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Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

December 9, 1988

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) Immediately following the November 1 FOMC meeting, reserve paths continued to incorporate adjustment plus seasonal borrowing of $600 million. As the month progressed, however, it became increasingly evident that the shortfall in demands on the discount window that had first surfaced in mid-October was widening. In these circumstances, the Desk allowed a lower level of borrowing than the target while federal funds were trading at a slightly higher rate than had been anticipated at the time of the meeting. Specifically, in the first full maintenance period of November, adjustment plus seasonal borrowing averaged $396 million, while the average funds rate remained just above 8-1/4 percent.[1] To take formal account of the apparent change in borrowing behavior, but also in light of incoming information suggesting considerable strength in the economic expansion with the potential for price pressures, the Manager for Domestic Operations on November 22 reduced the borrowing assumption to $400 million, with the expectation that federal funds would trade in a range around 8-3/8 percent. In the most recent complete maintenance period, the funds rate averaged at this level; borrowing increased to $699 million, but almost half of this amount was due to a computer problem at a large commercial bank. Similarly, a funds transfer failure at a Reserve

1. This total included $145 million resulting from a computer problem at a commercial bank.

Bank led to a spike in borrowing in the current maintenance period, accounting for $265 million of the average adjustment plus seasonal borrowing of $516 million for the first eight days of the period.

(2) Over the last week, federal funds have firmed a bit further to trade around 8-1/2 percent, nearly 1/4 percentage point above the level at the time of the last meeting. Other short-term rates have registered substantially larger increases on balance, as expectations of Federal Reserve tightening have been encouraged by release of strong economic data, higher world oil prices, and weakness in the dollar over much of the period. The prime rate was raised 50 basis points and most short-term market interest rates have risen roughly 1/2 to 3/4 percentage point since the beginning of November, with anticipation of some year-end pressures apparent in the still-larger increases at the one-month maturity. Long-term rates rose along with short-term rates, though by appreciably less, as market participants apparently did not view economic developments as presaging a sustained intensification of inflation, perhaps in part because of the anticipated response of the Federal Reserve. More recently, some of the initial increases in bond rates have been trimmed amid hopes for significant federal deficit reductions--sparked mainly by reports that the Soviet Union would announce sharp defense cuts. On balance, the 30-year rate is only about 20 basis points above its early-November level. These movements have left yields on Treasury securities with maturities of one year or longer all about 9 percent, while the yield curve on shorter maturities has retained a moderate upward slope. Stock prices fell during

the first half of the intermeeting period, but most indexes have since recovered to nearly their values at the time of the November meeting.

(3) Immediately after the U.S. elections on November 8, the dollar resumed its steep decline in foreign exchange markets. By early December, the dollar had dropped by about 3-1/4 percent on a weighted-average basis since the last Committee meeting, bringing the total depreciation from its late-September peak to nearly 9-1/2 percent. Exchange market participants appeared to be concerned that the international adjustment process was slowing and that U.S. macroeconomic policies were not doing enough to restrain U.S. domestic demand. In recent days, as prospects for budget deficit reduction seemed somewhat brighter, the dollar has recovered a little. Over the intermeeting period, rising interest differentials have helped to support the dollar. Short-term market interest rates increased only slightly in most major foreign countries (except in the United Kingdom where they rose markedly) and long-term rates abroad were about unchanged.

with the Desk accounting for $1.9 billion, primarily against yen, but also against marks.

(4) The broader monetary aggregates accelerated last month from the unusually sluggish pace of September and October, with surprising strength in the liquid retail components of M2. This aggregate rose at a 6-1/2 percent annual rate in November, bringing its two-month growth rate to nearly 4 percent, compared with the 2-1/2 percent September-to-December pace specified by the FOMC at its last meeting. The pickup in M2 occurred despite continued weakness in M1, which remained about flat last month, as

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

	September	October	November	September to November	QIV '87 to November
Money and credit aggregates					
M1	-.3	1.8	0.3	1.1	4.0
M2	1.0	1.2	6.4	3.8	5.4
M3	1.7	4.7	6.3	5.5	6.4
Domestic nonfinancial debt	8.8	7.8	--	--	8-3/4[2]
Bank credit	-0.7	7.1	5.8	6.5	7.4
Reserve measures					
Nonborrowed reserves[1]	-5.7	4.4	1.9	3.2	3.0
Total reserves	-1.9	-0.8	2.3	0.7	3.4
Monetary base	5.5	5.7	3.0	4.3	6.9
Memo: (Millions of dollars)					
Adjustment plus seasonal borrowing	781	518	539	--	--
Excess reserves	972	1062	1116	--	--

1. Includes "other extended credit" from the Federal Reserve.
2. QIV'87 to October.

NOTES: 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 changes in reserve requirements.

it has been since midsummer. The runoff in demand deposits resumed in November and currency demand moderated; as a result, growth of the monetary base slowed somewhat. M3 growth rose to 6-1/4 percent last month, implying a 5-1/2 percent rate of increase over the September-to-November period--consistent with the Committee's 6 percent specification for the final three months of this year given the expected further pickup in December.

(5) Balances in OCDs, savings deposits, and money market mutual funds rose substantially last month. This may have reflected the uncertain outlook for interest rates, as well as some parking of funds received from stock sales in corporate restructurings. For example, the surge in savings deposits primarily reflected the deposit of proceeds of a particular change in corporate ownership. Small time deposit growth, while softening somewhat, remained in double digits, leaving growth of total retail-type balances in M2 at a rapid 8-1/4 percent rate last month. The inflow of retail deposits was concentrated at commercial banks and, combined with some slowing in bank credit growth, trimmed bank needs for additional managed liabilities; as a result their net new issuance of large CDs in M3 virtually ceased. At thrifts, growth of large CDs also slowed substantially, despite weak growth of core deposits, as they increased their reliance on advances from the Federal Home Loan Banks.

(6) Bank credit growth ebbed in November to a 5-3/4 percent annual rate as security acquisitions slowed and C&I loans edged lower. Overall business borrowing appears to have been relatively weak last

month, despite some financing of corporate restructuring. In the long-term market, investment-grade industrial offerings remained sparse, although the market came up with a few new forms of insurance against "event risk" (present whenever a corporation is perceived as vulnerable to a takeover or significant financial restructuring). Junk bond issuance, however, remained robust in November, fueled by merger-related demands. In other sectors, municipal bond offerings dropped off last month, and it appears that consumer borrowing may have too. Available data suggest, however, that mortgage demand has been well maintained.

