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February 6, 1987

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

February 6, 1987

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) M2 and M3 accelerated in December, and growth remained close to those higher rates in January; for the two months together, M2 advanced at about a 9-1/2 percent annual rate and M3 at 9 percent[1], both appreciably faster than the 7 percent paths set by the FOMC for these aggregates for the November-to-March period. M1 increased at about a 21 percent rate on average over December and January. Growth of the monetary aggregates was boosted over the two months by an unusually large volume of transactions around year-end. An exceptional amount of churning in financial markets and a surge in bank lending in late December were prompted in part by incentives to complete certain types of transactions before provisions of the new tax law took effect at the start of 1987. These developments were associated with an unprecedented increase in demand deposits from mid-December through early January; by late January the bulge in such deposits had run off. In addition, banks stepped up their issuance of managed liabilities, especially CDs, over the two months to help fund the rise in credit.

(2) The retail components of the aggregates also strengthened in the November-January period. Growth in OCDs, which may also have been affected by year-end transactions, picked up in December and accelerated further in January, reaching around a 40 percent rate last month. Growth

1. These growth rates and all subsequent data on the monetary aggregates in this bluebook incorporate annual benchmark and seasonal factor revisions. The revised series are confidential until their release scheduled for February 12. The revisions and their effects on growth of M1, M2, and M3 over recent years are described in the appendix.

KEY MONETARY AGGREGATES[1]
(Seasonally adjusted annual rates of growth)

	Nov.	Dec.	Jan.p	Nov. to Jan.p	QIV '85 to QIV '86 ('86 targets)
Money and credit aggregates					
M1	18.8	30.3	11.7	21.1	15.2 (3 to 8)
M2	6.1	10.2	8.9	9.6	8.9 (6 to 9)
M3	5.9	9.4	8.4	8.9	8.8 (6 to 9)
Domestic nonfinancial debt	12.2	13.5	12	13	12.9 (8 to 11)
Bank credit	8.9	17.4	22.1	19.9	9.4
Reserve measures					
Nonborrowed reserves[2]	33.0	36.5	24.5	31.0	21.8
Total reserves	32.6	40.5	20.9	30.9	20.4
Monetary base	12.8	14.6	18.0	16.4	9.7
Memo: (Millions of dollars)					
Adjustment and seasonal borrowing	334	524	368	--	--
Excess reserves	978	1369	1017	--	--

p--preliminary; debt data for January are partly projected.
1. Data for monetary aggregates incorporate benchmark revisions and new seasonal adjustment factors.
2. Includes "other extended credit" from the Federal Reserve.

in retail nontransactions deposits in M2 increased as runoffs of time deposits slowed. The opportunity costs of holding retail deposits have remained quite low, though moving a bit higher over recent months in part as deposit offering rates edged down.

(3) Boosted by the borrowing around year-end, total credit growth of domestic nonfinancial sectors increased to around a 13 percent rate over December and January. The extraordinary volume of business loan demand at U.S. banks in this period resulted not only from tax-related transactions, but also from a shift of credit demands from overseas branches and the commercial paper market as short-term market rates rose sharply relative to the prime rate; only a portion of the increase in commercial and industrial loans was reversed over January. Overall short-term credit borrowing by businesses was quite strong on a month-average basis in both December and January. Mortgage pool issuance and bank real estate lending have remained robust, likely reflecting brisk home sales and some substitution of home equity lines for consumer credit. In the federal sector, tax receipts have been lifted temporarily by the effects of tax law changes, and the Treasury has reduced its borrowing by cutting back offerings at weekly bill auctions.

(4) Paralleling the bulge in transactions balances around year-end, total reserve growth surged to 40 percent in December and then fell to half that rate in January. Excess reserves also rose sharply in December; deposit turnover likely was very high, and bank reserve management seemed especially cautious in the face of unusual pressures in money markets and the coincidence of the year-end with the end of a reserve maintenance period. Allowance was made in open market operations for a large amount of excess reserves over year-end, but the total exceeded $2 billion, a post-war record. The funds rate spurted to daily averages of 14 to 16 percent on

the final two days of the year and borrowing climbed sharply to meet the demand for reserves in the statement period ending December 31, averaging $905 million, compared with the $300 million allowance used throughout the intermeeting period in constructing the reserve path. Borrowing fell off to $290 million in the next maintenance period, but rose in the maintenance period ended January 28 to $462 million as a result of another unanticipated strengthening in excess reserves. Even after year-end pressures subsided in January, federal funds continued to trade at or above 6 percent, somewhat higher than might earlier have been expected given the degree of reserve pressure. Smaller banks in particular seem to have reduced their discount window usage--both seasonal and adjustment--perhaps reflecting ample liquidity and weak loan demand. Most recently, funds have tended to trade around 6 percent; borrowing has averaged $190 million through the first eight days of the current statement period.

(5) Most other short-term rates rose around year-end as credit demands intensified and the funds market tightened, but subsequently reversed those increases, returning to close to their levels at the time of the last FOMC meeting. Even so, short-term rates remain above their lows of last fall, when federal funds were trading consistently below 6 percent. Long-term yields have shown mixed changes over the intermeeting period, with Treasury bond yields moving a little higher, while rates in the corporate and mortgage markets have declined somewhat into more typical alignment with Treasury rates. Although a drop in the dollar and stronger incoming economic data have raised questions about the scope for a further easing in monetary policy, some market participants still appear to hold the view that sluggish growth in the industrialized countries could well prompt further easing moves by spring. Stock prices soared to new highs over the intermeeting

period, boosted in part by the perceived potential for enhanced competitiveness of U.S. industry following the dollar depreciation.

(6) The dollar's exchange value has declined on balance by 6-1/2 percent on a trade-weighted average basis against G-10 currencies since the last Committee meeting, with decreases of 8 percent against the German mark and 6 percent against the yen. The dollar began to decline in the latter part of December, and dropped sharply further after publication at the end of December of preliminary U.S. trade figures for November, which showed a much larger than expected deficit and seemed to underscore the slow pace of adjustment of massive world current account imbalances. The Bundesbank's announcement in late January of a discount rate cut and the improvement in U.S. trade figures shown when December data were released, along with other indications of a brighter outlook for the U.S. economy, have tended to relieve downward pressures on the dollar, which has rebounded 3-1/4 percent from its lows in late January.

. The Desk intervened to sell $50 million equivalent of yen for U.S. account--equally shared by the System and the Treasury.

Long-run ranges

(7) The table below presents three alternative sets of ranges for growth in the broad monetary aggregates and credit from the fourth quarter of 1986 to the fourth quarter of 1987. These alternatives encompass all the possibilities discussed at the last FOMC meeting. The tentative ranges for 1987 announced by the Committee last July are given in alternative II. Alternative I specifies slightly more rapid expansion of M2 and M3, retaining the 1986 growth ranges for these aggregates. Under both of these alternatives, the range for the debt of domestic nonfinancial sectors is the same as the tentative 1987 monitoring range for this aggregate set in July, which was unchanged from 1986. Alternative III contemplates a further reduction in all the ranges. M1 is discussed separately in paragraphs 14 to 16 below.

	Alt. I	Alt. II (Tentative 1987 ranges)	Alt. III
M2	6 to 9	5-1/2 to 8-1/2	5 to 8
M3	6 to 9	5-1/2 to 8-1/2	5 to 8
Nonfinancial Debt	8 to 11	8 to 11	7-1/2 to 10-1/2

(8) The staff's forecast for the economy in the greenbook is believed consistent with a slowing of M2 growth in 1987--to around 7 percent. In that forecast, nominal GNP growth of around 5-3/4 percent for the year is expected to be accompanied by little net change in interest rates. A 7 percent growth of M2 would be the slowest rate of expansion of this aggregate in over a decade, but each of the intervening years was marked by factors--such as rapid income growth, declining market interest rates,

or major deposit deregulation--that are not anticipated this year.[1] Indeed, growth of M2 at 7 percent would be at the upper end of the range of the predictions of a number of conventionally specified M2 demand equations using the staff's interest rate and income projections. Many of these equations embody more rapid adjustments of deposit offering rates or of the public's M2 holdings in response to the previous narrowing of opportunity costs than the staff views as likely given recent experience. In the staff forecast, velocity would drop a little more than 1 percent in 1987, as shown in the chart on the next page. Although this decline would be considerably smaller than in 1986, it would leave V2 further below its historic range.

(9) M3 growth also would be expected to moderate in 1987--perhaps to below 7 percent. Expansion of credit at banks and thrifts should slow in line with debt expansion more generally, holding down needs to issue managed liabilities in M3. Banks are likely to allow tax-exempt portfolios to decline further under the new tax law, and their lending to businesses should taper off as equity retirements abate and corporations concentrate borrowing on longer-term markets. Tighter capital requirements should damp asset expansion at thrift institutions. The securitization and sale of loans by depository institutions is likely to continue to expand, facilitated in the case of mortgages by the advent of REMICs under the new tax law. M3 expansion of a little under 7 percent would imply around a 1 percent decline in velocity that, as can be seen in the chart, would be about in line with its long-run trend.

