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December 13, 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

December 13, 1985

## MONETARY POLICY ALTERNATIVES

### Recent Developments

(1) M1 resumed a rapid pace of expansion in November, with demand deposits and other checkable deposits each showing substantial growth.[1] Data for early December suggest continued strength this month also. As a result, growth over the September-to-December period is likely to exceed appreciably the 6 percent pace specified by the Committee. By contrast, the broader aggregates expanded moderately in November, and are expected to grow close to the 6 percent rate sought by the Committee over the September-to-December period. The quite moderate rate of increase of M2 thus far this fall appears attributable in part to shifts of funds by households from such M2 components as small time deposits and money market funds to the stock and bond markets. Commercial banks experienced a sharp inflow of Treasury deposits in November, following Congressional approval of temporary debt ceiling legislation, and held down issuance of managed liabilities in M3.

(2) The table below shows preliminary results for the year for growth in the monetary aggregates relative to their long-run ranges. As may be seen, growth in M1 has been well above the 8 percent upper limit of its range, but growth rates in M2 and M3 were, respectively, just below the upper limit and around the middle of their ranges.

1. The computer failure at the Bank of New York on November 21 boosted growth of M1 in November by about one percentage point.

Growth in the Monetary Aggregates in 1985 From
the Base of Their Long-run Range to QIV '85[1]
(percent, annual rate)

| | M1 | M2 | M3 |
|---|---|---|---|
| Actual growth[p] | 12.2 | 8.7 | 7.9 |
| Long-run range | 3 to 8 | 6 to 9 | 6 to 9-1/2 |

p--preliminary estimate.
1. Base is QII '85 for M1, and QIV '84 for the broader aggregates.

(3) The debt of domestic nonfinancial sectors apparently expanded at a rapid pace in November. Business loans and nonfinancial commercial paper were bolstered by financing needs related to mergers, and the bond market rally prompted further strong issuance of corporate bonds. The torrent of tax-exempt debt continued as issues were brought to market before year-end when proposed restrictions would take effect. The pace of mortgage debt expansion in October was rapid, and available information suggests that mortgage growth continued strong last month. Treasury debt issuance also increased in November, with much of the rise following the temporary debt ceiling increase. For the year as a whole, growth of total debt of domestic nonfinancial sectors is tentatively estimated at 13-1/2 percent, above its 9 to 12 percent range. Perhaps a little over a percentage point of the increase in debt can be traced to the unusual volume of mergers, leveraged buyouts, and stock repurchases; up to another percentage point may reflect issuance of tax-exempt bonds prompted by concerns about possible tax law changes.

(4) Growth of total reserves picked up to a 20 percent annual rate in November, reflecting an increase in required reserves against transactions deposits and a considerably higher level of excess reserves. Nonborrowed

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

| | Sept. | Oct. | Nov. |
|---|---|---|---|
| Money and Credit Aggregates | | | |
| M1 | 11.9 | -1.6 | 13.0 |
| M2 | 7.1 | 2.1 | 6.6 |
| M3 | 10.1 | 3.9 | 5.0 |
| Domestic nonfinancial debt | 11.0 | 11.6 | 16.0[e] |
| Bank credit | 8.2 | 2.0 | 16.3 |
| Reserve Measures[1] | | | |
| Nonborrowed reserves[2] | 5.2 | 6.1 | 1.8 |
| Total reserves | 8.7 | 4.0 | 19.7 |
| Monetary base | 7.0 | 6.1 | 10.1 |
| Memo: (Millions of dollars) | | | |
| Adjustment and seasonal borrowing | 633 | 558 | 1210 (672)[3] |
| Excess reserves | 666 | 753 | 935 |

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

e -- Estimated.
1. 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.
2. Includes "other extended credit" from the Federal Reserve.
3. Figure in parentheses excludes borrowing by Bank of New York on November 21.

reserve paths during the intermeeting period were constructed on the basis of $450 million of adjustment and seasonal borrowing. Excluding the $22.6 billion of overnight borrowing because of computer problems at the Bank of New York (BONY), seasonal plus adjustment credit averaged $734 million during the two complete maintenance periods since the November FOMC meeting. Excess reserves have been unusually strong, especially in the reserve period ending December 4 when there was evidently some maldistribution of reserves as a result of the BONY disruption. So far in the most recent maintenance period, borrowing has averaged only $162 million.

(5) The federal funds rate averaged about 8 percent during the intermeeting period, though exhibiting considerable day-to-day and week-to-week volatility in the wake of the BONY borrowing and concentrated settlements of large Treasury security issues that were delayed by debt ceiling problems. Most recently, funds have been trading a little under 8 percent. Private short-term rates have generally shown little net change over the intermeeting period, while bill rates have declined about 25 to 35 basis points. Long-term rate declines have been more substantial, reflecting improved prospects for reductions in the federal deficit, more favorable attitudes about inflation stemming from the situation in oil and certain other commodity markets, and changing sentiments about the outlook for monetary policy. Bond rates have generally dropped 40 to 65 basis points, bringing long-term yields to 6-year lows, and home mortgage rates have fallen about 1/2 of a percentage point. Broad stock price measures have risen substantially since the last meeting.

(6) The weighted average foreign exchange value of the dollar depreciated a further 2-1/2 percent during the intermeeting period, bringing its total decline since the G-5 announcement to about 10 percent. In contrast

to earlier in the post-G-5 period, the dollar has dropped more against European currencies than against the yen. Most recently, the market seems to have perceived that monetary authorities are satisfied with current levels for the dollar, and this perception appears to have helped to stabilize dollar exchange rates.

