Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Strictly Confidential (FR) Class I FOMC

October 30, 1987

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 30, 1987

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Immediately following the September 22 FOMC meeting, nonborrowed reserve paths continued to be constructed assuming $600 million of adjustment plus seasonal borrowing. Actual borrowing in the first complete maintenance period, ending October 7, averaged somewhat above the assumed level, owing in part to unusual borrowing related mostly to Reserve Bank computer problems. Apart from higher levels around quarter-end, federal funds traded mainly in a 7-1/4 to 7-1/2 percent range during that maintenance period, about 1/4 of a percentage point higher than just before the September meeting. Federal funds and other interest rates subsequently rose further through mid-October as market participants appeared to anticipate another monetary tightening in an environment of firmer policy abroad, concerns about the dollar, and pessimism about U.S. inflation prospects.

(2) Stock prices declined appreciably in the first half of October and, on October 19, share prices plunged in chaotic trading. Investors attempted to shift large amounts of funds into fixed-income assets, especially Treasury securities, driving down interest rates sharply. The Federal Reserve pledged to provide liquidity to the economic and financial system, and injected reserves aggressively on the following days, amid continuing volatile market conditions. Federal funds dropped from above 7-1/2 percent to 7 percent and below immediately following the stock market collapse. During those days, late in the reserve maintenance period ending October 21, the Desk sought to avoid the surge in borrowing implied by the formal reserve

path. Actual borrowing rose substantially on the final day of the period, however, owing to sizable misses in estimates of market factors and required reserves, boosting borrowing for the two weeks to $525 million. Reflecting cautious reserve management by depository institutions, excess reserves increased to $1.0 billion.

(3) In the current maintenance period the borrowing assumption has been reduced to $500 million and then to $450 million, consistent with a more generous provision of liquidity and easier money market conditions in the unsettled market environment. The Desk has continued to provide reserves each day through System repurchase agreements, frequently underscoring its intentions by entering the market at an early hour. Federal funds traded mostly in a 7 to 7-1/4 percent range over the early part of the current maintenance period, but more recently have moved below 7 percent following massive injections of reserves by the Desk. Total reserve growth in October accelerated appreciably to a 12 percent annual rate, reflecting the large increase in required reserves associated with a surge in transactions deposits, as well as greater demand for excess reserves.

(4) Equity prices have fluctuated sharply over an extraordinarily wide range following their collapse on October 19; with some recovery in recent days, most major stock indices are now around 10 to 15 percent above their October lows. Even so, these indices are about 25 to 35 percent below their peaks of late August, which had implied price-earnings ratios and dividend yields around record levels. Although prices of fixed-income securities generally rose substantially in the aftermath of the stock market collapse, these markets also were quite volatile as investor sentiment shifted rapidly and market-makers were reluctant to take positions. Yields on long-term

Treasury and high-grade corporate bonds have fallen around one percentage point since stock prices collapsed, reversing much of the run-up since August. However, with concerns about credit quality accentuated, yields on some low-rated corporate issues have risen on balance since October 16. With market participants apparently reassessing the outlook for the economy, inflation, and monetary policy, bond markets generally have retained their earlier gains despite some stock market recovery and a sharp drop in the dollar in recent days. In short-term markets, Treasury bill rates have shown net declines of 1-1/2 to 1-3/4 percentage points since October 16, in association with actual and anticipated easing of monetary policy as well as increased demands for safe and liquid instruments, while rates on many private money market instruments have fallen somewhat less. Although securities markets have been less volatile in recent days, the uncertain effects of previous developments apparently have led some market participants to limit exposure to some nonbank dealers by exercising greater caution in lending securities or funds or in when-issued trading.

(5) The dollar edged lower during the first half of October, especially after the release of U.S. trade data intensified market concern over the failure of the U.S. current account balance to improve. Doubts over the status of the Louvre accord were heightened by Secretary Baker's public criticisms of German monetary tightening. Though the dollar firmed somewhat during the worldwide stock market collapse, by the end of that week the dollar again came under downward pressure amid widespread rumors that dollar exchange rates under the Louvre accord would be allowed to adjust downward. In addition, interest rates in the United States had dropped substantially relative to those in other major industrial countries. As the dollar con-

tinued to fall, U.S. monetary authorities intervened in size. Over the entire intermeeting period, the dollar declined by about 4 percent on a weighted average basis. U.S. intervention came to $460 million,

; the Bank of England also reduced its official lending rates by 1/2 percentage point, and U.K. short-term market rates dropped by about 1-1/8 percentage points from mid-October. Money market rates in Japan were little changed during the period, while those in Germany declined substantially very late in the period. Long-term bond rates dropped by 70, 110, and 90 basis points in Germany, Japan, and the United Kingdom, respectively.

(6) Preliminary data indicate an acceleration in the growth of all the monetary aggregates in October, associated in large measure with massive portfolio adjustments in the wake of the collapse in equity prices. Demand deposits rose sharply after midmonth as financial transactions volumes surged. In addition, there were strong flows into currency, and money market funds jumped reflecting shifts to more liquid assets. Managed liabilities of banks also increased, partly to finance a sharp rise in security loans. These loans picked up appreciably right after midmonth, perhaps to fund enlarged stock inventories in the hands of specialists and temporary liquidity needs of mutual funds as well as to substitute for dealer RP borrowing when that market turned less hospitable; in addition, banks reported that some dealers were taking down loans to test existing credit arrangements. M1 is estimated to have increased at around a 15 percent rate in October, while M2

and M3 picked up to 6-3/4 and 7-1/4 percent rates, respectively. Growth of the broader aggregates over September and October averaged about 6 percent, as compared with the Committee's short-run paths of 4 percent and 6 percent for M2 and M3, respectively. By October, M2 had increased at a 4-1/2 percent rate from the fourth-quarter 1986 base of its longer-run range and M3 at a 5-1/2 percent rate.

(7) Growth of the aggregates had slackened in September from their relatively strong August pace. Flows into liquid deposits generally were subdued, extending the pattern since this spring of substitution into higher yielding instruments as market rates rose and the bank deposit yield curve steepened. Reflecting the effects of the uptrend in interest rates earlier in the year, the velocities of the broader aggregates rose in the third quarter at a pace close to their increases over the first half of the year. M1 velocity turned up sharply in the third quarter, to a 6 percent rate, following its 2-1/2 year drop.

