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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

December 13, 1991

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) As a result of deliberations at the November 5 FOMC meeting, monetary policy was eased slightly the next day. The discount rate was cut 1/2 percentage point to 4-1/2 percent, with federal funds expected to fall 1/4 percentage point to around 4-3/4 percent. One month later, as economic indicators continued to point toward a faltering recovery and growth in the broad monetary aggregates remained sluggish, policy was eased again, with the funds rate moving to around 4-1/2 percent. In the initial policy move, the formal allowance for adjustment plus seasonal borrowing was left unchanged, as a \$25 million increase in the allowance to reestablish a gap between the funds rate and the discount rate was offset by an equivalent technical reduction to take account of the ebbing of seasonal borrowing. Four more cuts of \$25 million were made in the borrowing allowance over the remainder of the intermeeting period--three of them were technical adjustments and one was policy-induced. Borrowing averaged around its formal allowance over the entire period, and federal funds generally traded quite close to their intended level, averaging 4.78 percent over most of the period, before softening to 4.50 percent in the days since the most recent policy action.

(2) The Federal Reserve's actions and growing evidence that the economic recovery had stalled contributed to substantial reductions in U.S. interest rates and to a downward movement in the dollar exchange rate. Most money market rates dropped 1/2 percentage point or more as markets incorporated the declines in the federal funds rate and

anticipations of further near-term easing.¹ The prime rate also came down 1/2 point to 7-1/2 percent. Expectations of more subdued economic activity contributed to declines in rates farther out the yield curve as well. Rates on intermediate maturity securities decreased almost as much as short-term rates, and the yield on thirty-year Treasury and on corporate bonds dropped about 25 basis points over the period. Mortgage rates also fell about 1/4 point and, at 8.53 percent, are now at a seventeen-year low. Declines in interest rates were not sufficient to offset the effect on stock prices of negative news on the economy and profits, and broad stock indexes are down slightly on balance. Shares in banking corporations were harder hit, and money center bank stocks are down nearly 9 percent over the same period, owing in part to Congressional consideration of a cap on credit card interest rates and to passage of a bill without additional powers for banks.

(3) The decline in the weighted average exchange value of the dollar was about 2-1/2 percent over the intermeeting period. Despite the negative effects on the DM of events in the former Soviet Union, the dollar fell more than 3-3/4 percent against the mark, reflecting expectations by market participants of further tightening by the Bundesbank in the near future. As a consequence, the mark was strong not only against the dollar, but within the EMS as well;

the

1. Private-sector one-month rates are among the few exceptions: They jumped as their maturity date moved into the new year, reflecting strong demands to lock in funding over year-end, and are down only modestly on balance. Although some borrowers evidently are cautious about the availability of credit at year-end, disruptions to normal funding patterns and associated pressures on money markets generally are expected to be substantially less intense than last year.

. The dollar declined a little less than 1 percent against the yen, as evidence accumulated of a further slowing in the Japanese economy and as the Bank of Japan eased monetary policy somewhat further.

(4) The cumulative drop in short-term market interest rates over recent quarters and the associated decline in opportunity costs contributed to a turnaround in M2 growth in the last two months. Despite the sluggish growth in nominal income, the broader monetary aggregates have shown some modest upward momentum after registering declines over the third quarter. M2 grew at a 4-1/2 percent annual rate in November and appears on track to meet the 3 percent pace for the September-to-December period specified by the Committee at its last meeting. M3 picked up to a 2-3/4 percent rate in November and most likely will exceed somewhat the 1 percent rate expected for the three month period. Both monetary aggregates remain right around the lower bounds of their target ranges.

