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September 29, 1989

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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

September 29, 1989

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) The Federal Reserve has maintained an unchanged stance in the reserves market since the August FOMC meeting. The borrowing objective has been kept at \$550 million, and borrowing averaged \$554 million in the two complete maintenance periods since that meeting. Through the first eight days of the current maintenance period, borrowing has increased to \$758 million, but \$166 million of this appears to be attributable to problems associated with Hurricane Hugo. Seasonal credit has dropped only a little since the past meeting, and adjustment borrowing (abstracting from the hurricane's effect) remains unusually low. Federal funds have traded mostly in a narrow range around 9 percent, as they have since late July.

(2) With federal funds steady and economic data released over the intermeeting period generally according with market expectations, most interest rates are little changed on balance. Rates did soften some through mid-September, at least partly on a sense that the strengthening dollar could improve the odds of an easing in monetary policy. In the case of Treasury securities, this movement was accentuated by the well-publicized difficulties of a few prominent issuers of junk bonds that touched off a mild flight to quality. At their intermeeting lows, Treasury bill rates were down about 1/2 percentage point, and Treasury bond yields had fallen 1/4 point. These gains began to erode when tensions in the junk bond market eased and interest rates generally edged higher as

the dollar declined against other G-10 currencies. The stock market reached record highs in early September but began to retreat as problems emerged in junk bonds; on balance most indexes still are up 2 to 3 percent over the intermeeting period.

(3) Interest rates on mortgages and mortgage-related securities generally have fallen relative to yields on benchmark Treasury issues. Narrower spreads in the mortgage market likely owe to improved investor confidence in the ability of the market to absorb assets from thrifts. Commercial banks, the federal mortgage agencies, and insurance companies among others, have proven willing to step up acquisitions of mortgage assets. Given this apparent willingness, along with evidence of some rebound in housing sales, it is believed that mortgage credit has been well maintained in recent months.

(4) The dollar strengthened through mid-September, despite the edging down of interest rates in the United States and some increase in rates abroad. Subsequently the dollar eased, and then dropped sharply immediately after the release of the G-7 statement on September 23 and the associated visible coordinated intervention .

In addition, growing market expectations that monetary policy abroad might be tightened have contributed to the slippage of the dollar in recent days. On balance over the intermeeting period, the dollar is 2-1/2 percent lower against the trade-weighted average of other G-10 currencies.

. The Desk sold about \$3.4 billion against yen and marks, nearly \$1 billion of this total following the G-7 meeting.

(5) Growth in the monetary aggregates slowed in August and September from their advanced July pace, which likely had been boosted by the replenishment of balances used to pay taxes last spring. M1 rose at a rate of only 3/4 percent in August, and is expected to increase at around a 5 percent clip in September.¹ While M2 also decelerated, its growth remained at a brisk 7-1/4 percent pace over August and September. At an 8-3/4 percent rate, the June-to-September expansion of M2 is near the Committee's specification at the August FOMC meeting of 9 percent, and has lifted M2 to about 4 percent, at an annual rate, above its 1988-Q4 base. Weakness in demand deposits and overnight RPs and Eurodollars restrained M2 in August and September; the retail components of M2 expanded at close to a 10 percent pace in all three months of the quarter. Growth in these components has been supported by the lagged effects of earlier declines in market interest rates. Inflows to money funds were particularly strong, buoyed by the drop in small time deposit rates, shifts from junk bond funds, and special promotional activities by certain fund sponsors. Deposit expansion was concentrated at commercial banks as the yield advantage on thrift deposits shrank. On balance, the thrift bailout so far seems primarily to have affected the composition of M2, rather than its growth rate.

1. Currency contributed importantly to this acceleration in M1, lifting growth of the monetary base from a 1-1/4 percent rate in August to an estimated 7-1/2 percent pace in September.

(6) In contrast to its minimal net effect on the growth of M2, the restructuring of the thrift industry has stunted growth of M3. Expansion of this aggregate slipped to less than a 2 percent rate over August and September, lower even than the 5-3/4 percent pace projected at the August FOMC meeting. This brought June-to-September growth to 4 percent, compared with the 7 percent specification of the Committee, moving it to around the lower bound of its 1989 target cone. Before today, the RTC had disbursed a little over half of the \$20 billion authorized for spending in fiscal year 1989.² However, only a portion of these funds, perhaps \$4 to \$5 billion by month-end, had been used to directly replace liabilities in M3, including deposit payoffs at liquidated institutions.³ More important for M3 have been the efforts of a much broader group of inadequately capitalized thrift institutions to shrink their balance sheets. These undercapitalized thrifts account for the bulk of the over \$17 billion decline (40 percent at an annual rate) in the sum of large time deposits and term RPs at thrift institutions from July to September. As a group, thrifts account for slightly more than half of the shortfall of M3 in September relative to the Committee's August path, with most of the remainder attributable to a significantly higher Treasury balance at commercial banks--itself partly a product of funding the thrift bailout--and some shortfall in bank credit.

2. An additional \$8 billion was scheduled to be disbursed today, the last day of the fiscal year, through a special transaction that placed government securities in thrifts funded by a note issued to the RTC. At this writing, it is not clear whether this transaction has been completed.

3. The balance, aside from that disbursed today, was used to pay down advances from Federal Home Loan Banks and other non-M3 borrowings.

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

	July	Aug.	Sept. ^{pe}	June to Sept. ^{pe}	QIV '88 to Sept. ^{pe}
<u>Money and credit aggregates</u>					
M1	10.7	0.8	4-3/4	5-1/2	-1
M2	11.5	7.2	7-1/4	8-3/4	4
M3	9.0	1.9	1-1/2	4	3-1/2
Domestic nonfinancial debt	6.1	9.4	n.a.	7-3/4 ¹	8.0 ²
Bank credit	9.9	7.8	7	8-1/4	7
<u>Reserve measures</u>					
Nonborrowed reserves ³	6.9	0.3	8-3/4	5-1/2	-3-1/2
Total reserves	7.2	1.3	7-1/4	5-1/4	-3-1/4
Monetary base	4.0	1.3	7-1/2	4-1/4	3-1/4
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	588	633	595	--	--
Excess reserves	966	890	945	--	--
pe - preliminary estimate. n.a. - not available.					