(8) Growth of nonfinancial debt picked up a bit in September to a 7-3/4 percent pace, owing in part to an increase in financial restructuring activity by businesses and some strengthening of consumer credit. September's growth left the debt aggregate near the middle of its 8 to 11 percent annual range. In October, bond offerings by well-rated firms had been very light over the first half of the month but burgeoned following the drop in interest rates, and hundreds of firms have announced stock repurchase programs in light of lower share prices. Tax-exempt bond issuance, on the other hand, had not yet picked up by month-end despite the decline in municipal bond yields. Federal borrowing ballooned in October as the Treasury made up for offerings that had earlier been deferred owing to debt-ceiling constraints.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	August	September	October p	QIV'86 to October p
Money and credit aggregates				
M1	5.3	0.5	15-1/4	7
M2	6.1	5.2	6-3/4	4-1/2
M3	7.3	5.5	7-1/4	5-1/2
Domestic nonfinancial debt	7.4	7.8	n.a.	9[1]
Bank credit	10.8	9.7	n.a.	8[1]
Reserve measures[2]				
Nonborrowed reserves[3]	5.0	-1.3	12	7-1/4
Total reserves	5.7	-1.0	12-1/4	7-1/2
Monetary base	6.5	5.1	11	8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	515	531	546	--
Excess reserves	1032	795	1035	--

1. Q4:1986 to September 1987.
2. The October figures assume a level of adjustment plus seasonal borrowing of $450 million over the reserve period ending November 4 and excess reserves of $1,200 million.
3. Includes "other extended credit" from the Federal Reserve.
p - Preliminary.
NOTE: Monthly reserve measures, including excess reserves and borrowing, are calculated by prorating averages for two-week reserve maintenance periods that overlap months. Reserve data incorporate adjustments for discontinuities associated with implementation of the Monetary Control Act and other regulatory changes to reserve requirements.

Policy alternatives

(9) Securities markets have been somewhat less volatile in recent days, but investor psychology remains unsettled and financial markets are likely to stay skittish for quite awhile. Moreover, the effects of the stock market crash on financial institutions and nonfinancial sectors are uncertain, and are likely to surface only gradually. In these circumstances, a greater element of flexibility in the conduct of monetary policy would seem appropriate, at least over the near term. In addition to standing ready to provide liquidity should it be required in the event of particular financial strains, the Federal Reserve also may need to be more prepared than usual to adjust the basic stance of monetary policy as emerging economic trends become more apparent.

(10) The three policy options presented in this bluebook embody the staff's working assumption that conditions in financial markets will gradually return more to normal, as the fears and dislocations that accompanied the plunge in stock prices subside further. Thus, as usual, the options are keyed to the various borrowing assumptions, though, as noted above and embodied in Variant I of the draft directive discussed in paragraph (19), policy may well have to be implemented with greater flexibility than under less uncertain conditions. One additional source of uncertainty is the relationship between a given borrowing assumption and the associated pressures in money markets. An increased reluctance by depository institutions to be seen at the discount window would lead to more vigorous bidding for funds in the market and higher federal funds rates for any particular borrowing level. In the discussion, the staff has assumed that the return to less turbulent conditions will be consistent with no more than a slight

drawing back from the discount window. If market conditions remain unsettled or depository institutions are concerned about perceptions of their safety and soundness, the assumed borrowing levels would be associated with higher federal funds rates; alternatively in such conditions, the federal funds and money market rates discussed under each alternative would require, at least temporarily, somewhat lower borrowing objectives. With markets particularly sensitive to incoming information, shifting expectations about the course of monetary policy could also affect the federal funds rate for a time. In these circumstances the borrowing-funds rate relationships given in paragraph (11) are subject to considerable uncertainties.

(11) Alternative B would maintain the easier reserve conditions that have come to prevail recently; the assumption for adjustment and seasonal borrowing would remain at $450 million, with federal funds trading expected to center at 7 percent or a bit below. Additional easing would be sought under alternative A, either through a further reduction in the borrowing assumption to $250 million or a 1/2 point cut in the discount rate; the funds rate would be likely to fall to, or a little below, the 6-1/2 percent area. Alternative C would involve some slight firming of reserve conditions, with borrowing being increased to $550 million and the funds rate probably moving back to around 7-1/4 percent.

(12) The table below presents outcomes for money growth from September to December that might be expected to accompany each of these alternatives.[1] The margin of uncertainty surrounding these point estimates

1. The current directive references FOMC expectations for money growth from August to December. However, with monetary data for September now essentially complete, the usual practice of using the last month of the previous quarter as the base has been followed in specifying the alternatives in this bluebook. Implied growth rates under each alternative from August to December, and from the fourth quarter of 1986 to the fourth quarter of 1987, can be found on the detailed table on page 10.

is considerably larger than usual. The extent to which heightened liquidity preferences together with substantial variations in the volumes of financial transactions could affect future demands for the monetary aggregates is difficult to gauge at present. How quickly money markets and depositories will re-establish a more normal structure of short-term market and deposit interest rates--and therefore the movement of opportunity costs--under each alternative also is hard to assess.

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

(13) Under alternative B, persistence of the federal funds rate near 7 percent implies that a substantial rise of Treasury bill rates would accompany a partial restoration of normal interest rate relationships. As exceptional demands for short-term Treasuries unwind, the 3-month bill rate could move from the current 5-1/4 percent level to perhaps around 6 percent, while private rates might rise relatively little. Even with a rate backup, short-term rates would be 1/2 to 1 full percentage point below their average levels prior to the stock market crash. As a consequence, opportunity costs of liquid deposits would still be appreciably below early fall peaks. Interest rate incentives could thus begin to reinforce the impact of any

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									
1987 July	2847.7	2847.7	2847.7	3583.5	3583.5	3583.5	747.6	747.6	747.6
August	2862.1	2862.1	2862.1	3605.2	3605.2	3605.2	750.9	750.9	750.9
September	2874.5	2874.5	2874.5	3621.7	3621.7	3621.7	751.2	751.2	751.2
October	2890.6	2890.6	2890.6	3643.3	3643.3	3643.3	760.7	760.7	760.7
November	2908.4	2906.7	2905.8	3668.2	3667.6	3667.3	767.0	766.2	765.8
December	2921.8	2917.6	2915.5	3687.8	3685.1	3683.7	768.1	766.2	765.3
Monthly Growth Rates									
1987 July	2.6	2.6	2.6	2.3	2.3	2.3	1.6	1.6	1.6
August	6.1	6.1	6.1	7.3	7.3	7.3	5.3	5.3	5.3
September	5.2	5.2	5.2	5.5	5.5	5.5	0.5	0.5	0.5
October	6.7	6.7	6.7	7.2	7.2	7.2	15.2	15.2	15.2
November	7.4	6.7	6.3	8.2	8.0	7.9	10.0	8.7	8.1
December	5.5	4.5	4.0	6.4	5.7	5.4	1.7	0.0	-0.9
Quarterly Ave. Growth Rates									
1986 Q4	9.3	9.3	9.3	8.3	8.3	8.3	17.0	17.0	17.0
1987 Q1	6.4	6.4	6.4	6.5	6.5	6.5	13.1	13.1	13.1
Q2	2.3	2.3	2.3	4.2	4.2	4.2	6.4	6.4	6.4
Q3	2.9	2.9	2.9	4.9	4.9	4.9	-0.1	-0.1	-0.1
Q4	6.4	6.1	5.9	7.0	6.9	6.8	8.2	7.7	7.5
Aug. 87 to Dec. 87	6.3	5.8	5.6	6.9	6.6	6.5	6.9	6.1	5.7
Sep. 87 to Dec. 87	6.6	6.0	5.7	7.3	7.0	6.8	9.0	8.0	7.5
Q4 86 to Sep. 87	4.1	4.1	4.1	5.4	5.4	5.4	6.1	6.1	6.1
Q4 86 to Oct. 87	4.4	4.4	4.4	5.6	5.6	5.6	7.0	7.0	7.0
Q4 86 to Dec. 87	4.7	4.6	4.5	5.9	5.8	5.8	6.9	6.6	6.5
Q4 86 to Q4 87	4.6	4.5	4.5	5.8	5.7	5.7	7.1	6.9	6.9
1987 Target Ranges:		5.5 to 8.5			5.5 to 8.5				

