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November 1, 1985

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

November 1, 1985

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Averaging through unusually volatile week-to-week fluctuations, M1 was about unchanged in October, following growth of 11-1/2 percent (annual rate) in September. Even so, M1 by October had grown about 11-3/4 percent at an annual rate from its second-quarter base, well above the upper bound of its 3 to 8 percent longer-run range. The effects of Hurricane Gloria may have added 2 to 3 percentage points to M1 growth in September and lowered M1 growth by a corresponding amount in October. It resulted in unscheduled closings of businesses and banks in the New York and Boston districts on Friday, September 27, and some depositors were unable to move funds out of demand deposit accounts to make either disbursements or investments over the weekend. Judging from the weekly pattern, NOW accounts do not appear to have been similarly affected; this component slowed further in October from an already reduced September pace. Some of the apparent weakness of M1 in October also may reflect a changing seasonal pattern for transactions deposits not yet captured in the official seasonal factors. M1 also was very weak in October 1984, and both the Board's experimental and concurrent seasonal adjustment methods show about 2 to 3 percentage points greater growth in October of this year than the official series.

(2) M2 and M3 in October both grew substantially more slowly than the 6 to 7 percent rate established by the Committee for the September-to-December period, owing to a moderation of their nontransactions components as well as weak M1. Among the core deposit components of M2, inflows to MMDAs and

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	July	Aug.	Sept.	Oct.pe	QIV to Oct.pe
Money and credit aggregates					
M1	9.3	20.3	11.5	-0.8	11.8[1]
M2	8.5	11.1	7.1	2.4	8.7
M3	4.3	9.1	9.8	3.8	7.9
Domestic nonfinancial debt	11.9	11.5	10.8	11.2	12.6
Bank credit	10.2	6.9	8.6	3.0	9.3
Reserve measures[2]					
Nonborrowed reserves[3]	10.6	19.5	5.1	6.5	15.5
Total reserves	12.2	16.5	8.7	4.5	14.6
Monetary base	6.8	13.3	7.0	6.0	8.7
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	600	503	633	533[4]	
Excess reserves	855	827	668	747[5]	

pe--preliminary estimate.
NOTE: Monthly reserves measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserves maintenance periods that overlap months.

1. Growth from the second quarter to October. Growth from QIV to October is 11.4 percent.
2. Growth rates of reserve measures are adjusted to remove the effect of discontinuities resulting from phased changes in reserve ratios under the Monetary Control Act.
3. Includes "other extended credit" from the Federal Reserve.
4. Average through October 30.
5. Average through October 23.

savings deposits were, like NOW accounts, much lower in September and October compared with the preceding months; less funds appeared to be shifting into these accounts from small time deposits, whose rate of decline moderated considerably. The non-M2 component of M3 also slowed in October, although issuance of large CDs remained very strong as commercial banks compensated for a sharp decline in Treasury deposits. By October M2 had moved a little below the upper end of its annual target range, while M3 remained around the middle of its long-run range.

(3) Growth of domestic nonfinancial debt has been affected by offsetting, and in some cases transient, forces in the recent period. Treasury cash borrowing has been delayed by the extended Congressional inaction on the debt ceiling; an unprecedented disinvestment of trust funds permitted a sizable financing to be paid on November 1 and 4, however. Very heavy tax-exempt bond issuance has continued unabated, as interest rates have remained favorable for advance refunding and fears of new tax law constraints after year-end encouraged both refunding and private-purpose issuance. Based on partial data, consumer credit appeared to surge in September, as auto sales were sparked by special incentives at captive finance companies, but preliminary bank data for October suggest a moderating underlying trend. Mortgage debt growth, on the other hand, appears to be continuing at the stronger pace seen since spring. In the nonfinancial business sector, short-term credit demands remain weak, but bond issuance picked up again in late October after a dip in September. On balance, partial data suggest growth of total nonfinancial sector debt of around 11 percent over the past two months. From the fourth quarter of last year to October, debt is estimated to have risen at a 12-1/2 percent annual rate, somewhat above the upper end of its annual monitoring range.

(4) Growth of total reserves slowed in October to a 4-1/2 percent pace in association with the marked deceleration in transactions accounts. Nonborrowed reserves, however, rose somewhat more rapidly than total reserves as discount window borrowing fell off following a temporary bulge at the end of September. Subsequent to the FOMC meeting, the nonborrowed reserves path was constructed with an allowance for $500 million of adjustment plus seasonal borrowing, and over the intermeeting period borrowing has averaged very close to this level, though fluctuating from week to week.

(5) The federal funds rate has varied around 8 percent over the intermeeting period, a little higher than its average in September. With the Treasury replenishing the supply of bills early in the intermeeting period, short-term bill rates are about 10 to 20 basis points above their levels at the time of the last FOMC meeting. Private short-term rates, on the other hand, have declined somewhat on balance over the intermeeting period, and yields on long-term bonds are down about 1/4 of a percentage point, helped by favorable inflation news, weakness in some economic indicators, and latterly by expectations of an easier stance of monetary policy. Continuing concerns about the financial condition of the Federal Farm Credit System have resulted in a moderate further widening of the spreads between Farm Credit and comparable-maturity Treasury securities over the intermeeting period; a 6-month issue sold this week was trading at a premium of nearly 100 basis points over Treasury securities, about 15 to 20 basis points more than on a similar issue in late September.

(6) The trade-weighted average value of the dollar has declined about 1-1/2 percent further on balance since the day of the last FOMC meeting, for a total drop of 8 percent since the G-5 announcement on September 22. The dollar's value held fairly firm over most of the intermeeting period

. Toward the end of the period, the dollar eased further, especially relative to the yen, bringing its decline against that currency to about 12-1/2 percent since the G-5 announcement. The Bank of Japan announced that it would not accommodate year-end demands for liquidity, whereupon interest rates on yen instruments rose sharply. The Desk has sold \$2.8 billion since the last meeting, \$1.7 billion for marks and \$1.1 billion for yen. Desk activity since the G-5 announcement has totaled sales of \$3.2 billion, \$1.8 billion for marks and \$1.4 billion for yen, divided equally between the accounts of the System and the Treasury.

Policy alternatives

(7) The table below gives three alternative specifications for growth in the monetary aggregates from September to December and associated federal funds rate ranges. (More detailed data can be found on the charts and table on the following pages. The detailed table includes growth rates implied by each alternative from October to December and from the base of the long-term ranges to the fourth-quarter average.)