(5) The narrowing of opportunity costs has been most pronounced for liquid deposits. Transactions deposits expanded at about a 20 percent rate last month, lifting M1 growth to 15-1/4 percent, despite a slowing in currency.² Savings deposits (including MMDAs) also rose rapidly, but small time deposits and money fund shares continued to run off. Much of this runoff no doubt represented a redirection toward liquid deposits within M2, but part of it likely remained a net drag on the aggregate as investors moved into capital market instruments in a quest for higher yields. Inflows to bond and stock mutual funds, which

2. Total reserves accelerated from a 16 percent pace in October to a 20-1/2 percent rate of growth in November. With currency growth more subdued, however, the monetary base increased at just a 6-1/2 percent pace in November, down from 10 percent in the preceding month.

again were very heavy in October, are said to have remained robust in November.

(6) The resumption of M3 growth in the last two months was fostered by a hiatus in RTC activity (which thus exerted less of a depressing effect on thrift credit) and a strengthening in bank credit growth in October and November. Bank credit was buoyed by continued heavy acquisitions of U.S. government securities and by some turnaround in loan growth in November. Total loans had been on the decline for a number of months, but the resumption of growth in real estate loans and strength in some small, but volatile, loan categories outweighed sizable declines in business and consumer loans in November.

(7) Despite the turnaround in bank loans, growth in the debt of domestic nonfinancial sectors, excluding the federal government, is estimated to have stayed subdued in recent months. Financial intermediaries have remained very cautious lenders, with intermediation spreads showing little sign of narrowing, and borrowers have continued restructuring balance sheets to reduce and lengthen debt. Nonfinancial firms resumed issuing commercial paper in November and their bond issuance has been substantial, but C&I loans have been weak, restraining that sector's aggregate debt growth. With inventories evidently in check and fixed investment expenditures down, business funding needs have been relatively subdued. An additional factor holding down debt growth has been the heavy issuance of corporate equities, as firms have deleveraged and taken advantage of attractive stock prices. With mortgage rates coming down, home mortgage activity appears to have picked up a bit, although much of the strengthening likely has been refinancings. Gross bond issuance by state and local governments was strong last

month, as the cumulative drop in interest rates attracted more borrowers, but with much of this for refunding purposes, net borrowing by the sector remained subdued. Preliminary data suggest that total debt of the nonfinancial sectors continued to grow at about a 6 percent pace in October. Some ebbing of the rapid pace of federal debt growth points in the direction of a slowing of overall debt in November.

(8) For the year, the debt aggregate is likely to grow at a 5 percent pace, toward the lower end of its 4-1/2 to 8-1/2 percent monitoring range. Federal government debt has expanded at around an 11-1/2 percent rate in 1991, with Treasury borrowing to finance the acquisition of assets by deposit insurance funds adding 1/2 percentage point to total debt growth. Excluding the federal government, debt increased at a 3 percent rate over this period; in contrast to the pattern over the 1980s, this was about in line with nominal income. In addition to slower growth of spending, borrowing has been held down by efforts to reduce debt burdens--for example, by issuing equity and drawing down monetary assets to finance spending. An additional factor restraining credit growth and spending has been added caution on the part of some lenders, as seen in tighter standards for credit and unusually stiff price and nonprice terms.

(9) Reluctance to extend credit has been especially pronounced at depositories, and has also been an element in the sluggish pace of money growth. Constraints on credit supply, together with weak demand, and the acquisition of thrift assets by the RTC resulted in a substantial decline in total depository assets in 1991. M3 grew nonetheless--though only 1 percent for the year--owing importantly to a marked rise in money market funds over the year and substitutions of "Yankee" CDs issued by foreign banks for non-M3 sources of funds since the cut in

reserve requirements one year ago. For retail deposits, institutions have aggressively reduced offering rates on small time deposits, raised fees, and cut back on advertising. In an effort to maintain returns in the face of declining rates on M2 assets, many depositors appear to have moved out a steepening yield curve into capital market instruments. Partly as a result of these factors, M2 growth in 1991--at 2-1/2 percent--has fallen about 3 percentage points short of the rate predicted by the staff's money demand models. Instead of declining, as would have been expected in response to the sharp narrowing of opportunity costs, velocity is expected to post a slight increase over the year as a whole.

