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October 31, 1986

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

October 31, 1986

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M2 and M3 increased at annual rates of 8-3/4 and 7-1/2 percent respectively on average over September and October, well below their rates of growth through the spring and summer. Both aggregates were within the Committee's 7 to 9 percent range for the August-December period, and in October were very close to the upper ends of their 6 to 9 percent annual growth cones. M1 growth, while still quite strong at a 12-1/2 percent rate over September and October, was down substantially from its average over the previous several months.

(2) The slowing in M2 growth reflected in part weakness in its overnight RP component relative to previous months, when it had been boosted to finance unusually sizable acquisitions of government securities; variations in this component largely accounted for the more marked slowing in M2 growth in September and moderate rebound in October. Expansion in the sum of the other components of M2 also decelerated somewhat over the September-October period. Shifts from time deposits into the more liquid interest-bearing retail components of M2 persisted in September and appear to have intensified in October. Offering rates on time deposits have adjusted relatively promptly to earlier declines in market rates, while rates on NOW and savings accounts have continued to adjust only sluggishly. Inflows to OCDs have remained very strong, and most of the slowing of M1 growth on average over the two months was accounted for by a sharp deceleration of its demand deposit component.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	August	September	October p	August to October p	QIV'85 to October p
Money and credit aggregates					
M1	20.8	9.9	14.9	12.5	14.4
M2	11.1	7.4	10.0	8.8	9.0
M3	8.9	8.8	6.3	7.5	8.9
Domestic nonfinancial debt	12.5	12.0	n.a.	n.a.	12.6[1]
Bank credit	13.8	11.5	3.4	7.4	9.0
Reserve measures					
Nonborrowed reserves[2]	18.8	10.9	16.6	13.8	19.9
Total reserves	19.7	11.6	13.4	12.6	18.2
Monetary base	12.0	5.5	11.3	8.4	9.5
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	407	438	312[3]	—	—
Excess reserves	739	729	717[3]	—	—

p - Based on partial data for October.
n.a. - Not available.
1. QIV 1985 to September.
2. Includes "other extended credit" from the Federal Reserve.
3. Based on data through the reserve maintenance period ending October 22.

NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for 2-week reserve maintenance periods that overlap months. Data incorporate adjustments for discontinuities associated with implementation of the Monetary Control Act and other regulatory changes to reserve requirements.

However, demand deposit growth strengthened a bit over October, contributing to a rebound in M1 growth from around 10 percent in September to 15 percent in October. Large CDs ran off over the two months; the decline has been especially pronounced in October, when bank credit growth slowed abruptly, leading to a further moderation in M3 growth estimated for this month.

(3) The debt of domestic nonfinancial sectors rose in September at about a 12 percent rate, close to its pace for the first three quarters of the year, but has shown signs of slowing in October. Growth in September was buoyed by the temporary surge in automobile financing. Mortgage lending evidently has continued brisk over the two months in association with a robust pace of activity in the single family home market. In October, in addition to the slowing in consumer credit, federal government borrowing was constrained by the debt ceiling. Business borrowing was subdued in September, but appears to have picked up somewhat in October with a rebound in both bond offerings and short-term borrowing. Borrowing in tax-exempt markets dropped sharply following the September 1 effective date under the tax bill for restrictions on public-purpose borrowing; however, private-purpose borrowing has picked up in October following clarification of limits on issuance under the new law.

(4) Growth of nonborrowed and total reserves moderated somewhat in September and October, reflecting the slower expansion of transactions accounts. Reserve paths were constructed throughout the intermeeting period assuming $300 million of adjustment plus seasonal borrowing. Borrowing averaged $324 million in the two complete maintenance periods since the last FOMC meeting; through the first eight days of the current period it has averaged $180 million. With excess reserves in recent months running consistently below levels of earlier this year, the path allowance was reduced to $850 million.

(5) Federal funds generally have continued to trade around 5-7/8 percent over the intermeeting period. Other interest rates have eased off somewhat on balance, with most short-term rates down about 5 to 20 basis points and bond yields as much as 30 basis points lower. Stock prices have firmed somewhat, retracing a portion of the declines of early September. Perceptions of stronger foreign demands for dollar assets--prompted in part by expectations of a cut in the Japanese discount rate, which was announced Friday--have contributed to recent increase in bond and stock prices. The Japanese action also was seen as giving the Federal Reserve more scope for an easing of policy domestically, although levels of short-term rates do not suggest widespread expectations of such a move in the near term.

(6) The dollar rose about 1-1/2 percent on balance on a weighted average basis over the intermeeting period. In the first part of the period the dollar had continued to move lower, particularly against the German mark as it became clear that the Bundesbank would not act to lower interest rates and as economic activity in Germany appeared robust. Late in October, however, the dollar firmed substantially, first on reports of large shifts of funds by Japanese institutional investors out of yen and into dollar denominated assets, and later with the release of September U.S. trade figures, which were much better than market expectations, and the cut in the Japanese discount rate.

Policy alternatives

(7) The table below presents three alternative specifications for growth of the monetary aggregates together with associated federal funds rate ranges. Growth rates are shown from the August base chosen at the last meeting. More detailed data, including implied growth for each alternative from September to December and from last year's fourth-quarter base to the fourth quarter of this year, are shown on the table and charts on the following pages.

(8) With growth in the aggregates over September and October at rates close to those contemplated at the last FOMC meeting, M2 and M3 would be expected to remain within the Committee's current 7 to 9 percent range for the August to December period and very close to the upper ends of their 1986 ranges under the reserve conditions assumed for each of the three alternatives. Growth in M1, while remaining below the pace in the spring and summer under all the alternatives, would be expected to expand at around a 14 percent rate for the year. However, differences in reserve conditions under the three alternatives would affect the trajectories of the aggregates entering 1987.