(7) For 1988, the staff expects debt growth to remain just below the center of its 7 to 11 percent monitoring range, at 8-3/4 percent on a fourth-quarter to fourth-quarter basis. The targeted monetary aggregates, M2 and M3, also are likely to come in near the 6 percent midpoints of their ranges, increasing 5-1/4 and 6-1/2 percent, respectively. These growth rates represent a pickup of roughly 1 percentage point from 1987, despite the stronger restraining influence of rising interest rates this year. In 1988 growth of M2 has been more closely in line with its historical relation to income and interest rates than in 1987, when this aggregate expanded unusually slowly. At the beginning of this year, the opportunity costs of holding monetary assets were quite narrow, reflecting the declines in market interest rates after last October's stock market crash. As a result, money demand was rather buoyant early in the year. After midyear, however, M2 decelerated markedly, largely in response to the turnaround in market interest rates and opportunity costs that ensued from the series of tightening moves initiated by the Federal Reserve in

March. M1 growth also followed this uneven pattern over the year, but, reflecting its larger interest rate sensitivity, fell to just 4 percent on a fourth-quarter to fourth-quarter basis, its lowest rate of growth in nearly 20 years. The pickup in M3 growth for the year occurred despite some slowing in credit growth at depository institutions, but these institutions relied relatively less on Eurodollar borrowing and other non-M3 sources of funds in 1988 than they had in 1987.

Policy Alternatives

(8) Two policy alternatives are presented below for Committee consideration. The relation between federal funds rates and borrowing under both alternatives is unusually uncertain, in light of the recent shortfalls in borrowing relative to the spread of the funds rate over the discount rate. The possibility of year-end pressures in the funds market and the scope for changing expectations of near-term policy actions add to this uncertainty over coming weeks. Under Alternative B, a borrowing objective of $400 million would be retained, and federal funds would be expected to settle mainly into an 8-3/8 to 8-1/2 percent range, though slightly higher rates are possible through year-end. Alternative C incorporates an increase in intended discount borrowing to $600 million, with the federal funds rate likely to move up to around 8-7/8 to 9 percent. Similar conditions in the funds market also could be engendered through a 1/2 point rise in the discount rate to 7 percent, while keeping borrowing at $400 million. These relations assume that most, though perhaps not all, of the recent shortfall in borrowing will persist; smaller banks may well remain less willing to tap the discount window, but large bank borrowing, while subject to the usual vicissitudes of computer problems, could return toward normal once the year-end, with its anticipated money market pressures, is past.

(9) The money growth paths from November to March associated with each alternative are presented in the table below. Under both alternatives, M2 growth over coming months would be relatively restrained,

reflecting recent and, under alternative C, prospective increases in market interest rates. As a consequence, this aggregate in March would be in the lower portion of its tentative 3 to 7 percent range for 1989. M3 through March would be above the midpoint of its tentative 3-1/2 to 7-1/2 percent range under either alternative, boosted by the expected surge in managed liabilities at banks to fund lending associated with mergers and buyouts.

	Alt. B	Alt. C
Growth from November to March		
M2	4	3
M3	7	6-1/2
M1	1-1/2	0
Associated federal funds rate range	6 to 10	7 to 11

(10) Short-term market interest rates are likely to retreat somewhat under alternative B. These rates now embody some near-term firming of policy, and as funds ease back a bit from their recent trading range and as no subsequent tightening move materializes, short-term rates are likely to drop. The 3-month Treasury bill rate should fall from around the recent 8 percent level to 7-3/4 percent or even below. The extent of any decline could be damped for a time, however, reflecting the effects of normal year-end activity and a potential surge in credit demands associated with corporate restructuring over coming months. These developments will have their greatest impact on short-term rates, especially in light of the large volume of bank financing of equity retirements. Any declines in long-term

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2		M3		M1	
	Alt. B	Alt. C	Alt. B	Alt. C	Alt. B	Alt. C
Levels in billions						
1988 October	3037.2	3037.2	3868.7	3868.7	783.5	783.5
November	3053.3	3053.3	3888.9	3888.9	783.7	783.7
December	3064.7	3064.3	3911.9	3911.6	785.2	785.0
1989 January	3075.0	3072.4	3937.7	3936.4	786.5	785.7
February	3084.2	3078.5	3960.6	3957.4	787.5	785.5
March	3092.6	3082.5	3979.6	3973.1	787.9	784.0
Monthly Growth Rates						
1988 October	1.2	1.2	4.7	4.7	1.8	1.8
November	6.4	6.4	6.3	6.3	0.3	0.3
December	4.5	4.3	7.1	7.0	2.3	2.0
1989 January	4.0	3.2	7.9	7.6	2.0	1.1
February	3.6	2.4	7.0	6.4	1.5	-0.3
March	3.3	1.6	5.8	4.8	0.6	-2.3
Quarterly Ave. Growth Rates						
1988 Q1	6.8	6.8	7.0	7.0	3.8	3.8
Q2	7.7	7.7	7.7	7.7	6.3	6.3
Q3	3.6	3.6	5.7	5.7	5.2	5.2
Q4	2.8	2.8	4.6	4.5	0.9	0.9
1989 Q1	4.2	3.4	7.1	6.8	1.6	0.5
Sep. 88 to Dec. 88	4.0	4.0	6.1	6.0	1.5	1.4
Nov. 88 to Mar. 89	3.9	2.9	7.0	6.5	1.6	0.1
Dec. 88 to Mar. 89	3.6	2.4	6.9	6.3	1.4	-0.5
Q4 87 to Q4 88	5.3	5.3	6.4	6.4	4.1	4.1
Q4 88 to Q1 89	4.2	3.4	7.1	6.8	1.6	0.5
Q4 87 to Nov. 88	5.4	5.4	6.4	6.4	4.0	4.0
Q4 87 to Dec. 88	5.3	5.3	6.5	6.4	3.9	3.9
Q4 88 to Mar. 89	4.0	3.0	6.9	6.4	1.4	-0.0
1988 Target Ranges:	4.0 to 8.0		4.0 to 8.0			
1989 Ranges (Tentative):	3.0 to 7.0		3.5 to 7.5			