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

	Sept.	Oct.	Nov. P	QIV'90 to Nov. P
<u>Money and credit aggregates</u>				
M1	5.4	12.6	15.2	8.1
M2	0.0	2.3	4.5	2.5
M3	-2.0	1.1	2.8	1.0
Domestic nonfinancial debt	6.0	6.0	--	5.0 ¹
Bank credit	3.2	6.8	6.3	3.0
<u>Reserve measures</u>				
Nonborrowed reserves ²	9.5	18.4	24.0	9.6
Total reserves	6.6	16.1	20.6	9.1
Monetary base	6.5	10.0	6.6	8.3
Memo: (Millions of dollars)				
Adjustment plus seasonal borrowing	344	249	107	--
Excess reserves	929	1083	882	--

p--preliminary.

1. QIV'90 to October.

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

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 changes in reserve requirements.

Policy Alternatives

(10) Two alternatives are given below for Committee consideration. Under alternative B, the federal funds rate would continue to center around 4-1/2 percent, in association with the allowance for adjustment plus seasonal borrowing staying at \$75 million.³ Alternative A incorporates a 1/2 percentage point reduction in the funds rate to 4 percent, which could be implemented in either of two ways--by reducing the borrowing allowance to \$25 million while keeping the discount rate unchanged at 4-1/2 percent, or by cutting the discount rate to 4 percent while keeping the borrowing allowance unchanged at its current level. Although the former variant of alternative A, which involves funds trading 1/2 percentage point below the discount rate, would be technically possible, it likely would be associated with somewhat greater day-to-day volatility in the funds rate. In addition, the unusual negative spread could engender confusion among market participants, with some speculating that a discount rate cut was imminent and others perceiving a signal that monetary easing in this economic cycle was over.

(11) Under the unchanged federal funds rate of alternative B, interest rates may exhibit an initial tendency to firm a little, as market expectations of another modest policy easing in the near term are disappointed. If incoming data tend to confirm the staff's forecast of some slippage in economic activity this winter, however, expectations of policy easings of the scope now contemplated by the market are likely to resurface, restoring the three-month Treasury bill rate to around its current quote of 4.15 percent. Similarly, the exchange value of the

3. On January 9, the rate on seasonal credit will begin to float with market interest rates, which presumably will affect the demand for such credit. In the past, seasonal credit has begun to rise in February.

dollar could edge higher temporarily, but would probably end up trading around recent lower levels. Bond yields could well move lower on balance by early next year, as the market's realization of the extent of economic sluggishness tends to reduce both real rates and inflationary expectations. However, any such bond market rally could be derailed if it looks as though a political consensus is emerging on measures for substantial fiscal stimulus; the effects on bond yields would be especially adverse if it appeared that such measures would undermine the discipline in last year's budget agreement intended to produce smaller deficits over time. Announcement of a significant shift in Treasury auctions away from longer-term notes and bonds and toward bills would precipitate some decline in bond rates and rise in bill rates--judging from recent market reactions to such proposals.

(12) Under alternative A, the 1/2 percentage point fall in the funds rate to 4 percent would foster a smaller drop in other short-term interest rates, given the expectations of near-term policy easing already incorporated in current market quotes. The three-month Treasury bill rate would probably drop to around 4 percent or a bit below. The prime rate would be cut by 1/2 percentage point, preserving its current wide spread over funding costs. Bond yields also probably would decline immediately, though by less than the drop in short rates. Unless data were clear-cut in pointing to continuing weakness in the economy, the half-point easing of alternative A--closely following the quarter-point decline in the funds rate last week--would be seen as signalling a priority on encouraging a strong recovery. As a result, any reduction in inflation expectations would tend to be delayed. The exchange value of the dollar likely would extend its recent decline. The staff anticipates only modest decreases in foreign interest rates on average

over coming months, as cost pressures in Germany remain intense and German interest rates put a floor under rates in other EC countries.

