | 3.95 | 4.05 | 4.11 | 4.18 | 6.50 | 5.40 | 7.03 | 7.58 | 8.57 | 6.67 | 8.65 | 8.43 | 5.89 |
| Feb 92 | 4.06 | 3.84 | 3.93 | 4.08 | 4.07 | 4.11 | 3.84 | 6.50 | 5.72 | 7.34 | 7.85 | 8.79 | 6.83 | 8.92 | 8.76 | 5.88 |
| Mar 92 | 3.98 | 4.04 | 4.18 | 4.40 | 4.25 | 4.28 | 3.73 | 6.50 | 6.18 | 7.54 | 7.97 | 8.91 | 6.86 | 9.17 | 8.93 | 6.11 |
| Apr 92 | 3.73 | 3.75 | 3.87 | 4.09 | 4.00 | 4.02 | 3.66 | 6.50 | 5.93 | 7.48 | 7.96 | 8.82 | 6.80 | 8.98 | 8.85 | 6.15 |
| May 92 | 3.82 | 3.63 | 3.75 | 3.99 | 3.82 | 3.87 | 3.52 | 6.50 | 5.81 | 7.39 | 7.89 | 8.70 | 6.72 | 8.85 | 8.67 | 6.00 |
| Weekly | | | | | | | | | | | | | | | | |
| Mar 11 92 | 3.95 | 4.02 | 4.14 | 4.37 | 4.24 | 4.27 | 3.72 | 6.50 | 6.05 | 7.47 | 7.92 | 8.99 | 6.86 | 9.19 | 8.88 | 6.04 |
| Mar 18 92 | 4.04 | 4.05 | 4.22 | 4.51 | 4.30 | 4.32 | 3.72 | 6.50 | 6.32 | 7.65 | 8.04 | 8.98 | 6.87 | 9.22 | 9.03 | 6.22 |
| Mar 25 92 | 3.94 | 4.05 | 4.21 | 4.45 | 4.27 | 4.29 | 3.73 | 6.50 | 6.30 | 7.58 | 7.99 | 8.87 | 6.87 | 9.17 | 8.98 | 6.19 |
| Apr 1 92 | 4.09 | 4.02 | 4.14 | 4.32 | 4.21 | 4.26 | 3.73 | 6.50 | 6.18 | 7.53 | 7.95 | 8.77 | 6.85 | 9.02 | 8.96 | 6.22 |
| Apr 8 92 | 3.98 | 3.94 | 4.02 | 4.19 | 4.14 | 4.19 | 3.74 | 6.50 | 5.94 | 7.43 | 7.90 | 8.78 | 6.78 | 8.85 | 8.84 | 6.15 |
| Apr 15 92 | 3.65 | 3.63 | 3.73 | 3.92 | 3.95 | 3.98 | 3.66 | 6.50 | 5.71 | 7.35 | 7.87 | 8.81 | 6.74 | 9.03 | 8.76 | 6.11 |
| Apr 22 92 | 3.47 | 3.68 | 3.83 | 4.10 | 3.97 | 3.97 | 3.62 | 6.50 | 5.99 | 7.55 | 8.00 | 8.90 | 6.82 | 9.00 | 8.85 | 6.13 |