Chart 1

ACTUAL AND TARGETED M2

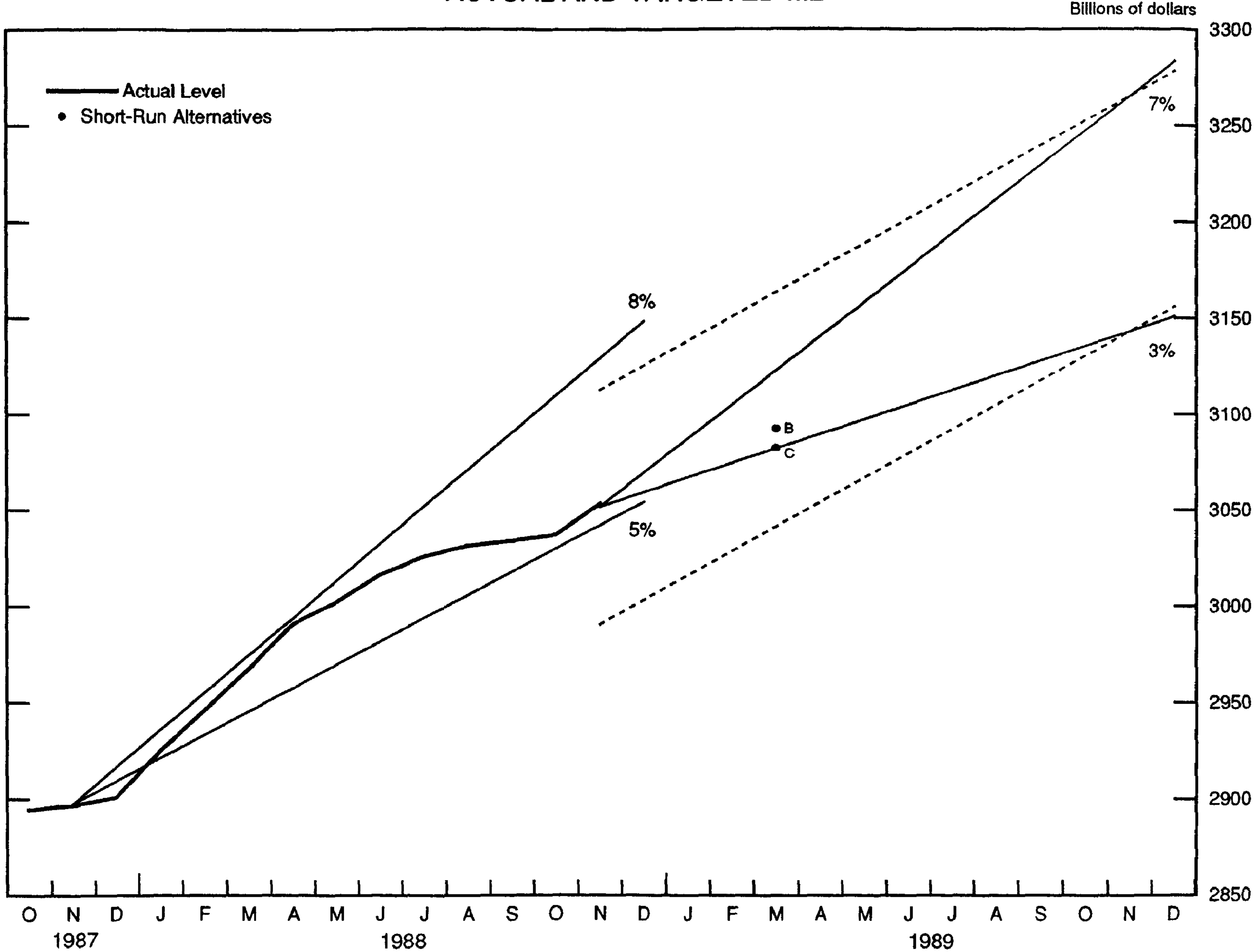


Chart 2