	Alt. A	Alt. B	Alt. C
Growth from August to December			
M2	9	8-1/2	8
M3	7-3/4	7-1/2	7-1/4
M1	13-1/2	12-1/2	11-1/2
Associated federal funds rate range	3 to 7	4 to 8	5 to 9

(9) Alternative B assumes continuation of the current degree of pressure on reserve postions, with adjustment plus seasonal borrowing at

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									
1986-July	2699.1	2699.1	2699.1	3375.1	3375.1	3375.1	676.1	676.1	676.1
August	2724.1	2724.1	2724.1	3400.1	3400.1	3400.1	687.8	687.8	687.8
September	2741.0	2741.0	2741.0	3424.9	3424.9	3424.9	693.5	693.5	693.5
October	2763.9	2763.9	2763.9	3442.8	3442.8	3442.8	702.1	702.1	702.1
November	2781.6	2780.0	2778.4	3462.0	3460.9	3459.7	710.9	710.2	709.5
December	2804.7	2800.2	2795.7	3486.9	3483.7	3481.2	719.0	716.8	714.5
Monthly Growth Rates									
1986-July	12.8	12.8	12.8	13.0	13.0	13.0	16.7	16.7	16.7
August	11.1	11.1	11.1	8.9	8.9	8.9	20.8	20.8	20.8
September	7.4	7.4	7.4	8.8	8.8	8.8	9.9	9.9	9.9
October	10.0	10.0	10.0	6.3	6.3	6.3	14.9	14.9	14.9
November	7.7	7.0	6.3	6.7	6.3	5.9	15.0	13.8	12.6
December	10.0	8.7	7.5	8.6	7.9	7.5	13.7	11.2	8.5
Quarterly Ave. Growth Rates									
1985-Q4	6.1	6.1	6.1	6.6	6.6	6.6	10.7	10.7	10.7
1986-Q1	4.3	4.3	4.3	7.5	7.5	7.5	7.7	7.7	7.7
Q2	10.4	10.4	10.4	9.0	9.0	9.0	15.8	15.8	15.8
Q3	11.2	11.2	11.2	10.1	10.1	10.1	17.4	17.4	17.4
Q4	9.1	8.8	8.5	7.5	7.4	7.2	14.5	13.9	13.4
Aug. 86 to Dec. 86	8.9	8.4	7.9	7.7	7.4	7.2	13.6	12.6	11.6
Sept.86 to Dec. 86	9.3	8.6	8.0	7.2	6.9	6.6	14.7	13.4	12.1
Q4 85 to Oct. 86	9.0	9.0	9.0	8.9	8.9	8.9	14.4	14.4	14.4
Q4 85 to Dec. 86	9.1	9.0	8.8	8.8	8.7	8.7	14.7	14.4	14.0
Q4 85 to Q4 86	9.1	9.0	8.9	8.8	8.8	8.7	14.6	14.4	14.3
1986 Ranges:		6 to 9			6 to 9			3 to 8	