	Alt. A	Alt. B	Alt. C
Growth from September to December			
M1	6	5	4
M2	6	5-1/4	4-1/2
M3	6-1/2	6	5-1/2
Associated federal funds rate range	5 to 9	6 to 10	7 to 11

(8) Under all three alternatives, M1 growth over November and December would be expected to pick up following the flat October. Although M1 expansion would be expected to remain considerably slower than the pace of this summer, all of the alternatives would leave that aggregate by year-end well above the Committee's long-run range of 3 to 8 percent. Given growth through October, M1 would have to decline at a 1-1/2 percent annual rate over the last two months of the year to hit the upper bound of the long-run range by December. While such an outcome is possible, especially if the weakness in demand deposits in October were the first stage of a reversal of last summer's unexpected bulge in these deposits, it seems unlikely absent a very sharp tightening in money market conditions. M2 and M3, however, are expected to remain within their long-run ranges for the year under all three alternatives.

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M1			M2			M3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1985--July	595.8	595.8	595.8	2490.5	2490.5	2490.5	3114.1	3114.1	3114.1
August	605.9	605.9	605.9	2513.6	2513.6	2513.6	3137.6	3137.6	3137.6
September	611.7	611.7	611.7	2528.4	2528.4	2528.4	3163.3	3163.3	3163.3
October	611.3	611.3	611.3	2533.4	2533.4	2533.4	3173.2	3173.2	3173.2
November	616.0	615.6	615.2	2547.8	2546.8	2545.7	3191.9	3190.8	3189.6
December	621.0	619.5	618.0	2567.2	2562.2	2557.2	3215.5	3210.5	3205.6
Growth Rates Monthly									
1985--July	9.3	9.3	9.3	8.5	8.5	8.5	4.3	4.3	4.3
August	20.3	20.3	20.3	11.1	11.1	11.1	9.1	9.1	9.1
September	11.5	11.5	11.5	7.1	7.1	7.1	9.8	9.8	9.8
October	-0.8	-0.8	-0.8	2.4	2.4	2.4	3.8	3.8	3.8
November	9.2	8.4	7.7	6.8	6.3	5.8	7.1	6.7	6.2
December	9.7	7.6	5.5	9.1	7.3	5.4	8.9	7.4	6.0
Growth Rates									
1985--Q1	10.6	10.6	10.6	12.1	12.1	12.1	10.7	10.7	10.7
Q2	10.2	10.2	10.2	5.3	5.3	5.3	5.2	5.2	5.2
Q3	15.0	15.0	15.0	10.2	10.2	10.2	7.8	7.8	7.8
Q4	7.7	7.3	6.8	6.2	5.8	5.5	7.0	6.8	6.5
1985 Sept. to Dec.	6.1	5.1	4.1	6.1	5.3	4.6	6.6	6.0	5.4
1985 Oct. to Dec.	9.5	8.0	6.6	8.0	6.8	5.6	8.0	7.1	6.1
Long-run base period to Q4 85	11.5	11.3	11.1	8.7	8.6	8.5	7.9	7.8	7.8