ACTUAL AND TARGETED M3

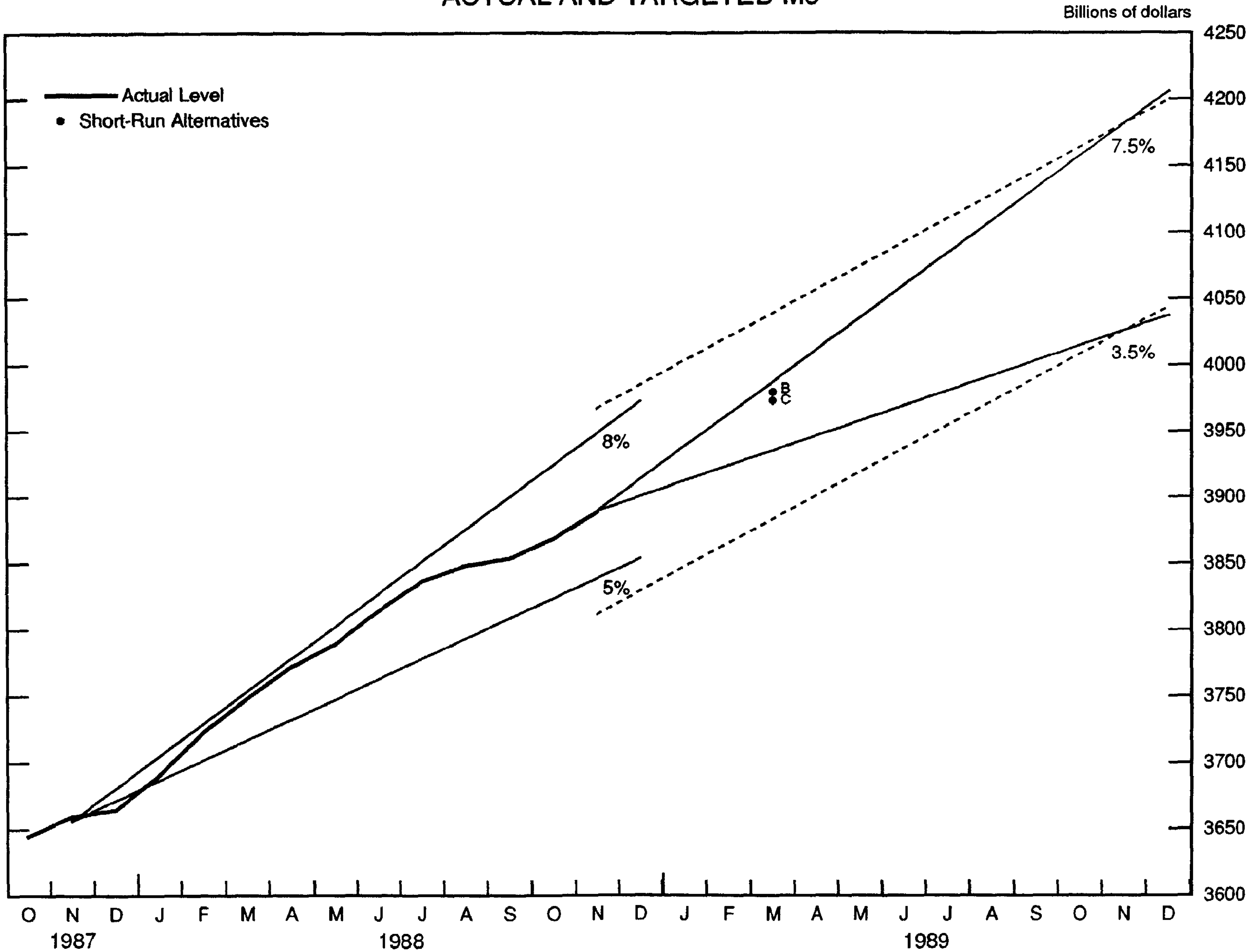
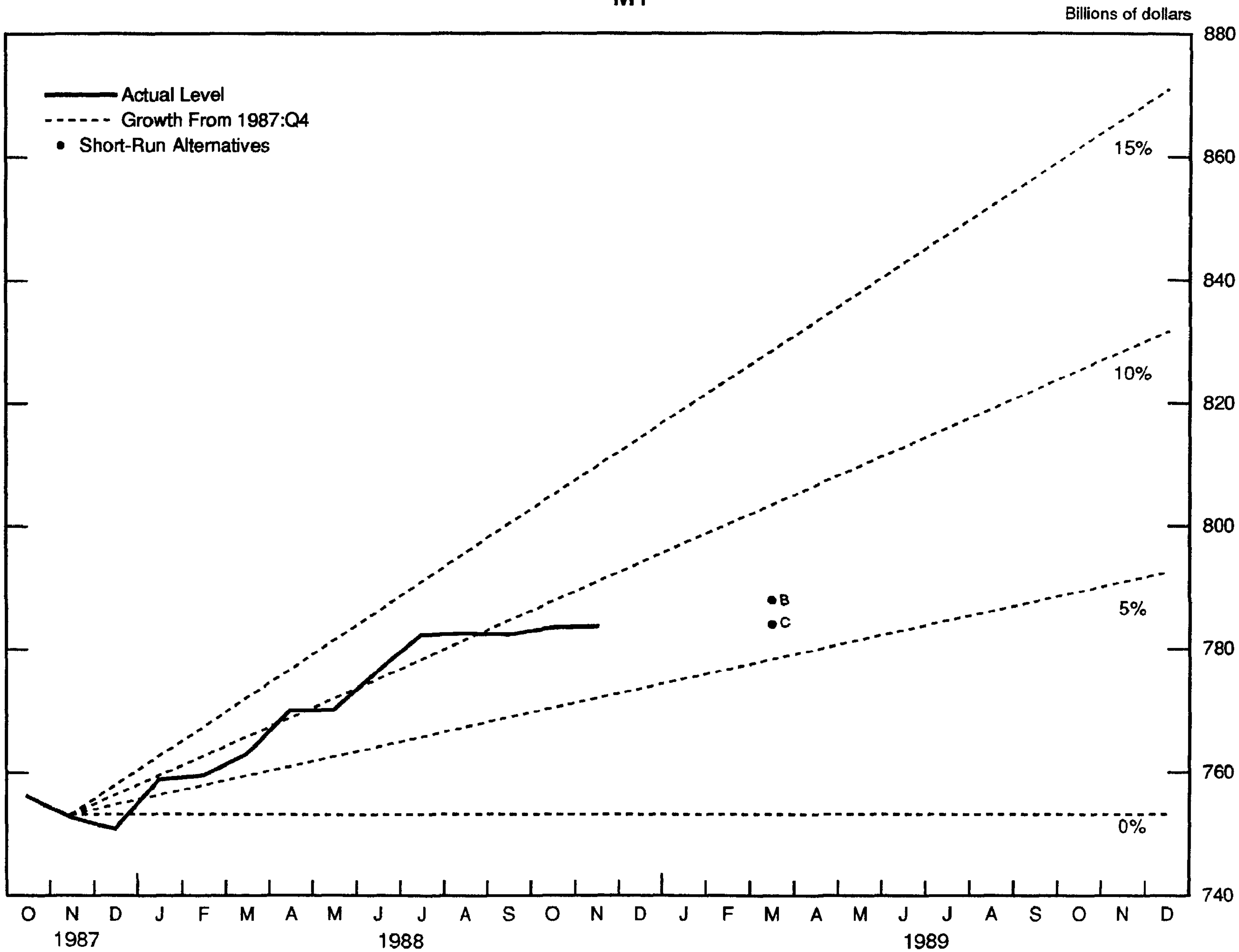


