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MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

May 13, 1988

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) In accordance with the Committee's decision at its March 29 meeting to increase slightly the degree of reserve pressure, the allowance for adjustment plus seasonal borrowing was raised by \$100 million, to \$300 million, during the maintenance period ending April 6. Actual borrowing averaged \$332 million over the first two maintenance periods since the meeting, but jumped to \$438 million in the period ending on May 4. Reserve management in the latter period was complicated by considerable uncertainty about the timing and magnitude of federal tax payments. Market expectations that the funds rate would firm as Treasury balances soared, together with apparently heightened demands for excess reserves, may have contributed to upward pressure on the funds rate and particularly heavy borrowing in the second week of that period.¹ Much of the increase in borrowing in the May 4 maintenance period occurred at small and medium-sized banks, and included a rise of nearly \$70 million in seasonal borrowing to \$191 million. Early in the current maintenance period, in light of data since the last FOMC meeting showing considerable economic strength with possible accompanying price pressures, and given growth of M2 and M3 in the upper portions of their ranges, the borrowing assumption was raised further to \$400 million. Over the first eight days of this period, adjustment plus seasonal borrowing has averaged around \$350 million.

1. Reflecting the long-term trend toward greater demand for excess reserves, on April 29 the standard allowance for excess reserves was increased from \$850 million to \$950 million.

KEY MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)

	Feb.	Mar.	April	QIV '87 to April
<u>Money and credit aggregates</u>				
M1	1.1	5.5	11.2	5.4
M2	8.7	8.8	9.9	7.9
M3	10.4	7.3	6.8	7.1
Domestic nonfinancial debt	10.8	10.0	8.1	9.5
Bank credit	8.3	8.2	11.9	7.0
<u>Reserve measures</u>				
Nonborrowed reserves ¹	13.4	2.2	15.4	6.1
Total reserves	2.5	3.9	17.3	6.2
Monetary base	4.7	5.3	12.3	8.8
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	191	273	370	--
Excess reserves	1133	929	868	--

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

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.

(2) Responding to the increases in reserve pressures, the federal funds rate has moved up from around 6-1/2 percent at the time of the last FOMC meeting to around 7 percent most recently. Other short-term interest rates increased by similar amounts--including a 1/2 percentage point rise in the prime rate to 9 percent; bond yields rose 30 to 45 basis points. Much of the upward movement in rates, especially in long-term markets, occurred following release of economic and price data (along with a disappointing trade balance) that pointed to strength in demands on the economy and possible labor cost and price pressures, engendering expectations that the Federal Reserve would need to tighten; at the time of their occurrence, actual increases in reserve pressures and the federal funds rate had little further effect on bond markets. On balance, movements in broad stock price indexes were mixed over the intermeeting period; daily volatility in stock prices picked up somewhat, though remaining well below that in late 1987 and early 1988.

(3) Indications of a tightening of U.S. monetary policy in early April and again in early May lent some firmness to the dollar, interrupted by a mid-April weakening in response to the release of U.S. trade figures for February. On balance, the dollar's weighted average exchange value has appreciated about 3/8 percent since the last Committee meeting.

. The Desk purchased \$500 million against yen and marks . Short-term interest rates abroad generally rose only slightly, except in Canada, where concern about

inflation prompted increases about in line with those in the United States, and in the United Kingdom, where rates declined in response to the Bank of England's efforts to offset some of sterling's strength. Long-term rates abroad, especially in Germany, rose somewhat, partly on expectations that monetary authorities might tighten following the rise in U.S. interest rates.

(4) Monetary growth in April was distorted by a build-up of transactions balances associated with outsized individual nonwithheld tax payments. Transactions deposits surged after mid-month to meet final tax liabilities for 1987, which had been buoyed by underwithholding and possibly by realized capital gains associated with increased stock market trading volume last year. A large portion of the checks written against these deposits did not clear until late April and early May, and preliminary data for early May indicate substantial declines in transactions deposits. For the month of April, M1 accelerated to an 11-1/4 percent rate of growth, with perhaps as much as 5 percentage points accounted for by tax-related increases in cash balances. Total and nonborrowed reserves in April paralleled the pickup in required reserves against transactions deposits, and with currency growth unchanged last month, expansion of the monetary base also accelerated.

(5) Within the broader aggregates, a good part of the tax distortion likely was offset as individuals funded part of the increases in M1 deposits by drawing down savings-type balances included in M2 and as depository institutions used a portion of the net additions to core deposits to reduce their issuance of managed liabilities in M3. M2 and M3 expanded in

April at rates of 10 and 6-3/4 percent, respectively, compared with the FOMC's 6 to 7 percent path for March to June. Relatively rapid M2 growth in April may have reflected not only some tax-related effects, but also lagged adjustments to earlier declines in opportunity costs. Moreover, heightened preferences by households for liquid assets in response to uncertainties about future movements in long-term securities prices, as evidenced by weakness in bond and stock mutual funds this year, may have contributed to continuing strength in M2. A resumption in bank borrowing from foreign branches reduced the need to issue managed liabilities in M3, despite a surge in bank credit. Growth in this aggregate also was held down by a faster runoff from institution-only money market funds, as the opportunity costs of holding such funds widened further with the rise in market rates.

(6) Growth of the debt of domestic nonfinancial sectors in April slowed to an estimated 8 percent rate. Private borrowing appears to have been well maintained last month, while Treasury borrowing declined markedly. Given its ample cash position, the Treasury continued to pay down bills in regular weekly auctions during April. Among private sectors, overall business borrowing was strong as the financing gap likely remained wide and heavy equity retirements continued to create large funding needs. With the backup in market rates, business borrowing shifted somewhat from bond markets to short-term sources; the sum of bank loans and commercial paper surged last month. Bank data for April suggest that growth of consumer and real estate loans remained substantial.