Chart 1

ACTUAL AND TARGETED M2

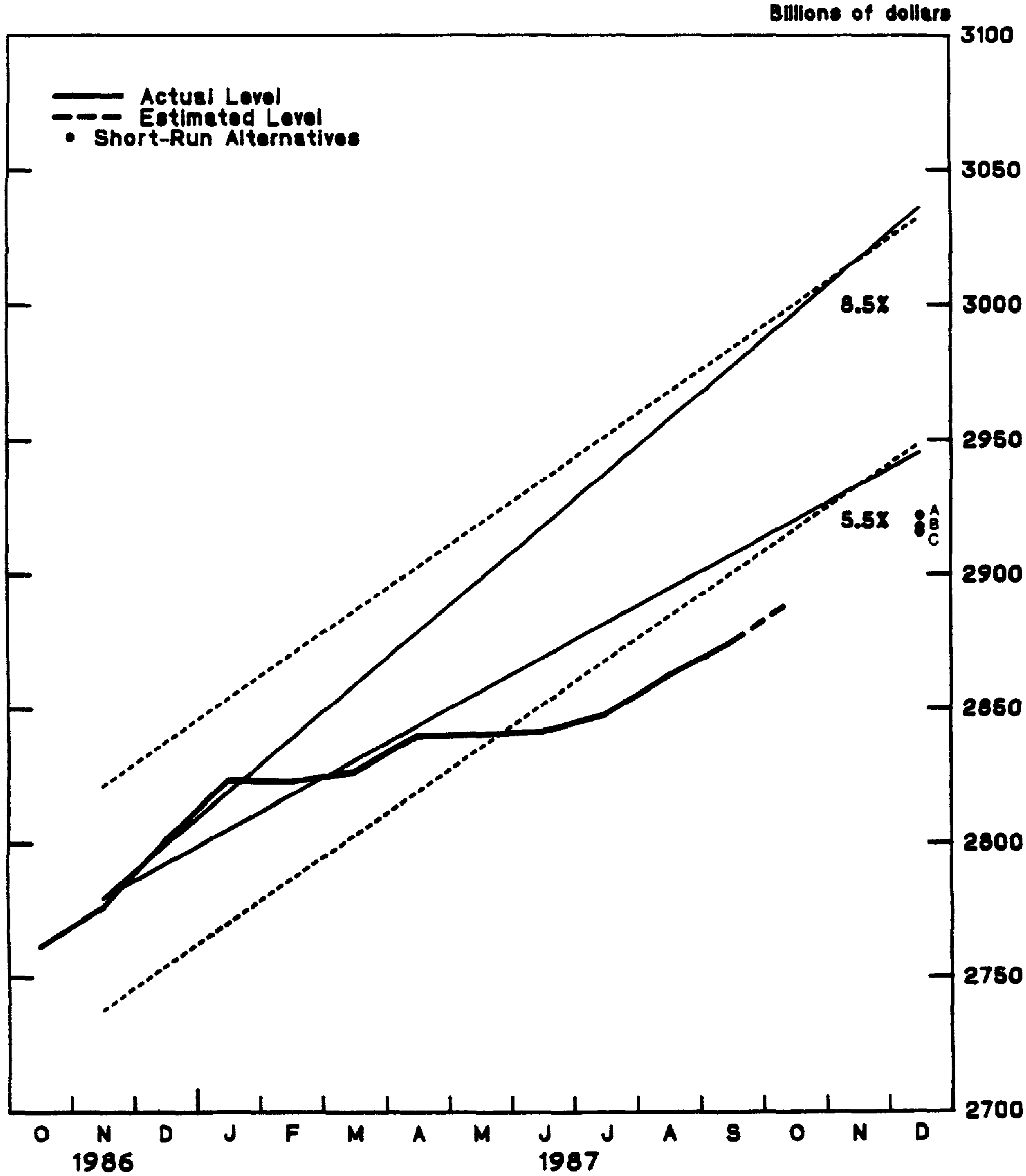


Chart 2