CHART 1

ACTUAL AND TARGETED M2

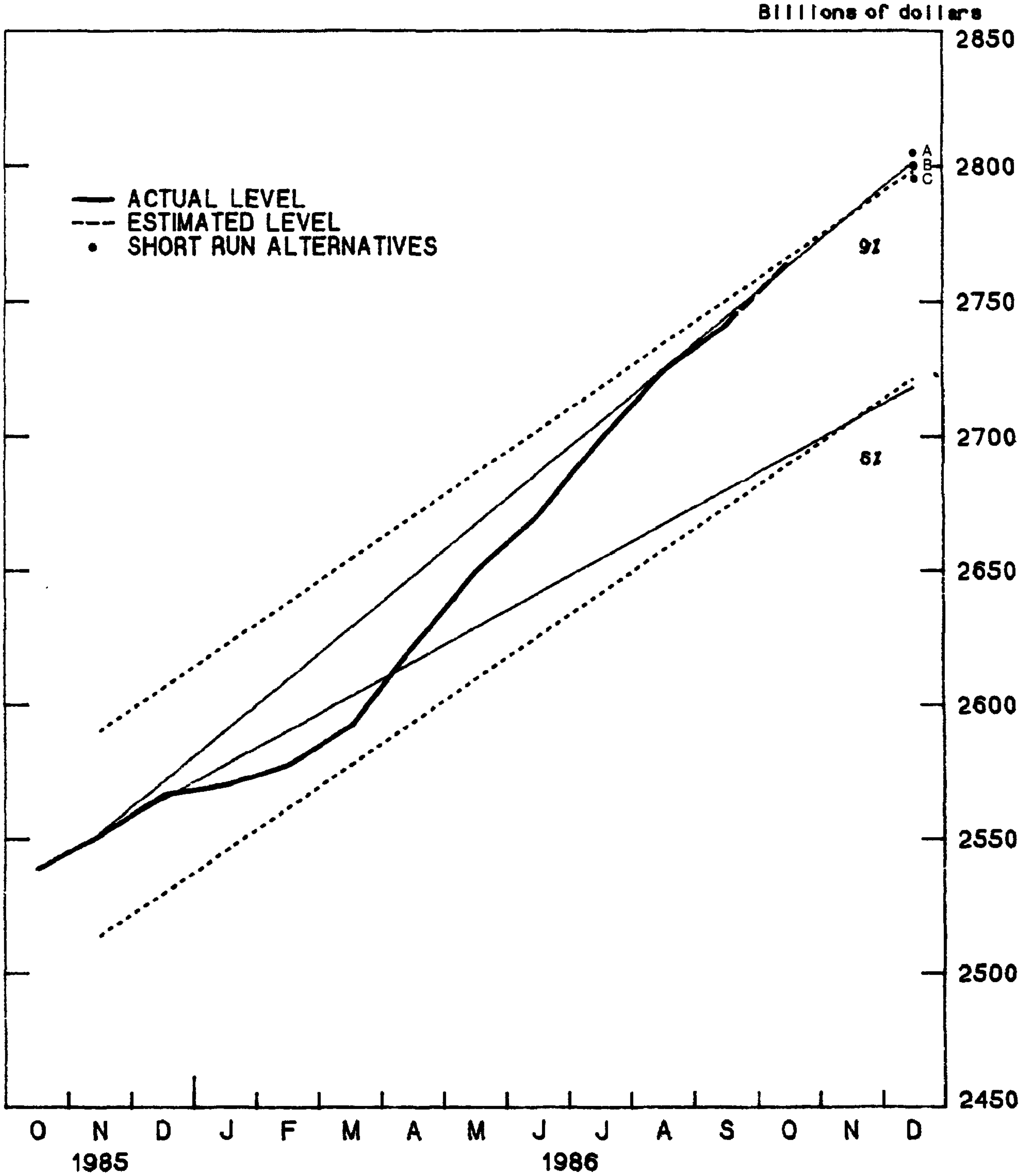


CHART 2
ACTUAL AND TARGETED M3

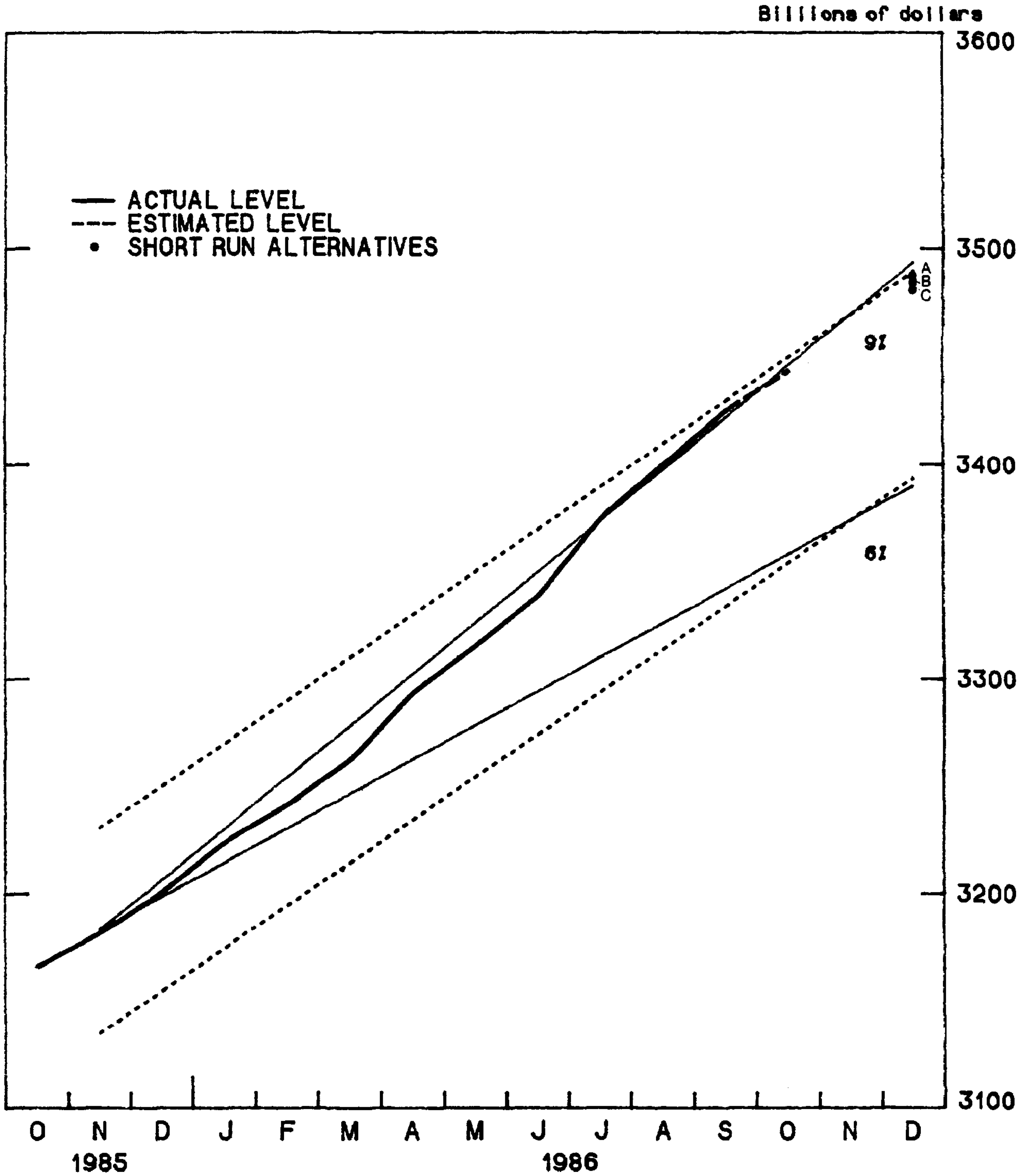