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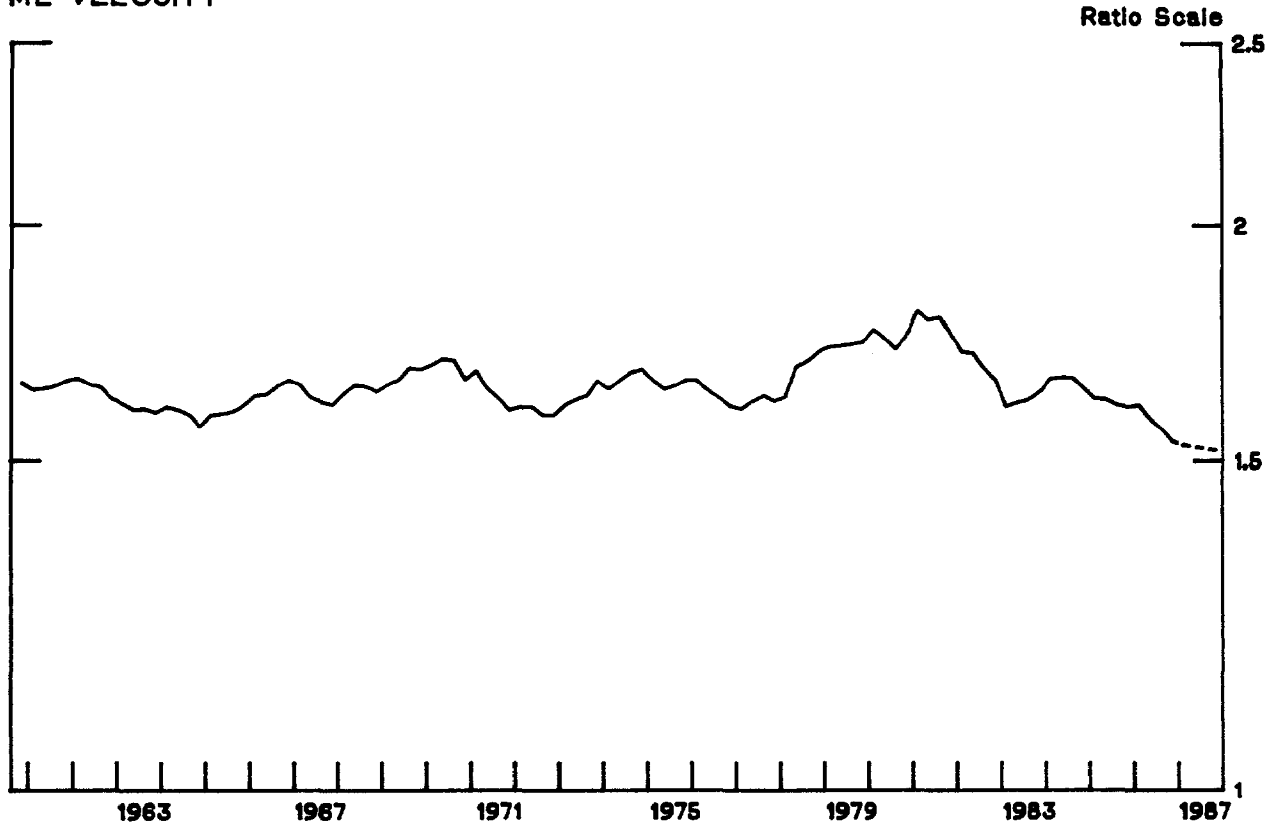
1. The provisions of the new tax law are not expected to affect M2 significantly for the year 1987. IRAs for the 1987 tax year and beyond will be less attractive alternatives to M2 forms of savings, but flows into these accounts early this year could be especially strong to take full advantage of the deductibility of contributions for 1986.

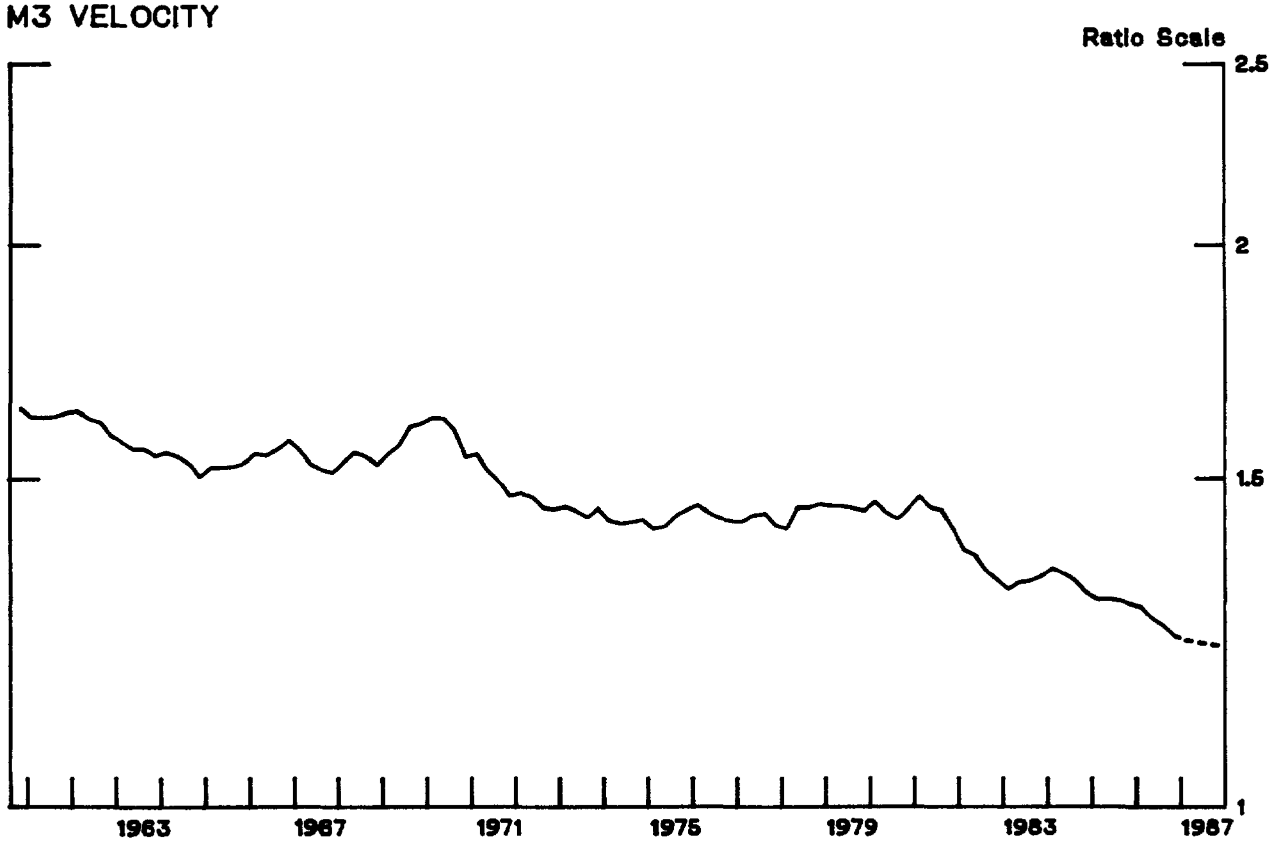
Chart 1

ACTUAL AND PROJECTED VELOCITY OF M2 AND M3[1]

M2 VELOCITY



M3 VELOCITY



1. Projections based on staff forecast of GNP and money.

(10) The debt of domestic nonfinancial sectors is projected to increase at about a 10 percent rate in 1987, a bit above the midpoint of its tentative 8 to 11 percent monitoring range, but substantially below its rate of growth in 1986. The moderation in the rate of increase in debt is projected to occur primarily in the government sectors. Much of the decline in federal government borrowing would reflect the decrease in the deficit; in the state and local sector, however, debt issuance is expected to fall off owing to reduced refunding activity, rather than any improvement in the underlying budget position. Business borrowing is expected to continue at about the pace of 1986; the decline in equity retirements will be partly offset by an increase in the need for external funds to finance investment. Household borrowing likely will be restructured toward home equity loans and away from traditional consumer credit, but the overall pace of borrowing should not be greatly affected, and household debt levels will continue to climb relative to income.

(11) With respect to the three alternatives for growth in the broad aggregates, all would appear broadly consistent with moderate growth in the economy accompanied by only a modest pickup in inflation, given the staff's assessment of the economic fundamentals and the factors affecting money demand. Alternative III might be considered more appropriate to the extent velocity growth was thought likely to return to previous trends, or to rebound following its recent marked declines. For M2, such trend velocity behavior is suggested by the results of many of the money demand models, which indicate growth at or below the midpoint of this range. Alternative III also might be considered more appropriate if the risks were seen to be on the side of mounting inflation, resulting, say, from a further substantial drop in the dollar feeding through into wage and price increases

more generally, augmented perhaps by pressures on resource utilization should the trade balance turn around rapidly. Of all the alternatives, the ranges of alternative III would imply the potential for the greatest restraint on nominal income under those circumstances, in order to maintain progress toward price stability. In particular, if upward movements of interest rates were to accompany the tendency towards higher inflation, velocity could begin to strengthen substantially, implying the need for growth in the lower alternative III ranges.

(12) Alternative I ranges, on the other hand, leave a little more room to accommodate another substantial decline in velocity. Such an outcome could arise from exceptionally strong demands for liquidity, given income and interest rates, perhaps associated with continued brisk increases in total financial assets. Or a sizable drop in velocity also could result from substantial declines in interest rates should they be needed to sustain economic expansion, perhaps in the face of faltering growth worldwide or an absence of any pressures in prices. The effects of any further rate declines on velocity could be quite large if the adjustment of deposit rates remains very sticky. Sizable interest rate decreases, especially if they occurred in the early part of the year, might be enough to augment demands for broad money sufficiently to threaten the upper ends of an 8 or 8-1/2 percent range later in the year, potentially constraining policy at that time.

(13) Alternative II, embodying the Committee's tentative ranges, could be seen as balancing these risks. The staff's expectations for M2 and M3 growth, around the middle of this alternative's ranges, suggest comparable odds of running either very high or very low in the range. The alternative II range would provide for some restraint on income growth should inflationary pressures tend to intensify, and the upper ends of the ranges

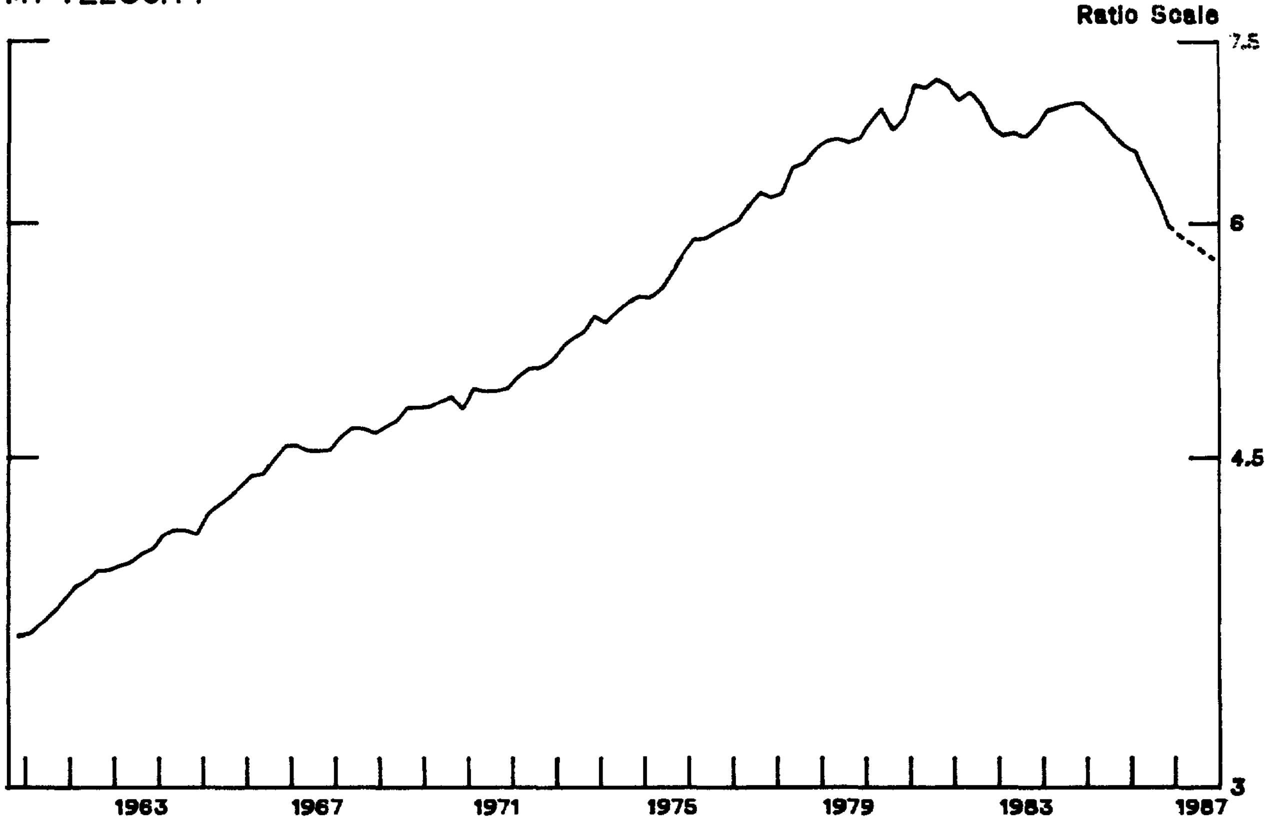
would allow further substantial declines in velocity should they materialize. The downward adjustment of the ranges from 1986 to 1987 would convey the Committee's sense that slower money growth over time will be necessary to sustain and consolidate progress toward price stability. At least a modest slowing of money growth in 1987 would be required under alternative II, given that the upper ends of the ranges of this alternative are a little below actual growth in 1986.