Policy Alternatives

(7) The three policy alternatives presented below are geared to unchanged, increased, and decreased pressures on reserve positions relative to the Desk's current operating objective. The assumption for adjustment plus seasonal borrowing would be kept at \$400 million under alternative B and would be raised or lowered by \$200 million under alternatives C and A, respectively. The federal funds rate would be expected to average around 7 percent under alternative B, and around 7-1/2 and 6-1/2 percent under alternatives C and A.² These relations embody some continued reluctance of banks to be seen at the discount window compared with patterns before the stock market crash; to the extent this reluctance abates or is offset by further unusually strong increases in seasonal credit, however, federal funds rates consistent with these borrowing assumptions could average a little lower.

(8) The table below gives growth rates for the monetary aggregates from March to June expected to be associated with the reserve market conditions for each alternative. Under all the alternatives, M2 growth should be appreciably slower on average over May and June compared with its advanced April pace, reflecting the effects of higher interest rates and the unwinding of the tax-related build-up. Under alternative B, the effects on money demand for the March-to-June period of somewhat higher interest rates than anticipated at the last FOMC meeting are offset by upward revisions to income, and the growth rates of M2 and M3, respectively, are projected to be

2. The intermeeting consultation range for the federal funds rate suggested for alternative B in the table below is 5 to 9 percent, up from 4 to 8 percent at present, in order to be better centered on expected federal funds rates.

at the upper end and in the middle of the Committee's current 6 to 7 percent short-run specifications. The detailed table and charts on the following pages indicate that the broad aggregates would be expected under all the alternatives to remain within the upper halves of their annual target cones through midyear.

	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
Growth from March to June			
M2	7-3/4	7	6-1/4
M3	6-3/4	6-1/2	6-1/4
M1	6-1/2	5-1/2	4-1/2
Associated federal funds rate range	4 to 8	5 to 9	5 to 9

(9) Market interest rates now appear to incorporate the policy stance of alternative B. Thus, with federal funds continuing to trade around 7 percent, the three-month Treasury bill rate could remain in the 6-1/4 percent area in the near term. But if economic data in coming weeks confirm the second-quarter strength of economic activity envisioned in the greenbook forecast, heightened market concern about inflation and anticipation of further policy restraint could well induce a further firming in short- and long-term rates as midyear approaches. Pressures on the dollar will depend not only on incoming information about the trade deficit and on movements in relative interest rates, but also on market views of how macro-economic developments and policies are affecting the sustainability of improvements in external imbalances. A substantial firming of monetary policies abroad in the wake of recent Federal Reserve action, or emerging

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									
1988 January	2924.9	2924.9	2924.9	3686.0	3686.0	3686.0	758.9	758.9	758.9
February	2946.1	2946.1	2946.1	3717.8	3717.8	3717.8	759.6	759.6	759.6
March	2967.7	2967.7	2967.7	3740.4	3740.4	3740.4	763.1	763.1	763.1
April	2992.2	2992.2	2992.2	3761.7	3761.7	3761.7	770.2	770.2	770.2
May	3004.2	3003.4	3002.6	3779.3	3778.9	3778.5	771.2	771.0	770.8
June	3025.2	3019.6	3014.0	3803.1	3801.2	3799.3	775.5	773.6	771.7
Monthly Growth Rates									
1988 January	9.9	9.9	9.9	8.3	8.3	8.3	12.9	12.9	12.9
February	8.7	8.7	8.7	10.4	10.4	10.4	1.1	1.1	1.1
March	8.8	8.8	8.8	7.3	7.3	7.3	5.5	5.5	5.5
April	9.9	9.9	9.9	6.8	6.8	6.8	11.2	11.2	11.2
May	4.8	4.5	4.2	5.6	5.5	5.4	1.5	1.2	0.9
June	8.4	6.5	4.6	7.6	7.1	6.6	6.7	4.0	1.4
Quarterly Ave. Growth Rates									
1987 Q2	2.7	2.7	2.7	4.6	4.6	4.6	6.6	6.6	6.6
Q3	2.8	2.8	2.8	4.5	4.5	4.5	0.8	0.8	0.8
Q4	3.9	3.9	3.9	5.4	5.4	5.4	3.9	3.9	3.9
1988 Q1	6.7	6.7	6.7	6.7	6.7	6.7	3.9	3.9	3.9
Q2	8.3	8.0	7.7	7.2	7.1	7.0	6.2	5.8	5.5
Dec. 87 to Mar. 88	9.2	9.2	9.2	8.7	8.7	8.7	6.6	6.6	6.6
Mar. 88 to June 88	7.8	7.0	6.2	6.7	6.5	6.3	6.5	5.5	4.5
Q4 86 to Q4 87	4.0	4.0	4.0	5.3	5.3	5.3	6.3	6.3	6.3
Q4 87 to Q1 88	6.7	6.7	6.7	6.7	6.7	6.7	3.9	3.9	3.9
Q4 87 to Q2 88	7.6	7.4	7.3	7.0	7.0	6.9	5.1	4.9	4.7
Q4 87 to Apr. 88	7.9	7.9	7.9	7.1	7.1	7.1	5.4	5.4	5.4
Q4 87 to June 88	7.6	7.2	6.9	7.0	6.9	6.9	5.1	4.6	4.2
1988 Target Ranges:	4.0 to 8.0			4.0 to 8.0					