Chart 3

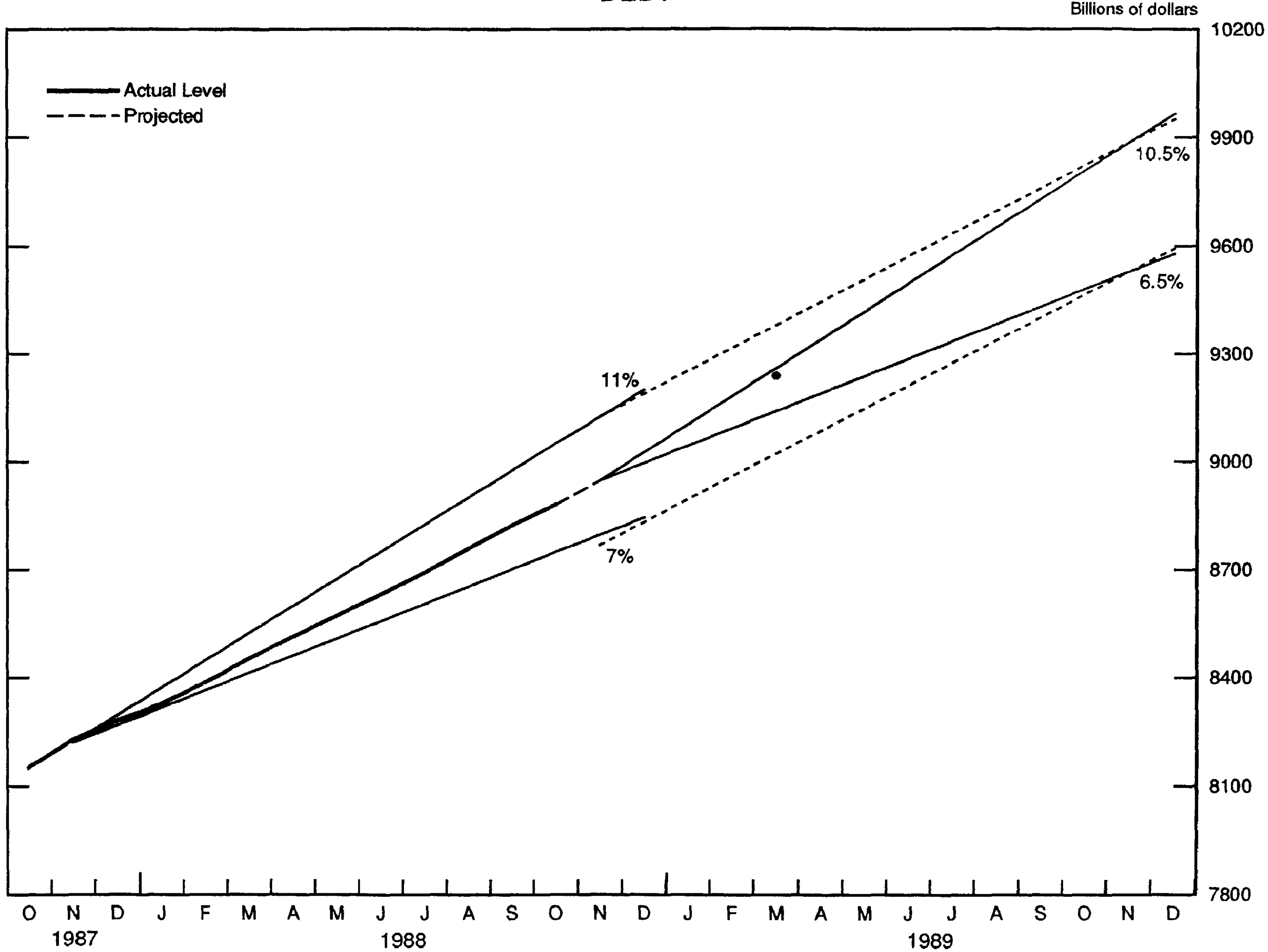
M1



Billions of dollars
Actual Level
Growth From 1987:Q4
Short-Run Alternatives
880
860
840
820
800
780
760
740
15%
10%
5%
0%
B
C
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1987
1988
1989

Chart 4

DEBT


Billions of dollars
Actual Level
Projected
10200
9900
9600
9300
9000
8700
8400
8100
7800
11%
7%
10.5%
6.5%
O N D J F M A M J J A S O N D J F M A M J J A S O N D
1987
1988
1989

rates might be quite limited, given the recent rally in bond markets. These markets already seem to be building in some prospective budget deficit reduction, and would be sensitive to any indication of disappointing progress. Moreover, the dollar likely would come under downward pressure under this alternative, raising concern about future inflation trends, especially if the decline occurred in the context of continued strength in the economy as envisioned in the staff forecast.

(11) From a November base, M2 growth is expected to average 4 percent at an annual rate through March under alternative B, maintaining its average pace of October and November. Liquid balances may be boosted a little over the near term by the spate of corporate buyouts. This effect should be minimal for M1, since share sellers are unlikely to keep funds in idle or low-yielding balances for long. For M2, any such effects are expected to dissipate over the first quarter as funds are redeployed. Even though short-term rates might drop from recent levels under this alternative, they would remain above those of late summer and early fall. This net advance in interest rates and deposit opportunity costs coming on top of the earlier increases would damp M2 demand in the first quarter about as strongly as it was restrained in the second half of this year. Based on the greenbook forecast for GNP, M2 velocity is expected to rise at a 4 percent annual rate in the first quarter, near its estimated pace in each of the last two quarters of 1988.

(12) M3 growth of 7 percent at an annual rate is anticipated from November to March under alternative B, somewhat above the average of the last two months. This aggregate should accelerate around year-end, spurred

by massive LBO and merger financing requirements, which will require a substantial pickup in managed liabilities, including large CDs. However, M3 growth is expected to moderate to around 6-1/2 percent in February and March, as bank credit growth returns to its former trend. Quarterly average M3 growth would be associated with a gain of M3 velocity in the first quarter of about 1-1/2 percent, close to the pace of the previous two quarters.

(13) Credit-financed corporate restructuring is expected to boost the growth rate of the debt of domestic nonfinancial sectors to a 10 percent annual rate from November to March, leaving this aggregate in the upper half of its tentative 6-1/2 to 10-1/2 percent range for 1989. Net equity retirements over these four months are projected at a record pace, with business borrowing at banks and in the commercial paper market bearing the brunt of the outsized credit demands. Abstracting from the effects of the pickup in equity retirements, business borrowing would be expected to continue at about the pace of earlier this year. In the household sector, mortgage borrowing is likely to continue near the pace of the last few quarters as home sales are anticipated to hold close to recent levels for several months, especially to the extent that interest rates stabilize or ease off under alternative B. Consumer credit growth may pick up temporarily early next year if, as expected, auto makers step up their sales promotions to boost demand. The federal government is expected to increase further its issuance of coupon securities, now that the Treasury has long-bond authority, but as seasonal financing needs ease with a pickup of tax receipts, the Treasury is expected to lessen net bill issuance. State and

local government offerings are likely to stay relatively subdued, though any tendency for rates to drop under this alternative might foster a renewed interest in refunding outstanding debt.