CHART 3

ACTUAL AND TARGETED M1

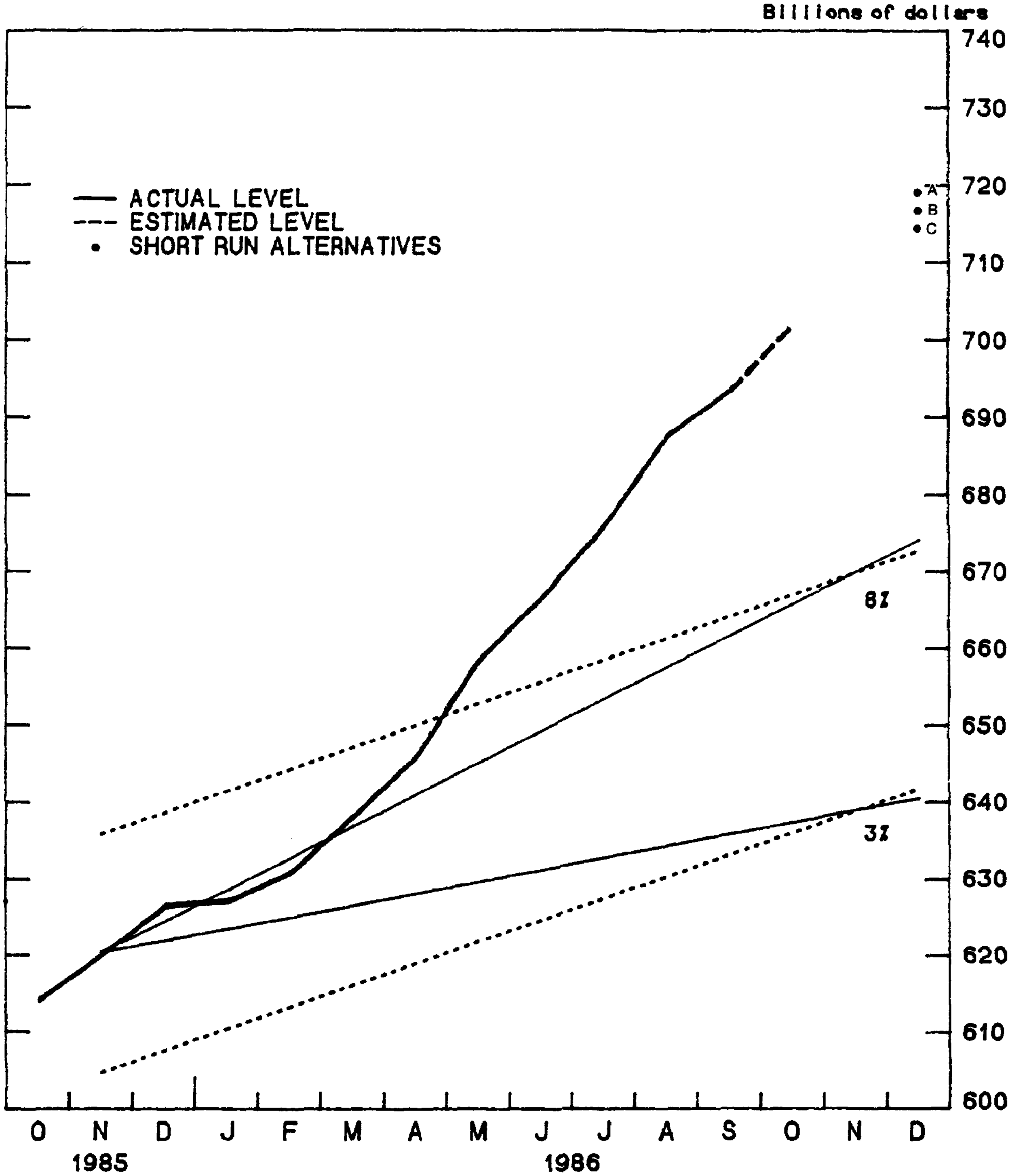
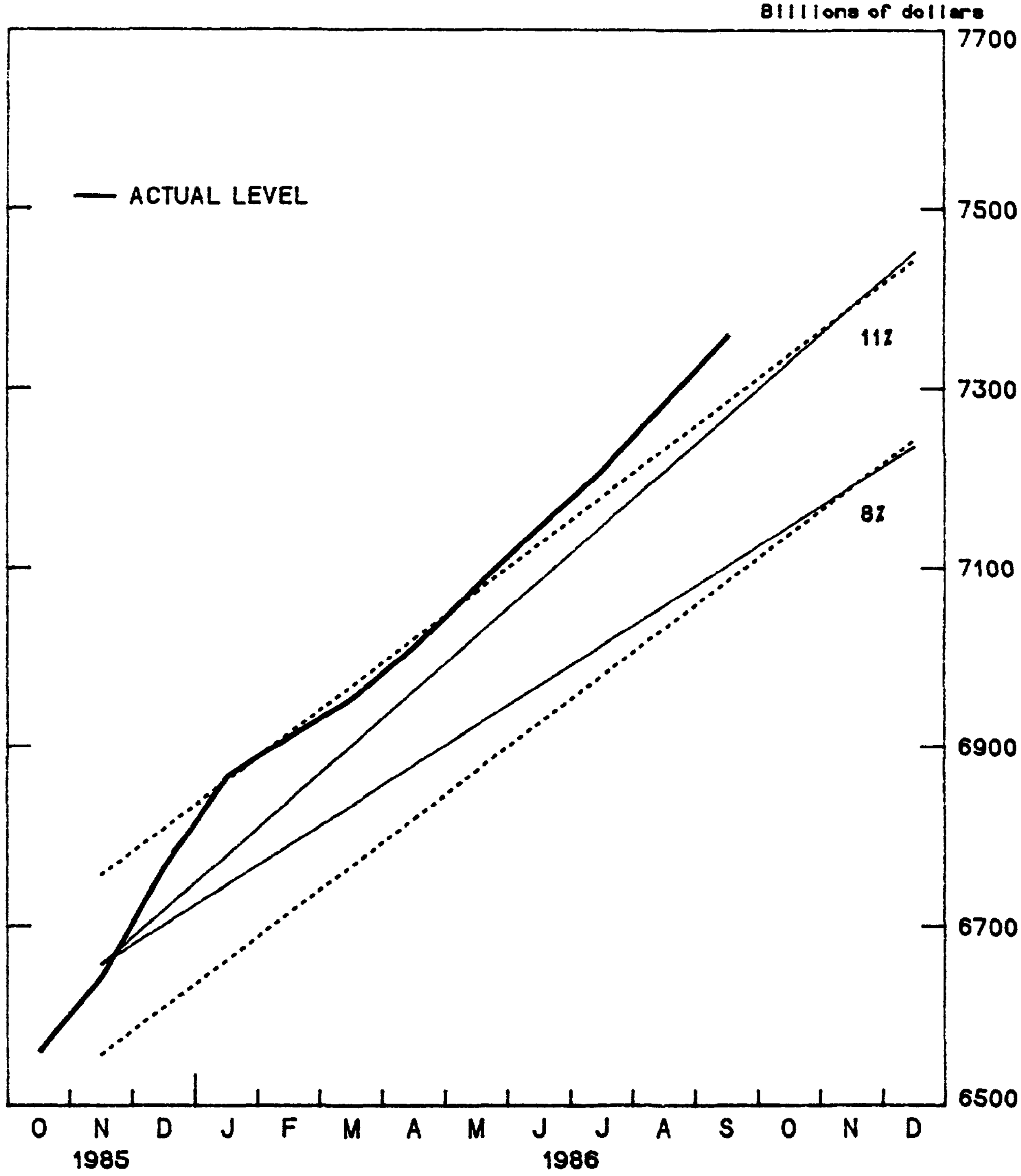