(14) M1 would be expected to slow from its extraordinary growth of 1986 under the conditions in the staff economic forecast, though given recent experience any M1 projections must be regarded as very uncertain. If interest rates remain near current levels, as assumed in the forecast, demand deposit growth is likely to be considerably below the pace of 1986; much of the adjustment of compensating balances to the decline in rates last year probably has already occurred, and conditions leading to a still higher level of mortgage refinancings or another extraordinary burst in financial transactions contributing to increases in demand balances are not anticipated. An important source of uncertainty in the M1 projection is the behavior of deposit offering rates and the public's further response to historically narrow opportunity costs on these accounts. On the presumption that the adjustment of NOW account rates is likely to continue to be very sluggish, inflows to these accounts could remain substantial, tapering off gradually over the year. On balance, M1 might grow in the neighborhood of 10 percent in 1987--above the upper end of the Committee's very tentative 3 to 8 percent range. Such growth would imply a velocity decline of around 4 percent, considerably slower than in 1986, as shown in the chart on the next page. Given the likely outcome for the first quarter, such growth would require expansion at an average rate of around 8 percent over the balance of the year. Growth

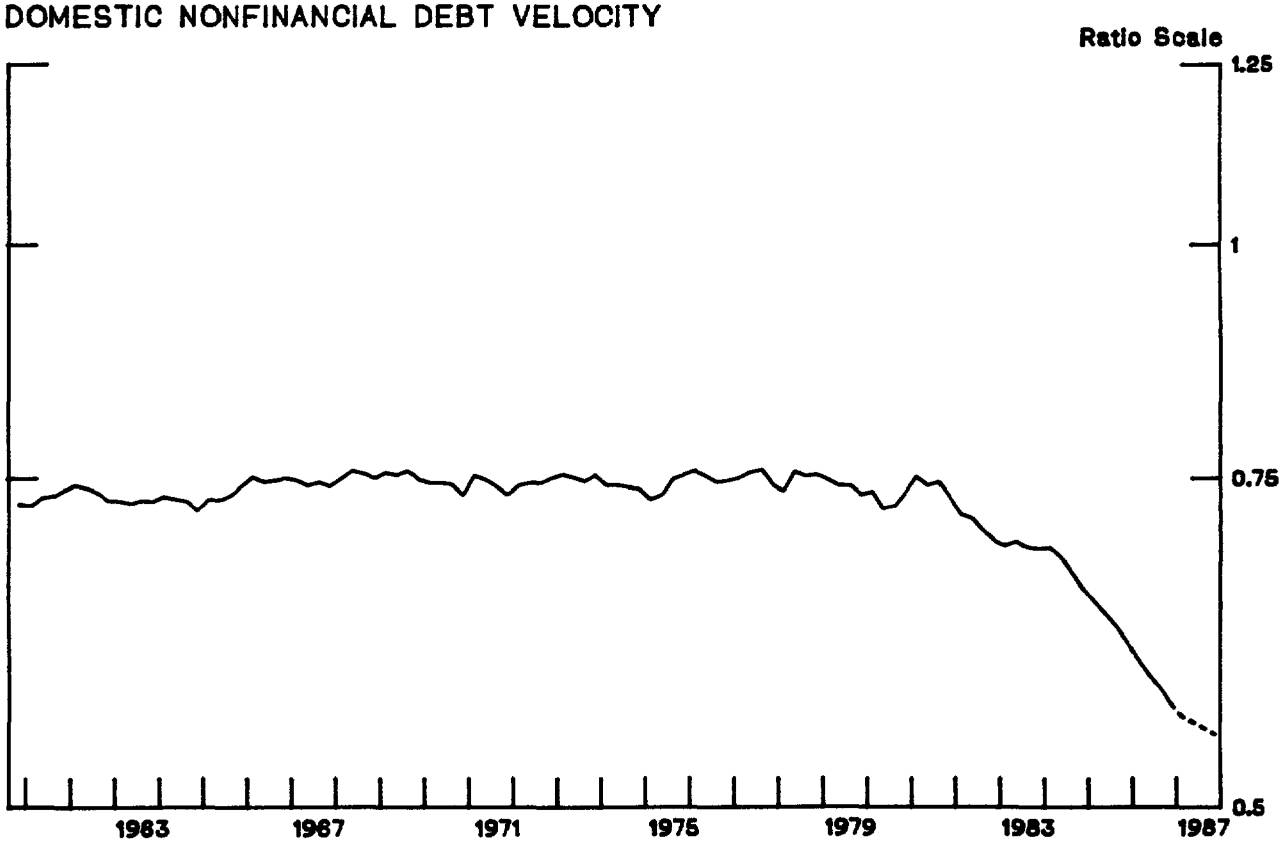
Chart 2

ACTUAL AND PROJECTED VELOCITY OF M1 AND DEBT[1]

M1 VELOCITY



DOMESTIC NONFINANCIAL DEBT VELOCITY



1. Projections based on staff forecast of GNP and money or debt.

for the year could exceed 10 percent, however, especially if opportunity costs do not widen appreciably and depositors continue to shift large volumes of funds to NOW accounts. On the other hand, econometric money demand models generally are showing growth rates in the 5-1/2 to 7-1/2 percent range given the staff's income and interest rate forecast. In the staff's quarterly model this result rests importantly on a sharp fall-off in OCD inflows resulting from a continuing decline in offering rates and a marked response by the public to the widening spread.

(15) In addition to uncertainties about offering rate behavior and the public's attitude toward accumulating liquid assets, M1 probably will remain extremely responsive to any further movements in market interest rates. Available evidence suggests that a one point change in market rates from current levels will result in about a 3 to 4 percentage point change in money demand over a year--about three times the response of M2. Such a response, along with the various other uncertainties affecting the outlook for M1 and its velocity, suggest that if the FOMC were to establish a range for M1, a very wide range would be needed to encompass the same kinds of contingencies as a 3 percentage point width for M2 and M3. An M1 range of six percentage points, say of 7 to 13 percent centered on the staff's expectation, while allowing for a variety of contingencies, would still seem to be more susceptible to being breached than the M2 and M3 ranges. Should rates rise substantially, velocity could advance strongly, implying a very weak M1 for a given income growth; conversely a further decline in rates might imply another substantial fall in velocity, with M1 continuing to increase at rates close to those registered in 1986.

(16) Even so, specification of a numerical range for M1 could convey in concrete form the Committee's expectations for acceptable growth over the

current year. It would provide a benchmark against which to evalute M1 behavior over the intermediate term, although the aggregate would need to be interpreted together with other indicators. Another approach to an M1 range would be to put forth a lower range considered consistent with restoration of more normal velocity relationships. It was on this basis that the Committee established its tentative 3 to 8 percent range for 1987.

Short-run policy alternatives

(17) The table below presents three alternative specifications for growth in the monetary aggregates through March, together with associated federal funds rate ranges. Growth rates are shown from a November base, as chosen at the last meeting; growth rates from December to March, which are shown in the table on the following page, are somewhat lower, reflecting the distortions to money stock levels at year-end.

	Alt. A	Alt. B	Alt. C
Growth from November to March			
M2	8-1/2	8	7-1/2
M3	7-3/4	7-1/2	7-1/4
M1	16-1/2	15-1/2	14-1/2
Associated federal funds rate range	3 to 7	4 to 8	5 to 9

(18) The specifications of alternative B involve maintaining a reserve path allowance for borrowing at the discount window of $300 million. The federal funds rate would be expected to range around 6 percent, as it has in recent days. With funds trading consistently in this area, the three-month Treasury bill rate might edge back down toward 5-1/2 percent. Bond rates would be expected to continue to fluctuate around current levels as incoming economic indicators are likely to point to continued moderate economic expansion. The dollar could well come under some renewed downward pressure--given persistent large current account deficits.