Policy alternatives

(7) The table below gives three alternative specifications for growth in the monetary aggregates from November to March, along with associated federal funds rate ranges. Growth implied by each alternative for the December-to-March period is shown in the lower panel of the table. (Detailed data are shown on the table and charts on the ensuing pages.)

| | Alt. A | Alt. B | Alt. C |
|---|---|---|---|
| Growth from November to March | | | |
| M1 | 9-1/2 | 8-1/2 | 7-3/4 |
| M2 | 8 | 7-1/4 | 6-3/4 |
| M3 | 6-1/2 | 6 | 5-1/2 |
| Associated federal funds rate range | 5 to 9 | 6 to 10 | 6-1/2 to 10-1/2 |
| Implied growth from December to March | | | |
| M1 | 8 | 6-1/2 | 5-1/2 |
| M2 | 7-1/2 | 6-1/2 | 5-3/4 |
| M3 | 5-1/2 | 5 | 4-1/2 |

(8) The specifications of alternative B assume borrowing at the discount window around $400 to $450 million, with federal funds likely to average just below 8 percent. Alternative A contemplates a decline in borrowing to a range of $200 to $250 million and an associated drop in the federal funds rate to near the current 7-1/2 percent discount rate. A slight firming of money market conditions is assumed under alternative C, involving an increase in discount window borrowing to around $550 to $600 million, with federal funds likely to trade in the neighborhood of 8-1/8 percent.

## 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 |
| Levels in billions | | | | | | | | | |
| 1985-October | 611.1 | 611.1 | 611.1 | 2533.4 | 2533.4 | 2533.4 | 3177.3 | 3177.3 | 3177.3 |
| November | 617.7 | 617.7 | 617.7 | 2547.3 | 2547.3 | 2547.3 | 3190.6 | 3190.6 | 3190.6 |
| December | 625.2 | 625.2 | 625.2 | 2567.8 | 2567.5 | 2567.2 | 3214.4 | 3214.1 | 3213.8 |
| 1986-January | 629.6 | 629.1 | 628.7 | 2585.0 | 2582.9 | 2581.6 | 3231.6 | 3229.7 | 3228.4 |
| February | 633.6 | 632.3 | 631.3 | 2600.8 | 2596.5 | 2593.9 | 3246.0 | 3242.2 | 3239.8 |
| March | 637.5 | 635.4 | 633.8 | 2615.0 | 2608.4 | 2604.6 | 3259.7 | 3254.0 | 3250.6 |
| Monthly Growth Rates | | | | | | | | | |
| 1985-October | -1.6 | -1.6 | -1.6 | 2.1 | 2.1 | 2.1 | 3.9 | 3.9 | 3.9 |
| November | 13.0 | 13.0 | 13.0 | 6.6 | 6.6 | 6.6 | 5.0 | 5.0 | 5.0 |
| December | 14.6 | 14.6 | 14.6 | 9.7 | 9.5 | 9.4 | 9.0 | 8.8 | 8.7 |
| 1986-January | 8.5 | 7.5 | 6.7 | 8.0 | 7.2 | 6.7 | 6.4 | 5.8 | 5.5 |
| February | 7.6 | 6.1 | 5.0 | 7.3 | 6.3 | 5.7 | 5.3 | 4.6 | 4.2 |
| March | 7.4 | 5.9 | 4.8 | 6.6 | 5.5 | 5.0 | 5.1 | 4.4 | 4.0 |
| Quarterly Ave. 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 | 8.1 | 8.1 | 8.1 |
| Q4 | 8.9 | 8.9 | 8.9 | 6.1 | 6.1 | 6.1 | 6.8 | 6.7 | 6.7 |
| 1986-Q1 | 10.1 | 9.3 | 8.6 | 8.0 | 7.3 | 6.9 | 6.5 | 6.0 | 5.7 |
| Long-run base period to Nov.85 | 12.0 | 12.0 | 12.0 | 8.6 | 8.6 | 8.6 | 7.8 | 7.8 | 7.8 |
| Long-run base period to Dec.85 | 12.5 | 12.5 | 12.5 | 8.7 | 8.7 | 8.7 | 7.9 | 7.9 | 7.9 |
| Long-run base period to Q4 85 | 12.2 | 12.2 | 12.2 | 8.7 | 8.7 | 8.7 | 7.9 | 7.9 | 7.9 |
| Sep.85 to Dec.85 | 8.7 | 8.7 | 8.7 | 6.2 | 6.1 | 6.1 | 6.0 | 5.9 | 5.9 |
| Nov.85 to Mar.86 | 9.6 | 8.6 | 7.8 | 8.0 | 7.2 | 6.7 | 6.5 | 6.0 | 5.6 |
| Dec.85 to Mar.86 | 7.9 | 6.5 | 5.5 | 7.4 | 6.4 | 5.8 | 5.6 | 5.0 | 4.6 |
| Q4 85 to Mar.86 | 9.5 | 8.4 | 7.7 | 7.7 | 6.9 | 6.5 | 6.2 | 5.6 | 5.3 |
| Tentative 1986 Target Ranges: | | 4 to 7 | | | 6 to 9 | | | 6 to 9 | |