1. June to August.

2. QIV '88 to August.

3. Includes "other extended credit" from the Federal Reserve.

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. The September figures assume an average level of adjustment plus seasonal borrowing of \$645 million--including \$95 million of special situation borrowing associated with Hurricane Hugo--and excess reserves of \$950 million for the maintenance period ending October 4.

(7) The trend of debt growth appears to have been well maintained in recent months. Debt of the nonfinancial sectors appears to have accelerated to about a 9-1/2 percent rate of growth in August, but much of this pickup can be traced to a burst of short-term borrowing by the Treasury to cover the RTC's initial outlays; private debt growth appears to have quickened slightly. Consumer credit likely grew faster in August, at least in part because of incentive-driven increases in auto sales. The pace of borrowing in the business sector ebbed in August, however, and appears to be fairly subdued in September as well.

Policy Alternatives

(8) Three alternatives are presented below. Under alternative B, a federal funds rate of around 9 percent would be expected to be associated, at least initially, with adjustment plus seasonal borrowing of \$500 million. This level of borrowing is \$50 million less than the current assumption, in order to take into account the decline in seasonal borrowing that is likely to occur early in the intermeeting period. Based on the experience of last year, seasonal borrowing should not only drop significantly in the next maintenance period but also fall substantially further over the balance of the intermeeting period, suggesting that another downward technical adjustment might be called for before the next meeting. Such adjustments are needed this year because seasonal borrowing has reached record levels and its seasonal decline will be exceptionally large. Moreover, with adjustment borrowing close to frictional levels, it probably is relatively insensitive to movements in the spread between the federal funds and discount rates. Thus, in current circumstances the funds rate would tend to rise appreciably in the absence of technical adjustments to the borrowing assumption because the interest sensitivity of seasonal and adjustment borrowing combined is quite low. This also implies that, under alternative A, a decline of only \$100 million in the borrowing objective--to \$400 million--is likely to be associated with a decrease in the federal funds rate to around 8-1/2 percent; similarly, a rise of only \$100 million in borrowing--to \$600 million--would be associated with an increase in the federal funds rate to around 9-1/2 percent under alternative C. In any event, owing to the continued uncertainty

about the borrowing relationship, some flexibility in pursuit of the borrowing objective would again seem to be warranted.

(9) Under all of the alternatives, M2 is expected to stay comfortably within its annual range this year. Indeed, supported by previous declines in market interest rates, this aggregate would continue to rise within the lower half of its range over the remainder of this year. M3 is likely to grow sluggishly under all three alternatives, remaining a little above the lower end of its annual range. Growth of this aggregate will be damped by ongoing reductions in assets and M3 liabilities at undercapitalized thrifts and by RTC outlays that substitute in part for M3 managed liabilities. However, the staff has assumed both of these activities will slow somewhat on average in the fourth quarter from the pace of recent months, contributing to some acceleration in M3. M1 would expand under all three alternatives, returning it by year-end to about its level at the end of 1988.

	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
Growth from September to December			
M2	8	6-1/2	5
M3	5	4-1/2	4
M1	6-1/2	4-1/2	2-1/2
Implied growth from Q4'88 to Q4'89			
M2	4-1/2	4-1/4	4
M3	3-3/4	3-3/4	3-3/4
M1	1/4	0	-1/2
Associated federal funds rate range	7 to 11	7 to 11	7 to 11

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
Levels in billions									
1989 July	3117.5	3117.5	3117.5	4003.2	4003.2	4003.2	777.2	777.2	777.2
August	3136.3	3136.3	3136.3	4009.4	4009.4	4009.4	777.7	777.7	777.7
September	3155.3	3155.3	3155.3	4014.4	4014.4	4014.4	780.8	780.8	780.8
October	3174.8	3172.7	3170.6	4029.2	4028.5	4027.8	784.5	783.9	783.3
November	3195.9	3189.8	3183.7	4043.6	4041.2	4038.8	788.2	786.3	784.4
December	3218.6	3206.8	3195.0	4063.7	4058.6	4053.5	793.3	789.4	785.5
Monthly Growth Rates									
1989 July	11.5	11.5	11.5	9.0	9.0	9.0	10.7	10.7	10.7
August	7.2	7.2	7.2	1.9	1.9	1.9	0.8	0.8	0.8
September	7.3	7.3	7.3	1.5	1.5	1.5	4.8	4.8	4.8
October	7.4	6.6	5.8	4.4	4.2	4.0	5.7	4.8	3.9
November	8.0	6.5	5.0	4.3	3.8	3.3	5.7	3.7	1.7
December	8.5	6.4	4.3	6.0	5.2	4.4	7.8	4.7	1.7
Quarterly Ave. Growth Rates									
1988 Q4	3.6	3.6	3.6	4.8	4.8	4.8	2.3	2.3	2.3
1989 Q1	1.8	1.8	1.8	3.7	3.7	3.7	-0.4	-0.4	-0.4
Q2	1.2	1.2	1.2	2.9	2.9	2.9	-5.6	-5.6	-5.6
Q3	7.3	7.3	7.3	4.7	4.7	4.7	1.5	1.5	1.5
Q4	7.7	6.8	6.0	3.6	3.4	3.1	5.2	4.1	3.0
June 89 to Sept 89	8.7	8.7	8.7	4.1	4.1	4.1	5.5	5.5	5.5
Sept 89 to Dec. 89	8.0	6.5	5.0	4.9	4.4	3.9	6.4	4.4	2.4
Q4 88 to Q2 89	1.5	1.5	1.5	3.3	3.3	3.3	-3.0	-3.0	-3.0
Q4 88 to Q3 89	3.5	3.5	3.5	3.8	3.8	3.8	-1.5	-1.5	-1.5
Q4 88 to Q4 89	4.6	4.3	4.1	3.8	3.7	3.7	0.2	-0.1	-0.4
Q4 88 to Aug. 89	3.5	3.5	3.5	3.8	3.8	3.8	-1.6	-1.6	-1.6
Q4 88 to Sept 89	3.9	3.9	3.9	3.6	3.6	3.6	-1.0	-1.0	-1.0
Q4 88 to Dec. 89	4.9	4.5	4.2	3.9	3.8	3.7	0.7	0.2	-0.2
1989 Target Ranges:	3.0 to 7.0			3.5 to 7.5					