ACTUAL AND TARGETED M3

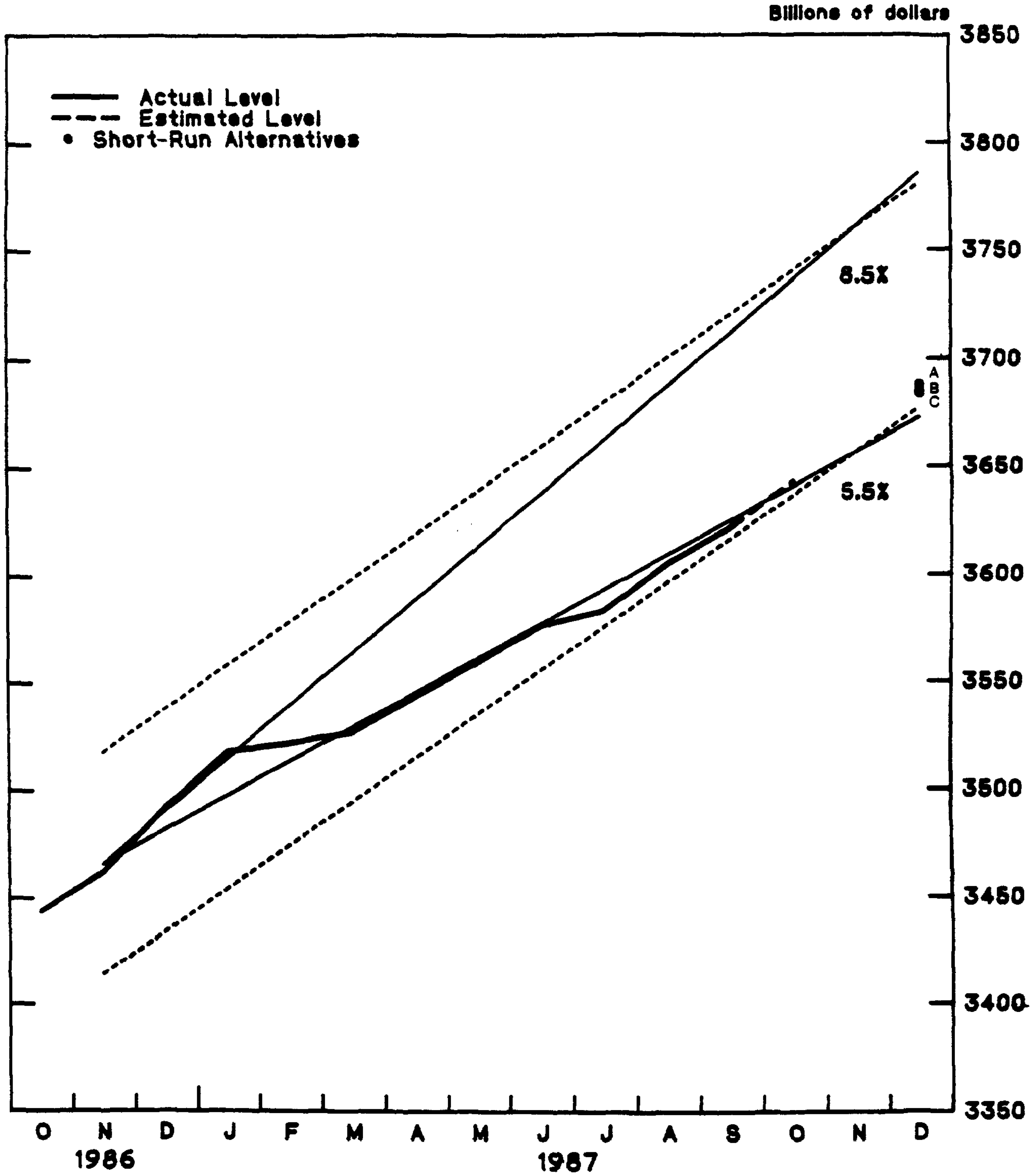
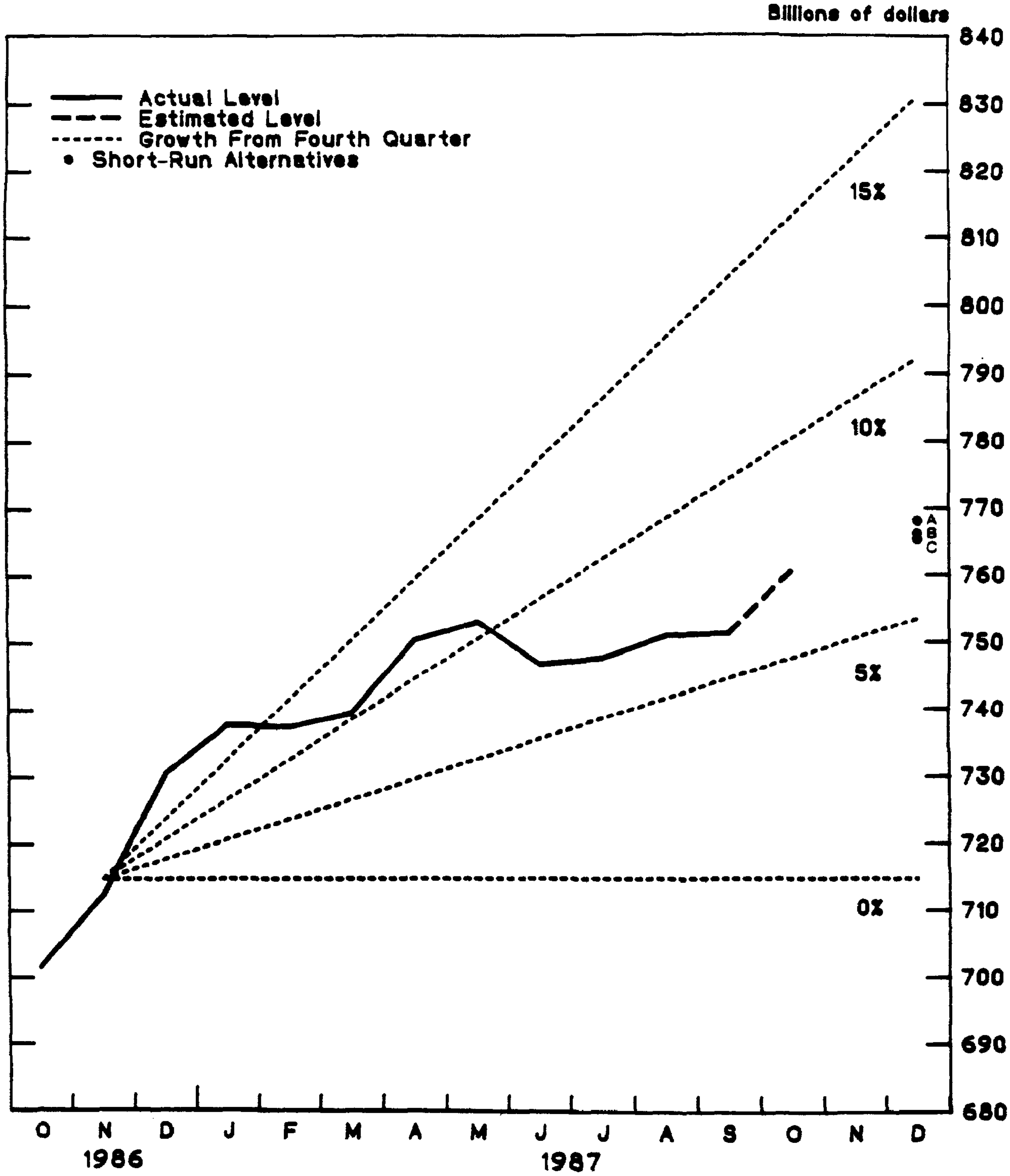