| Apr 29 92 | 3.65 | 3.69 | 3.84 | 4.11 | 3.93 | 3.92 | 3.59 | 6.50 | 6.02 | 7.58 | 8.07 | 8.86 | 6.83 | 9.02 | 8.84 | 6.10 |
| May 6 92 | 3.77 | 3.65 | 3.78 | 4.09 | 3.89 | 3.92 | 3.55 | 6.50 | 5.96 | 7.55 | 8.02 | 8.73 | 6.77 | 8.88 | 8.75 | 6.02 |
| May 13 92 | 3.84 | 3.62 | 3.73 | 3.99 | 3.79 | 3.84 | 3.51 | 6.50 | 5.83 | 7.40 | 7.90 | 8.64 | 6.70 | 8.80 | 8.64 | 5.97 |
| May 20 92 | 3.89 | 3.57 | 3.67 | 3.88 | 3.76 | 3.82 | 3.51 | 6.50 | 5.67 | 7.27 | 7.81 | 8.68 | 6.69 | 8.81 | 8.53 | 5.93 |
| May 27 92 | 3.80 | 3.70 | 3.83 | 4.05 | 3.85 | 3.89 | 3.47 | 6.50 | 5.87 | 7.41 | 7.88 | 8.65 | 6.74 | 8.75 | 8.60 | 5.96 |
| Jun 3 92 | 3.85 | 3.72 | 3.85 | 4.08 | 3.91 | 3.94 | 3.49 | 6.50 | 5.78 | 7.35 | 7.87 | 8.65 | 6.73 | 8.72 | 8.59 | 5.94 |
| Jun 10 92 | 3.69 | 3.68 | 3.82 | 4.02 | 3.88 | 3.92 | 3.45 | 6.50 | 5.71 | 7.33 | 7.87 | 8.65 | 6.69 | 8.67 | 8.54 | 5.90 |
| Jun 17 92 | 3.73 | 3.65 | 3.75 | 3.94 | 3.84 | 3.91 | 3.44 | 6.50 | 5.60 | 7.27 | 7.85 | 8.61 | 6.62 | 8.66 | 8.48 | 5.86 |
| Jun 24 92 | 3.72 | 3.64 | 3.75 | 3.95 | 3.84 | 3.89 | 3.42 | 6.50 | 5.53 | 7.22 | 7.83 | 8.56 | 6.58 | 8.58 | 8.43 | 5.78 |
| Daily | | | | | | | | | | | | | | | | |
| Jun 19 92 | 3.66 | 3.65 | 3.76 | 3.97 | 3.83 | 3.87 | -- | 6.50 | 5.54 | 7.24 | 7.83 | -- | -- | -- | -- | -- |
| Jun 25 92 | 3.87 | 3.62 | 3.70 | 3.88 | 3.83 | 3.87 | -- | 6.50 | 5.41 | 7.14 | 7.78 | -- | -- | -- | -- | -- |
| Jun 26 92 | 3.77 p | 3.62 | 3.71 | 3.94 | 3.81 | 3.88 | -- | 6.50 | 5.42 | 7.15 | 7.79 | -- | -- | -- | -- | -- |