Chart 1

ACTUAL AND TARGETED M1

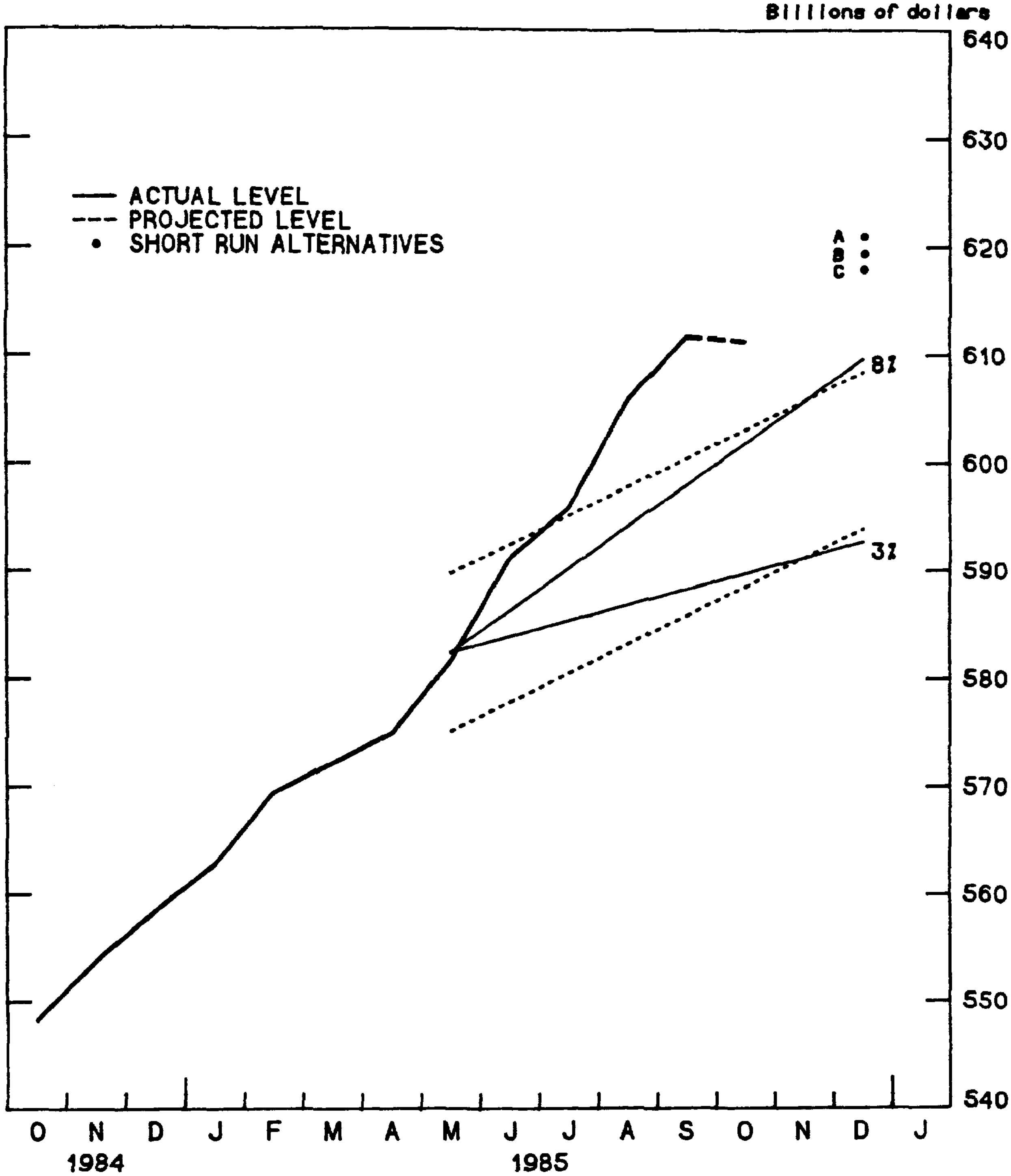


Chart 2
ACTUAL AND TARGETED M2

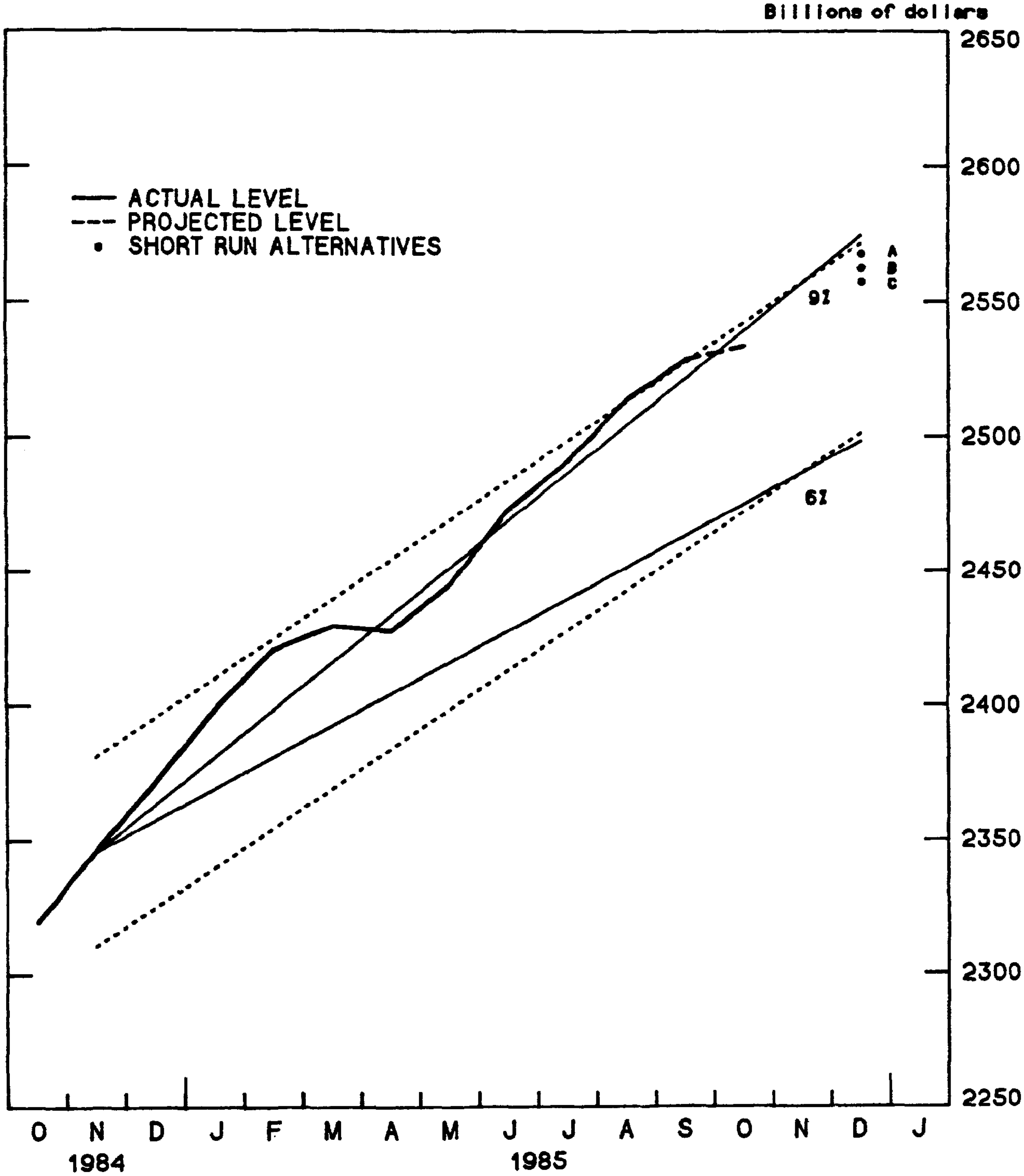


Chart 3

ACTUAL AND TARGETED M3

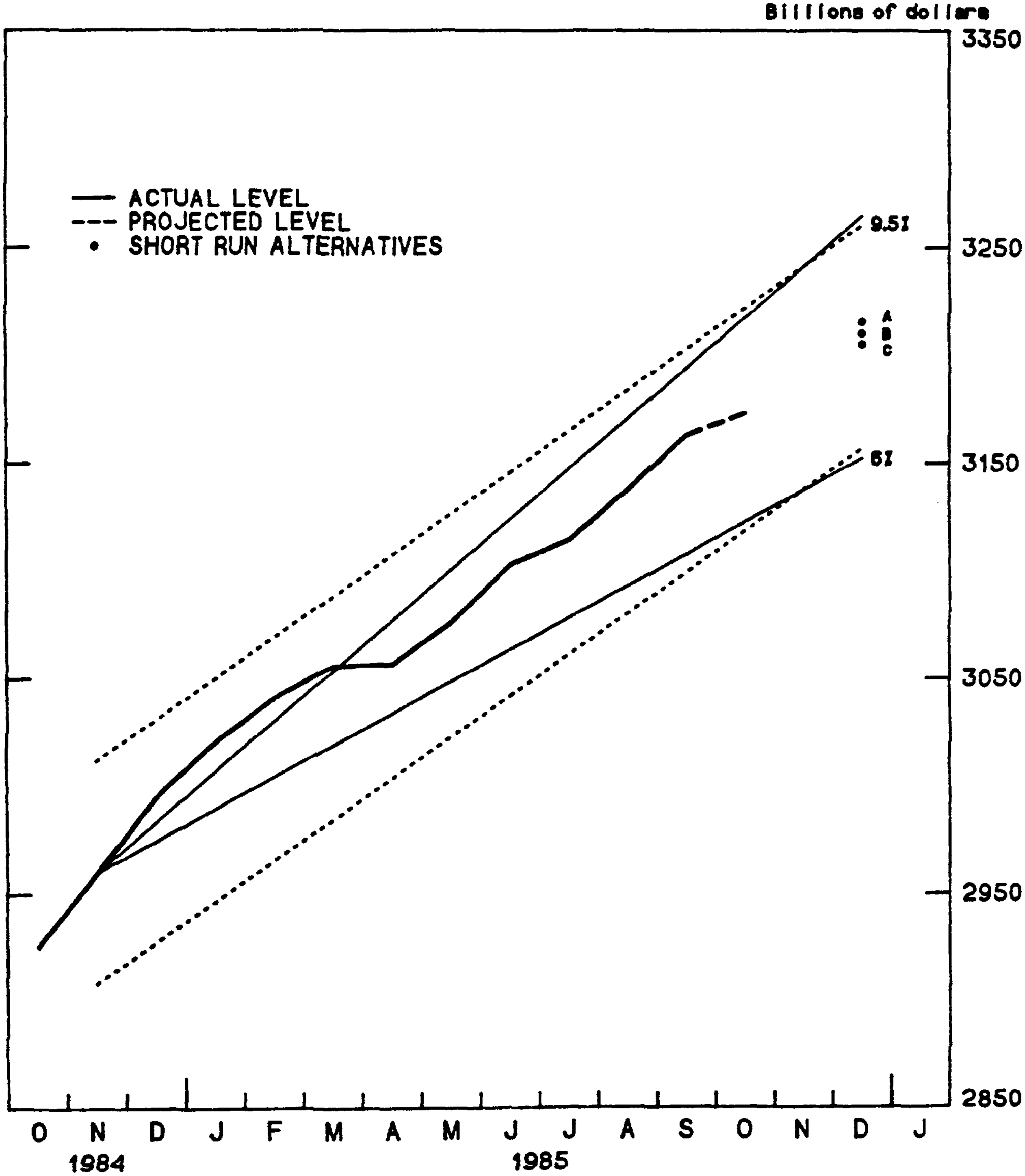
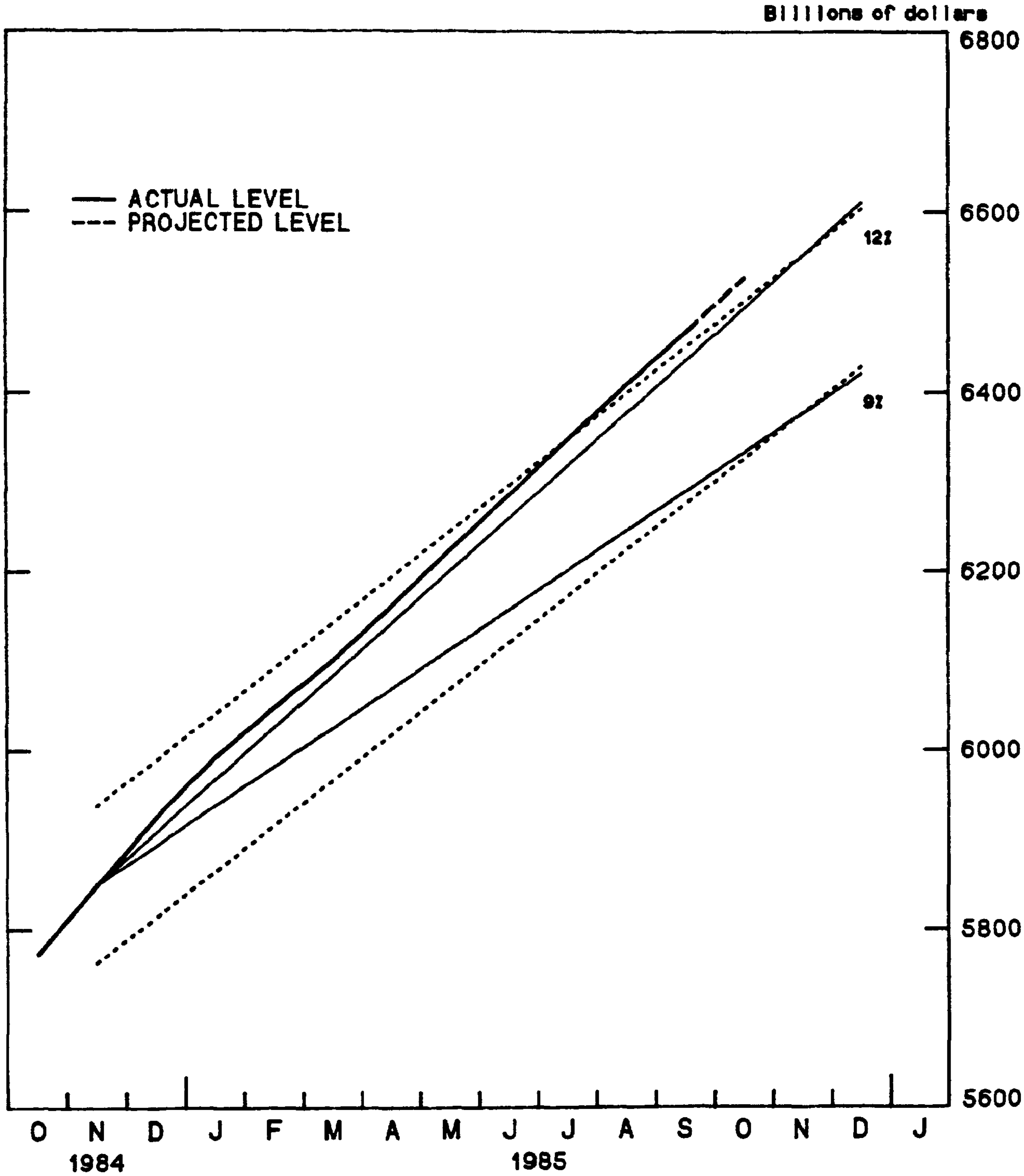


Chart 4

DEBT


Billions of dollars
ACTUAL LEVEL
PROJECTED LEVEL
12%
9%
6800
6600
6400
6200
6000
5800
5600
O N D J F M A M J J A S O N D J
1984
1985

(9) Alternative B contemplates maintenance of about the current degree of pressure on reserve positions, indexed by discount window borrowing of $450 to $550 million, with federal funds continuing to trade around 8 percent. Nonborrowed and total reserves would be expected to grow at roughly a 4 percent annual rate over the last two months of the year. M1 under these conditions would probably increase at about an 8 percent annual rate over November and December, bringing growth over the last three months of the year to 5 percent and growth from the second quarter through December to 11 percent.[1] Demand deposits are projected to increase only slightly on balance over the remainder of the year, while NOW account growth should remain below the unusually rapid advance of the summer. On a quarterly average basis, M1 would increase at a 7-1/4 percent annual rate in the fourth quarter. Given the greenbook GNP forecast, this implies a further drop in velocity, though at only about a one percent annual rate. This behavior of velocity would still be a bit weaker than predicted by most models of money demand, although the disparity would be considerably narrower than in the third quarter.