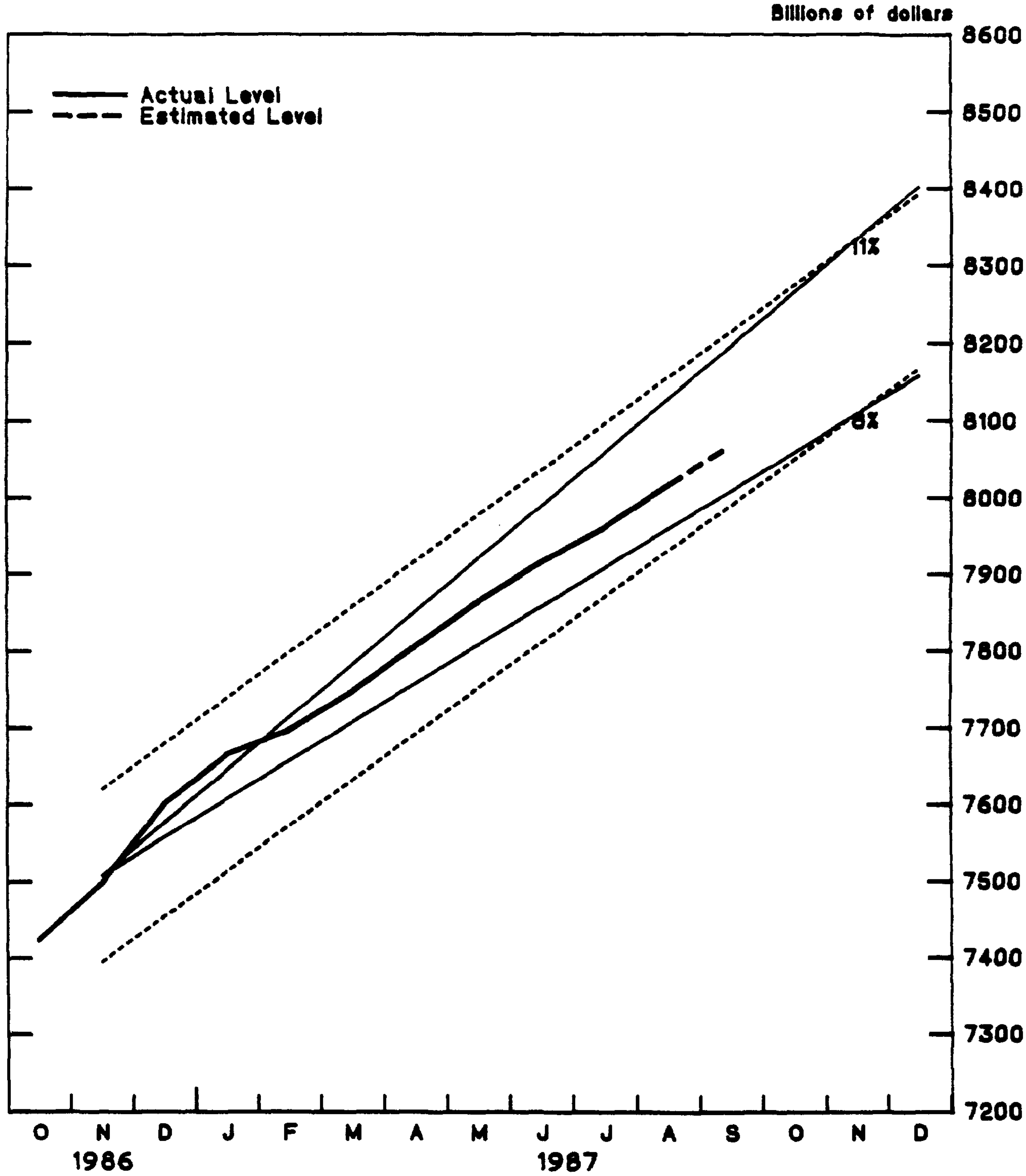
Chart 3

M1



Billions of dollars
Actual Level
Estimated Level
Growth From Fourth Quarter
Short-Run Alternatives
15%
10%
5%
0%
A
B
C
840
830
820
810
800
790
780
770
760
750
740
730
720
710
700
690
680
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1986
1987

Chart 4
DEBT


Billions of dollars
Actual Level
Estimated Level
11%
8%
8600
8500
8400
8300
8200
8100
8000
7900
7800
7700
7600
7500
7400
7300
7200
O
N
D
J
F
M
A
M
J
J
A
S
O
N
D
1986
1987

added liquidity preference in bolstering inflows to the liquid deposit and money market fund components of the aggregates. At the same time, however, a return toward more normal volumes of financial transactions would tend to depress demand deposits from recently elevated levels. Under these conditions, M2 might expand from September to December at around a 6 percent annual rate. This outcome would bring M2 growth for the year to 4-1/2 percent, compared with its 5-1/2 to 8-1/2 percent long-run range. Growth of its M1 component would be expected to slow substantially following its October bulge, with growth at 8 percent over the September to December period and about 7 percent for the year.

(14) M3 growth over the fourth quarter at around 7 percent is expected under alternative B, bringing growth for the year to 5-3/4 percent, just within its annual range. Bank and thrift assets are expected to grow at a moderate pace. The recent bulge in security loans at banks is likely to be at least partly reversed; business loans might be fairly strong, however, despite somewhat greater issuance of investment-grade bonds, as inventory accumulation boosts financing needs and planned funding with junk bonds of loans for leveraged buyouts is postponed. Overall, the debt of domestic nonfinancial sectors is projected to grow at around an 8 percent rate from September to December, implying growth of 9 percent from the fourth quarter of 1986 to the fourth quarter of 1987.

(15) Under the reserve market conditions of alternative B, most bond yields might edge higher as the increased preference for fixed-income securities subsides and the possibility of further near-term monetary ease is seen as diminishing. However, market concerns about potential softness

in economic activity and the associated scaling back of inflation expectations could keep long-term rates below their levels at the time of the last FOMC meeting. Downward pressures on the value of the dollar in foreign exchange markets could continue as market attention focuses on U.S. external imbalances, and would be accentuated by any perceptions that foreign monetary authorities were unwilling to adopt more expansionary policies. If dollar weakness occurred in the context of subdued growth in the U.S. economy and, particularly around the time of the Treasury's midquarter refunding, of continued foreign participation in U.S. securities markets, bond prices might be little affected. But if pressures on the dollar are accentuated by disappointing progress in federal deficit reduction or if U.S. economic activity remains robust, an inverse relationship between the dollar and bond yields could reemerge.

(16) Under alternative A, the further easing of the funds rate could help allay investor concerns about immediate financial strains. Other private rates in money markets would slip off further, although the 3-month bill rate might rise into the 5-1/2 percent area. Precautionary demands for liquid monetary assets might unwind more rapidly under this alternative. But the sharply narrower spreads of market over deposit rates would seem likely to encourage large inflows into liquid accounts. Growth in OCDs would be especially affected, with expansion in M1 likely to average 9 percent over September to December. M2 would be expected to increase at a 6-1/2 percent rate over this interval as its nontransaction components picked up noticeably from September when inflows had been damped by previous increases in interest rates.