Chart 1

ACTUAL AND TARGETED M1

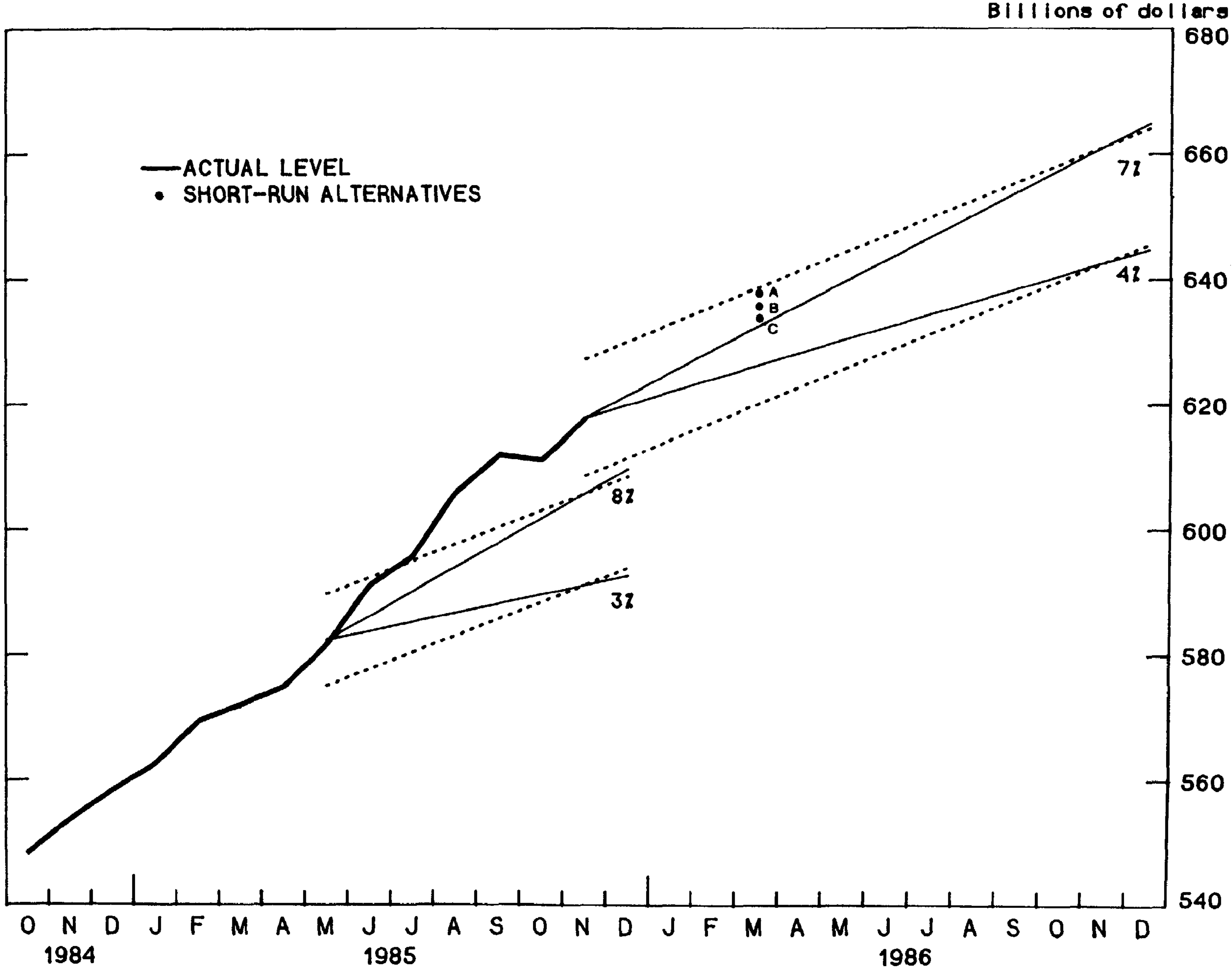


CHART 2

ACTUAL AND TARGETED M2

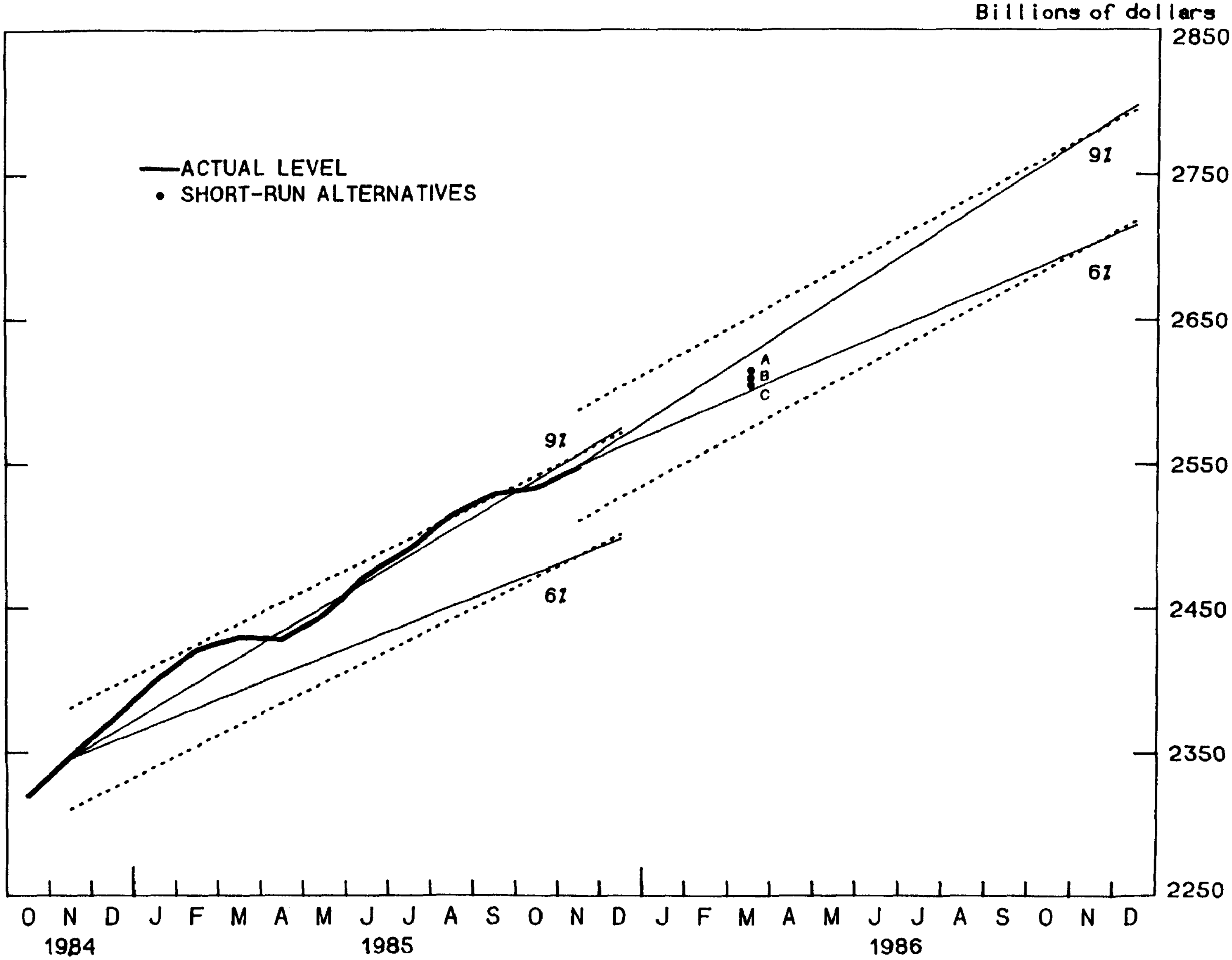