Chart 4
DEBT


Billions of dollars
ACTUAL LEVEL
11%
8%
7700
7500
7300
7100
6900
6700
6500
O
N
D
J
F
M
A
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1986

the discount window around $300 million. Federal funds are likely to remain near 5-7/8 percent and the Treasury bill rate in the vicinity of 5-1/4 percent. Bond yields also would be expected to fluctuate around current levels. These rates might be especially sensitive to changing perceptions of foreign demands for U.S. securities and accompanying movements in the dollar on foreign exchange markets through the upcoming period of auction and distribution of the Treasury's mid-quarter refunding issues. And credit market participants are likely to be watching developments in the oil market particularly closely, given the uncertainty about future price movements. Mortgage rates might continue to edge down relative to Treasury bond yields as concerns about accelerated repayments ebb further in a relatively stable interest rate environment. The dollar is expected to drift lower, retracing its recent gains, in light of the continuing large U.S. current account deficit.

(10) M2, under alternative B, is expected to expand at an 8 percent rate over November and December, a little below the average pace of September and October and appreciably slower than over the summer months. This growth would leave M2 right at the upper end of its 6 to 9 percent long-run range. M2 growth over the remainder of the year should be restrained by diminishing effects of earlier declines in market rates, and perhaps even some increase in opportunity costs as depository institutions lower offering rates on liquid retail deposits. The prospects for a substantial slowing of retail deposit growth, however, are limited by a continued reluctance on the part of many depositories to breach the former regulatory ceilings of 5-1/2 percent on savings accounts and 5-1/4 percent on ordinary NOW accounts. M2 growth in the fourth quarter would continue to exceed the expansion of income, although by a little smaller margin than in the third quarter. The

specifications of alternative B imply a 5 percent rate of decrease in M2 velocity in the fourth quarter, given the staff GNP forecast, bringing the drop in velocity for the year to an historically large 4 percent.

(11) Growth of M3 under alternative B also would be expected to slow slightly further over November and December, coming in a little below the 9 percent upper limit of its long-term range. Issuance of managed liabilities over the balance of the year is expected to be modest as the Treasury rebuilds its cash balance at banks and as bank acquisitions of securities remain below the unusually rapid pace over the summer months. The use of purchased funds by thrifts may remain light if these institutions continue to sell a large portion of their substantial mortgage originations in the market. On a quarterly-average basis, M3 growth for the fourth quarter would be about 7-1/2 percent at an annual rate, considerably below that of the previous two quarters. The implied decline in M3 velocity would be at a 3-1/2 percent annual rate in the fourth quarter and nearly 4 percent over the year as a whole, the largest annual drop since 1982.

(12) M1, under alternative B, would be anticipated to expand in November and December at about the reduced average September-October pace--as a rebound in demand deposit growth would offset some moderation in inflows to OCDs. Opportunity costs of holding OCD balances would likely widen a little more as offering rates on NOW accounts continue to edge lower in adjustment to earlier rate declines. M1 growth on a quarterly-average basis would be at a 14 percent rate in the fourth quarter, implying a 10 percent rate of decline in its velocity. For the year, M1 velocity would register an 8-1/2 percent drop, the steepest annual decline in the postwar period.

(13) Debt of domestic nonfinancial sectors is likely to grow briskly over the final months of this year, bringing growth for the year on a QIV to QIV basis to 12-1/2 percent. Federal borrowing is being boosted somewhat as the Treasury rebuilds its cash balance following removal of debt ceiling constraints, while the underlying deficit remains large. Issuance of tax-exempt bonds is likely to strengthen further in the last two months of this year owing to efforts to utilize new annual volume caps for private-purpose issues, including corporate IDBs. Nonfinancial businesses are also expected to step up their borrowing to finance merger and related activities in advance of less favorable tax treatment in 1987. Household borrowing, however, is likely to moderate somewhat from the pace of earlier months as automobile financing weakens in the wake of the expiration of incentive programs; mortgage borrowing is likely to be sustained near the relatively heavy pace of the summer and early fall.

(14) Alternative A assumes either a reduction in discount window borrowing to a near-frictional level of $150 million or a cut in the discount rate of one-half percentage point with borrowing maintained at $300 million. In either event, the funds rate would move down to the 5-1/4 to 5-1/2 percent area. Other short-term rates would also decline, with the three-month bill rate dropping somewhat below 5 percent. The response of bond yields would depend on indicators of the outlook for economic activity and prices. Initially, bond yields might respond little to easier money market conditions, but declines in short-term yields could reinforce tendencies for longer-term yields to move lower if economic indicators pointed to a sluggish economy and little likelihood of greater underlying price pressures. The dollar might weaken appreciably under this alternative, absent any further easing actions abroad.

(15) Growth in M2 and M3 under this alternative would not be expected to slow any further over November and December. The more liquid M2 components would continue to be bolstered by very narrow opportunity costs, pulling funds from small time deposits and from the open market. This effect might be muted if the further decline in market rates tended to break the resistance of banks and thrifts to lowering rates on savings and NOW accounts—a development that might be considered more likely in the event the easier money market conditions were triggered by a cut in the discount rate to 5 percent, below the previous regulatory ceilings on these accounts. Under this alternative, M2 would enter 1987 above the 8-1/2 percent upper end of its tentative growth cone but within its corresponding parallel bands. Bank funding needs, and thus M3, might be enlarged by more business lending in a response to lower short-term rates, especially if bond yields did not also decline. M3 would enter next year around the upper end of its tentative range. M1 under this alternative would be expected to pick up somewhat relative to its growth over September and October, increasing in line with average growth in 1986.