Chart 1
ACTUAL AND TARGETED M2

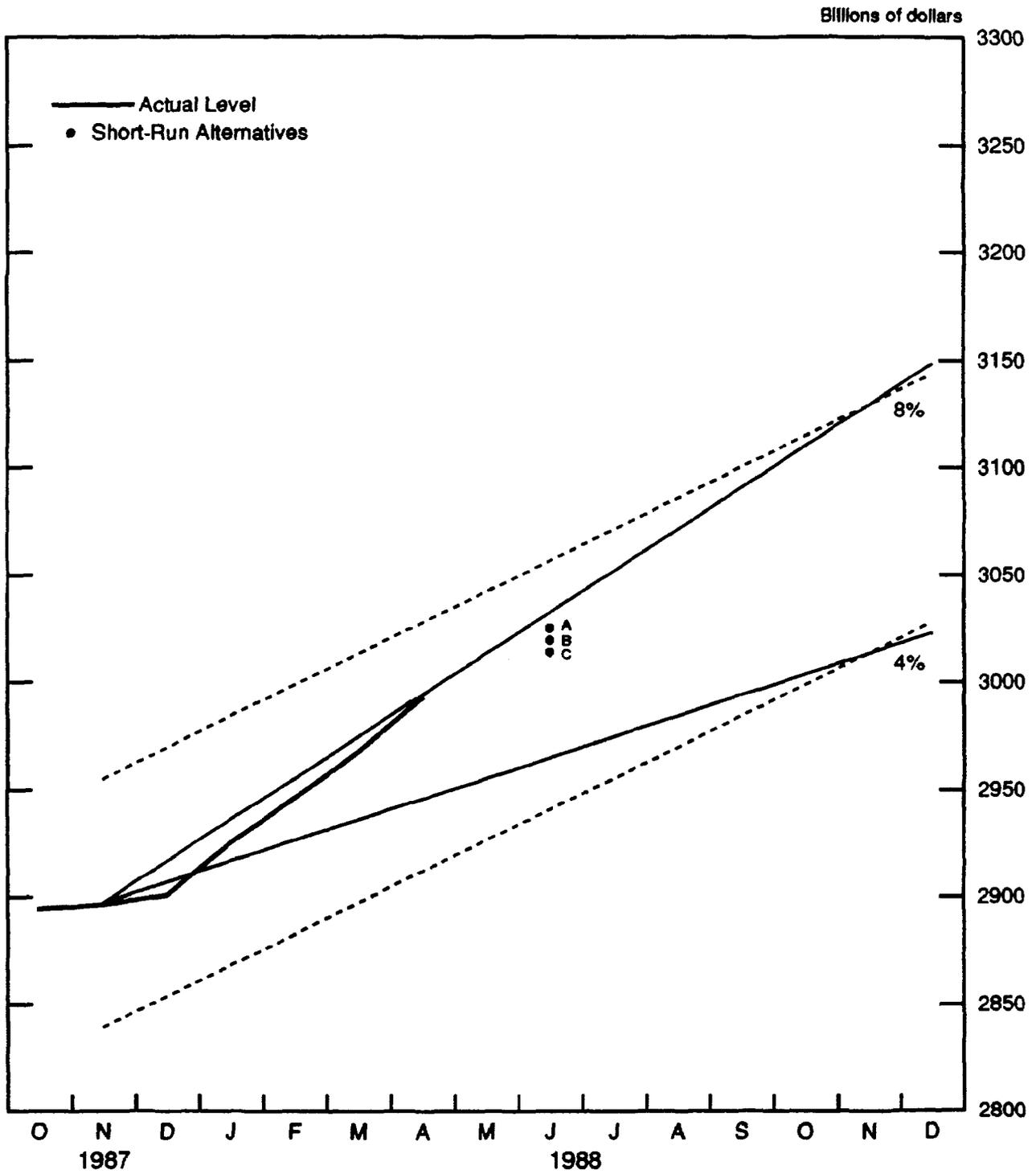


Chart 2
ACTUAL AND TARGETED M3

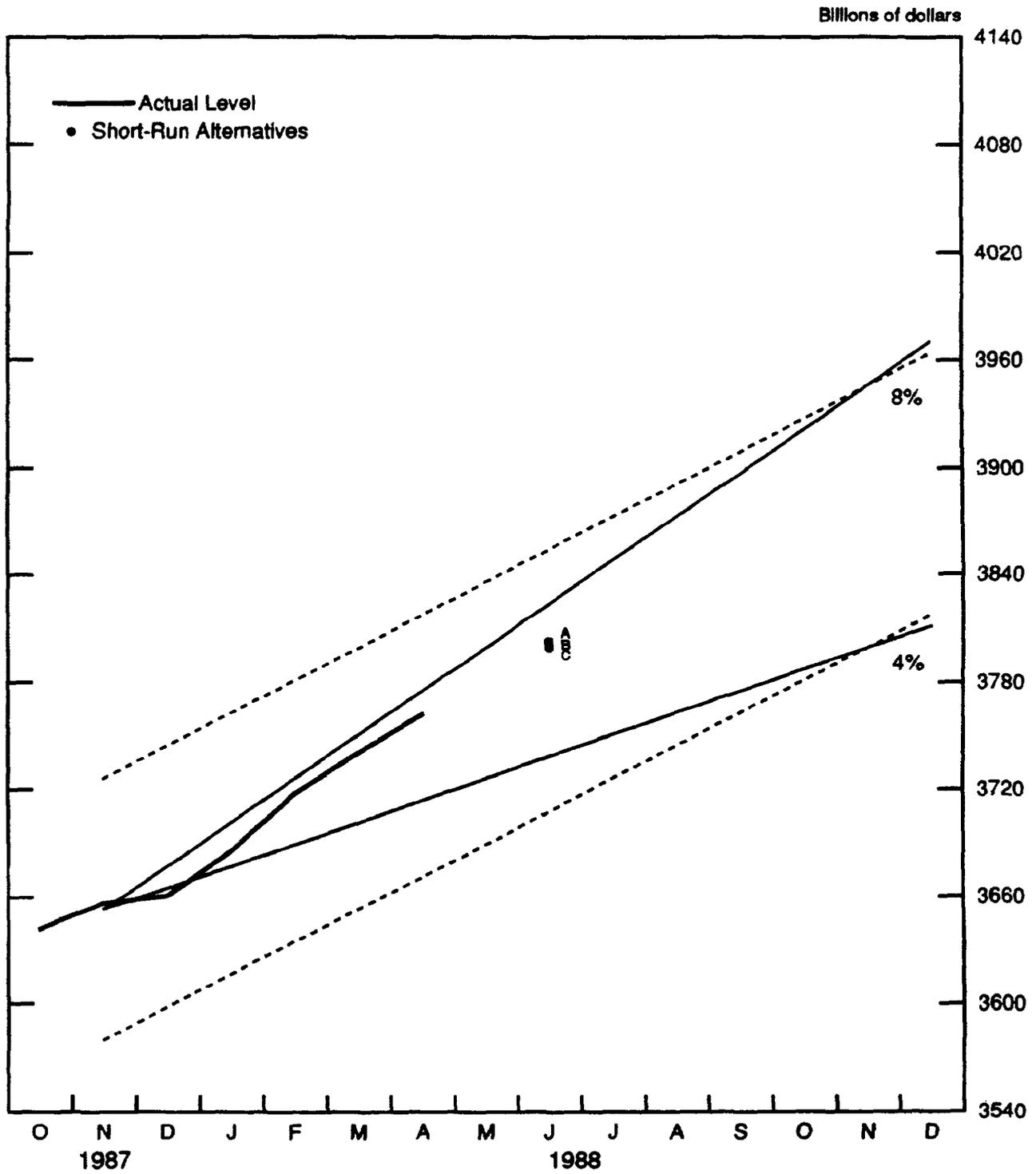


Chart 3

M1

Billions of dollars

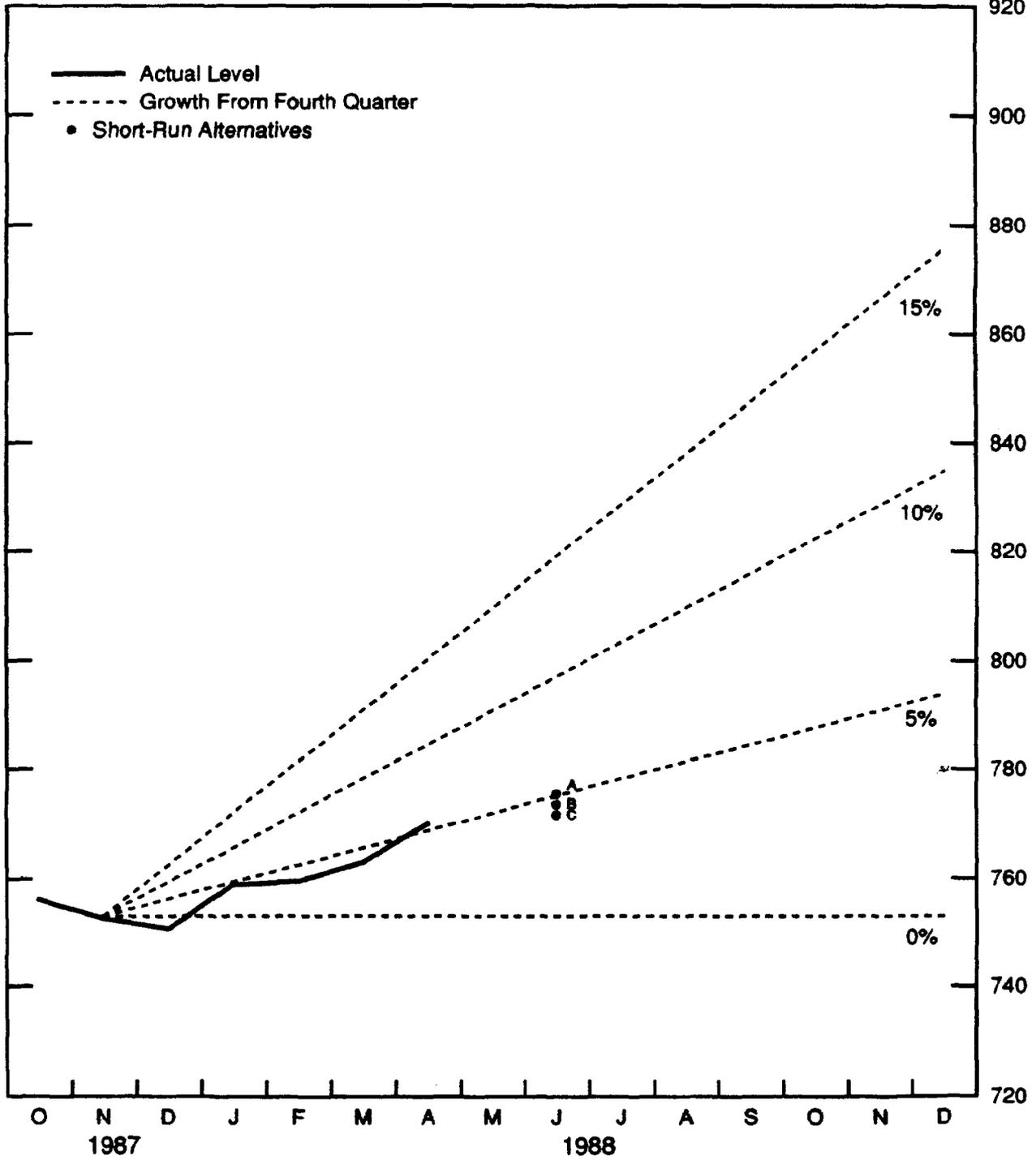
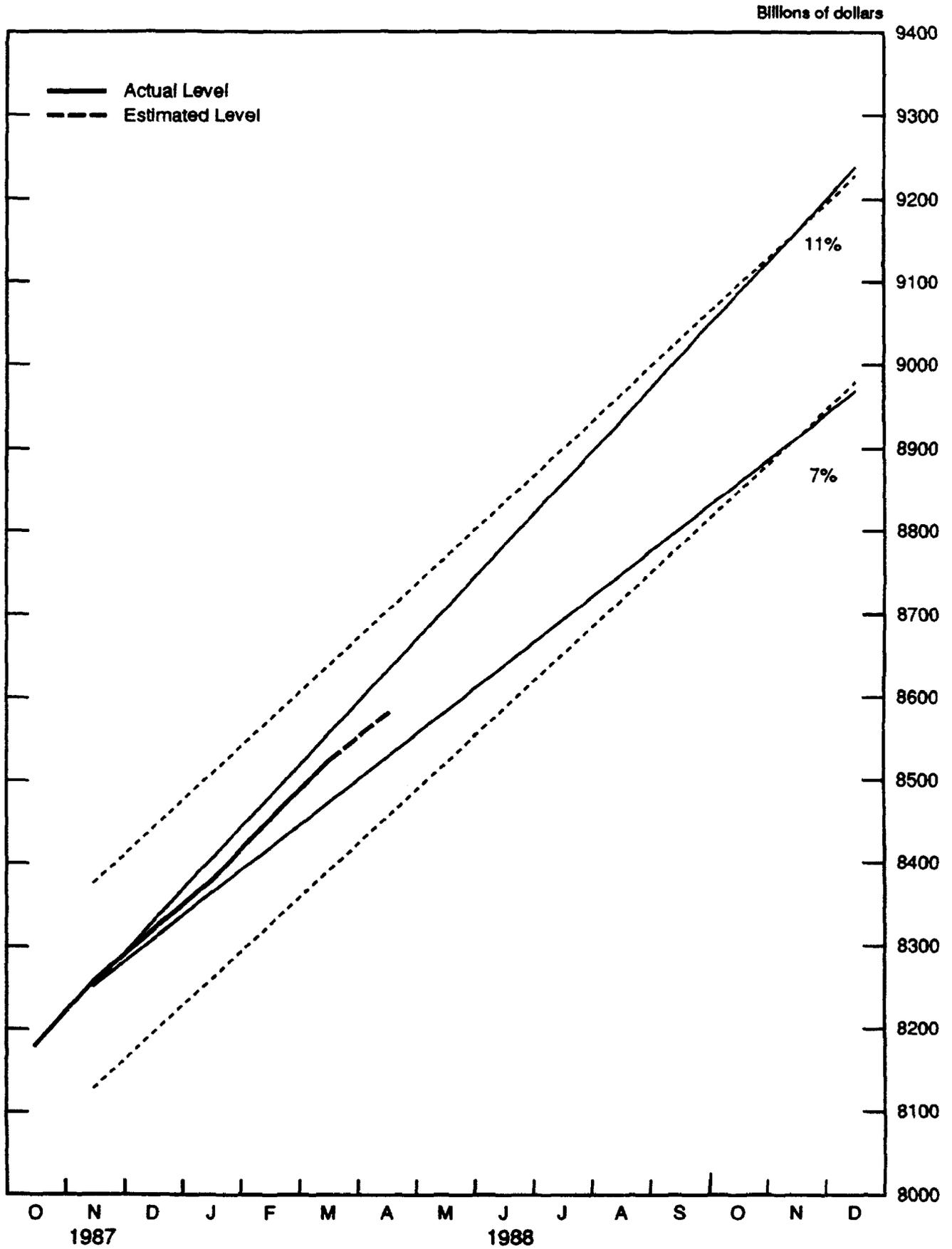


Chart 4
DEBT



market perceptions over coming weeks of a need for more U.S. policy restraint in the face of the maintenance of the reserve conditions of alternative B, could result in a decline in the dollar.

(10) Under alternative B, opportunity costs of holding liquid retail accounts would remain higher through midyear than in recent months, given the likely very gradual response of offering rates on such accounts to the recent rise in market rates. The unwinding of tax-related balances also will be depressing money growth rates in May. Both of these influences will have considerably smaller impacts on M2 than on M1. The latter was boosted more substantially in April by the temporary build-up of transactions deposits and will be more affected by the rise in interest rates as depositors shift funds from OCDs into small time deposits, whose yields adjust more promptly to market rates. Growth in M1 is projected to drop below 3 percent on average over May and June from 11-1/4 percent in April. In light of weakness early in May, probably related to clearing of tax checks, M2 is projected to increase at only a 4-1/2 percent rate this month. In June, M2 expansion is expected to rebound to around 6-1/2 percent--a little below the projected growth of nominal income over the current quarter, owing to higher opportunity costs. Implied M2 growth from March to June would be held to 7 percent, but, with the rapid M2 expansion through April, quarterly average growth would amount to around 8 percent. Assuming the staff projection of second-quarter growth in nominal GNP of around 7 percent, M2 velocity would fall by about 1 percent, approximately half of the decline in the first quarter.