CHART 3

ACTUAL AND TARGETED M3

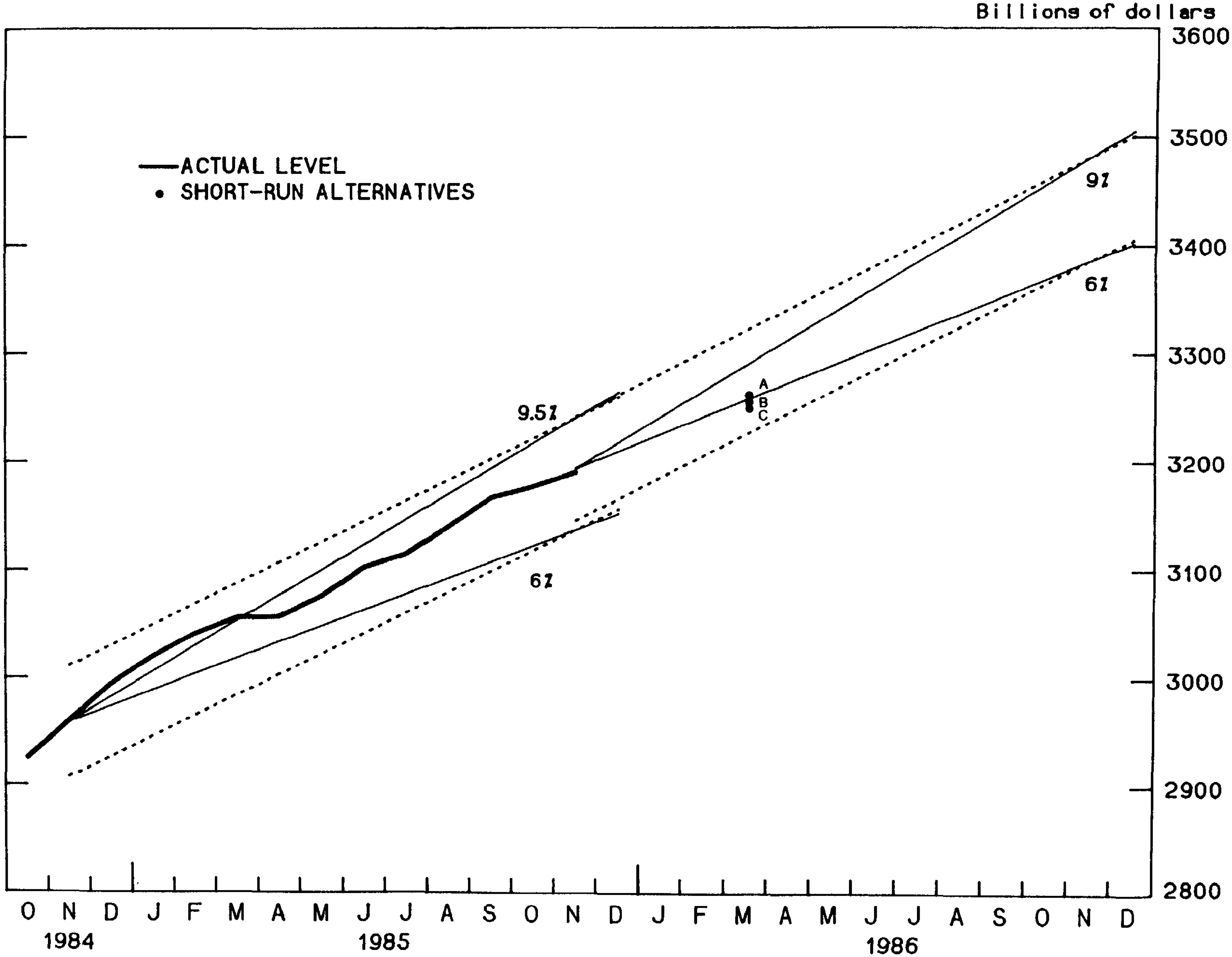
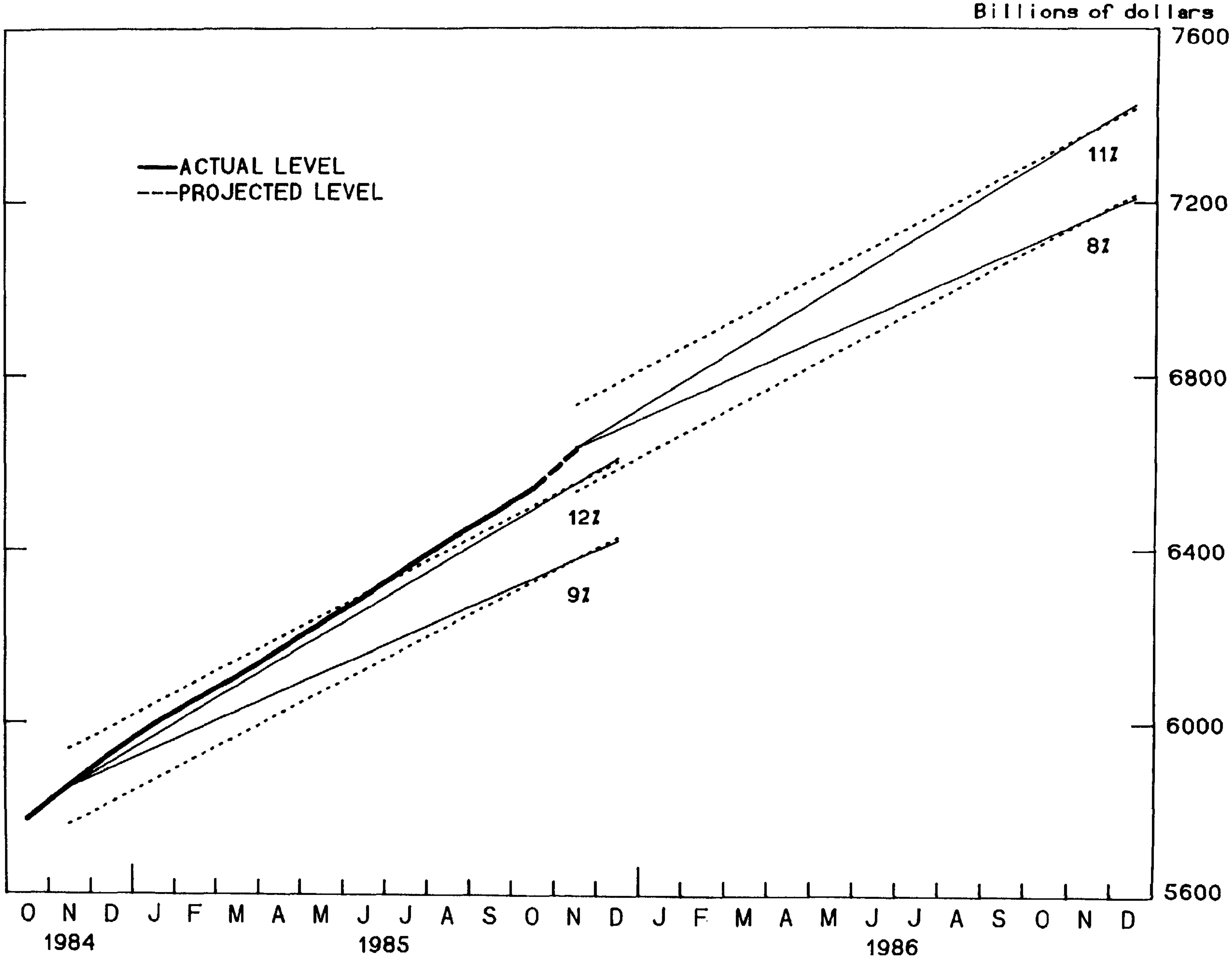