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.

p - preliminary data

Strictly Confidential (FR)-
Class II FOMC

# Money and Credit Aggregate Measures

Seasonally adjusted

JUN. 29, 1992

| 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[1] | U.S. government[2] | other[2] | total[2] |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| ANN. GROWTH RATES (%) : | | | | | | | | | | |
| ANNUALLY (Q4 TO Q4) | | | | | | | | | | |
| 1989 | 0.6 | 4.8 | 6.2 | -0.9 | 3.6 | 4.8 | 7.5 | 7.3 | 8.4 | 8.1 |
| 1990 | 4.2 | 4.0 | 3.9 | -7.2 | 1.7 | 1.8 | 5.5 | 10.3 | 6.1 | 7.0 |
| 1991 | 8.0 | 2.8 | 1.1 | -5.6 | 1.2 | 0.4 | 3.5 | 11.3 | 2.3 | 4.4 |
| QUARTERLY AVERAGE | | | | | | | | | | |
| 1991-3rd QTR. | 7.5 | 0.6 | -1.6 | -9.8 | -1.3 | 0.7 | 1.9 | 13.9 | 1.6 | 4.5 |
| 1991-4th QTR. | 11.0 | 2.3 | -0.7 | -5.2 | 1.0 | 0.1 | 6.1 | 12.3 | 1.6 | 4.2 |
| 1992-1st QTR. | 16.5 | 4.3 | 0.0 | -7.2 | 2.2 | 1.9 | 3.7 | 8.2 | 2.3 | 3.8 |
| 1992-2nd QTR. pe | 10 | 0 | -3½ | -9 | -1½ | | | | | |
| MONTHLY | | | | | | | | | | |
| 1991-JUNE | 9.0 | 2.2 | -0.1 | -14.1 | -0.8 | 6.8 | 3.8 | 16.0 | 2.2 | 5.4 |
| JULY | 3.8 | -1.5 | -3.3 | -9.5 | -3.0 | 1.2 | 0.4 | 12.3 | 1.0 | 3.7 |
| AUG. | 9.1 | 0.7 | -2.1 | -4.5 | -0.2 | -1.5 | 1.3 | 15.3 | 0.8 | 4.3 |
| SEP. | 7.6 | 0.7 | -1.7 | -9.5 | -1.2 | -2.6 | 5.3 | 12.3 | 1.5 | 4.1 |
| OCT. | 12.2 | 2.0 | -1.5 | 0.3 | 1.8 | 0.7 | 7.1 | 13.3 | 1.6 | 4.4 |
| NOV. | 14.3 | 4.8 | 1.5 | -8.9 | 2.3 | 3.0 | 7.4 | 11.3 | 2.3 | 4.5 |
| DEC. | 9.0 | 2.8 | 0.6 | -6.4 | 1.2 | -0.5 | 6.2 | 7.5 | 1.3 | 2.8 |
| 1992-JAN. | 16.4 | 3.2 | -1.5 | -8.4 | 1.2 | -1.1 | 3.5 | 6.0 | 2.1 | 3.0 |
| FEB. | 27.2 | 9.6 | 3.3 | -3.0 | 7.4 | 8.0 | 0.2 | 7.0 | 3.8 | 4.6 |
| MAR. | 10.3 | -0.5 | -4.5 | -12.7 | -2.7 | 2.9 | 2.7 | 15.0 | 2.2 | 5.3 |
| APR. | 5.0 | -2.1 | -4.7 | -13.0 | -3.9 | -1.4 | 5.2 | 13.1 | 2.4 | 5.1 |
| MAY | 14.8 | 0.6 | -4.8 | -5.1 | -0.4 | | -0.8 | | | |
| JUNE pe | -2 | -3 | -4 | -5 | -3 | | | | | |
| LEVELS ($BILLIONS) : | | | | | | | | | | |
| MONTHLY | | | | | | | | | | |
| 1992-JAN. | 910.4 | 3448.0 | 2537.6 | 726.9 | 4174.9 | 4983.0 | 2846.3 | 2781.0 | 8450.9 | 11232.0 |
| FEB. | 931.0 | 3475.5 | 2544.5 | 725.1 | 4200.6 | 5016.2 | 2846.8 | 2797.3 | 8477.5 | 11274.8 |
| MAR. | 939.0 | 3474.0 | 2535.0 | 717.4 | 4191.3 | 5028.4 | 2853.1 | 2832.2 | 8492.8 | 11325.0 |
| APR. | 942.9 | 3468.0 | 2525.1 | 709.6 | 4177.6 | 5022.4 | 2865.4 | 2863.2 | 8509.9 | 11373.1 |
| MAY | 954.5 | 3469.6 | 2515.1 | 706.6 | 4176.1 | | 2863.5 | | | |
| WEEKLY | | | | | | | | | | |
| 1992-MAY 4 | 950.9 | 3470.7 | 2519.8 | 704.3 | 4175.0 | | | | | |
| 11 | 955.3 | 3477.0 | 2521.8 | 708.8 | 4185.8 | | | | | |
| 18 | 953.9 | 3470.4 | 2516.5 | 708.6 | 4179.1 | | | | | |
| 25 | 951.1 | 3460.1 | 2509.1 | 713.0 | 4173.2 | | | | | |
| JUNE 1 | 958.3 | 3467.1 | 2508.8 | 695.7 | 4162.8 | | | | | |
| 8 p | 956.0 | 3467.5 | 2511.5 | 704.9 | 4172.4 | | | | | |
| 15 p | 953.1 | 3464.9 | 2511.9 | 704.9 | 4169.8 | | | | | |

1. Adjusted for breaks caused by reclassifications.
2. Debt data are on a monthly average basis, derived by averaging end-of-month levels of adjacent months, and have been adjusted to remove discontinuities.