(19) It now appears that maintenance of current conditions in reserve markets under alternative B will be consistent with slightly more rapid growth of the broad money aggregates over the November-to-March period than foreseen at the last FOMC meeting, though within the upper bounds of the

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-October	2760.3	2760.3	2760.3	3442.5	3442.5	3442.5	701.4	701.4	701.4
November	2774.3	2774.3	2774.3	3459.5	3459.5	3459.5	712.4	712.4	712.4
December	2797.8	2797.8	2797.8	3486.6	3486.6	3486.6	730.4	730.4	730.4
1987-January	2818.5	2818.5	2818.5	3511.0	3511.0	3511.0	737.5	737.5	737.5
February	2834.7	2833.3	2831.9	3529.7	3528.6	3527.4	742.4	742.0	741.6
March	2854.2	2849.6	2845.0	3549.4	3546.0	3542.5	751.3	749.2	747.1
Monthly Growth Rates									
1986-October	10.6	10.6	10.6	7.1	7.1	7.1	14.4	14.4	14.4
November	6.1	6.1	6.1	5.9	5.9	5.9	18.8	18.8	18.8
December	10.2	10.2	10.2	9.4	9.4	9.4	30.3	30.3	30.3
1987-January	8.9	8.9	8.9	8.4	8.4	8.4	11.7	11.7	11.7
February	6.9	6.3	5.7	6.4	6.0	5.6	7.9	7.3	6.7
March	8.3	6.9	5.6	6.7	5.9	5.1	14.4	11.6	8.9
Quarterly Ave. Growth Rates									
1986-Q1	5.3	5.3	5.3	7.7	7.7	7.7	8.8	8.8	8.8
Q2	9.4	9.4	9.4	8.8	8.8	8.8	15.5	15.5	15.5
Q3	10.6	10.6	10.6	9.7	9.7	9.7	16.5	16.5	16.5
Q4	9.0	9.0	9.0	7.8	7.8	7.8	17.0	17.0	17.0
1987-Q1	8.4	8.1	7.8	7.8	7.6	7.4	16.2	15.8	15.3
Nov. 86 to Mar. 87	8.6	8.1	7.6	7.8	7.5	7.2	16.4	15.5	14.6
Dec. 86 to Mar. 87	8.1	7.4	6.7	7.2	6.8	6.4	11.4	10.3	9.1
Jan. 87 to Mar. 87	7.6	6.6	5.6	6.6	6.0	5.4	11.2	9.5	7.8
Q4 85 to Q4 86	8.9	8.9	8.9	8.8	8.8	8.8	15.2	15.2	15.2
Q4 86 to Jan. 87	8.9	8.9	8.9	8.3	8.3	8.3	19.1	19.1	19.1
Q4 86 to Mar. 87	8.3	7.8	7.3	7.5	7.2	6.9	15.4	14.5	13.6
1986 Ranges:		6 to 9			6 to 9			3 to 8	
1987 Ranges(Tentative):		5.5 to 8.5			5.5 to 8.5			3 to 8	