Chart 1

ACTUAL AND TARGETED M2

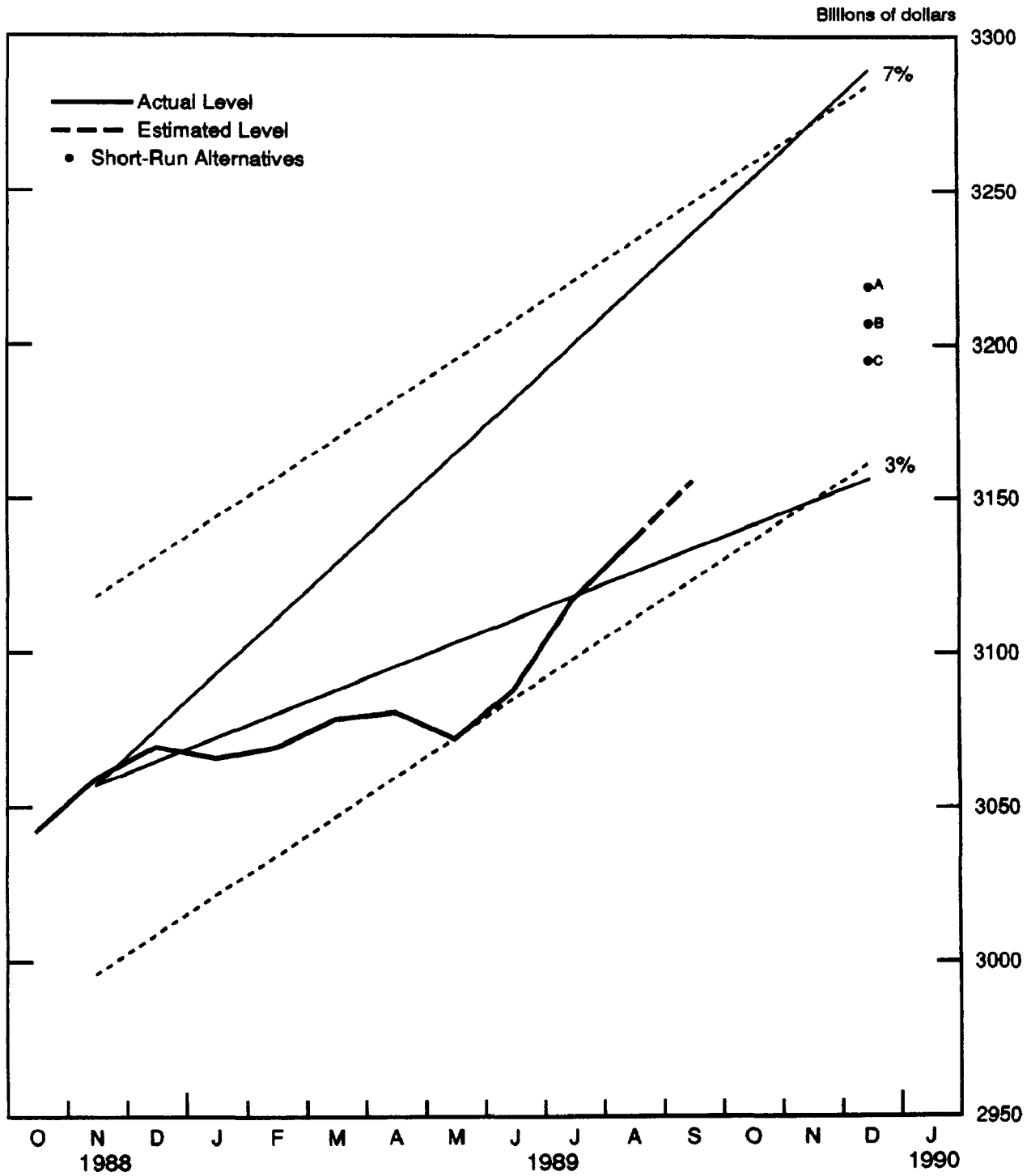


Chart 2

ACTUAL AND TARGETED M3