p-preliminary
pe-preliminary estimate

Strictly Confidential (FR)-
Class II FOMC

# Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

JUN. 29, 1992

| Period | Currency | Demand deposits | Other checkable deposits | Overnight RPs and Eurodollars NSA[1] | Savings deposits[2] | Small denomination time deposits[3] | Money market mutual funds: general purpose and broker/dealer[4] | Money market mutual funds: institutions only | Large denomination time deposits[5] | 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 |
| LEVELS ($BILLIONS): | | | | | | | | | | | | | | | |
| ANNUALLY (4TH QTR.) | | | | | | | | | | | | | | | |
| 1989 | 221.2 | 279.2 | 282.8 | 76.2 | 884.7 | 1145.3 | 311.2 | 106.8 | 561.3 | 106.8 | 78.8 | 116.8 | 320.3 | 349.1 | 40.3 |
| 1990 | 245.5 | 277.5 | 292.7 | 78.8 | 919.9 | 1167.7 | 346.2 | 130.1 | 501.9 | 93.6 | 68.0 | 125.2 | 331.1 | 357.4 | 33.6 |
| 1991 | 266.0 | 287.0 | 329.1 | 72.6 | 1028.8 | 1079.1 | 359.8 | 173.6 | 443.1 | 73.3 | 60.8 | 137.0 | 320.1 | 337.9 | 24.4 |
| MONTHLY | | | | | | | | | | | | | | | |
| 1991-MAY | 256.6 | 278.4 | 307.8 | 68.5 | 966.1 | 1150.9 | 367.8 | 155.2 | 483.5 | 80.4 | 62.3 | 131.3 | 299.5 | 327.9 | 29.1 |
| JUNE | 257.6 | 280.1 | 311.6 | 67.9 | 976.8 | 1140.6 | 368.8 | 155.3 | 478.3 | 78.4 | 61.6 | 132.4 | 325.1 | 333.0 | 28.1 |
| JULY | 259.3 | 279.3 | 313.7 | 64.8 | 986.1 | 1129.5 | 367.9 | 155.4 | 471.2 | 78.8 | 62.7 | 133.5 | 332.8 | 339.8 | 28.1 |
| AUG. | 261.3 | 280.1 | 317.3 | 67.3 | 994.1 | 1120.8 | 362.4 | 158.6 | 465.5 | 78.4 | 63.6 | 134.4 | 330.6 | 336.3 | 27.2 |
| SEP. | 262.9 | 280.6 | 320.6 | 66.4 | 1002.4 | 1111.0 | 359.9 | 162.6 | 458.5 | 76.7 | 61.5 | 135.2 | 322.9 | 337.7 | 25.8 |
| OCT. | 264.8 | 283.8 | 324.5 | 69.4 | 1015.0 | 1095.2 | 359.3 | 168.2 | 450.0 | 75.5 | 62.8 | 136.1 | 321.0 | 336.2 | 25.3 |
| NOV. | 266.0 | 287.6 | 329.7 | 73.0 | 1028.7 | 1079.2 | 359.5 | 173.6 | 442.3 | 73.6 | 61.9 | 137.1 | 323.4 | 337.9 | 24.5 |
| DEC. | 267.3 | 289.5 | 333.2 | 75.3 | 1042.6 | 1063.0 | 360.5 | 179.1 | 437.1 | 70.9 | 57.7 | 137.9 | 315.9 | 339.7 | 23.3 |
| 1992-JAN. | 269.4 | 293.9 | 339.0 | 76.6 | 1061.2 | 1042.9 | 360.1 | 182.4 | 427.9 | 70.8 | 55.7 | 138.9 | 311.1 | 334.8 | 23.2 |
| FEB. | 271.6 | 305.1 | 346.3 | 76.4 | 1083.9 | 1019.8 | 363.9 | 188.2 | 420.7 | 72.0 | 56.3 | 140.1 | 325.1 | 327.5 | 22.9 |
| MAR. | 271.8 | 309.7 | 349.5 | 73.1 | 1098.0 | 1002.9 | 358.0 | 185.3 | 412.9 | 73.7 | 58.7 | 141.2 | 336.6 | 337.0 | 22.2 |
| APR. | 273.6 | 311.3 | 350.0 | 70.6 | 1111.3 | 985.5 | 354.1 | 189.2 | 405.7 | 72.3 | 57.1 | 142.4 | 339.1 | 341.7 | 21.6 |
| MAY | 274.7 | 315.2 | 356.6 | 67.0 | 1122.5 | 968.9 | 355.0 | 194.8 | 401.2 | 71.7 | 55.6 | | | | |