(16) Alternative C contemplates an increase in discount window borrowing to $500 million. Federal funds would be expected to trade around the 6-1/4 to 6-1/2 percent area. The tighter reserve conditions of this alternative would be expected to restrain growth in M2 and M3, raising the odds that these aggregates would come within their long-term ranges for 1986 and would enter 1987 within their new growth cones. Higher short-term interest rates also would act to damp M1 growth, although with opportunity costs still relatively small this aggregate would continue to expand rapidly, well in excess of income growth.

(17) There seems to be little expectation among market participants of a near-term tightening and thus three-month bills could rise as much as 50 basis points, to about 5-3/4 percent under this alternative. Private short-term rates could increase by more than bills to the degree that firmer conditions were seen as intensifying the debt-servicing difficulties of some borrowers. Bond rates would tend to back up also, although the degree to which they would rise would depend on any accompanying reassessment of inflation prospects. The dollar might strengthen, at least for a while, on foreign exchange markets.

Directive language

(18) Draft language for the operational paragraph with the usual alternatives is shown below. The proposed format follows that adopted at recent meetings in specifying numerical growth rates for M2 and M3 but not for M1. In addition, the draft retains August as the base for the monetary growth specifications. (Should the Committee wish to change the base to September, growth implied under each alternative for the September-to-December period is shown in the detailed table on page 6.) The changes suggested for the sentence concerning M1 are intended to clarify the reference to the timing of the expected moderation in M1 growth. The sentence on possible intermeeting adjustments keeps the language adopted at the September meeting with respect to the role of the monetary aggregates and other factors. It also retains the reference to the possibility of "slight" adjustments to reserve pressures; the more usual terminology of "somewhat", as well as alternatives with respect to the use of "might" and "would" are given in parentheses.

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. This action is expected to be consistent with growth in M2 and M3 over the period from August to December at annual rates of ~~7-to-9~~ ___ AND ___ percent, RESPECTIVELY. While growth in M1 OVER THE SAME PERIOD is expected to moderate from ~~the~~ ITS EXCEPTIONAL PACE ~~exceptionally-large-increase~~ during the ~~past~~ PREVIOUS several months~~,~~ ~~that~~ growth IN THIS AGGREGATE will continue to be judged in the light of the behavior of M2 and M3 and other factors. Slightly (SOMEWHAT) greater reserve restraint would (MIGHT), or slightly (SOMEWHAT) lesser reserve restraint might (WOULD), be acceptable depending on the behavior of the aggregates, taking into account 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 ____ TO ____ ~~4 to 8~~ percent.