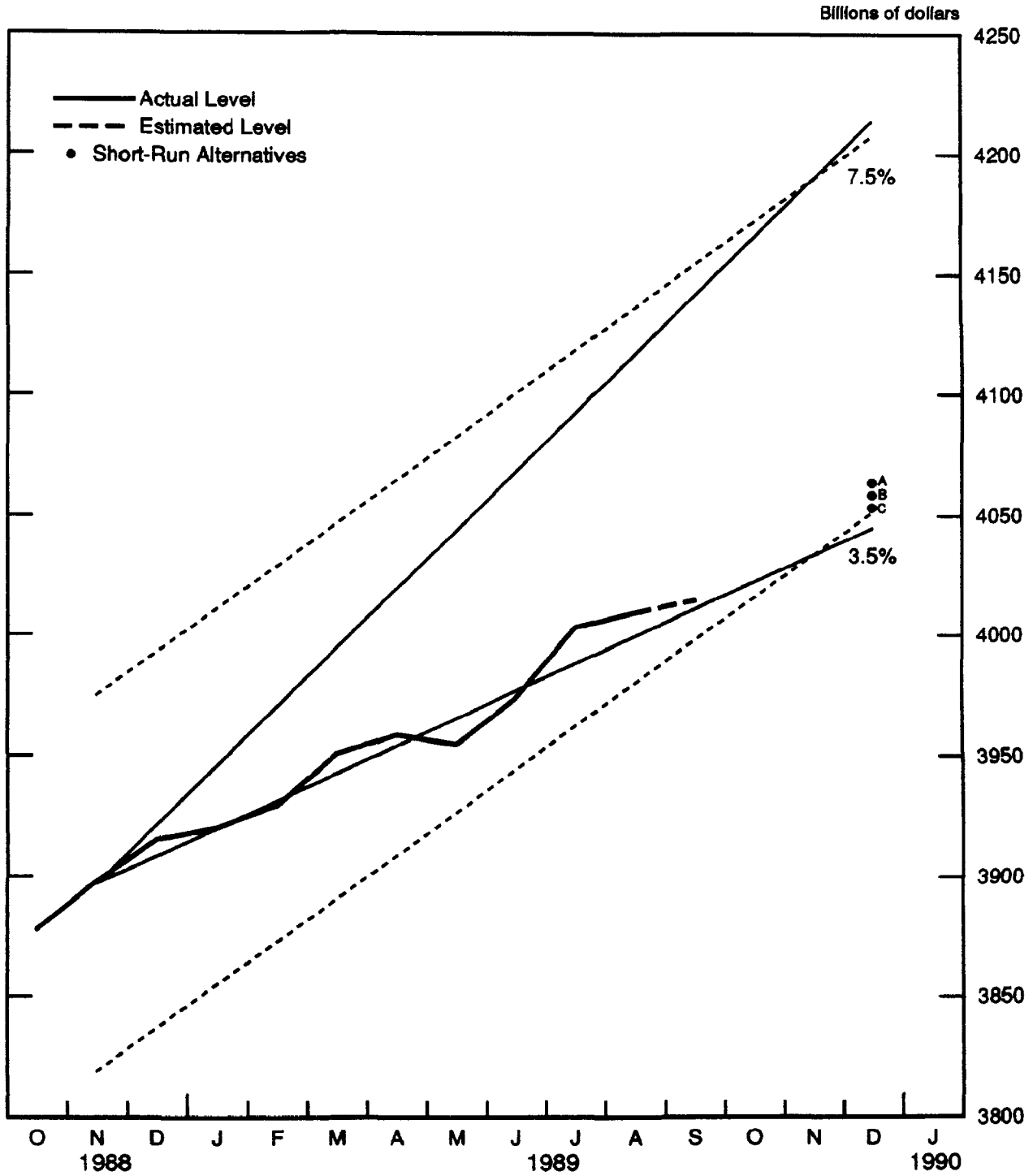


Chart 3

M1

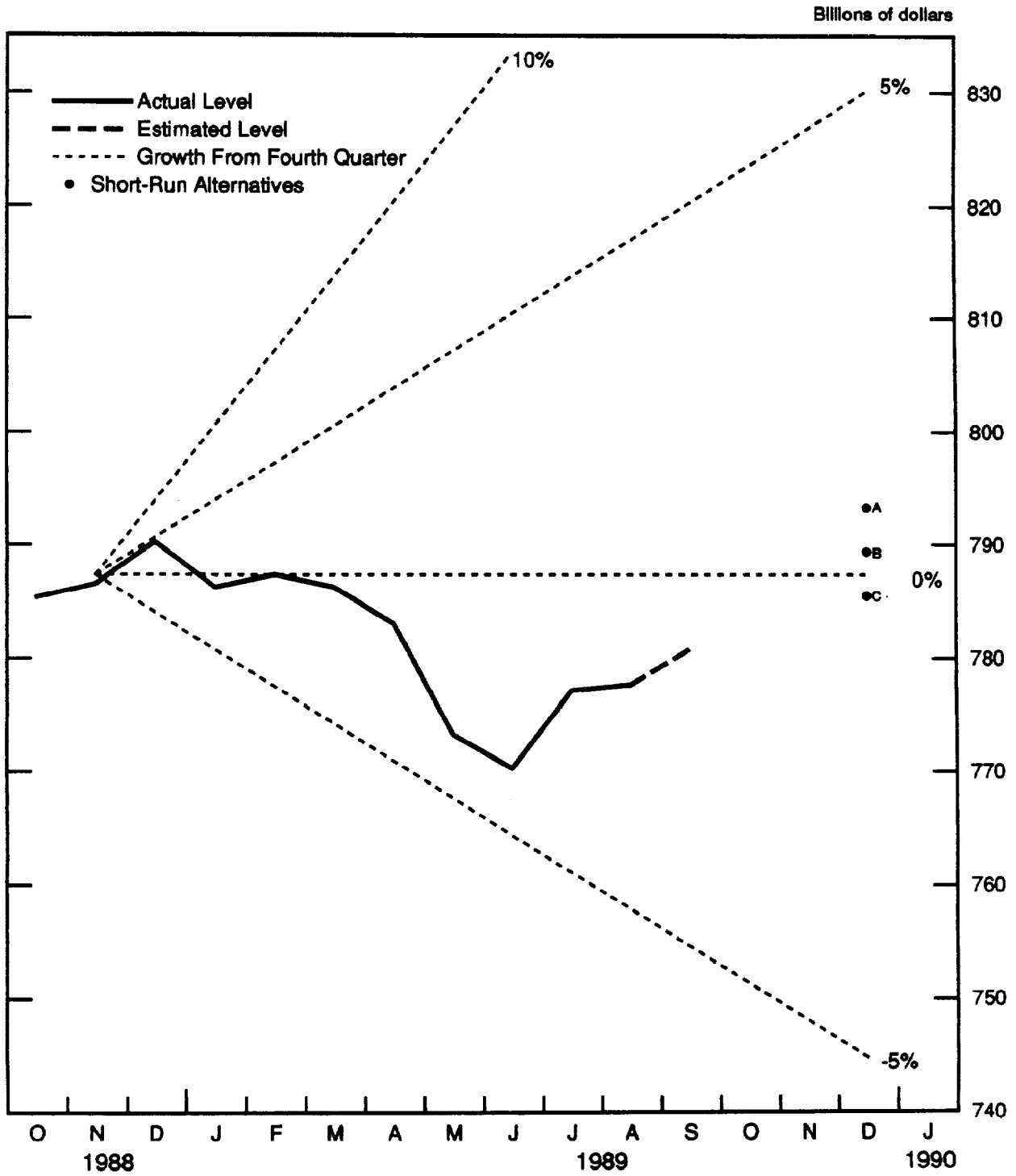
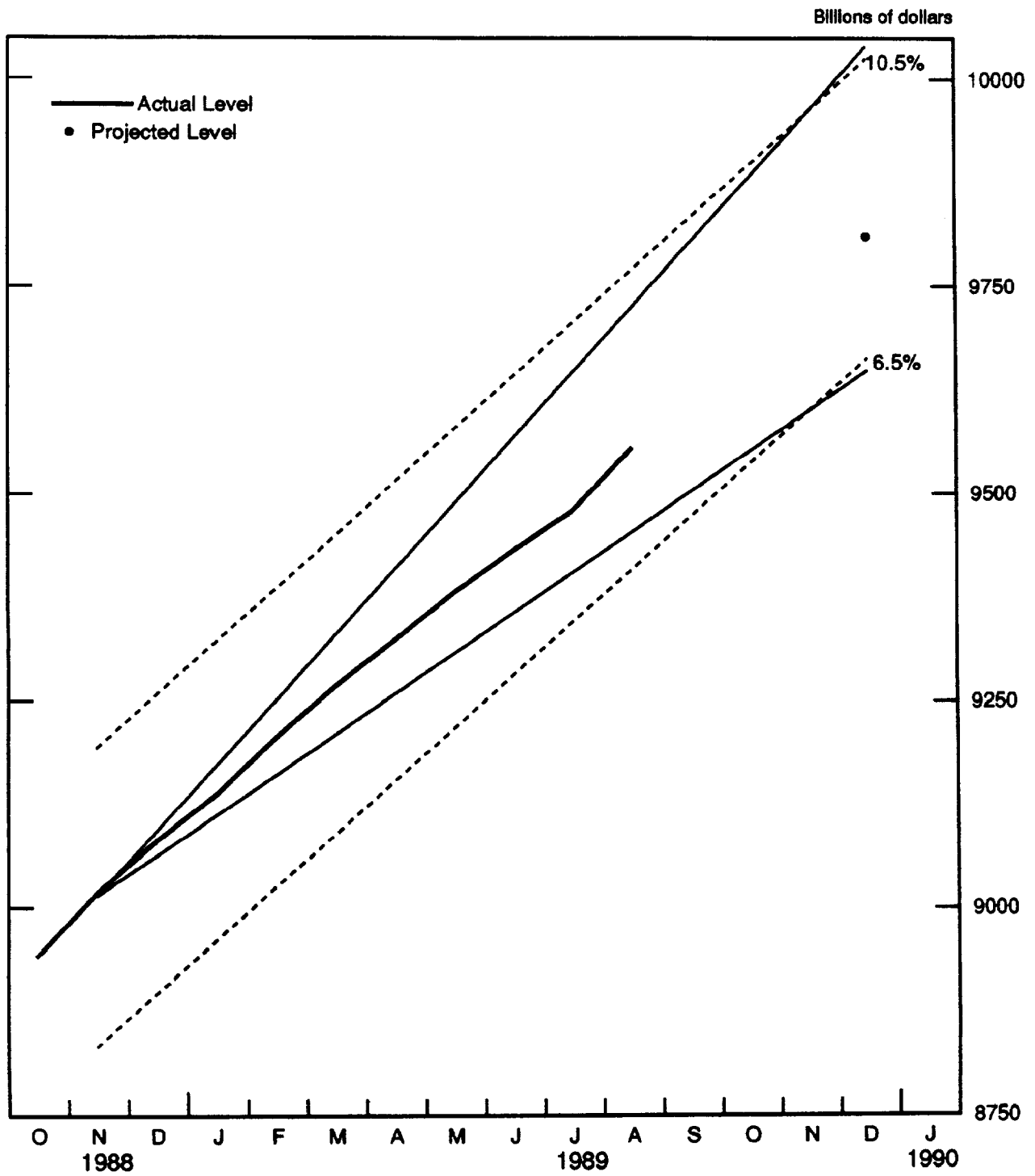