Chart 3

ACTUAL M2 AND TENTATIVE TARGET RANGE

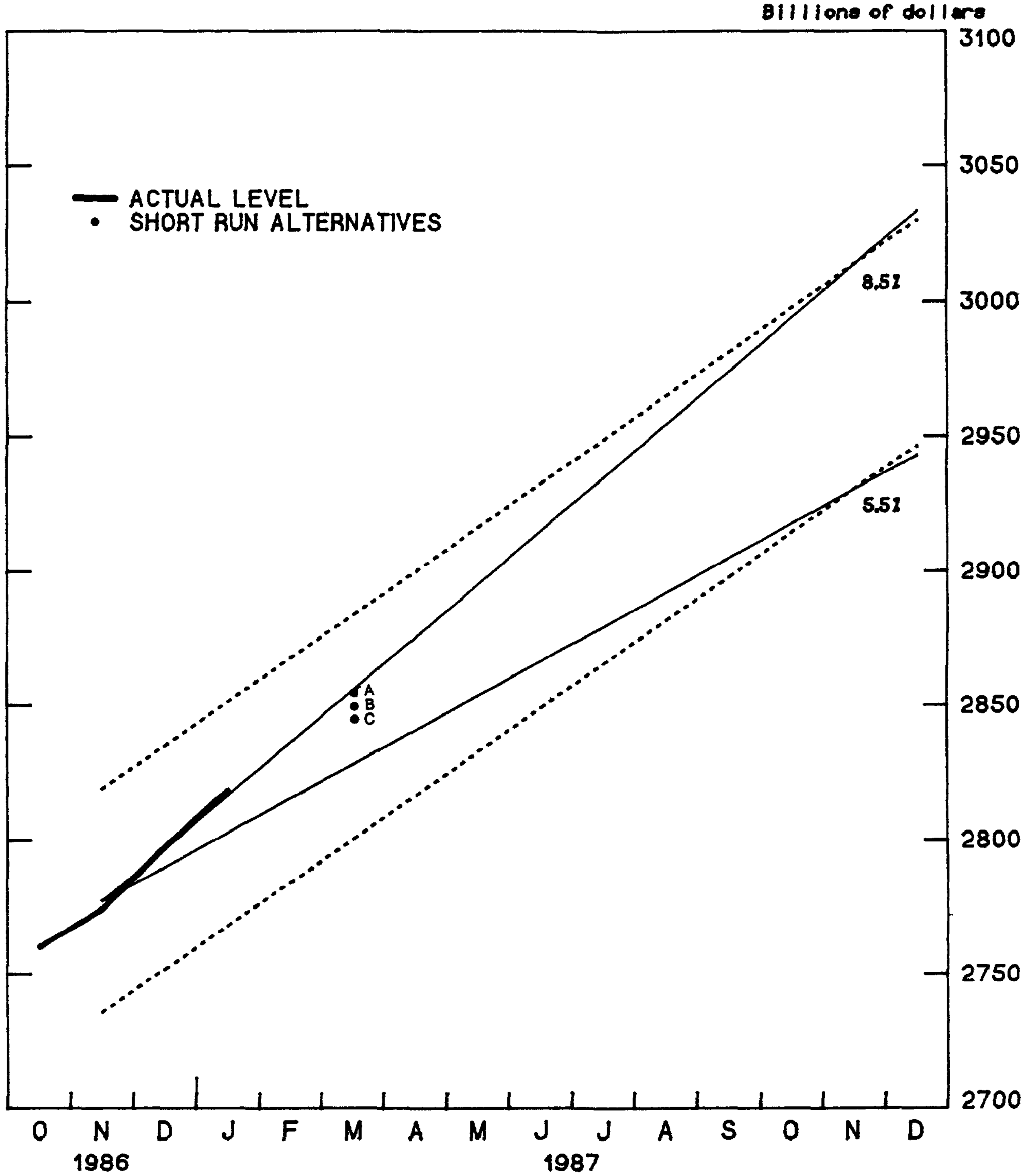


Chart 4

ACTUAL M3 AND TENTATIVE TARGET RANGE

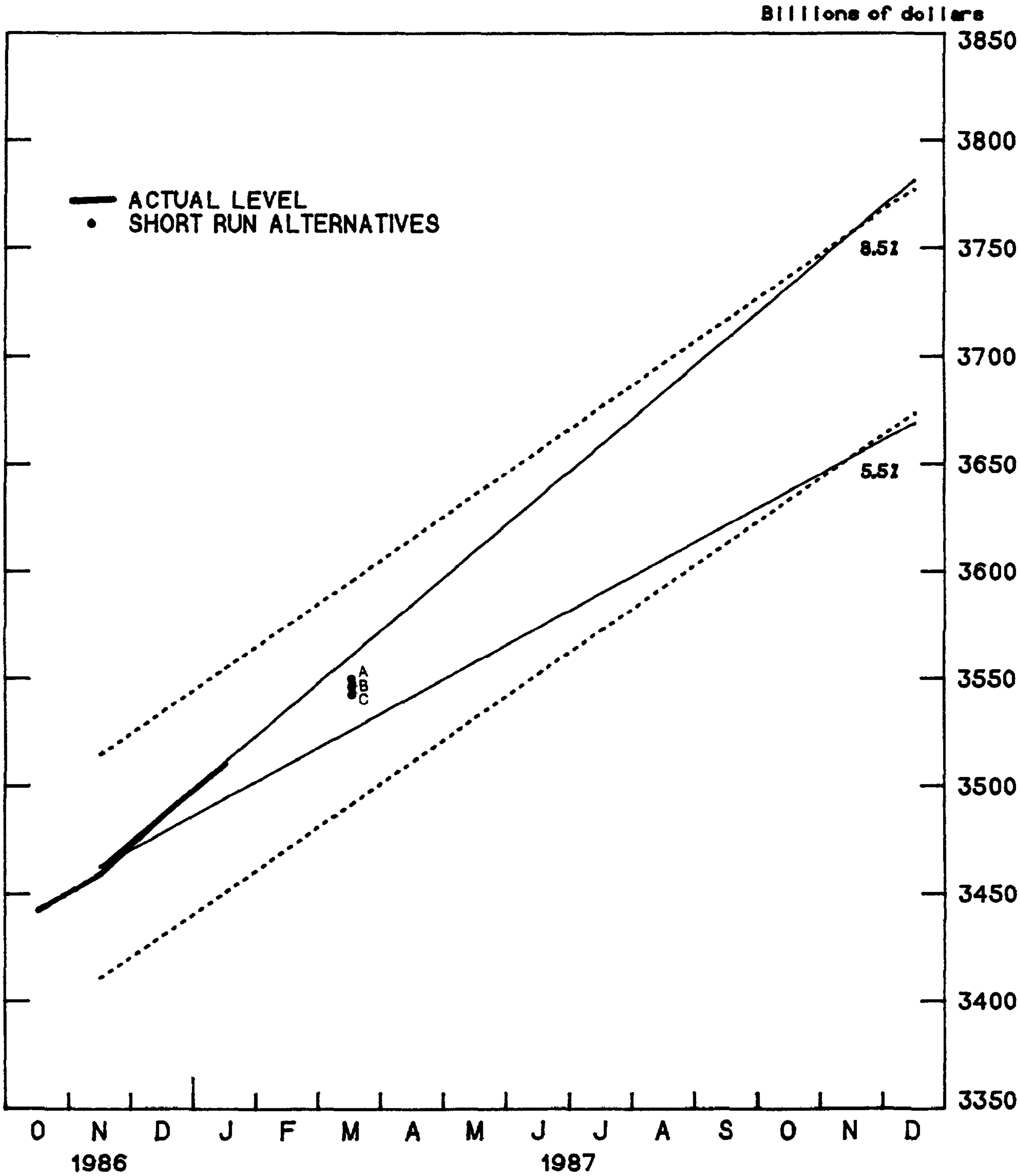


Chart 5

ACTUAL M1 AND TENTATIVE TARGET RANGE

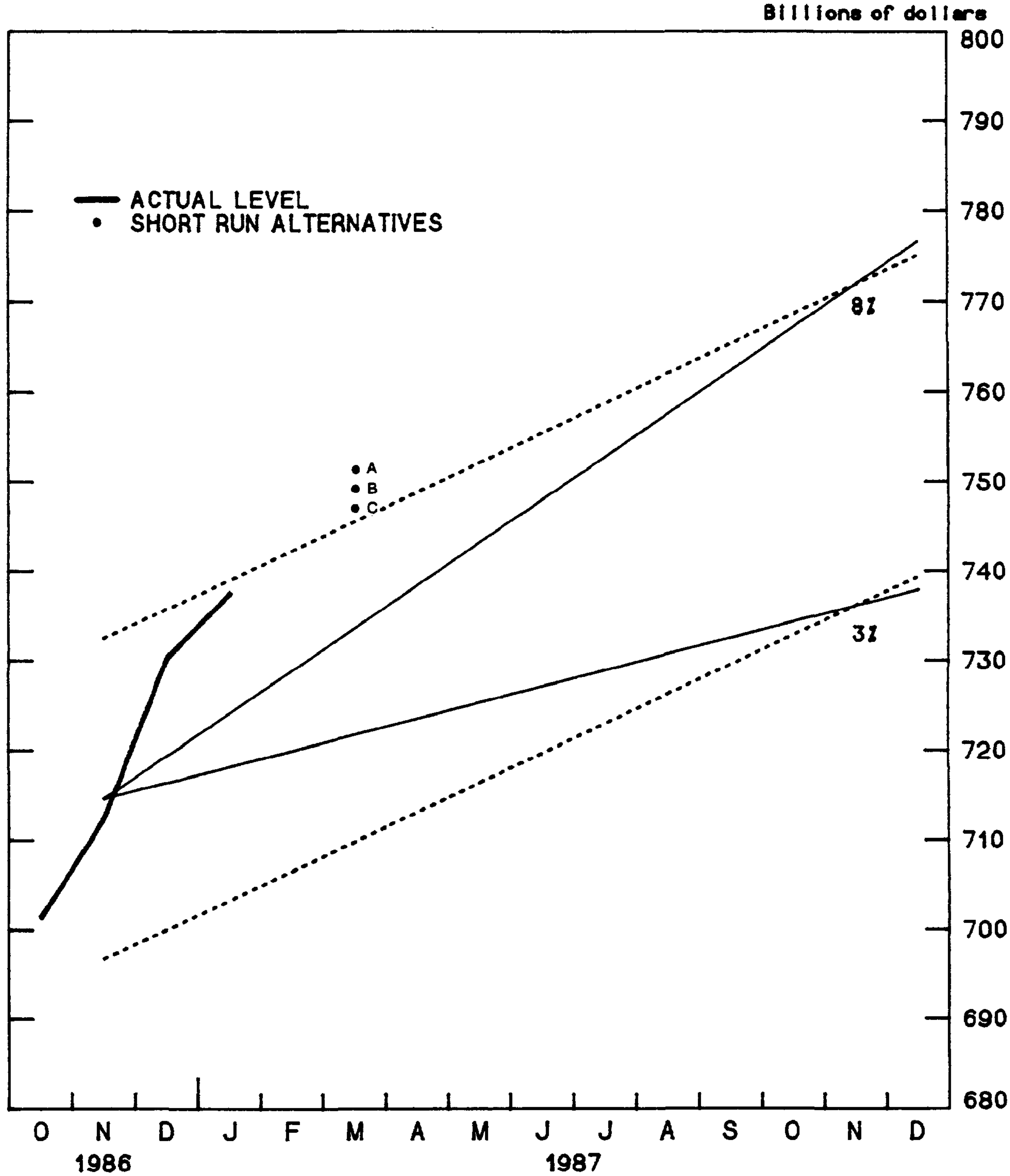
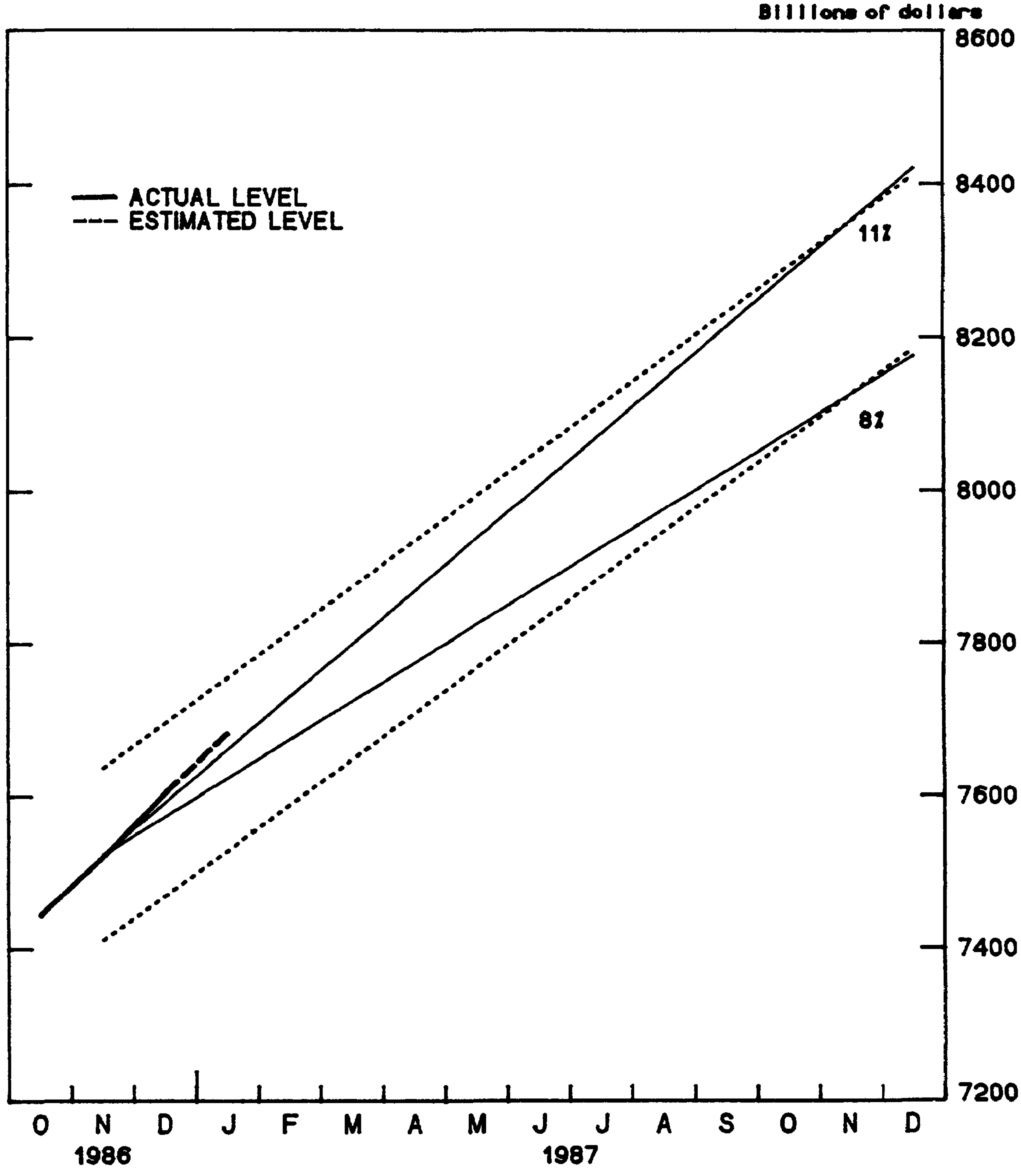


Chart 6

ACTUAL DEBT AND TENTATIVE RANGE



growth cones associated with any of the long-run alternatives. M2 under this alternative would be expected to slow substantially in February and March from the average pace of recent months, but to expand at an 8 percent rate over November to March, compared with the current short-run specification of 7 percent. The year-end distortions seem to have unwound by February, and growth over the balance of the quarter should reflect underlying influences from income and interest rates. The increase in transactions balances is expected to moderate substantially and smaller inflows to overnight RPs and Eurodollars are likely following their recent surge. Nontransactions core deposits should continue to outpace the growth of income as opportunity costs remain quite low, especially on savings accounts, given the stickiness of offering rates. The decline in M2 velocity is expected to moderate from around a 5-1/2 percent annual rate in the fourth quarter to 3 percent in the first.

(20) M3 under alternative B also is expected to slow in February and March from the average pace of recent months as credit demands on banks decrease sharply from elevated year-end levels, reducing needs to issue managed liabilities. Overall credit growth should moderate as well, with domestic nonfinancial debt expected to grow at an 8 percent rate over the balance of the quarter. From the fourth quarter through March, debt would have expanded at a 10 percent annual rate, in the upper part of any of the long-run alternatives.

(21) The outlook for M1 growth continues to be highly uncertain owing to both erratic demand deposit movements and the difficulty of assessing the outlook for OCD growth at historically low opportunity costs. With demand deposits already having retraced their run-up over year-end, this component has begun to expand again. OCD growth is projected to moderate.

While this component accelerated in January, the opportunity cost of holding NOW accounts has been widening since late summer, albeit slowly, and the outflow of time deposits--one source of funds shifting to OCDs--is expected to abate further. On balance, M1 growth would slow in February and March under alternative B from the exceptional pace of recent months, although continuing to outpace GNP by a substantial margin. In the first quarter, M1 velocity is projected to contract at about a 10 percent annual rate, after falling at nearly a 14 percent rate in the fourth quarter.

(22) Alternative A assumes a reduction in discount window borrowing to $150 million, a near-frictional level, or a one-half percentage point cut in the discount rate with the borrowing allowance maintained at $300 million. In either case, the federal funds rate would move down to around 5-1/2 percent. Other short-term rates would decline by nearly this amount, with the three-month bill dropping to close to 5 percent, as there appears to be little market expectation of monetary easing in the period immediately ahead. Downward pressure on the dollar would intensify, absent comparable policy moves by central banks abroad. In the context of a weaker dollar, and possibly greater concern about inflation, the scope for long-term rates to fall might be limited; however, should the easing in money markets be followed by economic indicators pointing to a weaker economy and less inflationary pressure than is now expected, long-term rates would be more likely to fall appreciably.

(23) Under alternative A, M2 growth would slow only moderately from its pace of recent months and the level of M2 in March would be within the alternative I long-run range, but near the upper end of the alternative II range and above the alternative III growth cone. Similarly, the deceleration in M3 would be less pronounced, although this aggregate in March would

be below even the upper end of its alternative III long-run range. Flows into retail accounts are likely to strengthen even further, though this would be muted to the degree that mounting cost pressures encouraged depository institutions to no longer delay downward adjustments in offering rates on retail deposits, especially OCDs and savings deposits. Absent a major adjustment, M1 growth in March might return to close to the 15 percent path of 1986. M3 growth would be augmented by larger inflows to money market mutual funds and heavier bank funding needs as businesses took down more bank loans, especially if long-term rates did not register appreciable declines.

(24) Under alternative C, reserve paths would be drawn with a borrowing level of $500 million, which would likely lead to a rise in the federal funds rate to the 6-1/2 percent area. Such a policy move would exert greater restraint on M2, bringing this aggregate well within even the alternative III range. A relatively large widening of opportunity costs of liquid retail accounts would act to damp expansion of M2 while reduced asset growth at banks and thrifts would limit issuance of managed liabilities in M3. Tighter reserve conditions also would raise the odds that M1 growth would decelerate substantially in the months ahead.

(25) The three-month bill rate would rise by about 50 basis points under this alternative and other short-term rates would rise by a similar amount, absent any accompanying greater concern about debt-servicing difficulties of bank debtors. Downward pressure on the dollar would be relieved, at least for a while, and the exchange value of the dollar could even strengthen temporarily. Bond rates would back up, but the extent of any rise would be tempered by reduced pressure on the dollar and sentiment that such a firming measure would act to check inflationary pressure.