(14) Although market rates incorporate some near-term firming of policy, an immediate rise in federal funds to the 8-7/8 to 9 percent area associated with alternative C likely would elicit some further increase in short-term market interest rates. Such increases, however, are likely to be less than the nearly half point upward movement of the federal funds rate. In addition, the prime rate would be boosted further. Long-term rates would be likely to rise by somewhat less, especially if Federal Reserve actions were seen as further reducing the potential for higher inflation. A discount rate increase would be viewed as a more forceful step, prompting a more immediate increase in short-term rates and one that might be larger as well if markets interpreted it as portending even further policy tightening. Downward pressure on the dollar would be offset, and the currency could even firm for a time, especially if the tightening took the form of a discount rate increase. Any upward pressure on the dollar would likely be mitigated by firmer policy abroad, as foreign monetary authorities took advantage of this opportunity to respond to the potential for inflation pressures in their own economies.

(15) M2 growth probably would be held down to a 3 percent annual rate from November to March under alternative C, placing this aggregate just at the lower end of its tentative 1989 target range. The higher funds rate of this alternative would reinforce the restraining influence on M2 demand of rate increases earlier this year. Given the still flatter market yield

curve, however, household demands for those liquid assets whose rates do adjust promptly--such as money funds--could be relatively strong. With higher market interest rates, M1 likely would remain about unchanged on balance through March. Some restraint also would show through to M3, which would be expected to post a 6-1/2 percent annual growth rate over the next four months. Higher market interest rates would curb inflows to institution-only money funds, and should damp credit extensions by depository institutions somewhat, even as a further shifting of business credit demands from long-term markets toward banks also is induced. By March M3 still would be well above the 5-1/2 percent midpoint of its 1989 target range.

Directive Language

(16) Draft language for the operational paragraph, with the usual options for varying degrees of reserve pressure and for symmetry and asymmetry, is presented below:

OPERATIONAL PARAGRAPH

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SOMEWHAT/maintain/INCREASE SOMEWHAT the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat (SLIGHTLY) greater reserve restraint would (MIGHT), or (SOMEWHAT) slightly lesser reserve restraint (WOULD) might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from NOVEMBER ~~September~~ through MARCH ~~December~~ at annual rates of about ___ AND ___ ~~2-1/2 and 6~~ percent, respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of ___ TO ___ ~~6 to 10~~ percent.

December 12, 1988

SELECTED INTEREST RATES
(percent)

	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
87--High	7.62	6.84	7.36	7.64	8.49	8.12	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
88--High	8.59	7.97	8.16	8.18	9.23	9.26	7.85	10.50	9.00	9.36	9.42	10.73	8.34	10.97	10.71	8.26
Low	6.38	5.61	5.81	6.15	6.58	6.50	6.03	8.50	7.33	8.16	8.40	9.63	7.64	9.98	9.84	7.49
Monthly																
DEC 87	6.77	5.77	6.36	6.69	7.66	7.76	6.57	8.75	8.13	8.99	9.12	10.42	8.43	10.82	10.65	7.96
JAN 88	6.83	5.81	6.25	6.52	6.92	6.76	6.57	8.75	7.87	8.67	8.83	10.05	8.11	10.43	10.43	7.85
FEB 88	6.58	5.66	5.93	6.21	6.60	6.55	6.22	8.51	7.38	8.21	8.43	9.75	7.83	10.02	9.89	7.61
MAR 88	6.58	5.70	5.91	6.28	6.63	6.57	6.04	8.50	7.50	8.37	8.63	9.91	8.08	10.12	9.93	7.52
APR 88	6.87	5.91	6.21	6.56	6.92	6.80	6.09	8.50	7.83	8.72	8.95	10.23	8.22	10.44	10.20	7.58
MAY 88	7.09	6.26	6.56	6.90	7.24	7.07	6.20	8.84	8.24	9.09	9.23	10.61	8.30	10.73	10.46	7.71
JUN 88	7.51	6.46	6.71	6.99	7.51	7.41	6.51	9.00	8.22	8.92	9.00	10.41	8.14	10.62	10.46	7.85
JUL 88	7.75	6.73	6.99	7.22	7.94	7.72	6.77	9.29	8.44	9.06	9.14	10.40	8.15	10.64	10.43	7.84
AUG 88	8.01	7.06	7.39	7.59	8.35	8.09	7.06	9.84	8.77	9.26	9.32	10.45	8.16	10.87	10.60	8.01
SEP 88	8.19	7.24	7.43	7.53	8.23	8.09	7.40	10.00	8.57	8.98	9.06	10.26	7.96	10.62	10.48	8.14
OCT 88	8.30	7.35	7.50	7.54	8.36	8.12	7.50	10.00	8.43	8.80	8.89	10.11	7.78	10.41	10.30	8.12
NOV 88	8.35	7.76	7.86	7.87	8.78	8.38	7.64	10.05	8.72	8.96	9.02	10.12	7.80	10.56	10.27	8.15
Weekly																
SEP 7 88	8.15	7.27	7.43	7.55	8.32	8.15	7.37	10.00	8.64	9.06	9.11	10.22	7.98	10.68	10.53	8.14
SEP 14 88	8.13	7.23	7.40	7.48	8.22	8.07	7.38	10.00	8.53	8.94	9.01	10.21	7.88	10.54	10.40	8.12
SEP 21 88	8.17	7.17	7.38	7.47	8.17	8.03	7.41	10.00	8.53	8.94	9.03	10.31	7.92	10.61	10.40	8.13
SEP 28 88	8.24	7.28	7.49	7.58	8.19	8.08	7.43	10.00	8.61	9.00	9.09	10.29	7.93	10.53	10.42	8.14
OCT 5 88	8.38	7.25	7.48	7.58	8.29	8.13	7.48	10.00	8.53	8.89	8.99	10.05	7.83	10.44	10.38	8.10
OCT 12 88	8.27	7.29	7.46	7.51	8.31	8.10	7.47	10.00	8.43	8.79	8.90	10.20	7.83	10.47	10.33	8.11
OCT 19 88	8.27	7.36	7.47	7.54	8.37	8.11	7.48	10.00	8.43	8.81	8.90	10.08	7.77	10.43	10.28	8.13
OCT 26 88	8.29	7.45	7.57	7.58	8.41	8.15	7.54	10.00	.8.46	8.81	8.90	10.00	7.70	10.29	10.22	8.13
NOV 2 88	8.36	7.36	7.48	7.51	8.40	8.19	7.55	10.00	8.34	8.69	8.79	10.02	7.64	10.37	10.12	8.11
NOV 9 88	8.31	7.50	7.66	7.68	8.50	8.27	7.56	10.00	8.53	8.85	8.92	10.08	7.77	10.53	10.24	8.14
NOV 16 88	8.26	7.83	7.90	7.90	8.71	8.38	7.60	10.00	8.71	8.93	9.03	10.20	7.86	10.64	10.31	8.14
NOV 23 88	8.33	7.97	8.01	8.00	8.92	8.45	7.68	10.00	8.87	9.06	9.12	10.20	7.93	10.70	10.39	8.21
NOV 30 88	8.44	7.96	8.08	8.08	9.23	8.53	7.75	10.21	8.99	9.13	9.13	10.15	7.96	10.79	10.44	8.26
DEC 7 88	8.59	7.97	8.16	8.18	9.22	9.26	7.85	10.50	9.00	9.05	9.05	10.02	7.96	10.72	10.46	8.35
Daily																
DEC 2 88	8.63	8.07	8.25	8.29	9.29	9.27	..	10.50	9.13	9.18	9.18	..	..	..	..	..
DEC 8 88	8.50	7.98	8.20	8.24	9.20	9.24	..	10.50	9.03	9.02	8.97	..	..	..	..	..
DEC 9 88	8.54p	7.88	8.20	8.29	9.25	9.26	..	10.50	9.04p	9.07p	8.97p	..	..	..	..	..