Chart 4
DEBT



(10) Interest rates would be expected to remain near current levels under alternative B. Markets do not now appear to be anticipating any near-term change in policy, and incoming economic data consistent with the staff greenbook forecast are not likely to provoke significant change in market sentiment. In the weeks ahead, Treasury markets may be buffeted by the possible sale of sizable volumes of REFCORP bonds and by shifting odds on triggering a debt ceiling decline on November 1, which could affect the mid-quarter refunding. The dollar would be expected to fluctuate around current lower levels, or weaken a little further should some key foreign central banks tighten policy--as to a degree now seems to be expected by markets. Should the dollar rebound strongly, however, domestic interest rates might edge off if market participants saw this as implying reduced inflation pressures and greater prospects for policy easing in the United States.

(11) Under alternative B, M2 is expected to grow at a 6-1/2 percent annual rate over the September-to-December period, a little below the recent pace. This implies quarterly average growth at a 6-3/4 percent rate and a further decline in velocity at about a 1-1/2 percent rate, reflecting the lagged effects of earlier interest rate declines. Monthly inflows to retail M2 would be expected to moderate as the effects of previous declines in opportunity costs abate, and as money funds no longer are boosted by shifts from junk bond funds and by special promotional efforts. Retail deposit growth at thrift institutions is likely to remain sluggish owing to the less aggressive bidding posture of these institutions recently. On the other hand, overnight RPs are not expected to run

off further and demand deposits might strengthen if compensating balances need to be boosted by year-end to take account of the lower level of market interest rates. Overall, M1 should grow at around a 4-1/2 percent rate over this period, near its September pace.

(12) Under alternative B, M3 growth would pick up a bit from its August and September pace to a 4-1/2 percent rate. In addition to the slowing of reductions in assets and M3 liabilities at thrifts, bank credit may strengthen. While banks continue to enjoy relatively favorable core deposit inflows, banks will need to tap additional managed liabilities to fund the faster credit growth and replace balances withdrawn by the Treasury. Banks should continue to make further large acquisitions of mortgage assets, whose returns are still relatively attractive. More generally, enlarged issuance of mortgage-backed securities and heightened activity by sponsored agencies will facilitate the redistribution of mortgage lending without further significant effects on its cost and availability. In the business sector, borrowing is expected to remain around the reduced pace of recent months, despite some dropoff in corporate share retirements owing in part to the higher cost of leveraging. Although Treasury borrowing also will slacken, this deceleration merely represents the movement of RTC financing off budget in the new fiscal year, rather than a decline in underlying credit demands. In total, domestic nonfinancial debt is expected to grow at around an 8 percent annual rate over the fourth quarter, implying similar growth for the year, a little below the midpoint of its annual monitoring range.