Directive language

1987 Ranges

(26) Presented below for Committee consideration is draft directive language relating to the decision on the longer-run ranges (draft language for the operating paragraph is shown in (27) below). Suggested deletions from the current directive are indicated in the usual strike-through form 1/ and proposed additions are in caps. Language for the broad monetary aggregates and debt is given in the first draft paragraph below.

With respect to M1, two variants are presented. These variants are drafted as separate paragraphs but, of course, could be combined with the paragraph on broad money and debt. Both begin with the same sentence--carried over from the current directive--relating to uncertainties in M1 behavior. In variant I the subsequent language is suggested if the Committee decided not to set a range for M1 in 1987. Language like that in the first set of brackets could be used if the Committee wished to give some general sense of its expectations with regard to M1 growth for the year and

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1/ In addition to the language shown in strike-through form, the following sentences concerning the 1986 growth of debt and the tentative ranges for 1987 are suggested for deletion from the directive.

"Given its rapid growth in the early part of the year, the Committee recognized that the increase in total domestic nonfinancial debt in 1986 may exceed its monitoring range of 8 to 11 percent, but felt an increase in that range would provide an inappropriate benchmark for evaluating longer-term trends in that aggregate.

For 1987 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1986 to the fourth quarter of 1987, of 5-1/2 to 8-1/2 for M2 and M3. While a range of 3 to 8 percent for M1 in 1987 would appear appropriate in the light of most historical experience, the Committee recognized that the exceptional uncertainties surrounding the behavior of M1 velocity over the more recent period would require careful appraisal of the target range at the begining of 1987."

some indication of the possible implications, depending on circumstances, of substantial deviations from expectations. Wording such as that proposed in the second set of brackets could be used if the Committee wished at the same time to indicate that more weight might be given to M1 over time under appropriate circumstances. The variant II paragraph is proposed in the event that the Committee were to decide to specify a numerical growth range for M1, while also indicating the possibility that growth above or below the range might be acceptable.

Language for the Broader Aggregates and Debt

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee ~~agreed-at-the-July-meeting-to reaffirm-the-ranges~~ established ~~in-February-for~~ growth RANGES OF ~~6-to-9~~ __ TO __ percent AND __ TO __ PERCENT for ~~both~~ M2 and M3, RESPECTIVELY, measured from the fourth quarter of ~~1985~~ 1986 to the fourth quarter of ~~1986~~ 1987. The associated range for growth in total domestic nonfinancial debt was ~~provisionally~~ set at ~~8-to-11~~ __ TO __ percent for 1987.

Variant I for M1

With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activity and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. In light of these uncertainties ~~and-of-the-substantial decline-in-velocity-in-the-first-half-of-the-year~~, the Committee decided ~~that~~ NOT TO ESTABLISH A RANGE FOR THE growth of M1 IN 1987 AT THIS TIME ~~in-excess-of-the-previously-established-3-to-8-percent-range-for-1986 would-be-acceptable.~~ ~~Acceptable-growth-of-M1-over-the-remainder-of-the year-would-depend-on~~ M1 WILL BE EVALUATED IN LIGHT OF the behavior of its velocity, developments in the economy and financial markets, and price pressures. [THE COMMITTEE ANTICIPATES SLOWER M1 GROWTH IN 1987. CONTINUED VERY RAPID GROWTH IN THIS AGGREGATE IS POSSIBLE, AND MIGHT BE A MATTER OF CONCERN, PARTICULARLY IF IT OCCURRED IN THE CONTEXT OF INTENSIFYING PRICE PRESSURES AND RAPID GROWTH IN THE BROAD MONETARY AGGREGATES. CONVERSELY, MARKED WEAKNESS OF M1 COULD OCCUR AND MIGHT BE ACCEPTABLE IN LIGHT OF THE EXTRAORDINARY EXPANSION OF THIS AGGREGATE IN RECENT YEARS, ESPECIALLY IN CIRCUMSTANCES CHARACTERIZED BY RISING INTEREST RATES AT A TIME WHEN THE ECONOMY AND PRICES WERE SHOWING STRENGTH.] [THE BEHAVIOR OF M1 WILL BE REVIEWED DURING THE YEAR AND THE WEIGHT PLACED ON THIS AGGREGATE OVER TIME WILL DEPEND ON THE EXTENT TO WHICH ITS VELOCITY SEEMS TO BE RESUMING MORE PREDICTABLE PATTERNS.]

Variant II for M1

With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activity and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. ~~In-light-of-these-uncertainties-and-of-the-substantial decline-in-velocity-in-the-first-half-of-the-year,~~ The Committee decided that A RANGE OF __ TO __ PERCENT WOULD BE APPROPRIATE FOR THE GROWTH OF M1 IN 1987, BUT IN LIGHT OF THE UNCERTAINTIES ASSOCIATED WITH THE BEHAVIOR OF M1, GROWTH ABOVE OR BELOW THIS RANGE COULD (WOULD) BE ACCEPTABLE ~~growth of-M1-in-excess-of-the-previously-established-3-to-8-percent-range-for 1986-would-be-acceptable. Acceptable-growth-of-M1-over-the-remainder of-the-year-would-depend-on~~ M1 WILL BE EVALUATED IN THE LIGHT OF the behavior of velocity, growth in the other monetary aggregates, developments in the economy and financial markets, and price pressures.

OPERATIONAL PARAGRAPH

(27) The proposed language conforms with that adopted at the December meeting in that no expectations are indicated for M1 growth. With regard to possible intermeeting adjustments in the degree of reserve pressure, the usual wording alternatives are supplied should the Committee wish to change the asymmetrical language of the latest directive.

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 November (DECEMBER) to

March at ~~an~~ annual ~~rate~~ RATES of about ~~7~~ ___ AND ___ percent, RESPECTIVELY. Growth in M1 will continue to be appraised in the light of the behavior of M2 and M3 and the other factors cited below. Slightly (SOMEWHAT) greater reserve restraint or somewhat (SLIGHTLY) lesser reserve restraint would (MIGHT) 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 ~~4-to-8~~ ___ TO ___ percent.

APPENDIX

MONEY STOCK REVISIONS

Measures of the money stock have been revised to incorporate annual benchmark and seasonal adjustments. This appendix discusses the revisions and presents tables comparing growth rates of the old and new series. These revisions are to be regarded as strictly confidential until their scheduled release on February 12.

Benchmark Revisions

Deposits of commercial banks and thrifts have been benchmarked to incorporate call reports through June 1986 as well as revisions from other reports. The benchmark revisions had smaller effects on monetary growth than was common in earlier years, owing largely to reporting improvements, especially for RPs. The benchmark lowered growth in the broader aggregates for 1986 slightly and had no net impact on M1 growth. M2 growth for the year as a whole was reduced by 0.2 percentage point, while M3 growth was lowered by 0.1 percentage point.

Seasonal Revisions

The seasonal factor review employed basically the same X 11-ARIMA procedures that were used last year. Unlike past years, however, seasonally adjusted M1 is now constructed by summing travelers checks, currency, demand deposits and other checkable deposits (OCDs), each seasonally adjusted separately. Owing to data limitations, seasonally adjusted OCDs previously had been derived indirectly as the difference between seasonally adjusted transactions deposits (demand deposits plus OCDs) and seasonally adjusted demand deposits. M2 continues to be calculated by seasonally adjusting its non-M1 component as a whole, and M3 by adjusting its non-M2 component as a whole.

Seasonal factor revisions modified the pattern of growth within 1986, especially for M1 and M2. In particular, M1 and M2 growth early in the year was raised while growth in subsequent months on balance was lowered.

APPENDIX TABLE 1

COMPARISON OF REVISED AND OLD M1 GROWTH RATES
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1985--Oct.	5.5	5.3	0.2	-0.2	0.4
Nov.	10.4	11.5	-1.1	0.8	-1.9
Dec.	14.7	12.6	2.1	1.2	0.9
1986--Jan.	3.6	1.1	2.5	-0.5	3.0
Feb.	6.3	7.3	-1.0	0.0	-1.0
Mar.	15.8	14.1	1.7	0.0	1.7
Apr.	14.4	14.5	-0.1	0.4	-0.5
May	21.1	23.4	-2.3	-0.6	-1.7
June	14.4	14.8	-0.4	-0.2	-0.2
July	16.4	16.6	-0.2	0.0	-0.2
Aug.	18.4	20.6	-2.2	0.0	-2.2
Sept.	10.7	9.8	0.9	0.0	0.9
Oct.	14.4	13.8	0.6	-0.2	0.8
Nov.	18.8	21.0	-2.2	0.0	-2.2
Dec.	30.3	28.4	1.9	0.0	1.9
1987--Jan.p	11.7	9.0	2.7	0.0	2.7
Quarterly					
1985--QIV	10.9	10.7	0.2	0.5	-0.3
1986--QI	8.8	7.7	1.1	0.1	1.0
QII	15.5	15.8	-0.3	-0.1	-0.2
QIII	16.5	17.3	-0.8	-0.1	-0.7
QIV	17.0	17.2	-0.2	-0.1	-0.1
Semi-Annual					
1986--QIV '85 to QII '86	12.3	11.9	0.4	0.0	0.4
QII '86 to QIV '86	17.1	17.6	-0.5	-0.1	-0.4
Annual (QIV to QIV)					
1985	12.1	11.9	0.2	0.1	0.1
1986	15.2	15.3	-0.1	0.0	-0.1

p--preliminary

APPENDIX TABLE 2

COMPARISON OF REVISED AND OLD M2 GROWTH RATES
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1985--Oct.	4.1	4.3	-0.2	0.1	-0.3
Nov.	6.8	5.9	0.9	1.8	-0.9
Dec.	9.6	7.1	2.5	2.1	0.4
1986--Jan.	2.4	1.6	0.8	-0.6	1.4
Feb.	3.6	3.6	0.0	-1.4	1.4
Mar.	7.7	6.8	0.9	-0.8	1.7
Apr.	11.5	13.8	-2.3	-0.2	-2.1
May	10.7	12.6	-1.9	-1.1	-0.8
June	9.2	9.6	-0.4	-0.7	0.3
July	11.8	12.8	-1.0	0.1	-1.1
Aug.	11.0	11.2	-0.2	0.3	-0.5
Sept.	7.9	7.3	0.6	0.4	0.2
Oct.	10.6	10.7	-0.1	0.1	-0.2
Nov.	6.1	7.1	-1.0	-0.2	-0.8
Dec.	10.2	9.7	0.5	0.0	0.5
1987--Jan.p	8.9	7.1	1.8	0.1	1.7
Quarterly					
1985--QIV	6.6	6.1	0.5	0.8	-0.3
1986--QI	5.3	4.3	1.0	0.0	1.0
QII	9.4	10.5	-1.1	-0.7	-0.4
QIII	10.6	11.1	-0.5	-0.2	-0.3
QIV	9.0	9.1	-0.1	-0.1	-0.2
Semi-Annual					
1986--QIV '85 to QII '86	7.4	7.5	-0.1	-0.3	0.2
QII '86 to QIV '86	9.9	10.3	-0.4	-0.1	-0.3
Annual (QIV to QIV)					
1985	8.8	8.7	0.1	0.1	0.0
1986	8.9	9.1	-0.2	-0.2	0.0

p--preliminary

APPENDIX TABLE 3

COMPARISON OF REVISED AND OLD M3 GROWTH RATES
(percent changes at annual rates)