(13) Projected money growth rates under the two alternatives over the interval from November to March are shown in the table below. (More detailed data appear on the table and charts on the following pages.) Growth in the broader aggregates is expected to continue at a rather slow pace in coming months. Under alternative B, both M2 and M3 are projected to be only somewhat above the lower edges of their tentative 1992 target cones in March. Even under the lower short-term interest rates associated with alternative A, these aggregates probably would remain noticeably below the midpoints of their ranges.

	<u>Alt. A</u>	<u>Alt. B</u>
Growth from November to March		
M2	3-3/4	3
M3	2	1-1/2
M1	12	10-1/2

(14) Growth in the broader monetary aggregates will continue to be restrained by sluggish expansion of nominal income. Moreover, other forces that have depressed money growth, and thereby buoyed velocity relative to historical patterns, are expected to persist into next year. Over the next four months, a resumption of resolutions of insolvent thrifts and consolidations of banks imply a drag on retail deposits and managed liabilities. More generally, depositories are unlikely to bid aggressively for deposits, given prospects for virtually no loan growth. Household balances probably will continue to be deflected from M2 into capital market instruments, even if longer-term market interest rates edge lower in response to weaker-than-expected economic activity or further monetary policy easing. The differential

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2		M3		M1	
	Alt. A	Alt. B	Alt. A	Alt. B	Alt. A	Alt. B
Levels in billions						
1991 October	3395.6	3395.6	4141.0	4141.0	879.1	879.1
November	3408.2	3408.2	4150.7	4150.7	890.2	890.2
December	3416.5	3416.5	4159.9	4159.9	897.1	897.1
1992 January	3426.5	3425.0	4164.4	4163.4	905.7	904.9
February	3438.0	3433.9	4170.0	4167.2	915.1	912.9
March	3451.2	3443.0	4176.6	4171.4	925.8	921.2
Monthly Growth Rates						
1991 October	2.3	2.3	1.1	1.1	12.6	12.6
November	4.5	4.5	2.8	2.8	15.2	15.2
December	2.9	2.9	2.7	2.7	9.3	9.3
1992 January	3.5	3.0	1.3	1.0	11.5	10.5
February	4.1	3.1	1.6	1.1	12.5	10.5
March	4.6	3.2	1.9	1.2	14.0	11.0
Quarterly Ave. Growth Rates						
1991 Q1	3.4	3.4	4.0	4.0	5.9	5.9
Q2	4.7	4.7	1.8	1.8	7.3	7.3
Q3	-0.5	-0.5	-2.5	-2.5	6.8	6.8
Q4	2.1	2.1	0.7	0.7	10.9	10.9
1992 Q1	3.7	3.2	1.9	1.6	12.0	10.9
Sep 91 to Dec 91	3.2	3.2	2.2	2.2	12.5	12.5
Nov 91 to Mar 92	3.8	3.1	1.9	1.5	12.0	10.5
Dec 91 to Mar 92	4.1	3.1	1.6	1.1	12.8	10.8
Q4 90 to Q4 91	2.5	2.5	1.0	1.0	8.0	8.0
Q4 90 to Dec 91	2.5	2.5	1.1	1.1	8.3	8.3
Q4 91 to Jan 92	3.5	3.2	2.0	1.9	11.4	10.9
Q4 91 to Feb 92	3.7	3.2	1.9	1.6	11.9	10.8
Q4 91 to Mar 92	3.9	3.2	1.9	1.5	12.5	10.9
1992 Target Ranges:	2.5 to 6.5		1.0 to 5.0			