(11) M3 growth should moderate to around a 6-1/4 percent rate over May and June under alternative B. Money market mutual funds in M3 probably will decline further for a while as returns lag behind recently elevated short-term market rates. The drop in core deposit inflows in May and June is likely to be only partly offset by increased issuance of managed liabilities by banks and thrifts because depository institution credit is anticipated to slow. At banks, business loan growth, though likely to remain strong given the rise in bond rates, should drop back from the April pace, which was boosted by an extraordinary volume of merger-related and other special borrowing, and households may tap consumer credit and home equity lines to a lesser extent in coming months with the scaling back of auto incentives and the passing of the April tax date. At thrifts, however, the restraining effects on asset expansion of the recent upturn in mortgage rates will be cushioned some by a growing share of ARMs. Total household borrowing over the remainder of the quarter is expected to edge down, while overall business credit demands should remain robust into the summer given the elevated financing gap and continuing merger activity. But with federal government borrowing light over the rest of the second quarter, the growth in the debt of all domestic nonfinancial sectors by June is expected to be moving closer to, though still staying a little above, the 9 percent midpoint of the Committee's annual range.

(12) The increase in discount borrowing to \$600 million under alternative C would raise the federal funds rate by 1/2 percentage point and carry Treasury bill rates up by similar amounts. Banks very likely would raise the prime rate by another 1/2 point, and business financing costs on

open market paper also could rise by a like amount. Downward pressure on the exchange value of the dollar would be forestalled, at least for a time. As is typical, bond yields would go up by less than short-term rates, though the initial declines in bond and possibly stock prices in response to an unanticipated firming of the size contemplated under this alternative could be substantial. Over time, however, movements in securities prices will depend on perceptions both of underlying strength in credit demands and of the likely success of the Federal Reserve in checking any emerging acceleration of inflation. While the course of economic activity and prices would not be much affected by small variations in the time path of interest rates, alternative C is closer to what was contemplated in the staff GNP forecast, which anticipates a fairly substantial rise in money market yields through early 1989.

(13) The higher market interest rates associated with alternative C would further damp money growth. M1 would show little expansion in May and June; reduced compensating balance requirements would constrain demand deposits, and still wider opportunity costs would make NOW accounts, along with other liquid retail accounts, even less attractive. Slower M2 growth through June would be expected to bring its March-to-June pace to 6-1/4 percent, and its expansion from the fourth quarter to 7 percent. M3 could be supported somewhat by a further shifting of business credit demands to banks as higher bond yields curtail firms' offerings of longer-term debt, necessitating greater reliance on managed liabilities by banks than under alternative B.

(14) Alternative A would be implemented through restoring the assumption for adjustment plus seasonal borrowing to the level of \$200 million that was in force from late January through late March, with federal funds probably returning to the 6-1/2 percent trading area; even lower rates could prevail if seasonal credit, which is now above \$200 million, responded relatively little to the decline in reserve pressures. Such a measure on the heels of the two recent tightening steps clearly would be unexpected by market participants and, in the absence of considerably weaker economic and price data, might raise doubts about the Federal Reserve's anti-inflationary resolve. The exchange value of the dollar would come under strong downward pressure, and there is some risk that heightened inflationary expectations would have adverse implications for bond prices. The prospect that such a policy easing could not long be sustained also would limit associated declines in short-term interest rates, with the three-month Treasury bill rate perhaps not falling much below 6 percent. This decline in money market rates would encourage somewhat faster growth in the broader monetary aggregates, although the March-to-June growth of M2 and M3 still would remain well below their December-to-March pace, and in June these aggregates still would be below the upper limit of their 4 to 8 percent long-run ranges.

Directive Language

(15) Draft language for the operational paragraph, with the usual options for alternative specifications of reserve pressures and possible intermeeting adjustments, is presented below for Committee consideration. The second sentence calling for continued flexibility in the conduct of operations is shown in brackets.

Operational Paragraph

In the implementation of policy for the immediate future, the Committee seeks to DECREASE SLIGHTLY (SOMEWHAT) (Alt. A)/MAINTAIN (Alt. B)/increase slightly (SOMEWHAT) (Alt. C) the degree of pressure on reserve positions. [The Committee agrees that the current more normal approach to open market operations remains appropriate; still sensitive conditions in financial markets and uncertainties in the economic outlook may continue to call for some flexibility in operations.] Taking account of conditions in financial markets, somewhat (SLIGHTLY) greater reserve restraint WOULD (MIGHT) or somewhat (SLIGHTLY) lesser reserve restraint would (MIGHT) be acceptable depending on 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 contemplated reserve conditions are expected to

be consistent with growth in M2 and M3 over the period from March through June at annual rates of about ~~6-to-7~~ ___ PERCENT AND ___ 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 ~~4-to-8~~ ___ TO ___ percent.