	Revised (1)	Old (2)	Difference (1) - (2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1985--Oct.	5.5	5.7	-0.2	-0.1	-0.1
Nov.	7.1	5.8	1.3	1.2	0.1
Dec.	9.1	7.5	1.6	1.5	0.1
1986--Jan.	8.0	8.8	-0.8	-0.6	-0.2
Feb.	5.9	6.3	-0.4	-1.0	0.6
Mar.	8.0	7.8	0.2	-0.3	0.5
Apr.	10.6	11.5	-0.9	0.0	-0.9
May	7.9	7.9	0.0	-0.6	0.6
June	8.6	8.5	0.1	-0.3	0.4
July	11.0	13.0	-2.0	-0.1	-1.9
Aug.	10.0	9.1	0.9	0.2	0.7
Sept.	8.8	8.8	0.0	0.3	-0.3
Oct.	7.1	6.7	0.4	0.1	0.3
Nov.	5.9	6.1	-0.2	-0.1	-0.1
Dec.	9.4	9.2	0.2	-0.1	0.3
1987--Jan.p	8.4	8.7	-0.3	0.1	-0.4
Quarterly					
1985--QIV	7.1	6.6	0.5	0.5	0.0
1986--QI	7.7	7.6	0.1	0.0	0.1
QII	8.8	9.0	-0.2	-0.3	0.1
QIII	9.7	10.2	-0.5	-0.1	-0.4
QIV	7.8	7.6	0.2	0.1	0.1
Semi-Annual					
1986--QIV '85 to QII '86	8.3	8.4	-0.1	-0.2	0.1
QII '86 to QIV '86	8.9	9.0	-0.1	0.0	-0.1
Annual (QIV to QIV)					
1985	7.7	7.7	0.0	0.0	0.0
1986	8.8	8.9	-0.1	-0.1	0.0

p--preliminary

Selected Interest Rates

Percent

February 9, 1987

Period	Short-term: federal funds	Short-term: Treasury bills secondary market, 3-month	Treasury bills secondary market, 6-month	Treasury bills secondary market, 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	U.S. government constant maturity yields, 10-year	U.S. government constant maturity yields, 30-year	corporate A utility recently offered	municipal Bond Buyer	conventional home mortgages: secondary market fixed-rate	conventional home mortgages: primary market fixed-rate	conventional home mortgages: primary market ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
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	7.06	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	5.75	5.09	5.16	5.31	5.47	5.60	5.17	7.50	6.24	7.02	7.16	9.00	7.15	9.31	9.30	7.62
1986--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	5.53	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
Oct.	5.85	5.18	5.26	5.41	5.69	5.74	5.22	7.50	6.56	7.43	7.70	9.48	7.47	9.82	9.97	8.06
Nov.	6.04	5.35	5.41	5.48	5.76	5.84	5.21	7.50	6.46	7.25	7.52	9.31	7.23	9.56	9.70	7.90
Dec.	6.91	5.53	5.55	5.55	6.04	6.63	5.45	7.50	6.43	7.11	7.37	9.08	7.23	9.34	9.31	7.68
1987--Jan.	6.43	5.43	5.44	5.46	5.87	5.95	5.60p	7.50	6.41	7.08	7.39	8.92	6.99	9.10	9.23	7.61
1986--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
Nov. 5	6.02	5.22	5.30	5.41	5.64	5.72	5.20	7.50	6.48	7.30	7.59	9.42	7.30	9.77	9.83	7.98
12	5.98	5.35	5.46	5.54	5.78	5.81	5.17	7.50	6.55	7.36	7.60	9.37	7.29	9.67	9.81	7.98
19	6.13	5.38	5.43	5.49	5.81	5.86	5.21	7.50	6.48	7.26	7.51	9.22	7.18	9.42	9.64	7.84
26	6.00	5.38	5.42	5.46	5.76	5.88	5.25	7.50	6.39	7.15	7.42	9.16	7.16	9.37	9.50	7.79
Dec. 3	6.25	5.41	5.44	5.47	5.83	5.99	5.22	7.50	6.38	7.12	7.37	9.08	7.15	9.37	9.30	7.77
10	5.97	5.46	5.47	5.48	5.84	6.02	5.26	7.50	6.36	7.07	7.33	9.00	7.34	9.38	9.35	7.72
17	6.30	5.54	5.55	5.55	5.99	6.27	5.25	7.50	6.43	7.13	7.39	9.08	7.31	9.31	9.30	7.63
24	6.31	5.55	5.59	5.59	6.24	7.20	5.39	7.50	6.45	7.09	7.36	9.07	7.16	9.31	9.30	7.62
31	9.20	5.65	5.65	5.65	6.27	7.56	5.48	7.50	6.54	7.18	7.43	9.14	7.19	9.39	9.37	7.67
1987--Jan. 7	7.62	5.51	5.53	5.52	5.96	6.14	6.19	7.50	6.42	7.10	7.37	8.92	7.01	9.26	9.32	7.64
14	6.01	5.38	5.43	5.46	5.85	5.89	5.46	7.50	6.38	7.06	7.34	8.88	7.04	9.12	9.25	7.62
21	6.01	5.33	5.36	5.40	5.83	5.88	5.42	7.50	6.37	7.03	7.35	8.84	6.92	8.97	9.10	7.59
28	6.13	5.45	5.40	5.44	5.85	5.90	5.34	7.50	6.42	7.11	7.44	8.81	6.98	9.03	9.12	7.58
Feb. 4	6.22	5.58	5.57	5.57	5.94	6.00	5.31	7.50	6.51	7.20	7.50	8.80	6.98	9.11	9.11	7.58
Daily--Jan. 30	6.28	5.60	5.59	5.60	5.89	5.98	--	7.50	6.51	7.18	7.48	--	--	--	--	--
Feb. 5	5.95	5.59	5.59	5.55	5.97	5.97	--	7.50	6.50	7.20	7.47	--	--	--	--	--
6	6.13p	5.66	5.67	5.61	5.98	6.01	--	7.50	6.54p	7.18p	7.46p	--	--	--	--	--

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.

FR 1367 (12/85)

Money and Credit Aggregate Measures

Seasonally adjusted

Strictly Confidential (FR)-
Class II FOMC

FEB. 9, 1987

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	M1	M2	nontransactions components: in M2	nontransactions components: in M3 only	M3	L	total loans and investments[1]	U.S. government[2]	other[2]	total[2]
	1	2	3	4	5	6	7	8	9	10
PERCENT ANNUAL GROWTH:										
ANNUALLY (QIV TO QIV)										
1984	5.4	7.9	8.6	22.7	10.6	12.1	11.2	16.0	13.3	13.9
1985	12.0	8.8	7.8	3.5	7.7	8.6	9.9	15.2	12.9	13.5
1986	15.2	8.9	6.8	8.4	8.8		9.4	14.6	12.3	12.9
QUARTERLY AVERAGE										
1ST QTR. 1986	9.2	5.4	4.2	17.5	7.8	8.5	12.7	17.0	15.0	15.4
2ND QTR. 1986	15.3	9.4	7.4	6.1	8.7	6.7	4.1	11.6	9.8	10.3
3RD QTR. 1986	16.4	10.6	8.6	6.2	9.7	8.3	10.5	14.5	11.2	12.0
4TH QTR. 1986	16.8	9.0	6.3	3.1	7.8		9.1	12.6	11.2	11.5
MONTHLY										
1986--JAN.	4.6	2.7	2.0	30.5	8.2	6.9	18.7	15.8	18.3	17.7
FEB.	8.0	4.0	2.8	15.3	6.4	6.0	3.4	9.8	7.2	7.8
MAR.	14.8	7.5	5.0	9.7	7.9	4.5	5.7	5.6	8.5	7.8
APR.	14.6	11.5	10.6	7.0	10.6	6.6	2.0	9.6	10.7	10.4
MAY	20.2	10.6	7.3	-3.4	7.7	9.3	5.9	17.3	10.8	12.3
JUNE	14.4	9.2	7.4	5.7	8.4	6.9	3.8	19.3	9.7	12.0
JULY	16.4	11.8	10.3	7.5	10.9	8.1	13.2	14.7	9.9	11.0
AUG.	18.6	11.0	8.4	6.2	10.0	9.4	13.8	8.8	14.0	12.7
SEPT.	10.7	7.9	6.9	12.6	8.8	8.2	13.0	11.5	12.0	11.9
OCT.	14.2	10.5	9.2	-6.6	7.0	7.3	2.2	9.9	9.1	9.3
NOV.	18.8	6.1	1.8	5.1	5.9	7.3	8.9	16.1	10.8	12.1
DEC.	28.5	9.6	3.1	6.3	9.0		17.4	18.4	12.8	14.1
1987--JAN. PE	14	9	8	6	9		22			
MONTHLY LEVELS ($BILLIONS)										
1986--AUG.	686.9	2718.3	2031.4	683.7	3402.0	4033.5	2007.7	1725.1	5589.7	7314.8
SEPT.	693.0	2736.1	2043.1	690.9	3427.0	4061.0	2029.6	1741.6	5645.7	7387.2
OCT.	701.2	2760.0	2058.8	687.1	3447.1	4085.8	2034.0	1755.9	5688.5	7444.4
NOV.	712.2	2774.1	2061.9	690.0	3464.1	4110.8	2049.0	1779.4	5739.9	7519.3
DEC.	729.1	2796.4	2067.3	693.6	3490.0		2079.0	1806.7	5801.1	7607.8

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.