(17) Under alternative A, long-term bond yields would likely continue to decline as market perceptions of impending weakness in the economy tended to work against a revival of inflation concerns. However, should the dollar fall precipitously on foreign exchange markets or the further easing of policy be seen at some point as imparting substantial strength to the outlook for the economy or prices, any drop in long-term yields might be quite limited. While downward pressure on the dollar could well intensify under this alternative, foreign central banks might be more likely to ease monetary policies as the outlook for their export industries weakens further.

(18) Alternative C calls for a slight firming of reserve pressures, indexed by an increase in borrowing of only $100 million, and a rise in the federal funds rate to 7-1/4 percent. The small increase in reserve pressures under this alternative would better guard against substantial further weakness in the exchange value of the dollar, but would leave borrowing and the federal funds rate a bit below levels prior to the stock market crash. Even so, the choice of alternative C before any dollar decline were generally linked with renewed inflation concerns would risk further disquieting domestic financial markets. A downward movement of prices in private credit and equity markets would be likely, although if the tightening were seen as contributing to economic weakness or damping any incipient inflation, the rally in the Treasury bond market could be extended. The 3-month Treasury bill rate could move into the 6-1/2 percent area, with private short-term rates also rising appreciably. Growth in the aggregates under alternative C would be retarded a little over the rest of the quarter by the renewed upward movement in opportunity costs

on monetary assets. M2 growth would be expected to be around a 5-3/4 percent rate over September to December, though its M1 component still would register growth around 7-1/2 percent given its October bulge. Both aggregates would be entering the new year on fairly slow underlying growth paths. The restraining effect on M3 would be muted as business credit demands shifted more to banks and other short-term sources in response to less attractive long-term financing.

Directive language

(19) Draft language for the operational paragraph is shown below, with two variants proposed for Committee consideration. Variant I takes account explicitly in several ways of the possible need to continue to implement policy with special flexibility over the coming intermeeting period, given unusual uncertainties about conditions in financial markets and the economy. It also addresses the potential for exceptional demands for liquidity.

Variant II follows the language of the current directive much more closely, with relatively minor modifications to take account of heightened market and economic uncertainties. This variant is shown with proposed changes and additions in the usual strike-through and capitalized form.

In keeping with the asymmetric specifications in the bluebook, alternative A calls for decreasing "somewhat" and alternative C for increasing "slightly" the degree of pressure on reserve positions.

OPERATIONAL PARAGRAPH

Variant I

In the implementation of policy for the immediate future, the Committee seeks to [decrease somewhat (Alt. A)] [maintain (Alt. B)] [increase slightly (Alt.C)] the existing degree of pressure on reserves positions; the Committee anticipates that this approach to operations will prove consistent with its desire to ensure the provision of adequate liquidity in the present economic and financial environment. The Committee recognizes that the volatile conditions in financial markets and uncertainties in the economic outlook may call for a special degree of flexibility in open market operations. Somewhat/slightly lesser reserve restraint would/might, or somewhat/slightly greater reserve restraint would/might, be acceptable depending on conditions in financial markets, the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. The outlook for monetary growth over the months ahead is subject to unusual uncertainty. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from September through December at annual rates of around __ percent and around __ percent, respectively, but more rapid growth is possible should preferences for liquidity be particularly strong. Over the same period, growth in M1 is expected to be well above its average pace in the previous several months. The Committee anticipates that relatively frequent consultations might have to be called by the Chairman over the coming intermeeting period, particularly if unsettled market conditions imply the need for unusual flexibility in the implementation of policy. The Chairman may also 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 __ percent.

Variant II

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT (Alt. A)/maintain (Alt. B)/ INCREASE SLIGHTLY (Alt. C) the EXISTING degree of pressure on reserve positions ~~sought in recent weeks~~. Somewhat (slightly) greater reserve restraint or somewhat (slightly) lesser reserve restraint would (might) be acceptable depending on CONDITIONS IN FINANCIAL MARKETS, indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange markets, as well as the behavior of the MONETARY aggregates. This approach is expected to be consistent with growth in M2 and M3 over the period from ~~August~~ SEPTEMBER through December at annual rates of around ~~4~~ __ percent and around ~~6~~ __ percent, respectively. OVER THE SAME PERIOD, GROWTH IN M1 is expected to ~~continue-to-grow-relatively slowly~~ BE WELL ABOVE ITS AVERAGE PACE OF THE PREVIOUS SEVERAL MONTHS. 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 ~~5 to 9~~ __ to __ percent.

SELECTED INTEREST RATES
(percent)