Selected Interest Rates

Percent

November 3, 1986

Period	Short-term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A utility recently offered	municipal Bond Buyer	conventional home mortgages		
														secondary market	primary market	
		3-month	6-month	1-year	3-month	1-month			3-year	10-year	30-year			fixed-rate	fixed-rate	ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1985--High	8.98	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	7.06	7.34	7.22	7.00	9.50	8.24	9.07	9.34	10.62	8.85	10.52	11.09	9.17
1986--High	9.55	7.21	7.30	7.35	7.94	7.91	7.22	9.50	8.60	9.38	9.52	10.83	8.72	10.97	10.99	9.09
Low	5.81	5.09	5.16	5.31	5.47	5.60	5.19	7.50	6.24	7.02	7.16	9.15	7.32	9.52	9.86	8.18
1985--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	12.14	9.50
Nov.	8.05	7.24	7.30	7.33	7.81	7.84	7.21	9.50	8.88	9.78	10.06	11.35	9.22	11.51	11.78	9.38
Dec.	8.28	7.10	7.14	7.16	7.80	7.87	7.23	9.50	8.40	9.26	9.54	10.93	8.96	10.83	11.26	9.19
1986--Jan.	8.14	7.07	7.17	7.21	7.82	7.78	7.15	9.50	8.41	9.19	9.40	10.74	8.50	10.79	10.88	9.01
Feb.	7.86	7.06	7.11	7.11	7.69	7.70	7.11	9.50	8.10	8.70	8.93	10.21	7.99	10.45	10.71	8.93
Mar.	7.48	6.56	6.57	6.59	7.24	7.30	6.96	9.10	7.30	7.78	7.96	9.41	7.74	9.86	10.08	8.65
Apr.	6.99	6.06	6.08	6.06	6.60	6.75	6.58	8.83	6.86	7.30	7.39	9.26	7.64	9.71	9.93	8.53
May	6.85	6.15	6.19	6.25	6.65	6.72	6.22	8.50	7.27	7.71	7.52	9.50	7.96	10.22	10.21	8.57
June	6.92	6.21	6.27	6.32	6.73	6.79	6.18	8.50	7.41	7.80	7.57	9.65	8.30	10.45	10.68	8.60
July	6.56	5.83	5.86	5.90	6.37	6.42	6.02	8.16	6.86	7.30	7.27	9.57	7.95	10.16	10.49	8.52
Aug.	6.17	5.52	5.55	5.60	5.92	6.02	5.74	7.90	6.49	7.17	7.33	9.51	7.59	9.75	10.15	8.37
Sep.	5.89	5.21	5.35	5.45	5.71	5.74	5.34	7.50	6.62	7.45	7.62	9.56	7.53	9.98	10.01	8.20
July 2	7.02	6.01	5.99	6.05	6.55	6.72	6.19	8.50	7.03	7.38	7.26	9.49	7.90	10.27	10.61	8.54
9	6.87	5.90	5.89	5.94	6.45	6.67	6.15	8.50	6.96	7.34	7.18	9.54	7.91	10.17	10.59	8.57
16	6.51	5.78	5.83	5.84	6.36	6.41	6.09	8.07	6.79	7.24	7.16	9.51	7.91	10.07	10.43	8.50
23	6.42	5.74	5.81	5.84	6.31	6.30	5.99	8.00	6.75	7.19	7.24	9.67	8.08	10.22	10.40	8.48
30	6.32	5.84	5.89	5.96	6.31	6.27	5.89	8.00	6.92	7.41	7.48	9.69	7.96	10.07	10.40	8.49
Aug. 6	6.36	5.74	5.78	5.81	6.23	6.27	5.86	8.00	6.79	7.37	7.50	9.58	7.97	10.00	10.40	8.44
13	6.31	5.65	5.68	5.73	6.12	6.21	5.82	8.00	6.64	7.28	7.39	9.49	7.64	9.87	10.23	8.42
20	6.38	5.56	5.56	5.61	5.94	6.12	5.76	8.00	6.44	7.09	7.24	9.45	7.43	9.62	10.04	8.33
27	5.87	5.32	5.38	5.41	5.64	5.68	5.67	7.86	6.27	7.02	7.24	9.32	7.32	9.52	9.93	8.32
Sep. 3	5.83	5.22	5.23	5.31	5.47	5.60	5.53	7.50	6.24	7.06	7.28	9.43	7.37	9.77	9.90	8.33
10	5.82	5.20	5.31	5.41	5.63	5.66	5.38	7.50	6.51	7.31	7.52	9.59	7.63	10.02	9.96	8.18
17	5.88	5.16	5.36	5.46	5.73	5.77	5.34	7.50	6.69	7.54	7.69	9.72	7.57	10.07	10.07	8.19
24	5.81	5.24	5.40	5.50	5.80	5.78	5.30	7.50	6.75	7.59	7.75	9.62	7.55	10.07	10.10	8.10
Oct. 1	6.08	5.22	5.38	5.49	5.78	5.83	5.30	7.50	6.69	7.47	7.63	9.50	7.57	9.92	10.08	8.18
8	5.75	5.09	5.17	5.32	5.64	5.72	5.26	7.50	6.48	7.33	7.56	9.51	7.47	9.82	9.99	8.08
15	5.83	5.11	5.16	5.33	5.63	5.70	5.21	7.50	6.50	7.42	7.72	9.52	7.50	9.87	9.96	8.03
22	5.91	5.28	5.37	5.48	5.77	5.77	5.19	7.50	6.67	7.56	7.84	9.49	7.49	9.77	9.95	8.03
29	5.86	5.22	5.30	5.46	5.74	5.77	5.20	7.50	6.60	7.44	7.73	9.32	7.30	9.72	9.89	7.98
Daily--Oct. 24	5.83	5.27	5.34	5.48	5.75	5.77	--	7.50	6.64	7.47	7.76	--	--	--	--	--
30	5.83	5.18	5.24	5.38	5.60	5.69	--	7.50	6.52	7.31	7.61	--	--	--	--	--
31	5.95p	5.20	5.28	5.42	5.61	5.68	--	7.50	6.51p	7.34p	7.62p	--	--	--	--	--

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 the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments on the Friday following the end of the statement week. Column 15 is the average contract rate on new commitments for fixed-rate mortgages (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 FRMs and ARMs with the same number of discount points.

Strictly Confidential (FR)—
Class II FOMC

Money and Credit Aggregate Measures

Seasonally adjusted

NOV. 3, 1986

Period	Money stock measures and liquid assets: M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	L	Bank credit: total loans and investments[1]	Domestic nonfinancial debt[2]: 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)										
1983	10.4	12.2	12.8	1.0	9.9	10.4	10.6	21.3	8.6	11.2
1984	5.4	8.0	8.8	21.2	10.5	11.9	11.2	16.0	13.7	14.2
1985	11.9	8.7	7.7	3.8	7.7	8.5	9.9	15.2	12.7	13.3
QUARTERLY AVERAGE										
4TH QTR. 1985	10.7	6.1	4.7	8.6	6.6	9.5	9.4	13.7	13.2	13.3
1ST QTR. 1986	7.7	4.3	3.3	20.6	7.5	8.3	12.8	16.9	14.7	15.2
2ND QTR. 1986	15.8	10.4	8.7	3.4	9.0	7.0	4.1	11.5	9.2	9.7
3RD QTR. 1986 P	17.4	11.2	9.1	6.0	10.1		10.3	14.5	10.6	11.5
MONTHLY										
1985--OCT.	5.3	4.3	3.9	11.4	5.7	7.1	5.4	7.6	11.9	10.9
NOV.	11.5	5.9	4.2	5.7	5.9	12.0	13.3	23.2	12.7	15.1
DEC.	12.6	7.1	5.3	9.0	7.5	12.3	15.5	27.9	21.1	22.7
1986--JAN.	1.1	1.6	1.7	37.8	8.7	7.1	18.7	15.8	18.0	17.5
FEB.	7.3	3.6	2.4	16.9	6.3	5.9	3.4	9.6	7.0	7.6
MAR.	14.1	6.8	4.6	11.6	7.8	4.3	5.7	5.5	8.2	7.6
APR.	14.5	13.7	13.5	2.5	11.5	7.2	2.0	9.5	10.1	9.9
MAY	23.4	12.6	9.1	-10.5	7.9	9.9	5.9	17.2	9.8	11.5
JUNE	14.8	9.5	7.7	4.7	8.5	7.1	3.8	19.4	8.7	11.2
JULY	16.7	12.8	11.5	13.8	13.0	10.0	13.2	14.8	9.2	10.6
AUG.	20.8	11.1	7.9	0.0	8.9	9.2	13.8	8.8	13.5	12.4
SEPT.	9.9	7.4	6.6	14.0	8.8		11.5	11.1	12.8	12.4
OCT. PE	15	10	8	-9	6		3			
MONTHLY LEVELS ($BILLIONS)										
1986--MAY	658.7	2649.6	1991.0	665.7	3315.3	3950.5	1957.5	1664.6	5414.9	7079.5
JUNE	666.8	2670.6	2003.8	668.3	3338.9	3973.8	1963.7	1691.5	5454.1	7145.5
JULY	676.1	2699.1	2023.0	676.0	3375.1	4007.0	1985.0	1712.4	5496.1	7208.4
AUG.	687.8	2724.1	2036.3	676.0	3400.1	4037.7	2007.7	1724.9	5558.0	7282.9
SEPT.	693.5	2741.0	2047.5	683.9	3424.9		2027.1	1740.8	5617.3	7358.1
WEEKLY LEVELS ($BILLIONS)										
1986-SEPT. 1	693.0									
8	695.5									
15	690.8									
22	694.7									
29	693.6									
OCT. 6	701.6									
13P	696.6									
20P	702.6									