PE-PRELIMINARY ESTIMATE

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

FEB. 9, 1987

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):																
1984	157.8	246.6	143.9	56.1	405.4	290.5	880.0	161.7	57.7	416.8	65.6	81.7	73.9	267.3	158.7	44.7
1985	169.7	268.6	175.7	67.3	509.2	301.9	880.3	176.6	64.7	437.9	63.0	77.6	78.9	295.2	199.5	43.0
1986	182.3	299.8	225.6	76.2	568.0	358.4	858.3	207.2	84.3	450.5	80.2	81.3	89.7	293.3	226.8	37.7
MONTHLY																
1985-DEC.	170.6	272.2	177.6	70.3	513.2	303.6	884.2	176.5	65.1	440.8	66.0	76.6	79.4	304.6	209.5	42.1
1986-JAN.	171.8	270.2	180.8	68.9	516.6	304.0	888.1	177.7	67.3	449.8	68.9	75.9	79.9	302.9	210.6	42.3
FEB.	172.7	270.3	183.9	68.4	517.1	304.8	889.8	181.0	67.7	452.7	70.7	79.1	80.5	305.7	209.2	42.5
MAR.	173.8	274.6	186.2	67.3	521.0	306.6	892.0	186.2	70.2	453.9	71.7	82.7	81.2	299.0	209.5	41.4
APR.	174.4	277.7	190.2	68.2	526.1	311.1	893.1	191.4	74.1	456.6	71.6	81.4	81.9	298.2	203.0	40.6
MAY	175.8	282.1	195.4	68.9	531.6	316.8	888.0	193.2	76.1	452.8	74.2	79.7	82.7	303.8	206.7	39.8
JUNE	176.7	285.0	199.5	66.3	541.0	321.8	883.0	197.3	75.0	452.4	75.4	80.0	83.5	298.2	210.6	39.8
JULY	177.6	288.2	204.4	71.9	546.6	327.4	880.9	199.7	77.5	453.1	75.0	78.5	84.3	292.8	212.3	39.0
AUG.	179.0	291.2	210.3	74.6	553.6	334.6	876.7	200.5	80.8	454.2	75.5	78.3	85.3	289.6	219.3	37.3
SEPT.	179.7	292.2	214.7	72.6	558.8	341.4	872.2	202.2	84.4	453.3	78.0	81.7	86.4	289.5	221.1	36.9
OCT.	181.2	293.4	220.1	77.1	564.3	350.4	864.7	206.9	84.5	450.2	77.8	79.0	87.7	289.0	224.3	37.7
NOV.	182.3	297.7	225.7	75.8	568.5	358.5	857.1	207.1	84.4	450.2	81.8	80.7	89.8	294.6	224.3	38.0
DEC.	183.4	308.2	231.0	75.7	571.1	366.2	853.2	207.5	84.1	451.1	81.1	84.3	91.7	296.2	231.9	37.5

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

February 9, 1987

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	19,099	190	893	236	158	1,476	--	--	--	--	--	20,178	10,033
1986--QTR. I	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
II	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
III	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
IV	9,668	190	893	236	158	1,476	--	--	--	--	--	10,927	9,925
1986--July	867	--	--	--	--	--	--	--	--	--	--	867	-1,270
Aug.	2,940	--	--	--	--	--	--	--	--	--	--	2,850	-448
Sept.	861	--	--	--	--	--	--	--	--	--	--	861	5,762
Oct.	928	--	--	--	--	--	--	--	--	--	--	835	-3,493
Nov.	3,318	190	893	236	158	1,476	--	--	--	--	--	4,670	1,852
Dec.	5,422	--	--	--	--	--	--	--	--	--	--	5,422	11,566
1987--Jan.	414	--	--	--	--	--	--	--	--	--	--	304	-10,701
Nov. 5	295	--	--	--	--	--	--	--	--	--	--	295	1,827
12	2,708	--	--	--	--	--	--	--	--	--	--	2,583	-291
19	153	190	893	236	158	1,476	--	--	--	--	--	1,629	2,157
26	117	--	--	--	--	--	--	--	--	--	--	117	-3,097
Dec. 3	461	--	--	--	--	--	--	--	--	--	--	461	1,702
10	4,123	--	--	--	--	--	--	--	--	--	--	4,123	-2,061
17	115	--	--	--	--	--	--	--	--	--	--	115	3,050
24	497	--	--	--	--	--	--	--	--	--	--	497	-743
31	461	--	--	--	--	--	--	--	--	--	--	461	12,379
Jan. 7	--	--	--	--	--	--	--	--	--	--	--	--	-10,570
14	467	--	--	--	--	--	--	--	--	--	--	467	1,458
21	530	--	--	--	--	--	--	--	--	--	--	420	-874
28	--	--	--	--	--	--	--	--	--	--	--	--	495
Feb. 4	-704	--	-2	--	--	-2	--	--	--	--	--	-707	-6,611
LEVEL--Feb. 4 ($ billions)	104.0	18.7	36.6	15.4	23.1	93.8	2.3	3.7	1.3	.3	7.7	210.4	-4.9

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

February 10, 1987

The attached tables incorporate corrections to data presented in the corresponding tables included in an appendix to the February 6 bluebook. Columns 1, 2, 4, 5, 6, 8, 9, and 10 of the first table and columns 2, 3, 10, and 13 through 16 of the second table were affected. Figures presented in other tables and the text of the bluebook were not affected.

The data presented in these tables incorporate annual benchmark and seasonal factor revisions and are confidential until their release scheduled for February 12.

Money and Credit Aggregate Measures

Strictly Confidential (FR)-
Class II FOMC

Seasonally adjusted

FEB. 9, 1987

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[2]		
	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)										
1984	5.4	7.9	8.6	23.3	10.7	12.1	11.2	16.0	13.3	13.9
1985	12.1	8.8	7.8	3.4	7.7	8.5	9.9	15.2	12.9	13.5
1986	15.2	8.9	6.8	8.4	8.8		9.4	14.7	12.3	12.9
QUARTERLY AVERAGE										
1ST QTR. 1986	8.8	5.3	4.2	17.3	7.7	8.4	12.7	17.0	15.0	15.4
2ND QTR. 1986	15.5	9.4	7.4	6.1	8.8	6.8	4.1	11.6	9.8	10.3
3RD QTR. 1986	16.5	10.6	8.6	6.4	9.7	8.3	10.5	14.5	11.2	12.0
4TH QTR. 1986	17.0	9.0	6.3	3.1	7.8		9.1	12.6	11.1	11.5
MONTHLY										
1986--JAN.	3.6	2.4	2.0	30.4	8.0	6.7	18.7	15.8	18.3	17.7
FEB.	6.3	3.6	2.8	15.1	5.9	5.6	3.4	9.8	7.2	7.8
MAR.	15.8	7.7	5.0	9.3	8.0	4.6	5.7	5.6	8.5	7.8
APR.	14.4	11.5	10.6	7.0	10.6	6.6	2.0	9.6	10.7	10.4
MAY	21.1	10.7	7.3	-3.0	7.9	9.5	5.9	17.3	10.8	12.3
JUNE	14.4	9.2	7.4	6.1	8.6	6.9	3.8	19.3	9.7	12.0
JULY	16.4	11.8	10.3	7.7	11.0	8.1	13.2	14.7	9.9	11.0
AUG.	18.4	11.0	8.4	6.2	10.0	9.4	13.8	8.8	14.0	12.7
SEPT.	10.7	7.9	6.9	12.7	8.8	8.2	13.0	11.5	12.0	11.9
OCT.	14.4	10.6	9.2	-6.6	7.1	7.4	2.2	9.9	9.2	9.3
NOV.	18.8	6.1	1.8	5.1	5.9	7.3	8.9	16.1	11.0	12.2
DEC.	30.3	10.2	3.1	6.3	9.4		17.6	18.6	11.9	13.5
1987--JAN. PE	12	9	8	6	8		22			
MONTHLY LEVELS ($BILLIONS)										
1986--SEPT.	693.1	2736.2	2043.1	686.1	3422.3	4056.2	2029.6	1741.6	5645.7	7387.2
OCT.	701.4	2760.3	2058.8	682.3	3442.5	4081.3	2034.0	1755.9	5688.8	7444.7
NOV.	712.4	2774.3	2061.9	685.2	3459.5	4106.2	2049.0	1779.4	5740.9	7520.2
DEC.	730.4	2797.8	2067.3	688.8	3486.6	4143.9	2079.0	1807.0	5797.8	7604.8

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.

PE-PRELIMINARY ESTIMATE

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

FEB. 9, 1987

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):																
1984	157.8	246.6	143.9	56.1	405.4	290.5	880.0	161.7	57.7	413.6	65.6	81.7	73.9	267.3	158.7	44.7
1985	169.7	268.6	175.9	67.3	509.2	301.9	880.3	176.6	64.7	433.3	63.0	77.6	78.9	295.2	199.5	43.0
1986	182.3	299.8	226.2	76.2	568.0	358.4	858.3	207.2	84.3	445.7	80.2	81.3	89.7	293.3	226.8	37.7
MONTHLY																
1986-JAN.	171.8	270.3	180.9	68.9	516.6	304.0	888.1	177.7	67.3	445.0	68.9	75.9	79.9	302.9	210.6	42.3
FEB.	172.7	270.3	183.1	68.4	517.1	304.8	889.8	181.0	67.7	447.6	70.7	79.1	80.5	305.7	209.2	42.5
MAR.	173.8	274.6	186.0	67.3	521.0	306.6	892.0	186.2	70.2	448.5	71.7	82.7	81.2	299.0	209.5	41.4
APR.	174.4	277.7	189.9	68.2	526.1	311.1	893.1	191.4	74.1	451.3	71.6	81.4	81.9	298.2	203.0	40.6
MAY	175.8	282.2	195.5	68.9	531.6	316.8	888.0	193.2	76.1	447.6	74.2	79.7	82.7	303.8	206.7	39.8
JUNE	176.7	285.0	199.6	66.3	541.0	321.8	883.0	197.3	75.0	447.6	75.4	80.0	83.5	298.2	210.6	39.8
JULY	177.6	288.2	204.5	71.9	546.6	327.4	880.9	199.7	77.5	448.3	75.0	78.5	84.3	292.8	212.3	39.0
AUG.	179.0	291.2	210.4	74.6	553.6	334.6	876.7	200.5	80.8	449.4	75.5	78.3	85.3	289.6	219.3	37.3
SEPT.	179.7	292.2	214.7	72.6	558.8	341.4	872.2	202.2	84.4	448.5	78.0	81.7	86.4	289.5	221.1	36.9
OCT.	181.2	293.4	220.4	77.1	564.3	350.4	864.7	206.9	84.5	445.4	77.8	79.0	87.7	289.0	224.3	37.7
NOV.	182.3	297.7	225.9	75.8	568.5	358.5	857.1	207.1	84.4	445.4	81.8	80.7	89.8	294.6	224.3	38.0
DEC.	183.4	308.3	232.3	75.7	571.1	366.2	853.2	207.5	84.1	446.3	81.1	84.3				

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