(10) Growth of the broader aggregates under alternative B would be at the lower end of, or somewhat below, the 6 to 7 percent annual rate for September to December adopted at the previous meeting. M2 would be expected to grow by 5-1/4 percent over the period, with its nontransactions as well as M1 components picking up in November and December from their relatively sluggish pace in October. Stronger expansion of core deposits in the nontransactions component than in recent months is

1. Although, as noted above in paragraph 1, concurrent seasonal adjustment yields M1 growth for October that is several percentage points faster than the current seasonal factors, it has very little effect on the seasonally adjusted growth rate for the second half of this year, calculated using the specifications of alternative B.

anticipated, partly in association with somewhat greater household saving in the fourth quarter. M3 would be expected to increase at a 6 percent annual rate from September to December. Issuance of the managed liabilities in M3 over the balance of the year should decline from the rapid pace in September and October, as asset expansion at banks remains fairly moderate and Treasury deposits rebound once the debt ceiling is lifted. For the year as a whole, M2 growth under this alternative would be around 8-1/2 percent, somewhat below the upper end of its long-run range, while M3 growth of 7-3/4 percent would be at the midpoint of its long-run range.

(11) With federal funds continuing to trade around 8 percent under alternative B, other short-term interest rates would probably show little net change over the intermeeting period. The foreign exchange value of the dollar also might tend to remain around recent levels, or edge off particularly if incoming data suggest a relatively sluggish economy. Under the latter circumstances, long-term rates might decline somewhat further on balance despite relatively strong credit demand. The Treasury will be in the market in volume to replenish its cash balance, depleted by debt ceiling problems, and to finance the large fourth-quarter deficit. Private borrowing meanwhile is expected to continue at near the third-quarter pace. Business credit usage is likely to strengthen as inventories are rebuilt and in response to enlarged merger activity. Household borrowing, however, should moderate, reflecting a drop-off in consumer durable spending. All in all, the debt of nonfinancial sectors is projected to increase at an annual rate of a little more than 13 percent over the fourth quarter, bringing growth for the year on a quarterly average basis to nearly 13 percent.

(12) Alternative A contemplates an easing of reserve pressures, with discount window borrowing falling to $200 to $300 million and the federal funds rate dropping to around the 7-1/2 percent discount rate. Growth of the monetary aggregates under this alternative would be expected to be consistent with the 6 to 7 percent range for the September-December period adopted for all three aggregates at the last meeting. M1 would increase at a 9-1/2 percent annual rate over the last two months of the year, and growth from the second quarter base of its long-run range would remain above 11 percent through December. A somewhat larger increase cannot be ruled out, though, as the spread of market rates over NOW account rates narrows further into a range where we have had limited experience with saver response in the NOW account era. M2 growth would also be stronger, bringing this aggregate closer to, though still a little below, the upper end of its range; flows into MMDAs and money market funds would accelerate as rates on these instruments lagged the decline in market rates. The pickup in M3, on the other hand, might be restrained as business loan demand at banks was held down by a greater issuance of bonds.

(13) The drop in market interest rates under alternative A may be appreciable. The 3-month Treasury bill rate could fall to 6-3/4 percent, or perhaps somewhat lower if expectations of a discount rate cut became widespread. The large volume of Treasury coupon issues expected over the next few weeks would be easily absorbed by strong investor demand to lock in relatively high yields. The dollar would probably drop noticeably further on foreign exchange markets.

(14) Alternative C assumes an increase in borrowing at the discount window to the $700 to $800 million area, which would be expected

to involve federal funds trading around 8-1/2 percent. The tightening of reserve conditions under this alternative would be expected to constrain M1 growth to a 4 percent annual rate from September to December, bringing this aggregate closer to, though still well above, its longer-term range. In addition there would be greater assurance that M2 would be within its long-run range for the year. An increase in the federal funds rate in the near term is not now expected by the market, and consequently other interest rates would move sharply higher under this alternative, particularly in the short run as the market works through the large volume of Treasury issues. The dollar could come under considerable upward pressure in foreign exchange markets. Both long-term interest rates and the dollar could retrace some of their immediate rise, however, if incoming data suggested weakness in the economy.

Directive language

(15) Proposed language is shown below not only for the operational paragraph of the directive but also for a special paragraph dealing with the long-run ranges for this year. The Committee indicated at its October 1 meeting that it might wish to review the M1 long-run range in November. The added paragraph in that connection, shown immediately below, could be placed in the directive just before the operational paragraph. Should the Committee add this paragraph, it may wish to consider deletion in the operating paragraph of the qualifying language in brackets that relates to M1 alone; with the new paragraph there may be less reason or need for indicating that the response to unexpectedly slow growth of M1 in the fourth quarter would be conditioned by the rapid growth last summer.

PROPOSED ADDITIONAL PARAGRAPH ON 1985 RANGES

AT THIS MEETING THE COMMITTEE REVIEWED THE LONG-RUN RANGES FOR THE MONETARY AGGREGATES FOR 1985, PARTICULARLY THE RANGE FOR M1 ESTABLISHED IN JULY. TAKING ACCOUNT OF THE FURTHER SHARP DROP IN M1 VELOCITY IN THE THIRD QUARTER, EVIDENCE OF A SHIFT IN PREFERENCES BY THE PUBLIC TOWARD HIGHLY LIQUID ASSETS, AND EXPANSION OF THE BROADER AGGREGATES WITHIN THEIR RANGES, THE COMMITTEE AGREED THAT GROWTH OF M1 ABOVE THE 3 TO 8 PERCENT RANGE COVERING THE PERIOD FROM THE SECOND QUARTER TO THE FOURTH QUARTER OF 1985 WOULD BE ACCEPTABLE (APPROPRIATE). THE COMMITTEE REAFFIRMED ITS EARLIER VIEWS WITH RESPECT TO THE RANGES FOR THE OTHER AGGREGATES.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/ maintain

(Alt. B)/ INCREASE SOMEWHAT (Alt. C) the EXISTING degree of pressure on reserve positions ~~sought-in-recent-weeks~~. This action is expected to be consistent with growth in M2 and M3 over the period from September to December at annual rates of about ~~6-to-7~~ ___ AND ___ percent RESPECTIVELY. A marked slowing of M1 growth over the period to an annual rate of around ~~6-to-7~~ _____ percent is also anticipated; [slower growth ~~over-the-next-three-months~~ would be acceptable in the context of satisfactory economic performance, given ~~recent~~ very rapid growth in M1 OVER THE SUMMER.] Somewhat greater or lesser reserve restraint would be acceptable depending on behavior of the aggregates, taking account of appraisals of the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. 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 ~~6-to-10~~ ____ TO ___ percent.