(13) Under alternative A, short-term interest rates are likely to fall in tandem with the 50 basis point drop in the funds rate. The dollar would decline, and the decline might be substantial if the Federal Reserve's action were interpreted as a willingness to use monetary policy to bring about a depreciation of the dollar. Bond rates probably would move lower, though by less than short-term rates. Limiting the response of bonds might be a sense that following the unanticipated easing of policy, the economy could be a little stronger than previously expected in 1990 and price pressures somewhat amplified, especially if the drop in the dollar were particularly sharp. The decline in rates would tend to boost M2 growth to a somewhat faster pace than in August and September. Early next year, the continuing effects of the further decline in opportunity costs, along with a tendency for income growth to begin to strengthen, likely would result in growth of M2 at a rate above the Committee's tentative range for 1990. M3 growth would strengthen to a 5 percent rate over the September-to-December period under alternative A.

(14) The tightening of policy under alternative C would come as a surprise to the markets, especially in the present international environment. Money market interest rates would rise by around the 50 basis point hike in the federal funds rate, and the dollar would strengthen. With such a tightening not built into yield curves, bond rates would be expected to firm somewhat in the near term as the market reassessed the degree of aggressiveness by the System in pursuing its price stability objective. M2 growth over the September-to-December period would slow to a 5 percent rate. The composition of inflows would move toward small time

deposits, whose rates adjust more promptly, and away from liquid accounts; its M1 component would slow to a 2-1/2 percent rate. The restraining effects of higher interest rates and opportunity costs under this alternative should be sufficient to hold M2 to around the middle of its tentative 1990 range in the early part of next year. M3 would grow at only a 4 percent annual rate, ending the year very close to the lower end of its 1989 range.

Directive language

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

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/maintain/ INCREASE SOMEWHAT the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, 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 June through September THROUGH DECEMBER at annual rates of about ___ AND ___ 9 and 7 percent, respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of ___ TO ___ 7 to 11 percent.

SELECTED INTEREST RATES
(percent)

	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	municipal Bond Buyer	conventional home mortgages		
		1	3-month	6-month					1-year	5	10-year			30-year	12	13	secondary market fixed rate	primary market fixed rate	ARM
88 -- High	8.87	8.16	8.26	8.40	9.33	9.41	8.18	10.50	9.16	9.36	9.42	10.73	8.34	11.33	10.81	8.54
Low	6.38	5.61	5.81	6.15	6.58	6.50	6.03	8.50	7.33	8.16	8.40	9.63	7.64	9.98	9.84	7.49
89 -- High	9.95	9.04	9.07	8.96	10.23	9.98	9.19	11.50	9.77	9.46	9.26	10.47	7.95	11.73	11.22	9.41
Low	8.95	7.64	7.44	7.16	8.43	8.64	8.23	10.50	7.60	7.82	7.92	9.45	7.19	9.92	9.68	8.53
Monthly																
Sep 88	8.19	7.24	7.43	7.53	8.23	8.09	7.40	10.00	8.57	8.98	9.06	10.26	7.96	10.62	10.48	8.14
Oct 88	8.30	7.35	7.50	7.54	8.36	8.12	7.50	10.00	8.43	8.80	8.89	10.11	7.78	10.41	10.30	8.12
Nov 88	8.35	7.76	7.86	7.87	8.78	8.38	7.64	10.05	8.72	8.96	9.02	10.12	7.80	10.56	10.27	8.15
Dec 88	8.76	8.07	8.22	8.32	9.25	9.31	8.00	10.50	9.11	9.11	9.01	10.08	7.88	10.98	10.61	8.39
Jan 89	9.12	8.27	8.36	8.37	9.20	9.03	8.33	10.50	9.20	9.09	8.93	10.09	7.63	10.97	10.73	8.55
Feb 89	9.36	8.53	8.55	8.55	9.51	9.29	8.79	10.93	9.32	9.17	9.01	10.25	7.72	11.03	10.65	8.65
Mar 89	9.85	8.82	8.85	8.82	10.09	9.88	8.89	11.50	9.61	9.36	9.17	10.37	7.85	11.47	11.03	9.09
Apr 89	9.84	8.65	8.65	8.64	9.94	9.77	9.14	11.50	9.40	9.18	9.03	10.33	7.73	11.32	11.05	9.40
May 89	9.81	8.43	8.41	8.31	9.59	9.57	9.13	11.50	8.98	8.86	8.63	10.09	7.51	10.90	10.77	9.30
Jun 89	9.53	8.15	7.93	7.84	9.20	9.34	8.96	11.07	8.37	8.28	8.27	9.65	7.35	10.39	10.20	9.03
Jul 89	9.24	7.88	7.61	7.36	8.76	8.95	8.72	10.98	7.83	8.02	8.08	9.54	7.28	10.11	9.88	8.74
Aug 89	8.99	7.90	7.74	7.61	8.64	8.79	8.32	10.50	8.13	8.11	8.12	9.55	7.36	10.38	9.99	8.65
Weekly																
Jun 7 89	9.68	8.31	8.06	7.93	9.27	9.42	9.08	11.29	8.48	8.41	8.46	9.63	7.28	10.28	10.20	9.09
Jun 14 89	9.35	8.16	7.83	7.77	9.08	9.25	8.94	11.00	8.30	8.21	8.19	9.70	7.27	10.47	10.04	8.95
Jun 21 89	9.48	8.13	8.00	7.93	9.25	9.33	8.88	11.00	8.47	8.35	8.31	9.59	7.42	10.42	10.19	9.00
Jun 28 89	9.58	8.08	7.92	7.83	9.23	9.35	8.88	11.00	8.33	8.22	8.18	9.49	7.34	10.26	10.07	8.92
Jul 5 89	9.58	7.92	7.68	7.53	9.09	9.31	8.85	11.00	8.04	8.11	8.09	9.54	7.32	10.14	10.03	8.85
Jul 12 89	9.31	7.75	7.50	7.35	8.83	9.01	8.75	11.00	7.83	8.02	8.05	9.57	7.27	10.19	9.82	8.73
Jul 19 89	9.24	7.87	7.67	7.39	8.73	8.91	8.65	11.00	7.87	8.06	8.11	9.60	7.26	10.20	9.87	8.72
Jul 26 89	9.14	8.05	7.71	7.43	8.74	8.93	8.59	11.00	7.85	8.03	8.13	9.45	7.26	9.92	9.81	8.64
Aug 2 89	8.95	7.76	7.44	7.16	8.43	8.64	8.47	10.79	7.80	7.82	7.92	9.54	7.19	10.23	9.68	8.60
Aug 9 89	8.98	7.86	7.62	7.46	8.50	8.70	8.32	10.50	7.92	7.98	8.05	9.56	7.31	10.36	9.96	8.62
Aug 16 89	9.04	7.97	7.74	7.66	8.68	8.84	8.32	10.50	8.15	8.14	8.15	9.55	7.39	10.47	10.09	8.69
Aug 23 89	9.01	7.94	7.90	7.78	8.77	8.85	8.31	10.50	8.30	8.21	8.19	9.58	7.47	10.47	10.21	8.69
Aug 30 89	8.96	7.93	7.87	7.75	8.76	8.86	8.29	10.50	8.35	8.24	8.20	9.58	7.46	10.48	10.22	8.74
Sep 6 89	8.96	7.86	7.80	7.69	8.80	8.88	8.23	10.50	8.33	8.20	8.15	9.55	7.43	10.43	10.17	8.71
Sep 13 89	8.96	7.70	7.69	7.59	8.75	8.86	8.26	10.50	8.19	8.15	8.10	9.49	7.45	10.30	10.05	8.68
Sep 20 89	9.05	7.64	7.62	7.53	8.70	8.82	8.25	10.50	8.11	8.11	8.11	9.56	7.59	10.42	10.03	8.70
Sep 27 89	9.02	7.80	7.80	7.72	8.83	8.89	8.25	10.50	8.35	8.27	8.24	9.60	7.59	10.57	10.16	8.70
Daily																
Sep 22 89	8.99	7.76	7.75	7.66	8.79	8.87	..	10.50	8.27	8.22	8.20	..	..	..	..	..
Sep 28 89	9.20	7.87	7.85	7.80	8.86	8.92	..	10.50	8.42	8.30	8.25	..	..	..	..	..
Sep 29 89	9.47 _p	7.91	7.90	7.87	8.96	8.99	..	10.50	8.46 _p	8.31 _p	8.24 _p	..	..	..	..	..