Chart 4

DEBT


Billions of dollars
ACTUAL LEVEL
PROJECTED LEVEL
7600
7200
6800
6400
6000
5600
11%
8%
12%
9%
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1984
1985
1986

(9) Growth of M1 is expected to slow in the early months of next year under all of the alternatives, following rapid expansion in December, with growth decelerating to around 6 to 7 percent under alternative B. Relationships in the first quarter among M1, interest rates, and income are more than usually difficult to predict, however, largely because of uncertainties about when the unusual weakness of M1 velocity in recent quarters will wane or be reversed. In addition, the minimum balance requirements on super NOW accounts and MMDAs will be eliminated on January 1. Given the already advanced state of deposit deregulation, and present indications that depository institutions intend to take a conservative approach to setting rates and terms on super NOW and MMDA accounts, the staff does not expect this deregulatory step to have any appreciable immediate impact on M1. All things considered, the velocity of M1 would be expected to decline further in the first quarter under all three alternatives, given the greenbook GNP forecast, but this is largely attributable to the boost to quarterly average growth from the recent rapid expansion of M1. The more restrained growth in M1 over the December-to-March period implied by the alternatives is roughly consistent with the results of available money demand models, and presumes an abatement of outsized inflows into demand deposits and NOW accounts but no reversal of the recent bulge.

(10) Given the relatively high level of M1 expected for December, the more moderate growth of this aggregate through the first months of next year would still leave it in March, under all three alternatives, above the upper end of its tentative 4 to 7 percent growth range for 1986, as seen on the M1 chart. Specifically, under alternative B, M1 growth from the fourth-quarter 1985 base to March would be around 8-1/2 percent at an annual rate--above the upper end but within the parallel band associated with its

tentative 1986 range. The modest firming of money market conditions associated with alternative C would be expected to bring M1 closer to the upper end of the tentative long-run range, while the easier reserve conditions of alternative A are likely to put M1 near the upper edge of its band. In the latter case, though, an even more sizable boost to M1 could develop as the decline in market rates relative to the return on NOW accounts, which would be expected to continue to react sluggishly to changes in money market conditions, brought to quite low levels the opportunity costs of holding a substantial portion of M1 balances.

(11) Growth of M2 and M3 early next year is expected to continue at rates close to, or even a little below, the moderate pace that now appears in train for the last three months of 1985, influenced in part by the projected slowing in M1 growth. The nontransactions component of M2 is anticipated to grow somewhat faster over coming months, paced by a resumption of growth in small time deposits as outflows to NOW accounts and market instruments diminish, especially if interest rates stabilize. The elimination of the minimum balance requirement on MMDAs and super NOWs is expected to have little, if any, impact on M2, with shifts that might occur being predominantly within the aggregate. Under all three alternatives M2 growth from the fourth quarter of 1985 to March would be within the Committee's tentative longer-run range of 6 to 9 percent for 1986. For M3, on the other hand, expansion is expected to be relatively slow early in the year, and M3 may be at or below the lower end of its tentative range by March. Issuance of large CDs at banks could drop off substantially in the winter, in part because of sharply reduced acquisitions of tax-exempt debt after year-end and weakness in business loans as corporations emphasize long-term borrowing in view of the more favorable market environment that has recently emerged.

(12) Growth of the total debt of nonfinancial sectors is projected to slow considerably in the first quarter to a rate near the upper end of the Committee's tentative 8 to 11 percent monitoring range for this variable for 1986. Most of the expected moderation in credit growth reflects an end to the special factors affecting tax-exempt and Treasury debt in the latter part of this year. Businesses' net need for external funds should be little changed from the fourth-quarter pace as the financing gap--though widening a little--remains relatively low. Households are likely to step up their instalment borrowing to support the projected first-quarter rise in purchases of durables, particularly autos following sluggish sales in the fourth quarter. The rate of increase of mortgage indebtedness is anticipated to continue relatively strong, as the recent drop in mortgage rates works to sustain homebuilding.