Selected Interest Rates

Percent

November 4, 1985

Period	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A utility recently offered	muni-cipal Bond Buyer	home mortgages		
		3-month	6-month	1-year					3-year	10-year	30-year			conven-tional at S&Ls	VA ceiling	S&L 1-year ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1984--High	11.77	10.65	10.76	11.09	11.71	11.35	10.72	13.00	13.44	13.84	13.81	15.30	11.44	14.68	14.00	12.31
Low	7.95	7.71	8.01	8.39	8.24	8.04	8.38	11.00	10.39	11.30	11.36	12.70	9.86	13.14	12.50	10.81
1985--High	8.75	8.65	9.03	9.21	9.13	8.83	8.31	10.75	11.19	11.95	11.89	13.23	10.31	13.29	13.00	11.14
Low	7.13	6.77	6.92	7.07	7.34	7.22	7.00	9.50	8.83	10.00	10.30	11.37	9.13	12.03	11.50	9.47
1984--Sept.	11.30	10.37	10.47	10.51	11.29	11.11	10.62	12.97	12.34	12.52	12.29	13.86	10.54	14.35	13.50	12.00
Oct.	9.99	9.74	9.87	9.93	10.38	10.05	10.16	12.58	11.85	12.16	11.98	13.52	10.77	14.13	13.38	11.96
Nov.	9.43	8.61	8.81	9.01	9.18	9.01	9.34	11.77	10.90	11.57	11.56	12.98	10.69	13.64	12.75	11.54
Dec.	8.38	8.06	8.28	8.60	8.60	8.39	8.55	11.06	10.56	11.50	11.52	12.88	10.40	13.18	12.50	11.01
1985--Jan.	8.35	7.76	8.00	8.33	8.14	7.99	8.00	10.61	10.43	11.38	11.45	12.78	9.96	13.08	12.50	10.84
Feb.	8.50	8.27	8.39	8.56	8.69	8.46	7.80	10.50	10.55	11.51	11.47	12.76	10.07	12.92	12.50	10.63
Mar.	8.58	8.52	8.90	9.06	9.02	8.74	7.97	10.50	11.05	11.86	11.81	13.17	10.23	13.17	12.63	10.92
Apr.	8.27	7.95	8.23	8.44	8.49	8.31	7.97	10.50	10.49	11.43	11.47	12.75	9.85	13.20	12.75	10.83
May	7.97	7.48	7.65	7.85	7.92	7.80	7.71	10.31	9.75	10.85	11.05	12.25	9.46	12.91	12.30	10.56
June	7.53	6.95	7.09	7.27	7.44	7.34	7.21	9.78	9.05	10.16	10.45	11.60	9.18	12.21	11.50	9.89
July	7.88	7.08	7.20	7.31	7.64	7.58	7.03	9.50	9.18	10.31	10.50	11.64	9.20	12.06	11.50	9.68
Aug.	7.90	7.14	7.32	7.48	7.81	7.73	7.08	9.50	9.31	10.33	10.56	11.76	9.44	12.19	11.50	9.52
Sept.	7.92	7.10	7.27	7.51	7.93	7.83	7.10	9.50	9.37	10.37	10.61	11.87	9.61	12.19	11.50	9.52
1985--July 17	7.77	7.03	7.15	7.27	7.59	7.51	7.01	9.50	9.08	10.19	10.39	11.62	9.13	11.94	11.50	9.56
24	7.88	7.21	7.32	7.43	7.75	7.68	7.00	9.50	9.34	10.42	10.57	11.81	9.25	12.03	11.50	9.73
31	7.64	7.23	7.39	7.51	7.78	7.69	7.00	9.50	9.46	10.60	10.73	11.83	9.35	12.17	11.50	9.62
Aug. 7	7.92	7.26	7.46	7.61	7.85	7.78	7.05	9.50	9.54	10.60	10.72	11.78	9.40	12.23	11.50	9.57
14	7.88	7.13	7.36	7.51	7.79	7.71	7.05	9.50	9.31	10.40	10.64	11.82	9.47	12.24	11.50	9.47
21	8.06	7.12	7.29	7.44	7.83	7.73	7.14	9.50	9.21	10.23	10.52	11.70	9.45	12.18	11.50	9.59
28	7.78	7.05	7.18	7.39	7.77	7.69	7.07	9.50	9.19	10.14	10.42	11.73	9.43	12.11	11.50	9.45
Sept. 4	7.88	7.09	7.25	7.43	7.82	7.74	7.07	9.50	9.27	10.20	10.43	11.89	9.41	12.15	11.50	9.52
11	7.80	7.22	7.40	7.60	7.93	7.81	7.05	9.50	9.49	10.45	10.68	11.92	9.60	12.24	11.50	9.57
18	7.85	7.19	7.37	7.57	8.01	7.93	7.12	9.50	9.45	10.43	10.65	11.91	9.69	12.21	11.50	9.51
25	7.96	6.94	7.14	7.42	7.90	7.80	7.18	9.50	9.29	10.36	10.61	11.80	9.74	12.17	11.50	9.49
Oct. 2	8.12	7.01	7.11	7.39	7.84	7.76	7.11	9.50	9.22	10.28	10.55	11.92	9.72	12.17	11.50	9.53
9	7.84	7.08	7.31	7.46	7.85	7.74	7.09	9.50	9.32	10.37	10.63	11.96	9.61	12.17	11.50	9.66
16	8.03	7.21	7.36	7.48	7.92	7.87	7.14	9.50	9.33	10.31	10.58	11.81	9.52	12.13	11.50	9.51
23	8.14	7.20	7.33	7.43	7.91	7.85	7.16	9.50	9.20	10.16	10.43	11.73	9.47	12.07	11.50	9.48
30	7.89	7.22	7.38	7.47	7.90	7.81	7.17	9.50	9.20	10.14	10.41	11.52	9.40	12.01	11.50	9.30
Daily--Oct. 25	7.87	7.24	7.42	7.51	7.94	7.85	--	9.50	9.25	10.21	10.47	--	--	--	--	--
31	8.08	7.19	7.29	7.37	7.75	7.72	--	9.50	9.06	10.01	10.28	--	--	--	--	--
Nov. 1	8.35p	7.20	7.29	7.37	7.78	7.82	--	9.50	9.05p	9.98p	10.25p	--	--	--	--	--

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 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 13 is the *Bond Buyer* revenue index. Column 14 is an average of contract interest rates on new commitments for conventional first mortgages with 80 percent loan-to-value ratios at a sample of savings and loan associations on the Friday following the end of the statement week. Column 16 is the average initial contract rate on new commitments for one-year ARMs at those institutions offering both fixed- and adjustable-rate mortgages with the same number of discount points.