November 2, 1987

	Short-Term								Long-Term							
		Treasury bills secondary market							U.S. Gov't. constant maturity yields					conventional home mortgages		
														sec mkt	primary	market
	federal funds	3 month	6 month	12 month	cds sec mkt 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	3-year	10-year	30-year	corp. A utility rec off	muni. Bond Buyer	fixed-rate	fixed-rate	ARM
86--High	9.55	7.21	7.30	7.35	7.94	7.91	7.21	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	5.32	5.47	5.60	5.17	7.50	6.24	7.02	7.16	9.03	7.15	9.31	9.29	7.62
87--High	7.62	6.84	7.36	7.64	8.49	7.69	6.70	9.25	9.29	9.96	9.97	11.50	9.59	11.98	11.58	8.45
Low	5.95	5.24	5.36	5.40	5.83	5.88	5.28	7.50	6.37	7.03	7.34	8.79	6.92	8.97	9.03	7.47
Monthly																
OCT 86	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 86	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 86	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
JAN 87	6.43	5.43	5.44	5.46	5.87	5.95	5.50	7.50	6.41	7.08	7.39	8.92	6.99	9.15	9.20	7.62
FEB 87	6.10	5.59	5.59	5.63	6.10	6.12	5.32	7.50	6.56	7.25	7.54	8.82	7.03	9.04	9.08	7.56
MAR 87	6.13	5.59	5.60	5.68	6.17	6.22	5.32	7.50	6.58	7.25	7.55	8.84	7.03	9.01	9.04	7.54
APR 87	6.37	5.64	5.90	6.09	6.52	6.39	5.49	7.75	7.32	8.02	8.25	9.51	7.87	10.05	9.83	7.58
MAY 87	6.85	5.66	6.05	6.52	6.99	6.83	5.79	8.14	8.02	8.61	8.78	10.05	8.35	10.58	10.60	7.88
JUN 87	6.73	5.67	5.99	6.35	6.94	6.86	6.01	8.25	7.82	8.40	8.57	10.05	8.13	10.38	10.54	7.93
JUL 87	6.58	5.69	5.76	6.24	6.70	6.57	6.02	8.25	7.74	8.45	8.64	10.17	8.09	10.20	10.28	7.81
AUG 87	6.73	6.04	6.15	6.54	6.75	6.62	6.00	8.25	8.03	8.76	8.97	10.37	8.11	10.39	10.33	7.76
SEP 87	7.22	6.40	6.64	7.11	7.37	7.26	6.22	8.70	8.67	9.42	9.59	10.84	8.61	11.01	10.89	7.95
Weekly																
JUL 1 87	6.61	5.73	5.99	6.29	6.92	6.86	6.04	8.25	7.76	8.34	8.48	10.01	8.16	10.20	10.36	7.86
JUL 8 87	6.64	5.63	5.65	6.22	6.76	6.69	6.06	8.25	7.65	8.30	8.43	10.07	8.05	10.18	10.30	7.86
JUL 15 87	6.52	5.59	5.52	6.13	6.68	6.58	6.05	8.25	7.65	8.37	8.53	10.12	8.03	10.13	10.23	7.81
JUL 22 87	6.57	5.61	5.69	6.18	6.63	6.49	6.01	8.25	7.70	8.44	8.65	10.34	8.08	10.23	10.23	7.77
JUL 29 87	6.63	5.79	6.01	6.37	6.70	6.53	5.95	8.25	7.86	8.59	8.84	10.44	8.14	10.28	10.27	7.75
AUG 5 87	6.75	5.98	6.13	6.46	6.76	6.62	5.99	8.25	8.01	8.72	8.95	10.45	8.20	10.36	10.35	7.73
AUG 12 87	6.58	5.88	6.07	6.48	6.72	6.60	6.00	8.25	7.98	8.72	8.95	10.24	8.04	10.27	10.34	7.78
AUG 19 87	6.74	5.99	6.09	6.48	6.71	6.61	6.00	8.25	7.92	8.65	8.86	10.34	8.12	10.36	10.30	7.77
AUG 26 87	6.76	6.16	6.23	6.58	6.74	6.59	5.99	8.25	8.05	8.76	8.97	10.44	8.09	10.56	10.33	7.77
SEP 2 87	6.85	6.21	6.31	6.76	6.92	6.78	6.03	8.25	8.30	9.05	9.23	10.60	8.47	10.92	10.63	7.84
SEP 9 87	6.95	6.36	6.52	7.12	7.20	7.09	6.04	8.68	8.63	9.39	9.56	10.86	8.67	10.96	10.91	7.96
SEP 16 87	7.21	6.34	6.55	7.11	7.39	7.35	6.21	8.75	8.64	9.41	9.59	10.93	8.65	11.03	10.99	7.99
SEP 23 87	7.26	6.45	6.72	7.10	7.43	7.33	6.25	8.75	8.66	9.42	9.58	11.00	8.65	11.13	11.02	7.99
SEP 30 87	7.56	6.55	6.87	7.23	7.59	7.41	6.34	8.75	8.84	9.57	9.72	11.08	8.88	11.43	11.18	8.08
OCT 7 87	7.43	6.62	6.89	7.39	8.03	7.47	6.45	8.82	8.97	9.68	9.78	11.24	9.03	11.65	11.21	8.15
OCT 14 87	7.59	6.84	7.36	7.64	8.47	7.69	6.56	9.25	9.29	9.96	9.97	11.50	9.59	11.98	11.58	8.45
OCT 21 87	7.37	6.37	6.98	7.22	8.49	7.66	6.70	9.25	9.07	9.85	9.93	10.75	9.01	11.08	11.36	8.37
OCT 28 87	7.03	5.24	5.97	6.40	7.43	6.96	6.53	9.00	8.10	8.94	9.08	10.60	8.78	10.98	10.97	8.20
Daily																
OCT 23 87	7.00	5.29	6.00	6.49	7.27	6.87	..	9.00	8.20	8.98	9.11	..	..	..	..	..
OCT 29 87	6.76	5.03	5.80	6.24	7.39	6.94	..	9.00	7.95	8.89	9.08	..	..	..	..	..
OCT 30 87	6.93p	5.27	5.98	6.32	7.40	6.93	..	9.00	8.01p	8.87p	9.02p	..	..	..	..	..

NOTE: Weekly data for columns 1 through 11 are statement week averages. Data in column 7 are taken from Donoghue's Money Fund Report. Columns 12, 13 and 14 are 1-day quotes for Friday, Thursday or Friday, respectively, following the end of the statement week. Column 13 is the Bond Buyer revenue index. Column 14 is the FNMA purchase yield, plus loan servicing fee, on 30-day mandatory delivery commitments. Column 15 is the average contract rate on new commitments for fixed-rate mortgages(FRMs) with 80 percent loan-to-value ratios at a sample of savings and loans. Column 16 is the average initial contract rate on new commitments for 1-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. 2, 1987

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)										
1984	5.4	7.9	8.6	23.2	10.7	12.2	11.2	15.9	13.4	13.9
1985	12.1	8.8	7.8	3.3	7.7	8.5	10.2	15.2	12.6	13.2
1986	15.3	9.0	6.9	8.7	8.9	8.1	9.8	14.6	12.7	13.2
QUARTERLY AVERAGE										
4TH QTR. 1986	17.0	9.3	6.7	4.3	8.3	8.4	8.8	11.7	13.0	12.6
1ST QTR. 1987	13.1	6.4	4.1	6.9	6.5	6.3	10.1	12.2	9.9	10.5
2ND QTR. 1987	6.4	2.3	0.8	12.1	4.2	3.2	7.0	8.8	8.1	8.3
3RD QTR. 1987	-0.1	2.9	4.0	12.6	4.9		5.6	5.9	8.3	7.7
MONTHLY										
1986--OCT.	14.4	10.8	9.6	-6.5	7.4	7.7	3.6	7.4	10.4	9.7
NOV.	18.8	6.5	2.3	6.7	6.5	7.6	6.4	12.6	12.3	12.3
DEC.	30.5	10.8	4.0	8.7	10.4	9.5	15.0	19.1	15.4	16.3
1987--JAN.	11.8	9.6	8.7	6.8	9.0	9.5	16.1	9.4	10.5	10.3
FEB.	-0.5	-0.2	-0.1	7.4	1.3	2.2	0.9	9.4	3.6	5.0
MAR.	3.4	1.5	0.9	2.4	1.7	-3.1	3.8	11.2	6.8	7.8
APR.	17.5	5.7	1.4	5.7	5.6	3.4	11.9	7.7	9.5	9.1
MAY	4.5	0.2	-1.3	26.4	5.4	9.5	7.4	8.3	9.2	9.0
JUNE	-10.4	0.5	4.4	25.7	5.6	3.9	3.6	7.5	8.0	7.9
JULY	1.6	2.6	2.9	1.6	2.3	-1.9	1.3	1.9	8.2	6.7
AUG.	5.3	6.1	6.3	11.7	7.3	7.6	10.8	8.8	8.2	8.3
SEPT.	0.5	5.2	6.9	6.8	5.5		9.7	6.6	8.2	7.8
OCT. PE	15	7	4	9	7					
MONTHLY LEVELS ($BILLIONS)										
1987--MAY	753.1	2840.4	2087.3	719.5	3559.9	4214.6	2160.6	1873.9	5991.4	7865.3
JUNE	746.6	2841.5	2095.0	734.9	3576.5	4228.4	2167.1	1885.6	6031.4	7917.0
JULY	747.6	2847.7	2100.1	735.9	3583.5	4221.7	2169.5	1888.6	6072.6	7961.2
AUG.	750.9	2862.1	2111.2	743.1	3605.2	4248.3	2189.0	1902.5	6113.9	8016.4
SEPT.	751.2	2874.5	2123.3	747.3	3621.7		2206.7	1912.9	6155.7	8068.7
WEEKLY LEVELS ($BILLIONS)										
1987-SEPT. 7	746.4									
14	750.3									
21	755.1									
28	751.4									
OCT. 5	757.5									
12 P	753.9									
19 P	759.5									