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

DEC. 12, 1988

Period	Money stock measures and liquid assets						Bank credit	Domestic nonfinancial debt[1]		
	M1	M2	nontransactions components in M2	nontransactions components in M3 only	M3	L	total loans and investments	U.S. government[1]	other[1]	total[1]
	1	2	3	4	5	6	7	8	9	10
ANN. GROWTH RATES (%) :										
ANNUALLY (Q4 TO Q4)										
1985	12.0	8.9	7.9	3.4	7.7	8.5	10.2	15.2	12.7	13.3
1986	15.6	9.4	7.4	8.2	9.1	8.3	9.9	14.7	12.9	13.3
1987	6.2	4.0	3.3	11.2	5.4	5.3	7.9	8.9	10.0	9.8
QUARTERLY AVERAGE										
1987-4th QTR.	3.9	3.9	3.9	11.9	5.5	6.0	5.2	7.6	10.7	10.0
1988-1st QTR.	3.8	6.8	7.8	8.1	7.0	6.8	5.3	8.0	8.2	8.1
1988-2nd QTR.	6.3	7.7	8.2	7.4	7.7	9.0	11.1	8.2	8.9	8.7
1988-3rd QTR.	5.2	3.6	3.1	13.7	5.7	7.0	7.3	7.2	9.1	8.6
MONTHLY										
1987-NOV.	-5.6	0.8	3.0	20.8	4.9	3.4	2.7	11.0	11.4	11.3
DEC.	-3.0	1.9	3.6	0.5	1.6	0.6	-1.3	6.0	8.3	7.7
1988-JAN.	12.8	10.0	9.0	3.1	8.5	10.5	6.1	4.0	7.4	6.6
FEB.	1.1	8.7	11.4	17.7	10.5	8.7	10.3	10.6	7.9	8.6
MAR.	5.4	8.7	9.8	6.2	8.2	7.3	9.1	15.1	7.5	9.3
APR.	11.3	9.5	8.8	0.6	7.6	11.9	11.6	7.1	9.2	8.7
MAY	0.2	4.5	6.1	9.4	5.5	8.7	12.5	2.7	10.0	8.3
JUNE	9.8	5.7	4.3	15.7	7.8	4.4	10.3	6.0	9.0	8.3
JULY	9.0	3.7	1.8	19.6	7.0	11.4	6.3	5.7	9.1	8.3
AUG.	0.3	2.3	3.1	9.2	3.8	4.9	7.2	10.3	9.0	9.3
SEP.	-0.3	1.0	1.4	4.1	1.7	1.3	-0.7	12.3	7.7	8.8
OCT.	1.8	1.2	1.0	17.4	4.7		7.1	5.4	8.6	7.8
NOV. pe	0	6	9	6	6		5.8			
LEVELS ($BILLIONS) :										
MONTHLY										
1988-JUNE	776.5	3016.5	2240.0	797.5	3814.0	4518.1	2348.4	2031.4	6599.7	8631.1
JULY	782.3	3025.8	2243.4	810.5	3836.2	4561.0	2360.8	2041.0	6650.0	8691.0
AUG.	782.5	3031.6	2249.2	816.7	3848.3	4579.8	2374.9	2058.5	6699.8	8758.3
SEP.	782.3	3034.1	2251.8	819.5	3853.6	4584.8	2373.6	2079.6	6743.0	8822.6
OCT.	783.5	3037.2	2253.7	831.4	3868.7		2387.5	2089.0	6791.2	8880.2
WEEKLY										
1988-OCT. 3	782.1	3029.1	2247.0	828.9	3858.1					
10	784.9	3034.8	2249.9	831.5	3866.2					
17	783.7	3041.2	2257.6	830.2	3871.5					
24	780.9	3034.5	2253.5	833.9	3868.4					
31	784.5	3039.6	2255.1	831.5	3871.1					
NOV. 7	781.8	3045.9	2264.1	833.0	3878.9					
14	779.6	3044.4	2264.8	837.5	3881.9					
21 p	784.7	3058.2	2273.5	836.6	3894.8					
28 p	787.8	3061.9	2274.1	834.8	3896.7					