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

Bank Reserves, Money and Credit Aggregate Measures

Seasonally adjusted

OCT. 2, 1989

Period	Bank reserves ¹			Money stock measures and liquid assets				Bank credit	Domestic nonfinancial debt		
	nonborrowed	total	monetary base	M1	M2	M3	L	total loans and investments	U.S. government ²	other ³	total ⁴
	1	2	3	4	5	6	7	8	9	10	11
LEVELS (\$BILLIONS) :											
ANNUALLY (4TH QTR.)											
1986	55,725	56,532	238,801	709.4	2788.3	3470.2	4109.9	2068.9	1783.8	5725.7	7509.5
1987	58,393	59,175	256,914	754.7	2905.7	3667.7	4335.0	2237.6	1943.7	6311.1	8254.9
1988	58,514	60,807	274,513	787.4	3057.1	3897.1	4642.9	2409.6	2098.8	6915.1	9013.9
MONTHLY											
1988-AUG.	57,663	60,903	270,979	782.4	3029.7	3851.5	4583.9	2377.6	2058.5	6761.0	8819.5
SEP.	57,985	60,824	272,420	783.7	3035.0	3861.0	4592.2	2381.5	2076.2	6806.0	8882.2
OCT.	58,562	60,862	273,659	785.4	3042.3	3877.9	4613.3	2401.4	2084.7	6858.2	8942.9
NOV.	57,991	60,853	274,380	786.6	3059.4	3898.1	4639.4	2410.2	2098.2	6919.6	9017.7
DEC.	58,990	60,706	275,501	790.3	3069.5	3915.4	4676.1	2417.2	2113.5	6967.6	9081.1
1989-JAN.	58,708	60,370	276,784	786.3	3065.8	3920.2	4679.8	2422.8	2121.8	7016.0	9137.8
FEB.	58,773	60,260	277,553	787.4	3069.4	3929.5	4692.0	2451.9	2137.8	7068.4	9206.1
MAR.	58,041	59,854	278,615	786.3	3078.4	3950.8	4726.2	2464.9	2158.7	7109.0	9267.8
APR.	57,174	59,463	278,675	783.1	3080.6	3958.6	4744.1	2470.9	2168.8	7154.9	9323.7
MAY	57,019	58,740	278,329	773.3	3072.1	3954.6	4743.0	2486.3	2176.5	7204.3	9380.8
JUNE	56,860	58,350	279,056	770.3	3088.0	3973.5	4746.7	2496.8	2184.3	7247.3	9431.6
JULY	58,004	58,698	279,983	777.2	3117.5	4003.2	4777.1	2518.1	2184.5	7294.8	9479.3
AUG.	58,085	58,760	280,294	777.7	3136.3	4009.4		2534.4	2204.6	7349.2	9553.8

1. Reserves data are in millions of dollars, and have been adjusted for discontinuities.
 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