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. 2, 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	65.3	81.7	73.9	266.8	161.2	45.7
1985	169.7	268.6	175.9	67.2	509.2	301.9	880.3	176.6	64.7	433.3	62.7	77.6	78.9	294.7	201.7	43.2
1986	182.4	299.8	226.1	78.0	568.2	358.4	858.4	207.2	84.3	446.1	82.2	80.1	89.7	287.0	229.0	37.7
MONTHLY																
1986-SEPT.	179.7	292.2	214.7	73.2	558.8	341.4	872.2	202.2	84.4	448.4	78.1	81.4	86.4	285.7	223.9	36.9
OCT.	181.2	293.4	220.3	78.1	564.4	350.5	864.7	206.9	84.5	445.5	78.8	78.0	87.7	284.2	228.4	37.7
NOV.	182.4	297.8	225.8	77.6	568.7	358.5	857.1	207.1	84.4	445.8	83.8	79.3	89.8	288.8	228.4	38.0
DEC.	183.5	308.3	232.3	78.4	571.4	366.3	853.5	207.6	84.1	447.1	84.0	83.0	91.7	288.1	230.2	37.5
1987-JAN.	186.0	305.1	240.1	84.7	574.3	376.7	851.6	209.0	84.0	449.7	83.6	84.8	92.7	284.1	239.7	37.8
FEB.	187.2	300.8	242.9	80.1	570.8	387.2	848.5	210.7	84.7	448.2	87.2	87.6	93.5	285.6	239.8	39.3
MAR.	187.7	299.3	245.7	76.9	570.6	396.3	846.1	211.6	84.9	450.1	87.2	88.2	94.3	269.2	239.1	39.8
APR.	188.9	303.9	250.7	76.8	565.5	406.1	843.9	211.0	83.1	454.6	94.3	83.9	95.1	256.3	244.9	41.2
MAY	190.2	303.9	252.2	75.9	557.1	411.7	843.2	208.9	81.8	459.7	102.3	87.0	95.9	262.2	254.3	42.4
JUNE	191.1	297.4	251.2	74.5	553.5	415.2	850.1	209.6	81.3	465.1	107.0	89.6	96.5	259.8	252.1	43.5
JULY	192.1	296.2	252.5	74.7	548.0	416.8	858.7	209.8	83.4	465.0	106.5	86.3	97.3	249.1	248.4	43.4
AUG.	193.2	296.4	254.5	77.7	543.5	420.0	865.8	212.8	83.4	466.7	106.6	93.0	97.8	252.2	250.2	42.8
SEPT. P	194.5	294.1	255.5	79.8	539.0	419.4	872.4	216.5	80.7	469.4	108.1	98.1				

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

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

November 2, 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		
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--Q1	-2,821	--	--	--	--	--	--	--	--	--	--	-2,861	-3,580
Q2	7,585	--	--	--	--	--	--	--	--	--	--	7,535	-356
Q3	4,668	--	--	--	--	--	--	--	--	--	--	4,577	4,044
Q4	9,668	190	893	236	158	1,476	--	--	--	--	--	10,927	9,925
1987--Q1	-2,714	--	-252	--	--	-252	--	--	--	--	--	-3,075	-14,254
Q2	5,823	1,767	5,036	1,226	920	8,948	--	--	--	--	--	14,735	2,121
Q3	-3,539	143	2,356	619	493	3,610	--	--	--	--	--	12	-1,433
1987--Apr.	3,573	1,232	3,642	914	669	6,457	--	--	--	--	--	9,993	15,801
May	1,697	--	--	--	--	--	--	--	--	--	--	1,697	-16,634
June	553	535	1,394	312	251	2,491	--	--	--	--	--	3,044	2,954
July	-4,909	--	-200	--	--	-200	--	--	--	--	--	-5,168	906
Aug.	499	--	5	--	--	5	--	--	--	--	--	504	-2,365
Sept.	871	143	2,551	619	493	3,805	--	--	--	--	--	4,676	26,295
July 1	-268	--	--	--	--	--	--	--	--	--	--	-268	-7,511
8	-306	--	-75	--	--	-75	--	--	--	--	--	-381	857
15	-246	--	-125	--	--	-125	--	--	--	--	--	-371	-2,249
22	-714	--	--	--	--	--	--	--	--	--	--	-773	2,484
29	-3,512	--	--	--	--	--	--	--	--	--	--	-3,512	578
Aug. 5	176	--	5	--	--	5	--	--	--	--	--	181	604
12	--	--	--	--	--	--	--	--	--	--	--	--	-1,392
19	157	--	--	--	--	--	--	--	--	--	--	157	442
26	46	--	--	--	--	--	--	--	--	--	--	46	3,983
Sept. 2	804	--	--	--	--	--	--	--	--	--	--	804	-4,478
9	2,994	--	--	--	--	--	--	--	--	--	--	2,994	2,023
16	309	443	2,551	619	493	4,105	--	--	--	--	--	4,414	-854
23	245	--	--	--	--	--	--	--	--	--	--	245	19,582
30	-3,246	-300	--	--	--	-300	--	--	--	--	--	-3,546	-19,561
Oct. 7	26	--	--	--	--	--	--	--	--	--	--	26	-1,025
14	--	--	--	--	--	--	--	--	--	--	--	--	1,152
21	-50	300	--	--	--	300	--	--	--	--	--	194	2,600
28	285	--	--	--	--	--	--	--	--	--	--	285	8,557
LEVEL-Oct.28.	105.0	24.3	42.5	14.8	24.8	106.5	2.4	3.6	1.4	.2	7.6	222.4	8.9

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 (+).