(13) Assuming little change in reserve market conditions as under alternative B, long-term interest rates are likely to stabilize around their recently reduced levels, or perhaps back up somewhat. Some further decline could develop if incoming economic data are weak, but the recent drop in bond yields seems already to have incorporated the near-term impact of deficit reduction measures and weakness in certain commodity prices. Short-term rates under alternative B could reverse much of their very recent declines, which appear to have been influenced by anticipation of some easing in monetary policy by early next year. The 3-month Treasury bill rate might be expected to rise to near 7-1/4 percent. Should reserve conditions ease, as contemplated under alternative A, long-term interest rates would probably continue to drop, though probably not as rapidly as in recent weeks because further rate declines may begin to foster an actual or anticipated increase in longer-term borrowing. The 3-month

bill rate might fall toward 6-3/4 percent, and the dollar is likely to come under renewed downward pressure on foreign exchange markets. The firming of reserve conditions contemplated under alternative C, although slight, would be quite unexpected and would prompt a substantial back up in short-term and long-term rates, at least for a time. Significant upward pressure on the dollar would probably emerge.

Directive language

(14) Proposed language is shown below in the usual form. The proposed language contains a reference to the further deposit deregulation scheduled for the start of next year which adds a bit to the uncertainty about prospective monetary growth.

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks ~~generally~~ to DECREASE SOMEWHAT (Alt. A)/ maintain (Alt. B)/ ~~about~~ INCREASE SLIGHTLY (Alt. C) the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M1, M2, and M3 over the period from ~~September-to-December~~ NOVEMBER TO MARCH at annual rates of about ___, ___, AND ___ 6 percent, RESPECTIVELY, ASSUMING LITTLE NET IMPACT ON THE AGGREGATES FROM THE FURTHER DEPOSIT DEREGULATION AT THE START OF 1986. ~~M1-growth-over-the-period-at-an-annual-rate-of around-6-percent-is-also-anticipated;-slower-growth-for-that aggregate-would-be-acceptable-in-the-context-of-satisfactory economic-performance,-given-the-very-rapid-growth-in-M1-over-the summer.~~ Somewhat greater reserve restraint might (WOULD), and somewhat lesser reserve restraint would (MIGHT), 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

December 16, 1985

| Period | Short-term: federal funds | Short-term: Treasury bills secondary market 3-month | 6-month | 1 year | CDs secondary market 3-month | comm paper 1-month | money market mutual fund | bank prime loan | Long-Term: U.S. government constant maturity yields 3 year | 10-year | 30-year | corporate A utility recently offered | municipal Bond Buyer | conventional home mortgages: secondary market fixed rate | primary market fixed rate | primary market 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 | 15.37 | 14.68 | 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 | 12.87 | 13.14 | 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 | 13.57 | 13.29 | 11.14 |
| Low | 7.13 | 6.77 | 6.92 | 7.07 | 7.34 | 7.22 | 7.00 | 9.50 | 8.58 | 9.46 | 9.75 | 11.30 | 8.96 | 11.27 | 11.64 | 9.30 |
| 1984--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 | 13.07 | 13.64 | 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 | 13.06 | 13.18 | 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 | 13.03 | 13.08 | 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 | 13.05 | 12.92 | 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 | 13.48 | 13.17 | 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 | 13.07 | 13.20 | 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 | 12.65 | 12.91 | 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 | 11.88 | 12.21 | 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 | 11.94 | 12.06 | 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 | 12.04 | 12.19 | 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 | 12.11 | 12.19 | 9.52 |
| Oct. | 7.99 | 7.16 | 7.33 | 7.45 | 7.88 | 7.81 | 7.15 | 9.50 | 9.25 | 10.24 | 10.50 | 11.82 | 9.54 | 11.97 | 12.11 | 9.50 |
| Nov. | 8.05 | 7.24 | 7.30 | 7.33 | 7.81 | 7.84 | 7.22p | 9.50 | 8.88 | 9.78 | 10.06 | 11.35 | 9.22 | 11.51 | 11.73 | 9.38 |
| Aug. 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 | 11.92 | 12.11 | 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 | 11.97 | 12.15 | 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 | 12.27 | 12.24 | 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 | 12.22 | 12.21 | 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 | 11.97 | 12.17 | 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 | 12.02 | 12.17 | 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 | 12.05 | 12.17 | 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 | 11.92 | 12.13 | 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 | 11.87 | 12.07 | 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 | 11.72 | 12.01 | 9.30 |
| Nov. 6 | 8.30 | 7.22 | 7.31 | 7.37 | 7.78 | 7.84 | 7.20 | 9.50 | 9.03 | 9.97 | 10.22 | 11.42 | 9.36 | 11.62 | 11.90 | 9.40 |
| 13 | 7.95 | 7.26 | 7.29 | 7.32 | 7.77 | 7.84 | 7.19 | 9.50 | 8.92 | 9.82 | 10.10 | 11.42 | 9.25 | 11.57 | 11.79 | 9.37 |
| 20 | 8.13 | 7.27 | 7.32 | 7.33 | 7.84 | 7.84 | 7.26 | 9.50 | 8.87 | 9.79 | 10.07 | 11.30 | 9.08 | 11.27 | 11.64 | 9.36 |
| 27 | 7.71 | 7.21 | 7.29 | 7.32 | 7.84 | 7.81 | 7.21 | 9.50 | 8.76 | 9.65 | 9.95 | 11.25 | 9.20 | 11.37 | 11.58 | 9.38 |
| Dec. 4 | 8.49 | 7.22 | 7.30 | 7.34 | 7.92 | 7.92 | 7.22 | 9.50 | 8.74 | 9.65 | 9.90 | 11.27 | 9.14 | 11.32 | 11.50 | 9.30 |
| 11 | 8.03 | 7.19 | 7.24 | 7.25 | 7.90 | 7.91 | 7.25 | 9.50 | 8.58 | 9.46 | 9.75 | 10.95 | 8.96 | 10.77 | 11.31 | 9.13 |
| Daily--Dec. 6 | 7.99p | 7.25 | 7.31 | 7.35 | 7.95 | 7.93 | — | 9.50 | 8.75 | 9.65 | 9.90 | -- | -- | -- | -- | -- |
| 12 | 7.90 | 7.08 | 7.07 | 7.10 | 7.74 | 7.80 | — | 9.50 | 8.38 | 9.27 | 9.58 | -- | -- | -- | -- | -- |
| 13 | 7.86p | 6.98 | 6.97 | 7.00 | 7.67 | 7.78 | — | 9.50 | 8.26p | 9.21p | 9.53p | -- | -- | -- | -- | -- |