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

Billions of dollars, seasonally adjusted unless otherwise noted

NOV. 3, 1986

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):																
1983	147.2	243.4	130.2	53.6	376.2	309.7	775.0	138.2	43.2	325.2	48.0	89.3	70.9	210.3	127.5	44.0
1984	157.8	247.1	144.2	56.1	405.1	291.0	881.8	161.7	57.7	409.8	65.6	81.8	74.0	268.5	158.7	44.5
1985	169.7	268.4	176.3	67.3	508.5	303.2	877.3	176.8	64.1	433.1	63.0	77.8	79.0	297.1	199.5	42.7
MONTHLY																
1985-SEPT.	167.7	266.4	171.5	64.5	499.8	300.3	878.3	176.7	62.3	425.7	58.6	78.9	78.0	281.6	187.2	43.2
OCT.	168.7	266.0	173.7	65.2	504.1	302.3	875.7	177.0	63.3	429.8	59.8	78.2	78.5	282.1	192.5	43.9
NOV.	169.8	267.8	176.7	66.4	509.5	303.7	876.0	176.8	64.5	432.9	63.3	78.4	79.0	300.7	196.4	43.1
DEC.	170.6	271.5	178.6	70.3	512.0	303.6	880.3	176.5	64.6	436.5	66.0	76.7	79.5	308.4	209.5	41.1
1986-JAN.	171.9	268.9	180.5	68.9	515.7	304.0	885.9	177.7	67.3	447.9	68.8	76.0	79.9	305.5	210.6	41.6
FEB.	172.9	269.2	183.1	68.5	516.3	304.9	891.0	181.0	67.7	451.3	70.6	79.2	80.5	307.7	209.2	42.4
MAR.	173.9	273.2	185.3	67.6	520.5	306.9	894.7	186.2	70.2	450.5	71.6	82.7	81.1	300.2	209.5	41.7
APR.	174.4	275.7	189.9	68.5	525.2	311.4	895.9	191.4	74.1	452.1	71.5	81.5	81.8	298.8	203.0	41.0
MAY	175.8	281.6	195.1	69.0	530.8	318.5	891.2	193.2	76.1	446.4	74.2	79.8	82.6	305.7	206.7	40.1
JUNE	176.7	284.9	199.0	66.3	540.4	325.0	885.6	197.3	75.0	445.1	75.5	80.1	83.4	300.5	210.6	40.3
JULY	177.5	288.3	203.9	71.7	546.2	331.1	883.7	199.7	77.5	445.7	75.2	78.8	84.3	296.0	212.3	39.4
AUG.	179.0	291.8	210.6	74.2	553.3	337.3	877.3	200.3	80.8	447.6	75.8	78.2	85.3	295.8	219.3	37.2
SEPT.	179.8	292.2	215.1	72.3	558.7	343.9	871.5	202.2	84.4	446.8	78.4	80.6				

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.

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

November 3, 1986

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
1985	14,596	1,349	2,185	358	293	4,185	--	--	--	--	--	18,619	3,001
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
II	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
III	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
1986--Jan.	61	--	--	--	--	--	--	--	--	--	--	61	-3,466
Feb.	-3,277	--	--	--	--	--	--	--	--	--	--	-3,318	198
Mar.	396	--	--	--	--	--	--	--	--	--	--	396	-312
Apr.	2,988	--	--	--	--	--	--	--	--	--	--	2,988	3,659
May	3,196	--	--	--	--	--	--	--	--	--	--	3,146	-4,470
June	1,402	--	--	--	--	--	--	--	--	--	--	1,402	455
July	867	--	--	--	--	--	--	--	--	--	--	867	-1,270
Aug.	2,940	--	--	--	--	--	--	--	--	--	--	2,850	-448
Sept.	861	--	--	--	--	--	--	--	--	--	--	861	5,762
Aug. 6	168	--	--	--	--	--	--	--	--	--	--	168	-341
13	126	--	--	--	--	--	--	--	--	--	--	36	425
20	349	--	--	--	--	--	--	--	--	--	--	349	-633
27	67	--	--	--	--	--	--	--	--	--	--	67	1,310
Sept. 3	2,287	--	--	--	--	--	--	--	--	--	--	2,287	-1,085
10	119	--	--	--	--	--	--	--	--	--	--	119	2,179
17	281	--	--	--	--	--	--	--	--	--	--	281	-2,438
24	151	--	--	--	--	--	--	--	--	--	--	151	1,108
Oct. 1	295	--	--	--	--	--	--	--	--	--	--	236	-1,708
8	106	--	--	--	--	--	--	--	--	--	--	106	469
15	120	--	--	--	--	--	--	--	--	--	--	120	1,529
22	--	--	--	--	--	--	--	--	--	--	--	-34	5,065
29	472	--	--	--	--	--	--	--	--	--	--	472	-6,223
LEVEL--Oct. 29 ($ billions)	95.9	17.3	36.7	15.6	22.8	92.4	2.6	3.8	1.2	.4	8.0	200.0	-3.7

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 (+).