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	Treasury bills secondary market				cds sec mkt 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. Gov't. constant maturity yields			corp. A utility rec off	muni. Bond Buyer	conventional home mortgages		
	federal funds	3 month	6 month	12 month					3-year	10-year	30-year			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	7.02	6.28	6.48	6.83	7.17	6.98	6.79	8.75	8.17	9.02	9.18	10.56	8.31	10.68	10.53	7.88
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	7.76	9.98	9.84	7.49
Monthly																
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
OCT 87	7.29	6.13	6.69	7.05	8.02	7.38	6.57	9.07	8.75	9.52	9.61	11.07	9.06	11.42	11.26	8.25
NOV 87	6.69	5.69	6.19	6.50	7.24	6.77	6.45	8.78	7.99	8.86	8.95	10.39	8.39	10.73	10.65	8.00
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
Weekly																
FEB 3 88	6.77	5.68	6.07	6.25	6.66	6.62	6.33	8.68	7.47	8.25	8.41	9.63	7.84	10.00	9.94	7.64
FEB 10 88	6.38	5.63	5.93	6.15	6.58	6.50	6.22	8.50	7.35	8.16	8.40	9.81	7.76	10.05	9.84	7.61
FEB 17 88	6.65	5.72	5.99	6.26	6.58	6.55	6.14	8.50	7.40	8.27	8.49	9.82	7.90	10.06	9.92	7.59
FEB 24 88	6.64	5.66	5.88	6.21	6.62	6.55	6.16	8.50	7.37	8.23	8.46	9.75	7.83	9.98	9.87	7.59
MAR 2 88	6.60	5.61	5.81	6.19	6.58	6.54	6.10	8.50	7.33	8.17	8.41	9.78	7.80	10.08	9.85	7.53
MAR 9 88	6.51	5.70	5.90	6.26	6.61	6.53	6.04	8.50	7.42	8.27	8.52	9.83	8.02	10.11	9.96	7.53
MAR 16 88	6.61	5.68	5.82	6.25	6.62	6.56	6.05	8.50	7.44	8.32	8.58	9.98	8.09	10.06	9.92	7.49
MAR 23 88	6.51	5.72	5.88	6.28	6.62	6.56	6.03	8.50	7.52	8.42	8.70	10.01	8.27	10.22	9.99	7.52
MAR 30 88	6.62	5.74	6.03	6.36	6.66	6.61	6.03	8.50	7.65	8.54	8.79	10.09	8.23	10.36	10.05	7.53
APR 6 88	6.82	5.90	6.16	6.51	6.78	6.69	6.04	8.50	7.78	8.63	8.87	10.02	8.15	10.36	10.19	7.56
APR 13 88	6.81	5.98	6.16	6.50	6.85	6.76	6.09	8.50	7.71	8.57	8.79	10.26	8.21	10.45	10.19	7.59
APR 20 88	6.93	5.82	6.18	6.56	6.97	6.82	6.09	8.50	7.86	8.77	9.01	10.37	8.27	10.49	10.30	7.61
APR 27 88	6.85	5.86	6.24	6.57	6.99	6.84	6.14	8.50	7.88	8.80	9.04	10.46	8.25	10.55	10.28	7.60
MAY 4 88	6.82	6.06	6.39	6.70	7.05	6.89	6.13	8.50	8.00	8.89	9.13	10.56	8.27	10.68	10.32	7.63
MAY 11 88	7.02	6.28	6.48	6.83	7.17	6.98	6.14	8.57	8.17	9.02	9.18	10.51	8.26	10.58	10.40	7.66
Daily																
MAY 6 88	6.88	6.29	6.51	6.84	7.13	6.90	..	8.50	8.17	9.01	9.18	..	..	..	..	..
MAY 12 88	7.10	6.21	6.43	6.83	7.25	7.10	..	9.00	8.18	9.04	9.17	..	..	..	..	..
MAY 13 88	7.14p	6.18	6.43	6.81	7.21	7.06	..	9.00	8.11p	9.03p	9.20p	..	..	..	..	..

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.

Money and Credit Aggregate Measures

Seasonally adjusted

MAY 16, 1988

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)										
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	9.2	8.3	9.9	14.7	12.8	13.3
1987	6.2	8.0	3.2	10.7	5.3	5.2	7.8	8.9	10.1	9.8
QUARTERLY AVERAGE										
2ND QTR. 1987	6.6	2.7	1.3	12.2	4.6	4.0	8.2	8.7	9.0	8.9
3RD QTR. 1987	0.8	2.8	3.5	11.1	4.5	4.3	6.2	5.9	9.0	8.2
4TH QTR. 1987	3.9	3.9	3.8	11.3	5.4	5.8	5.5	7.5	10.6	9.8
1ST QTR. 1988	3.9	6.7	7.8	6.7	6.7	6.9	4.8	9.2	9.7	9.6
MONTHLY										
1987--APR.	17.2	5.5	1.5	6.5	5.7	4.4	12.0	7.6	10.4	9.7
MAY	2.9	0.7	0.0	21.9	4.9	8.0	7.8	8.2	10.9	10.2
JUNE	-7.1	1.1	3.9	22.1	5.3	4.2	6.3	7.4	9.6	9.1
JULY	2.4	2.7	2.8	1.8	2.5	0.8	2.5	1.8	8.0	6.6
AUG.	4.7	4.8	4.8	10.7	6.0	6.4	9.7	8.8	7.8	8.0
SEPT.	1.6	4.8	5.9	6.0	5.0	7.2	8.6	6.5	10.3	9.4
OCT.	14.0	5.7	2.8	12.5	7.1	8.1	6.0	3.9	11.5	9.7
NOV.	-5.6	0.8	3.0	20.4	4.8	3.3	2.6	12.6	11.2	11.6
DEC.	-3.0	1.9	3.6	-0.5	1.4	0.3	-1.0	8.0	8.9	8.7
1988--JAN.	12.9	9.9	8.9	2.1	8.3	10.6	5.9	5.2	9.4	8.4
FEB.	1.1	8.7	11.4	16.7	10.4	9.7	8.3	11.3	10.7	10.8
MAR.	5.5	8.8	9.9	1.4	7.3	7.0	8.2	15.3	8.4	10.0
APR. P	11.2	9.9	9.5	-5.0	6.8		11.9	6.6	8.5	8.1
MONTHLY LEVELS (\$BILLIONS)										
1987--NOV.	752.7	2896.5	2143.7	760.1	3656.5	4324.2	2232.1	1939.5	6319.5	8259.0
DEC.	750.8	2901.0	2150.1	759.8	3660.8	4325.4	2230.6	1952.4	6366.4	8318.8
1988--JAN.	758.9	2924.9	2166.0	761.1	3686.0	4363.5	2242.0	1960.8	6416.3	8377.1
FEB.	759.6	2946.1	2186.5	771.7	3717.8	4398.8	2257.6	1979.2	6473.5	8452.7
MAR.	763.1	2967.7	2204.5	772.7	3740.4	4424.3	2273.2	2004.4	6518.7	8523.1
APR. P	770.2	2992.2	2222.0	769.5	3761.7		2297.0	2015.5	6564.8	8580.3
WEEKLY LEVELS (\$BILLIONS)										
1988--APR. 4	765.0	2982.8	2217.7	772.9	3755.6					
11	766.3	2991.3	2224.9	768.6	3759.9					
18	766.3	2992.0	2225.7	769.1	3761.2					
25 P	777.9	2996.4	2218.5	767.4	3763.8					
MAY 2 P	776.4	2997.4	2221.0	771.5	3768.8					