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,

gages (FRMs) with 80 percent loan to-value ratios at a sample of savings and loans Column 16 is the average initial contract rate on new commitments for one-year, adjustable-rate mortgages (ARMs) at S&Ls offering both

# Money and Credit Aggregate Measures

Seasonally adjusted

Strictly Confidential (FR)—
Class II FOMC

DEC. 16, 1985

| Period | Money stock measures and liquid assets | | | | | | Bank credit | Domestic nonfinancial debt[1] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | M1 | M2 | nontransactions components | | M3 | L | total loans and investments[1] | U.S. government [2] | other [2] | total[2] |
| | | | in M2 | in M3 only | | | | | | |
| | 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 | 8.1 | 17.3 | 7.2 | 9.1 |
| 1983 | 10.4 | 12.2 | 12.8 | 1.1 | 10.0 | 10.5 | 10.6 | 21.5 | 8.5 | 11.2 |
| 1984 | 5.2 | 7.7 | 8.6 | 22.1 | 10.4 | 11.8 | 10.8 | 15.9 | 13.6 | 14.1 |
| QUARTERLY AVERAGE | | | | | | | | | | |
| 4TH QTR. 1984 | 3.2 | 9.1 | 10.9 | 18.7 | 11.0 | 9.7 | 9.4 | 16.1 | 13.3 | 14.0 |
| 1ST QTR. 1985 | 10.6 | 12.1 | 12.5 | 5.5 | 10.7 | 10.1 | 10.1 | 15.2 | 13.1 | 13.6 |
| 2ND QTR. 1985 | 10.2 | 5.3 | 3.8 | 4.8 | 5.2 | 5.8 | 9.7 | 12.3 | 11.6 | 11.8 |
| 3RD QTR. 1985 | 15.0 | 10.2 | 8.7 | -0.1 | 8.1 | 8.7 | 9.6 | 14.6 | 11.6 | 12.2 |
| MONTHLY | | | | | | | | | | |
| 1984--NOV. | 12.0 | 14.0 | 14.6 | 15.5 | 14.3 | 10.1 | 13.3 | 20.3 | 14.7 | 16.0 |
| DEC. | 10.2 | 13.0 | 13.9 | 19.0 | 14.2 | 13.2 | 9.8 | 17.6 | 15.0 | 15.6 |
| 1985--JAN. | 9.0 | 13.8 | 15.2 | -3.3 | 10.2 | 7.7 | 6.6 | 15.4 | 13.0 | 13.5 |
| FEB. | 14.3 | 11.1 | 10.1 | -3.1 | 8.1 | 10.6 | 12.9 | 12.6 | 10.8 | 11.2 |
| MAR. | 5.7 | 4.3 | 3.8 | 12.2 | 5.9 | 9.3 | 11.6 | 8.5 | 11.4 | 10.8 |
| APR. | 5.9 | -0.9 | -3.1 | 5.0 | 0.3 | 0.6 | 4.9 | 11.8 | 12.0 | 12.0 |
| MAY | 14.0 | 8.5 | 6.9 | 4.2 | 7.6 | 5.7 | 13.4 | 15.4 | 11.3 | 12.2 |
| JUNE | 19.8 | 13.7 | 11.9 | -2.1 | 10.5 | 9.6 | 9.5 | 14.1 | 11.5 | 12.0 |
| JULY | 9.3 | 8.6 | 8.4 | -10.1 | 4.8 | 6.1 | 10.9 | 16.6 | 11.3 | 12.6 |
| AUG. | 20.3 | 11.3 | 8.4 | 3.5 | 9.7 | 12.4 | 6.5 | 14.3 | 11.4 | 12.0 |
| SEPT. | 11.9 | 7.1 | 5.6 | 22.2 | 10.1 | 9.9 | 8.2 | 7.6 | 12.1 | 11.0 |
| OCT. | -1.6 | 2.1 | 3.3 | 10.9 | 3.9 | | 2.0 | 8.8 | 12.5 | 11.6 |
| NOV. P | 13.0 | 6.6 | 4.5 | -1.1 | 5.0 | | 16.3 | 24.8 | 13.5 | 16.1 |
| MONTHLY LEVELS ($BILLIONS) | | | | | | | | | | |
| 1985--JULY | 595.8 | 2490.6 | 1894.8 | 624.7 | 3115.3 | 3690.2 | 1819.0 | 1478.5 | 4877.9 | 6356.4 |
| AUG. | 605.9 | 2514.1 | 1908.1 | 626.5 | 3140.6 | 3728.2 | 1828.8 | 1496.1 | 4924.1 | 6420.2 |
| SEPT. | 611.9 | 2528.9 | 1917.0 | 638.1 | 3167.0 | 3759.1 | 1841.3 | 1505.6 | 4973.7 | 6479.3 |
| OCT. | 611.1 | 2533.4 | 1922.3 | 643.9 | 3177.3 | | 1844.4 | 1516.6 | 5025.3 | 6541.9 |
| NOV. P | 617.7 | 2547.3 | 1929.5 | 643.3 | 3190.6 | | 1869.4 | 1548.0 | 5081.8 | 6629.8 |
| WEEKLY LEVELS ($BILLIONS) | | | | | | | | | | |
| 1985--NOV. 4 | 612.2 | | | | | | | | | |
| 11 | 613.8 | | | | | | | | | |
| 18 | 616.6 | | | | | | | | | |
| 25P | 620.8 | | | | | | | | | |
| DEC. 2P | 626.1 | | | | | | | | | |