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

June 26, 1992

# NET CHANGES IN SYSTEM HOLDINGS OF SECURITES[1]

**Millions of dollars, not seasonally adjusted**

| Period | Treasury bills | | | Treasury coupons | | | | | | Federal agencies redemptions (-) | Net change outright holdings total[4] | Net RPs[5] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net purchases[2] | Redemptions (-) | Net change | Net purchases[3] | | | | Redemptions (-) | Net Change | | | |
| | | | | within 1 year | 1-5 | 5-10 | over 10 | | | | | |
| 1989 | 1,468 | 12,730 | -11,263 | 327 | 946 | 258 | 284 | 500 | 1,315 | 442 | -10,390 | -1,683 |
| 1990 | 17,448 | 4,400 | 13,048 | 425 | 50 | -100 | --- | --- | 375 | 183 | 13,240 | 11,128 |
| 1991 | 20,038 | 1,000 | 19,038 | 3,043 | 6,583 | 1,280 | 375 | --- | 11,282 | 292 | 25,199 | -1,614 |
| 1991 ---Q1 | 2,160 | 1,000 | 1,160 | 800 | 2,950 | 400 | --- | --- | 4,150 | --- | 5,310 | -16,864 |
| ---Q2 | 4,356 | --- | 4,356 | 900 | 550 | --- | --- | --- | 1,450 | 128 | 3,172 | 992 |
| ---Q3 | 7,664 | --- | 7,664 | 1,165 | 650 | --- | --- | --- | 1,815 | 55 | 9,419 | 152 |
| ---Q4 | 5,858 | --- | 5,858 | 178 | 2,433 | 880 | 375 | --- | 3,867 | 109 | 7,299 | 14,106 |
| 1992 ---Q1 | -1,000 | 1,600 | -2,600 | --- | 2,452 | --- | --- | --- | 2,452 | 85 | -233 | -14,636 |
| 1991 June | 37 | --- | 37 | --- | --- | --- | --- | --- | --- | --- | 37 | 775 |
| July | 1,359 | --- | 1,359 | 625 | --- | --- | --- | --- | 625 | 55 | 1,929 | 71 |
| August | 5,776 | --- | 5,776 | 340 | --- | --- | --- | --- | 340 | --- | 6,116 | -2,134 |
| September | 529 | --- | 529 | 200 | 650 | --- | --- | --- | 850 | --- | 1,374 | 2,216 |
| October | 2,198 | --- | 2,198 | --- | --- | --- | --- | --- | --- | 14 | 2,185 | 6,942 |
| November | 2,823 | --- | 2,823 | 178 | 2,133 | 880 | 375 | --- | 3,567 | 51 | 4,022 | -8,871 |
| December | 837 | --- | 837 | --- | 300 | --- | --- | --- | 300 | 45 | 1,092 | 16,035 |
| 1992 January | -1,628 | 1,600 | -3,228 | --- | --- | --- | --- | --- | --- | 85 | -3,313 | -12,874 |
| February | 123 | --- | 123 | --- | 1,027 | --- | --- | --- | 1,027 | --- | 1,150 | -2,010 |
| March | 505 | --- | 505 | --- | 1,425 | --- | --- | --- | 1,425 | --- | 1,930 | 248 |
| April | --- | --- | --- | --- | --- | --- | --- | --- | --- | 49 | -49 | 345 |
| May | 4,110 | --- | 4,110 | --- | --- | --- | --- | --- | 200 | 160 | 4,149 | -1,203 |
| Weekly | | | | | | | | | | | | |
| March 4 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 1,892 |
| 11 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -0 | 1,165 |
| 18 | --- | --- | --- | --- | 625 | --- | --- | --- | 625 | --- | 625 | 3,800 |
| 25 | 39 | --- | 39 | --- | 800 | --- | --- | --- | 800 | --- | 839 | -6,138 |
| April 1 | 466 | --- | 466 | --- | --- | --- | --- | --- | --- | 49 | 417 | 2,654 |
| 8 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -3,412 |
| 15 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 9,028 |
| 22 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -10,233 |
| 29 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 1,490 |
| May 6 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -598 |
| 13 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 3,639 |
| 20 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -4,120 |
| 27 | 668 | --- | 668 | --- | 200 | --- | --- | --- | 200 | 160 | 707 | 10,994 |
| June 3 | 3,442 | --- | 3,442 | --- | --- | --- | --- | --- | --- | 31 | 3,411 | -6,274 |
| 10 | 306 | --- | 306 | --- | 2,278 | 597 | 655 | --- | 3,530 | --- | 3,836 | -2,998 |
| 17 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | -1,690 |
| 24 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 5,070 |
| Memo: LEVEL (bil. $)[6] | | | | | | | | | | | | |
| June 24 | | | 140.5 | 31.9 | 66.4 | 16.2 | 25.5 | | 140.0 | | 286.3 | -3.8 |

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.
4. Reflects net change in 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 |
|---|---|---|---|---|---|
| June 24 | 2.2 | 2.6 | 0.8 | 0.2 | 5.8 |