Money and Credit Aggregate Measures

Seasonally adjusted

NOV. 4, 1985

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	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
PERCENT ANNUAL GROWTH:										
ANNUALLY (QIV TO QIV)										
1982	8.8	9.1	9.3	13.6	10.0	10.2	8.2	17.3	7.2	9.1
1983	10.4	12.2	12.8	1.1	10.0	10.5	10.6	21.5	6.5	11.2
1984	5.2	7.7	8.6	22.1	10.4	11.8	10.7	15.9	13.6	14.1
QUARTERLY AVERAGE										
4TH QTR. 1984	3.2	9.1	10.9	18.7	11.0	9.6	9.2	16.1	13.3	14.0
1ST QTR. 1985	10.6	12.1	12.5	5.5	10.7	10.0	9.9	15.3	13.0	13.6
2ND QTR. 1985	10.2	5.3	3.8	4.8	5.2	5.8	9.6	12.6	11.4	11.7
3RD QTR. 1985	15.0	10.2	8.7	-1.6	7.8	3.2P	9.5	14.2	11.0	11.8
MONTHLY										
1984--OCT.	-7.0	5.7	9.6	26.7	10.0	7.4	6.6	13.5	13.1	13.2
NOV.	12.0	14.0	14.6	15.5	14.3	9.8	13.0	20.3	14.7	16.0
DEC.	10.2	13.0	13.9	19.0	14.2	12.9	9.7	17.5	15.1	15.6
1985--JAN.	9.0	13.8	15.2	-3.3	10.2	7.7	6.4	15.5	12.9	13.5
FEB.	14.3	11.1	10.1	-3.1	8.1	10.6	12.7	12.8	10.7	11.2
MAR.	5.7	4.3	3.8	12.2	5.9	9.3	11.4	8.7	11.1	10.6
APR.	5.9	-0.9	-3.1	5.0	0.3	0.6	4.7	12.1	11.6	11.9
MAY	14.0	8.5	6.9	4.2	7.6	5.7	13.3	15.8	11.1	12.2
JUNE	19.8	13.7	11.9	-2.1	10.5	9.5	9.3	13.8	11.2	11.8
JULY	9.3	8.5	8.3	-12.2	4.3	5.7	10.1	16.0	10.7	11.9
AUG.	20.3	11.1	8.2	0.8	9.1		6.9	13.7	10.6	11.5
SEPT.	11.5	7.1	5.7	20.8	9.8		9.0	7.8	11.1	10.4
OCT. PE	-0.8	2.4	3.4	9.5	3.8		3.0			
MONTHLY LEVELS ($BILLIONS)										
1985--MAY	581.6	2444.9	1863.3	631.1	3076.0	3640.2	1785.3	1442.9	4783.3	6226.2
JUNE	591.2	2472.9	1881.7	630.0	3102.9	3669.0	1799.1	1459.5	4827.6	6287.3
JULY	595.8	2490.5	1894.7	623.6	3114.1	3686.4	1814.3	1478.9	4870.7	6349.7
AUG.	605.9	2513.6	1907.7	624.0	3137.6		1824.8	1495.8	4914.6	6410.3
SEPT.	611.7	2528.4	1916.7	634.8	3163.3		1838.5	1505.5	4960.1	6465.6
WEEKLY LEVELS ($BILLIONS)										
1985--SEPT. 2	609.5									
9	613.7									
16	610.2									
23	609.6									
30	614.8									
OCT. 7	611.9									
14P	605.1									
21P	613.6									

1/ ANNUAL RATES FOR BANK CREDIT ARE ADJUSTED FOR A TRANSFER OF LOANS FROM CONTINENTAL ILLINOIS NATIONAL BANK TO THE FDIC BEGINNING SEPTEMBER 26, 1984.

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

Components of Money Stock and Related Measures

Seasonally adjusted unless otherwise noted

NOV. 4, 1985

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA	MMDAs NSA	Savings deposits	Small denomination time deposits[1]	Money market mutual funds, NSA: general purpose, and broker/dealer[2]	Money market mutual funds, NSA: institutions only	Large denomination time deposits[3]	Term RPs NSA	Term Eurodollars NSA	Savings bonds	Short-term Treasury securities	Commercial paper	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
% ANNUAL GROWTH:																
ANNUALLY(Q4 TO Q4)																
1982	8.5	0.9	34.0	19.4		4.5	5.2	31.1	46.7	10.1	-2.0	21.3	-0.1	20.2	5.0	11.0
1983	10.4	2.7	28.5	31.7		-13.7	-10.3	-26.3	-16.6	-2.0	39.1	8.2	4.6	16.9	18.3	0.7
1984	7.2	1.1	10.5	7.3	7.2	-6.3	13.5	17.0	33.6	26.0	45.6	-8.3	4.2	26.2	24.5	-1.8
QUARTERLY AVERAGE																
4TH QTR. 1984	5.1	-1.0	8.5	2.1	12.9	-8.2	11.5	28.1	97.4	18.4	39.6	-22.6	3.3	11.0	-0.8	-39.5
1ST QTR. 1985	6.3	7.0	21.1	65.4	43.1	-2.3	0.2	32.7	31.2	9.0	-19.5	2.4	5.4	2.4	15.1	-3.7
2ND QTR. 1985	6.7	8.6	16.1	-28.7	17.7	1.1	5.0	-0.7	7.7	6.4	16.2	-12.1	6.9	12.8	6.6	-2.8
3RD QTR. 1985	9.1	11.9	25.9	19.3	20.8	13.3	-4.4	3.9	1.3	-3.3	-11.0	-17.5	5.2P	-58.6P	25.8P	-13.3P
MONTHLY																
1984-OCT.	2.3	-14.5	-3.4	2.1	10.5	-8.1	11.4	27.6	135.6	27.9	48.6	-70.1	1.6	-1.8	-3.8	-51.3
NOV.	6.1	11.3	17.8	27.5	31.8	-7.8	8.0	49.4	140.2	16.3	24.2	19.4	3.3	-22.4	6.9	-61.6
DEC.	6.1	8.8	17.5	-10.3	37.9	-8.7	9.7	40.7	90.6	16.1	-17.0	17.6	3.2	-3.6	32.0	-33.9
1985-JAN.	5.3	2.4	24.7	108.3	53.8	0.0	-5.0	31.5	44.0	2.0	-80.9	-28.9	4.9	-2.2	-16.3	-14.5
FEB.	8.3	12.5	22.6	129.9	40.4	3.3	-5.9	22.3	-51.7	6.9	12.9	3.0	8.1	16.2	39.1	50.0
MAR.	6.0	1.0	14.2	-24.1	25.7	-3.3	1.4	17.1	-52.1	12.3	58.4	50.2	6.4	24.9	36.4	50.8
APR.	3.0	2.9	13.3	-154.8	6.3	-3.3	9.2	-9.5	2.0	10.5	52.2	-56.7	8.0	8.3	-6.4	-8.1
MAY	10.4	15.7	15.5	92.9	9.1	6.3	9.1	-27.2	78.5	2.5	-51.7	1.5	6.3	-4.3	-2.1	-40.9
JUNE	10.3	23.0	22.9	-18.8	29.2	11.6	3.0	22.3	68.0	-11.2	-33.1	-37.1	6.3	33.8	-27.8	-64.9
JULY	6.6	0.9	24.7	-9.5	22.2	16.0	-7.6	2.7	-37.6	-12.2	-35.5	-27.6	1.6	0.8	46.6	-14.9
AUG.	12.3	14.3	38.1	69.1	19.6	17.4	-13.4	6.1	-25.8	3.7	46.2	-7.8				
SEPT.	5.7	12.7	16.4	9.1	10.7	5.6	-5.1	-2.0	-24.5	19.7	41.0	11.1				
OCT. PE	7.9	-12.6	9.8	5.4	11.6	11.5	-3.8	2.0	17.3	13.5	-13.8	-12.5				
LEVELS ($BILLIONS)																
1985-AUG.	167.1	264.0	168.8	66.1	491.8	300.3	878.6	176.7	63.6	421.2	67.4	76.0				
SEPT.	167.9	266.8	171.1	66.6	496.2	301.7	874.9	176.4	62.3	428.1	69.7	76.7				
						CB'S ONLY				CB'S ONLY						
WEEKLY																
1985-SEPT. 2	167.5	265.9	170.2	65.0	494.2	124.2	383.3	176.8	62.9	269.2	35.5					
9	167.7	267.8	172.3	66.0	496.8	124.5	382.6	176.0	63.0	270.6	33.6					
16	167.9	265.1	171.3	64.4	497.3	124.7	383.1	176.5	62.3	273.3	34.1					
23	168.1	265.0	170.6	66.1	495.3	124.8	382.6	176.8	62.0	273.4	33.1					
30	168.0	271.3	169.6	70.5	495.8	124.6	383.0	176.3	61.9	274.0	33.1					
OCT. 7	168.3	266.4	171.4	67.2	498.5	125.0	382.7	175.9	62.5	276.8	31.5					
14P	168.6	259.9	170.8	65.6	500.4	125.1	381.9	177.2	63.5	277.2	32.7					
21P	169.0	265.7	173.0	66.8	500.8	125.2	381.7	177.0	63.4	275.8	32.1					