seasonally adjusted unless otherwise noted

OCT. 2, 1989

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA ¹	MMDAs NSA	Savings deposits	Small denomination time deposits ²	Money market mutual funds, NSA		Large denomination time deposits ³	Term RPs NSA ⁴	Term Eurodollars NSA ⁴	Savings bonds	Short-term Treasury securities	Commercial paper ⁴	Bankers acceptances
								general purpose and broker/dealer ²	Institutions only							
								8	9							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
LEVELS (\$BILLIONS) :																
ANNUALLY (4TH QTR.)																
1986	179.4	294.5	229.1	77.9	569.1	361.8	859.5	207.6	84.7	440.8	82.6	81.0	89.8	282.5	229.8	37.5
1987	194.9	292.0	260.8	81.3	529.9	416.7	900.8	219.7	87.2	481.6	110.0	92.2	99.6	266.0	257.0	44.6
1988	210.7	288.4	280.9	76.7	505.6	430.8	1017.6	236.0	86.5	534.7	126.0	102.5	108.7	272.3	323.9	40.8
MONTHLY																
1988-AUG.	207.0	289.9	278.3	79.9	517.7	430.9	988.3	230.8	84.0	519.4	124.1	102.8	107.4	272.6	311.3	41.2
SEP.	208.6	288.8	279.0	77.3	511.4	430.5	998.7	231.0	83.7	526.7	122.8	102.8	107.9	272.8	308.8	41.7
OCT.	209.7	288.9	279.4	76.0	507.5	429.2	1009.7	231.3	84.6	532.0	125.4	100.2	108.4	273.3	312.3	41.3
NOV.	210.5	287.7	281.0	75.7	506.7	431.8	1017.8	237.4	87.4	534.4	128.4	101.6	108.7	268.4	323.7	40.5
DEC.	211.8	288.6	282.3	78.4	502.7	431.3	1025.2	239.4	87.6	537.8	124.1	105.8	109.1	275.2	335.8	40.6
1989-JAN.	213.4	284.0	281.3	81.8	495.2	427.8	1035.7	241.7	89.3	544.4	125.3	100.7	109.7	274.4	334.9	40.6
FEB.	214.3	284.8	280.9	79.0	485.3	424.6	1048.3	247.2	89.6	551.6	128.5	100.0	110.6	267.8	344.2	39.9
MAR.	215.6	284.3	279.1	77.5	480.3	420.8	1061.0	255.5	87.6	558.8	131.0	105.5	111.5	273.5	349.2	41.2
APR.	215.9	281.4	278.5	74.5	471.3	412.8	1083.1	259.1	87.7	567.7	128.8	101.3	112.3	277.6	354.2	41.4
MAY	216.4	278.2	271.3	73.5	457.0	404.7	1105.8	258.9	91.4	572.1	129.3	100.5	112.9	280.8	353.5	41.1
JUNE	217.4	275.0	270.7	76.0	456.9	402.0	1118.5	265.1	95.1	573.0	129.3	99.3	113.8	267.7	350.5	41.2
JULY	218.0	278.9	273.2	77.4	459.8	401.5	1126.4	274.6	98.2	573.0	125.1	99.8	114.6	265.9	351.4	42.1
AUG.	218.4	277.6	274.5	74.8	465.4	402.3	1131.7	285.5	100.6	568.7	119.6	97.2				

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

October 2, 1989

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES¹
 Millions of dollars, not seasonally adjusted

STRICTLY CONFIDENTIAL (FR)
 CLASS II-FOMC

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					
1984	11,479	7,700	3,779	826	1,938	236	441	--	3,440	256	6,964	1,450
1985	18,096	3,500	14,596	1,349	2,185	358	293	--	4,185	162	18,619	3,001
1986	20,099	1,000	19,099	190	893	236	158	--	1,476	398	20,178	10,033
1987	12,933	9,029	3,905	3,358	9,779	2,441	1,858	70	17,366	276	20,994	-11,033
1988	7,635	2,200	5,435	2,177	4,686	1,404	1,398	--	15,099	587	14,513	1,557
1988--Q1	319	2,200	-1,881	--	-800	-175	--	--	-975	155	-3,011	-3,514
Q2	423	--	423	1,092	3,661	1,017	966	--	6,737	130	7,030	5,220
Q3	1,795	--	1,795	--	--	--	--	--	--	77	1,717	1,393
Q4	5,098	--	5,098	1,084	1,824	562	432	--	3,903	224	8,776	-1,541
1989--Q1	2,200	3,842	-6,042	--	-228	-20	--	--	-248	188	-6,477	-5,591
Q2	2,496	2,400	96	172	1,361	287	284	--	2,104	125	2,075	924
1989--January	-154	600	-754	--	-3	-20	--	--	-23	148	-925	-6,813
February	-3,688	1,600	-5,288	--	-225	--	--	--	-225	40	-5,553	2,079
March	--	--	--	--	--	--	--	--	--	--	--	-856
April	3,077	--	3,077	172	1,436	286	284	--	2,179	125	-5,131	14,448
May	-10	1,200	-1,210	--	-75	--	--	--	-75	--	-1,285	-23,527
June	-571	1,200	-1,771	--	--	--	--	--	--	--	-1,771	10,002
July	-5,517	2,400	-7,917	--	-13	-9	--	--	-22	45	-7,984	-5,152
August	-934	800	-1,734	--	-150	--	--	--	-150	--	-1,884	617
June 7	-571	600	-1,171	--	--	--	--	--	--	--	-1,171	1,811
14	--	600	-600	--	--	--	--	--	--	--	-600	4,078
21	--	--	--	--	--	--	--	--	--	--	--	2,508
28	--	--	--	--	--	--	--	--	--	--	--	900
July 5	-113	--	-113	--	--	-9	--	--	-9	--	-122	-6,581
12	-255	600	-855	--	--	--	--	--	--	--	-855	10,832
19	-4,710	600	-5,310	--	-13	--	--	--	-13	--	-5,323	-9,202
26	-127	600	-727	--	--	--	--	--	--	45	-772	815
August 2	-462	600	-1,062	--	--	--	--	--	--	--	-1,062	590
9	-150	400	-550	--	--	--	--	--	--	--	-550	1,914
16	-230	400	-630	--	-150	--	--	--	-150	--	-780	-432
23	-403	--	-403	--	--	--	--	--	--	--	-403	40
30	--	--	--	--	--	--	--	--	--	--	--	-2,875
Sept. 6	--	--	--	--	--	--	--	--	--	54	-54	2,793
13	--	--	--	--	--	--	--	--	--	--	--	56
20	--	--	--	--	--	--	--	--	--	--	--	9,045
27	--	--	--	--	--	--	--	--	--	--	--	-6,609
Memo: LEVEL (bil.\$) ⁶ September 27	--	--	102.3	31.4	51.6	13.1	26.5	--	122.6	--	231.4	-3.3

1. Change from end-of-period to end-of-period.
 2. Outright transactions in market and with foreign accounts.
 3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes maturity shifts and rollovers of maturing coupon issues.

4. Reflects net change and redemptions (-) of Treasury and agency securities.
 5. Includes change in RPs (+), matched sale-purchase transactions (-), and matched purchase sale transactions (+).
 6. The levels of agency issues were as follows:

within 1-year	1-5	5-10	over 10	total
2.2	3.2	1.0	0.2	6.6