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.
P-PRELIMINARY

Components of Money Stock and Related Measures

Billions of dollars, seasonally adjusted unless otherwise noted

MAY 16, 1988

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		Large denomination time deposits ³	Term RPs NSA	Term Eurodollars NSA	Savings bonds	Short-term Treasury securities	Commercial paper	Bankers acceptances
								general purpose, and broker/dealer ²	Institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
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	78.0	569.2	362.2	858.9	207.6	84.7	441.5	82.2	81.7	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	106.8	92.2	99.4	267.9	255.2	45.1
MONTHLY																
1987-APR.	185.6	299.3	253.1	76.9	566.8	404.1	845.1	212.1	83.5	448.9	94.4	83.9	95.1	257.6	246.3	40.9
MAY	187.0	298.9	253.9	76.2	558.6	409.5	845.9	209.9	82.1	454.0	102.5	86.7	95.9	261.6	253.7	42.1
JUNE	187.8	293.3	254.3	74.9	555.1	413.1	852.1	210.6	81.7	458.6	107.4	87.8	96.6	259.6	252.8	43.1
JULY	189.0	292.3	255.6	75.7	549.4	415.5	859.1	210.6	83.8	460.2	107.0	84.4	97.5	254.8	251.8	43.4
AUG.	190.2	292.1	257.2	79.7	545.0	417.8	865.9	213.1	84.0	462.4	107.5	90.2	98.1	258.9	251.8	43.5
SEPT.	191.4	290.5	258.6	83.4	540.5	418.6	872.1	216.3	81.3	465.3	109.2	94.4	98.4	263.7	256.6	44.3
OCT.	193.1	295.9	260.3	85.9	533.9	417.0	883.3	218.2	82.5	472.3	106.2	92.9	98.8	273.0	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	108.7	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	105.4	90.8	100.2	259.8	258.9	45.7
1988-JAN.	198.4	289.9	263.4	82.7	524.0	414.3	924.6	225.0	94.4	482.8	105.5	85.1	101.4	263.5	269.0	43.5
FEB.	199.3	287.8	265.2	78.1	522.5	416.2	941.5	231.1	98.7	489.7	108.8	84.5	102.6	263.5	274.1	40.9
MAR.	200.9	287.9	267.1	74.9	524.5	419.8	953.5	235.0	97.4	491.5	105.7	87.6	103.5	262.3	279.2	38.9
APR. P	202.5	290.1	270.3	77.4	522.9	422.6	964.8	236.2	91.9	492.7	106.1	86.0	52.0	61.5	288.4	13.7

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

May 16, 1988

Net Changes in System Holdings of Securities¹
Millions of dollars, not seasonally adjusted

Period	Treasury bills			Treasury coupons						Federal agencies redemptions (-)	Net change outright holdings total ⁴	Net RPs ⁵
	Net purchases ²	Redemptions (-)	Net change	Net purchases ³				Redemptions (-)	Net change			
				within 1-year	1-5	5-10	over 10					
1982	8,698	3,000	5,698	312	1,797	388	307	--	2,803	189	8,312	1,461
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
1987--Oct.	795	--	795	300	--	--	--	--	300	56	1,039	7,493
Nov.	3,388	--	3,388	670	50	--	--	70	650	1	4,038	-3,331
Dec.	150	--	150	479	2,589	596	445	--	4,109	13	4,246	-1,629
1988--Jan.	-49	600	-649	--	--	--	--	--	--	131	-780	-4,807
Feb.	-192	1,600	-1,792	--	-800	-175	--	--	-975	21	-2,788	1,247
Mar.	560	--	560	--	--	--	--	--	--	3	557	45
Apr.	423	--	423	1,092	3,661	1,017	966	--	6,737	-120	7,040	9,111
1988--Mar. 2	336	--	336	--	--	--	--	--	--	--	336	309
9	--	--	--	--	--	--	--	--	--	--	--	-1,963
16	42	--	42	--	--	--	--	--	--	--	42	2,055
23	--	--	--	--	--	--	--	--	--	3	-3	-100
30	17	--	17	--	--	--	--	--	--	--	17	-436
Apr. 6	515	--	515	--	--	--	--	--	--	--	515	5,776
13	248	--	248	622	1,944	596	518	--	3,680	20	3,909	-4,972
20	41	--	41	--	--	--	--	--	--	100	-59	5,917
27	120	--	120	470	1,717	421	449	--	3,057	--	3,177	-4,191
May 4	--	--	--	--	--	--	--	--	--	--	--	-3,522
11	--	--	--	--	--	--	--	--	--	--	--	7,529
Memo: LEVEL (bil.\$) ⁶												
May 11	--	--	111.0	23.2	51.9	15.4	26.5	--	117.0	--	235.3	1.4

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

4. Reflects net change and redemptions (-) of Treasury and agency securities.
5. Includes 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
2.6	3.3	1.2	.2	7.3