Chart 1
ACTUAL AND TARGETED M2

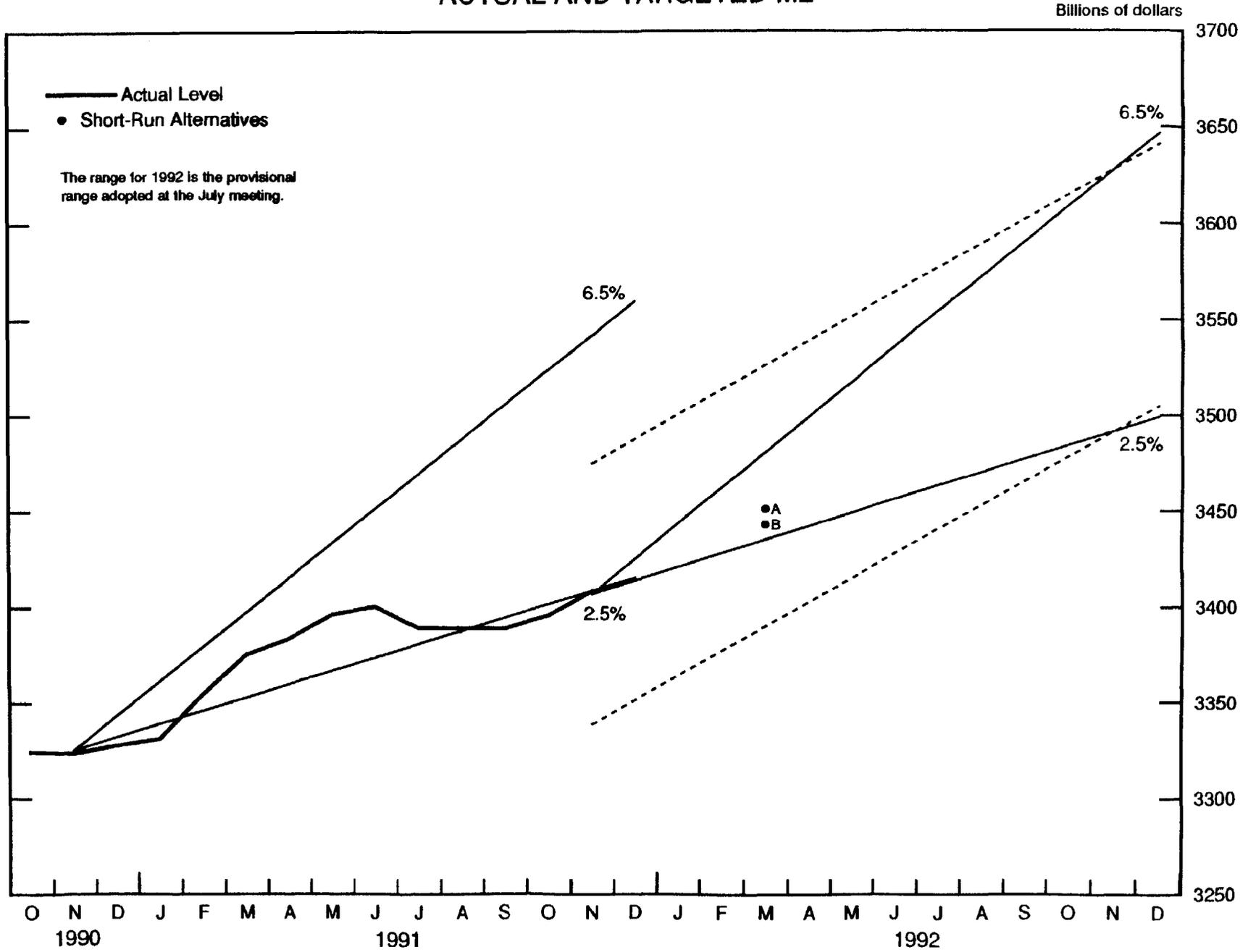