1. 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

Strictly Confidential (FR)-
Class II FOMC

Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

DEC. 12, 1988

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA[1]	MMDAs NSA	Savings deposits	Small denomination time deposits[2]	Money market mutual funds, NSA: general purpose and broker/dealer[3]	Money market mutual funds, NSA: Institutions only	Large denomination time deposits[4]	Term RPs NSA[1]	Term Eurodollars NSA[1]	Savings bonds	Short-term Treasury securities	Commercial paper[1]	Bankers acceptances
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LEVELS ($BILLIONS):																
ANNUALLY (4TH QTR.)																
1985	166.9	263.5	176.8	67.2	509.9	299.9	877.1	176.8	64.1	433.9	62.7	77.6	78.9	292.3	201.6	43.2
1986	179.3	294.6	228.6	77.9	569.2	362.2	858.9	207.6	84.7	441.5	82.6	81.0	89.7	283.8	228.5	37.8
1987	194.9	291.7	259.7	81.1	528.9	415.4	899.4	219.7	87.2	479.2	109.8	92.2	99.4	267.9	255.2	45.1
MONTHLY																
1987-OCT.	193.1	295.9	260.3	85.9	533.9	417.0	883.3	218.2	82.5	472.3	108.8	93.0	98.8	272.8	254.2	44.5
NOV.	195.0	291.3	259.5	79.6	527.7	415.0	901.7	219.7	89.5	480.5	111.7	92.8	99.3	270.9	252.5	45.0
DEC.	196.5	288.0	259.3	77.9	525.2	414.3	913.1	221.1	89.6	484.7	108.9	90.8	100.2	260.1	258.9	45.7
1988-JAN.	198.4	289.9	263.3	82.9	524.1	414.4	924.6	225.0	94.4	482.6	109.6	85.4	101.4	262.5	269.0	43.6
FEB.	199.3	287.8	265.0	78.3	522.6	416.2	941.5	231.0	98.7	488.6	113.9	85.5	102.6	258.3	274.1	40.9
MAR.	200.9	287.9	266.9	75.0	524.7	419.8	953.5	234.8	97.4	490.3	111.7	90.0	103.5	252.8	280.3	40.6
APR.	202.5	290.2	270.1	76.1	523.3	422.7	964.8	235.8	91.9	492.1	114.3	89.1	104.6	263.4	288.2	41.2
MAY	203.6	287.4	271.9	80.7	519.6	425.1	972.0	231.8	90.0	495.4	120.6	91.8	105.4	264.8	301.1	40.9
JUNE	204.9	289.9	274.4	81.0	522.3	429.0	974.9	228.9	86.3	501.7	123.8	93.1	106.1	256.2	301.2	40.6
JULY	206.3	290.6	278.2	77.8	521.1	432.0	978.5	229.6	84.8	509.2	125.0	96.2	106.9	265.8	311.5	40.6
AUG.	207.2	290.1	278.0	80.1	517.0	434.2	985.7	230.8	84.0	515.1	123.1	102.3	107.4	270.4	312.5	41.1
SEP.	208.5	288.4	278.2	77.6	510.7	433.4	997.4	230.8	83.7	523.7	121.5	101.4	107.7	273.6	307.9	41.9
OCT.	209.5	288.6	277.9	75.7	506.7	431.3	1009.9	231.2	84.6	530.0	124.2	99.3				

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

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

December 12, 1988

Period	Treasury bills: Net purchases[2]	Treasury bills: Redemptions (–)	Treasury bills: Net change	Treasury coupons: Net purchases[3]: within 1-year	Net purchases[3]: 1–5	Net purchases[3]: 5–10	Net purchases[3]: over 10	Treasury coupons: Redemptions (–)	Treasury coupons: Net change	Federal agencies redemptions (–)	Net change outright holdings total[4]	Net RPs[5]
1983	15,468	2,400	13,068	484	1,896	890	383	87	3,566	292	16,342	-5,445
1984	11,479	7,700	3,779	826	1,938	236	441	--	3,440	256	6,964	1,450
1985	18,096	3,500	14,596	1,349	2,185	358	293	--	4,185	162	18,619	3,001
1986	20,099	1,000	19,099	190	893	236	158	--	1,476	398	20,178	10,033
1987	12,933	9,029	3,905	3,358	9,779	2,441	1,858	70	17,366	276	20,994	-11,033
1987--Q1	-1,914	800	-2,714	--	-252	--	--	--	-252	110	-3,076	-14,254
Q2	5,823	--	5,823	1,767	5,036	1,226	920	--	8,948	37	14,735	2,121
Q3	4,690	8,229	-3,539	143	2,356	619	493	--	3,610	59	12	-1,433
Q4	4,334	--	4,334	1,449	2,639	596	445	70	5,059	70	9,323	2,533
1988--Q1	319	2,200	-1,881	--	-800	-175	--	--	-975	155	-3,011	-3,514
Q2	423	--	423	1,092	3,661	1,017	966	--	6,737	130	7,030	5,220
Q3	1,795	--	1,795	--	--	--	--	--	--	77	1,717	1,393
1988--Apr.	423	--	423	1,092	3,661	1,017	966	--	6,737	120	7,040	9,111
May	--	--	--	--	--	--	--	--	--	11	-11	-10,575
June	--	--	--	--	--	--	--	--	--	--	--	6,683
July	515	--	515	--	--	--	--	--	--	--	515	-5,941
August	--	--	--	--	--	--	--	--	--	10	-10	-1,655
September	1,280	--	1,280	--	--	--	--	--	--	--	1,280	8,989
October	375	--	375	--	--	--	--	--	--	75	300	-6,150
November	3,599	--	3,599	--	--	--	--	--	--	14	3,585	3,096
Sept. 7	104	--	104	--	--	--	--	--	--	--	104	-2,454
14	528	--	528	--	--	--	--	--	--	--	528	5,272
21	648	--	648	--	--	--	--	--	--	--	648	14,235
28	--	--	--	--	--	--	--	--	--	--	--	-9,176
Oct. 5	--	--	--	--	--	--	--	--	--	--	--	-12,315
12	--	--	--	--	--	--	--	--	--	5	-5	6,033
19	310	--	310	--	--	--	--	--	--	--	310	262
26	17	--	17	--	--	--	--	--	--	70	-53	-1,996
Nov. 2	323	--	323	--	--	--	--	--	--	--	323	1,627
9	2,985	--	2,985	--	--	--	--	--	--	--	2,985	-1,362
16	--	--	--	--	--	--	--	--	--	14	-14	1,341
23	60	--	60	--	--	--	--	--	--	--	60	-1,160
30	278	--	278	--	--	--	--	--	--	--	278	5,629
Dec. 7	50	--	50	649	1,824	562	431	--	3,468	--	3,518	-4,050
Memo: LEVEL (bil.$)[6] Dec. 7	--	--	116.8	25.6	55.3	12.6	26.9	--	120.4	--	244.4	-3.8

1. Change from end-of-period to end-of-period.
2. Outright transactions in market and with foreign accounts.
3. Outright transactions in market and with foreign accounts, and short-term notes acquired in exhange for maturing bills. Excludes maturity shifts and rollovers of maturing coupon issues.
4. Reflects net change and redemptions (–) of Treasury and agency securities.
5. Includes changes in RPs (+), matched sale-purchase transactions (–), and matched purchase sale transactions (+).
6. The levels of agency issues were as follows:

within 1-year	1–5	5–10	over 10	total
2.4	3.4	1.1	.2	7.1