1/ INCLUDES RETAIL REPURCHASE AGREEMENTS. ALL IRA AND KEOGH ACCOUNTS AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS ARE SUBTRACTED FROM SMALL TIME DEPOSITS.
2/ EXCLUDES IRA AND KEOGH ACCOUNTS.
3/ NET OF LARGE DENOMINATION TIME DEPOSITS HELD BY MONEY MARKET MUTUAL FUNDS AND THRIFT INSTITUTIONS.
P-PRELIMINARY
PE-PRELIMINARY ESTIMATE

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

November 4, 1985

Period	Treasury bills net change[2]	Treasury coupons net purchases[3]					Federal agencies net purchases[4]					Net change outright holdings total[5]	Net RPs[6]
		within 1 year	1-5	5-10	over 10	total	within 1-year	1-5	5-10	over 10	total		
1980	-3,052	912	2,138	703	811	4,564	217	398	29	24	668	2,035	2,462
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1982	5,698	312	1,794	388	307	2,803	--	--	--	--	--	8,312	1,461
1983	13,068	484	1 896	890	383	3,653	--	--	--	--	--	16,342	-5 445
1984	3,779	826	1,938	236	441	3,440	--	--	--	--	--	6,964	1,450
1984--QTR. II	491	198	808	200	277	1,484	--	--	--	--	--	1,918	70
III	-424	600	--	--	--	600	--	--	--	--	--	169	1,982
IV	4,880	28	1,130	335	164	1,657	--	--	--	--	--	6,432	-316
1985--QTR. I	-2,044	961	465	-100	--	1,326	--	--	--	--	--	-735	462
II	7,183	245	846	108	96	1,295	--	--	--	--	--	8,409	-350
III	4,377	-350	6	6	--	-339	--	--	--	--	--	3,962	-3,446
1985--Mar.	-138	961	465	--	--	1,426	--	--	--	--	--	1,289	-318
Apr.	6,026	245	846	108	96	1,295	--	--	--	--	--	7,321	6,141
May	-942	--	--	--	--	--	--	--	--	--	--	-951	-9,257
June	2,099	--	--	--	--	--	--	--	--	--	--	2,039	2,766
July	-200	--	--	--	--	--	--	--	--	--	--	-246	-1,815
Aug.	3,056	--	6	6	--	12	--	--	--	--	--	3,038	-53
Sept.	1,521	-350	--	--	--	-350	--	--	--	--	--	1,171	-1,578
1985--Aug. 7	68	--	6	6	--	12	--	--	--	--	--	79	406
14	524	--	--	--	--	--	--	--	--	--	--	494	1,369
21	32	--	--	--	--	--	--	--	--	--	--	32	-1.669
28	155	--	--	--	--	--	--	--	--	--	--	155	2,224
Sept. 4	2,615	--	--	--	--	--	--	--	--	--	--	2,615	813
11	10	--	--	--	--	--	--	--	--	--	--	10	1,207
18	307	--	--	--	--	--	--	--	--	--	--	307	-5,192
25	510	--	--	--	--	--	--	--	--	--	--	510	4,785
Oct. 2	356	-350	--	--	--	-350	--	--	--	--	--	6	-5,445
9	--	--	--	--	--	--	--	--	--	--	--	--	1,970
16	--	--	--	--	--	--	--	--	--	--	--	--	-1,563
23	--	--	--	--	--	--	--	--	--	--	--	--	-1,977
30	-265	--	--	--	--	--	--	--	--	--	--	-265	-10,048
LEVEL--Oct. 31	78.2	19.3	34.9	14.9	21.5	90.5	2.5	4.2	1.2	.4	8.2	182.8	-5.9

1 Change from end of period to end of period
2 Outright transactions in market and with foreign accounts, and redemptions (–) in bill auctions
3 Outright transactions in market and with foreign accounts, and short term notes acquired in exchange for maturing bills Excludes redemptions, maturity shifts, rollovers of maturing coupon issues, and direct Treasury borrowing from the System
4 Outright transactions in market and with foreign accounts only Excludes redemptions and maturity shifts
5 In addition to the net purchase of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions (–) of agency and Treasury coupon issues
6 Includes changes in RPs (+), matched sale purchase transactions (–), and matched purchase sale transactions (+)