Chart 2
ACTUAL AND TARGETED M3

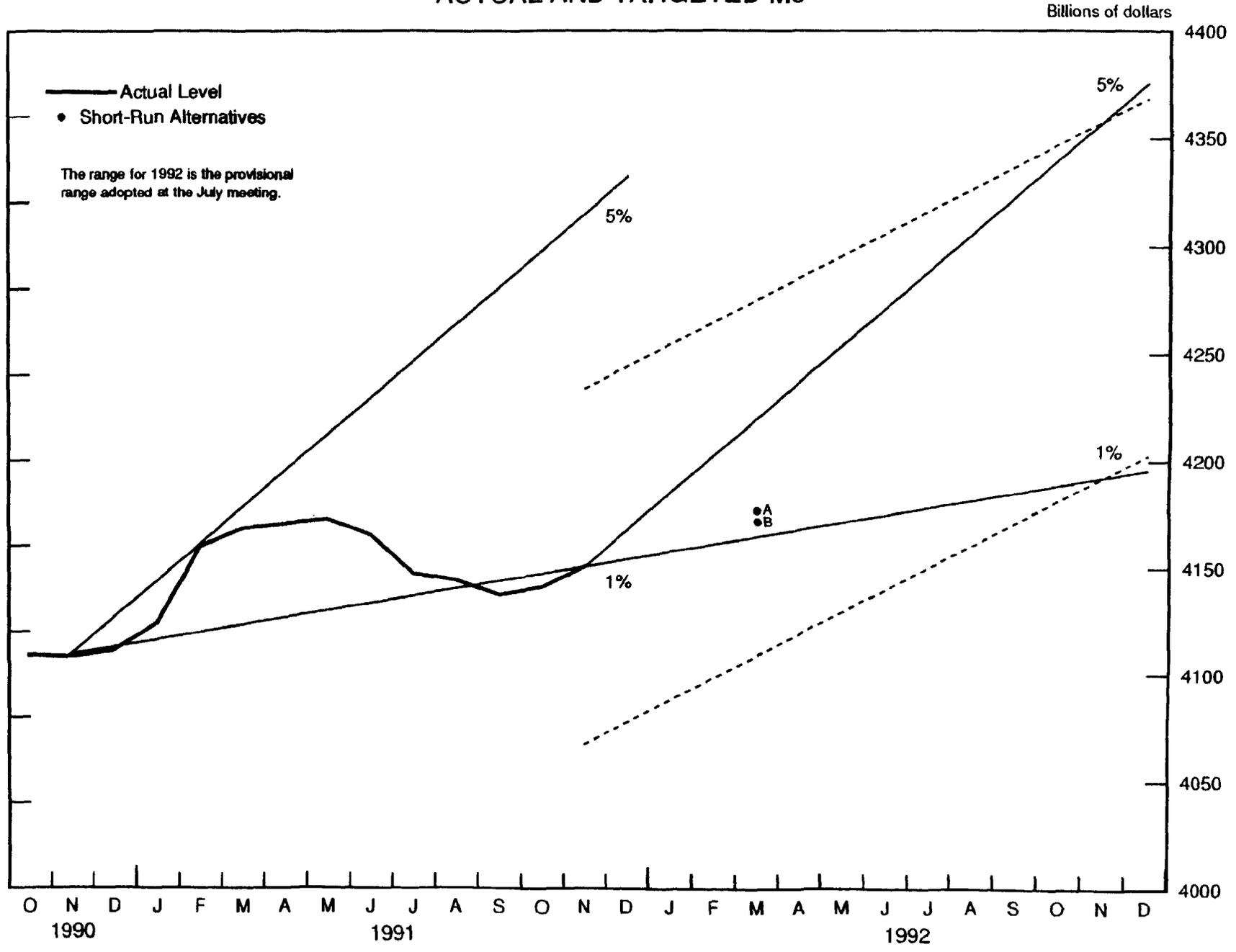