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

# Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

DEC. 16, 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 |
| ANNUALLY (4TH QTR): | | | | | | | | | | | | | | | | |
| 1982 | 133.4 | 237.5 | 101.3 | 40.7 | 14.4 | 359.4 | 863.1 | 187.6 | 51.8 | 332.8 | 34.5 | 82.5 | 67.8 | 182.7 | 107.8 | 43.4 |
| 1983 | 147.3 | 243.8 | 130.2 | 53.6 | 376.2 | 310.3 | 774.1 | 138.2 | 43.2 | 326.0 | 48.0 | 89.3 | 70.9 | 213.5 | 127.5 | 43.7 |
| 1984 | 157.9 | 246.6 | 143.9 | 57.5 | 403.2 | 290.6 | 878.9 | 161.7 | 57.7 | 410.7 | 69.9 | 81.9 | 73.9 | 269.4 | 158.7 | 43.8 |
| MONTHLY | | | | | | | | | | | | | | | | |
| 1984-NOV. | 157.9 | 246.8 | 143.9 | 58.1 | 402.4 | 290.7 | 878.5 | 162.0 | 58.3 | 410.7 | 70.7 | 81.9 | 73.9 | 268.0 | 157.6 | 43.4 |
| DEC. | 158.7 | 248.6 | 146.0 | 57.6 | 415.1 | 288.6 | 885.6 | 167.5 | 62.7 | 416.2 | 69.7 | 83.2 | 74.1 | 267.2 | 161.8 | 43.2 |
| 1985-JAN. | 159.4 | 249.1 | 149.0 | 62.9 | 433.7 | 288.6 | 881.9 | 171.9 | 65.0 | 416.9 | 65.0 | 81.1 | 74.4 | 266.7 | 159.6 | 42.8 |
| FEB. | 160.5 | 251.7 | 151.8 | 69.6 | 448.3 | 289.4 | 877.6 | 175.1 | 62.2 | 419.3 | 65.7 | 81.3 | 74.9 | 270.3 | 164.8 | 44.6 |
| MAR. | 161.3 | 251.9 | 153.6 | 68.2 | 457.9 | 288.6 | 878.6 | 177.6 | 59.5 | 423.6 | 68.9 | 84.7 | 75.3 | 275.9 | 169.8 | 46.4 |
| APR. | 161.7 | 252.5 | 155.3 | 59.4 | 460.3 | 287.8 | 885.3 | 176.2 | 59.6 | 427.3 | 71.9 | 80.7 | 75.8 | 277.8 | 168.9 | 46.1 |
| MAY | 163.1 | 255.8 | 157.3 | 64.0 | 463.8 | 289.3 | 892.0 | 172.2 | 63.5 | 428.2 | 68.8 | 80.8 | 76.2 | 276.8 | 168.6 | 44.8 |
| JUNE | 164.5 | 260.7 | 160.3 | 63.0 | 475.1 | 292.1 | 894.2 | 175.4 | 67.1 | 424.1 | 66.9 | 78.3 | 76.6 | 284.6 | 164.7 | 42.8 |
| JULY | 165.4 | 260.9 | 163.6 | 62.5 | 484.1 | 296.0 | 888.5 | 175.8 | 65.0 | 420.0 | 65.0 | 77.4 | 76.7 | 284.4 | 171.1 | 42.7 |
| AUG. | 167.1 | 264.1 | 168.9 | 66.1 | 492.1 | 300.3 | 878.4 | 176.8 | 63.6 | 421.3 | 67.4 | 78.3 | 77.2 | 285.5 | 182.0 | 42.9 |
| SEPT. | 167.9 | 266.8 | 171.3 | 66.6 | 496.7 | 301.7 | 874.4 | 176.7 | 62.3 | 428.5 | 70.3 | 78.8 | 78.1 | 287.1 | 184.2 | 42.8 |
| OCT. | 168.8 | 264.0 | 172.4 | 67.6 | 501.1 | 304.4 | 871.6 | 176.9 | 63.3 | 433.3 | 70.3 | 78.0 | | | | |
| NOV. P | 169.9 | 266.2 | 175.7 | 69.5 | 506.4 | 305.7 | 871.5 | 176.4 | 64.5 | 437.5 | 72.9 | 77.0 | | | | |

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

# Net Changes in System Holdings of Securities[1]

**Millions of dollars, not seasonally adjusted**

December 16, 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--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 |
| Oct. | -265 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -265 | -732 |
| Nov. | 830 | -615 | 650 | 184 | 131 | 350 | -- | -- | -- | -- | -- | 1,180 | -718 |
| 1985--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 |
| Nov. 6 | 185 | -- | 350 | -- | -- | 350 | -- | -- | -- | -- | -- | 535 | 9,939 |
| 13 | 551 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 551 | -646 |
| 20 | 615 | -615 | -- | -- | -- | -615 | -- | -- | -- | -- | -- | -- | -8,688 |
| 27 | -232 | -- | 300 | -- | -- | 300 | -- | -- | -- | -- | -- | 68 | 4,227 |
| Dec. 4 | 3,384 | -- | -- | 184 | 131 | 315 | -- | -- | -- | -- | -- | 3,699 | 12,098 |
| 11 | 442 | 143 | 868 | 345 | 197 | 1,552 | -- | -- | -- | -- | -- | 1,995 | -6,194 |
| LEVEL--Dec. 12 | 86.9 | 20.0 | 35.8 | 14.8 | 21.8 | 92.4 | 2.5 | 4.1 | 1.2 | .4 | 8.2 | 189.7 | -2.2 |

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 (+)