Chart 3
M1

Billions of dollars

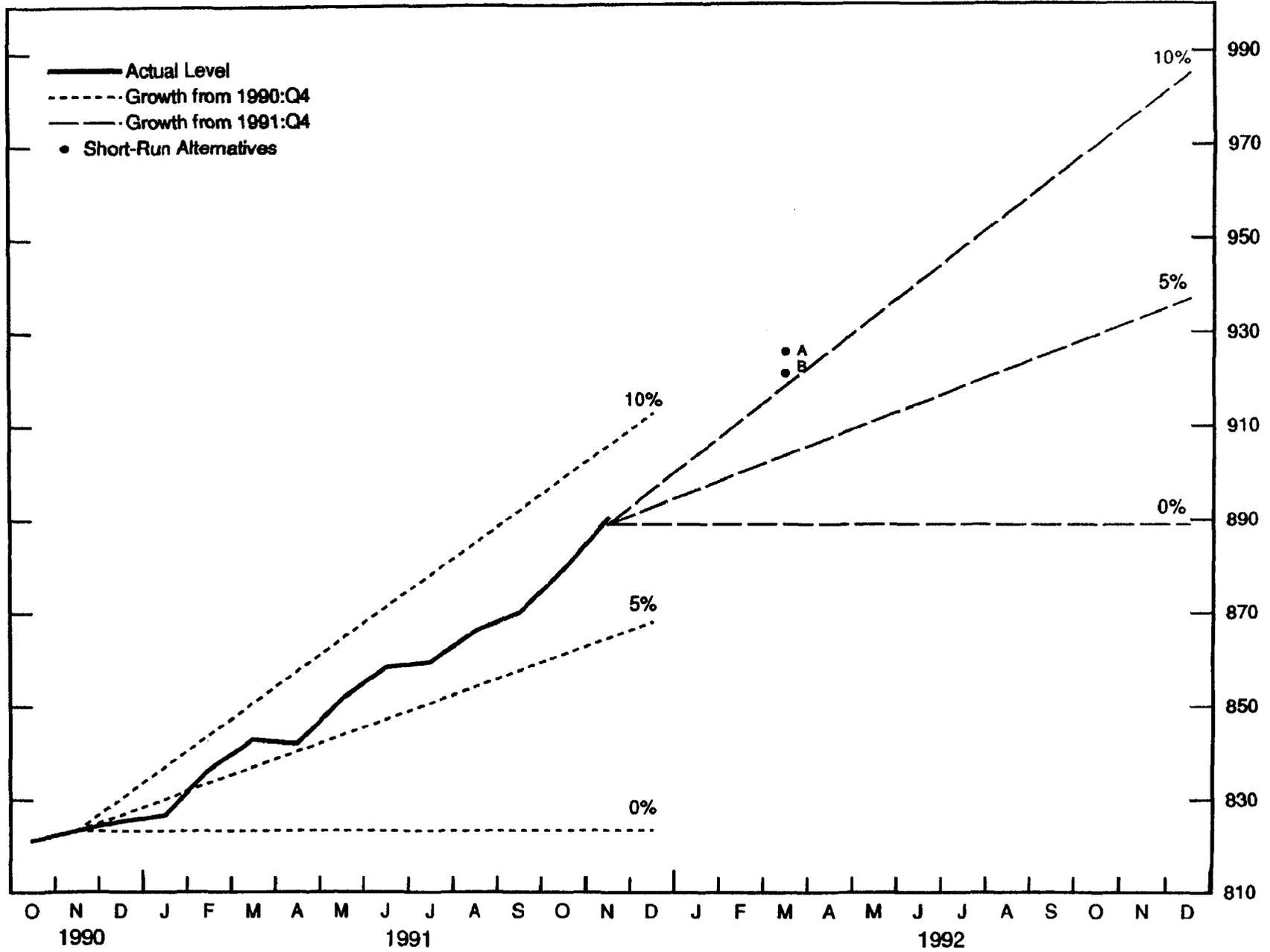
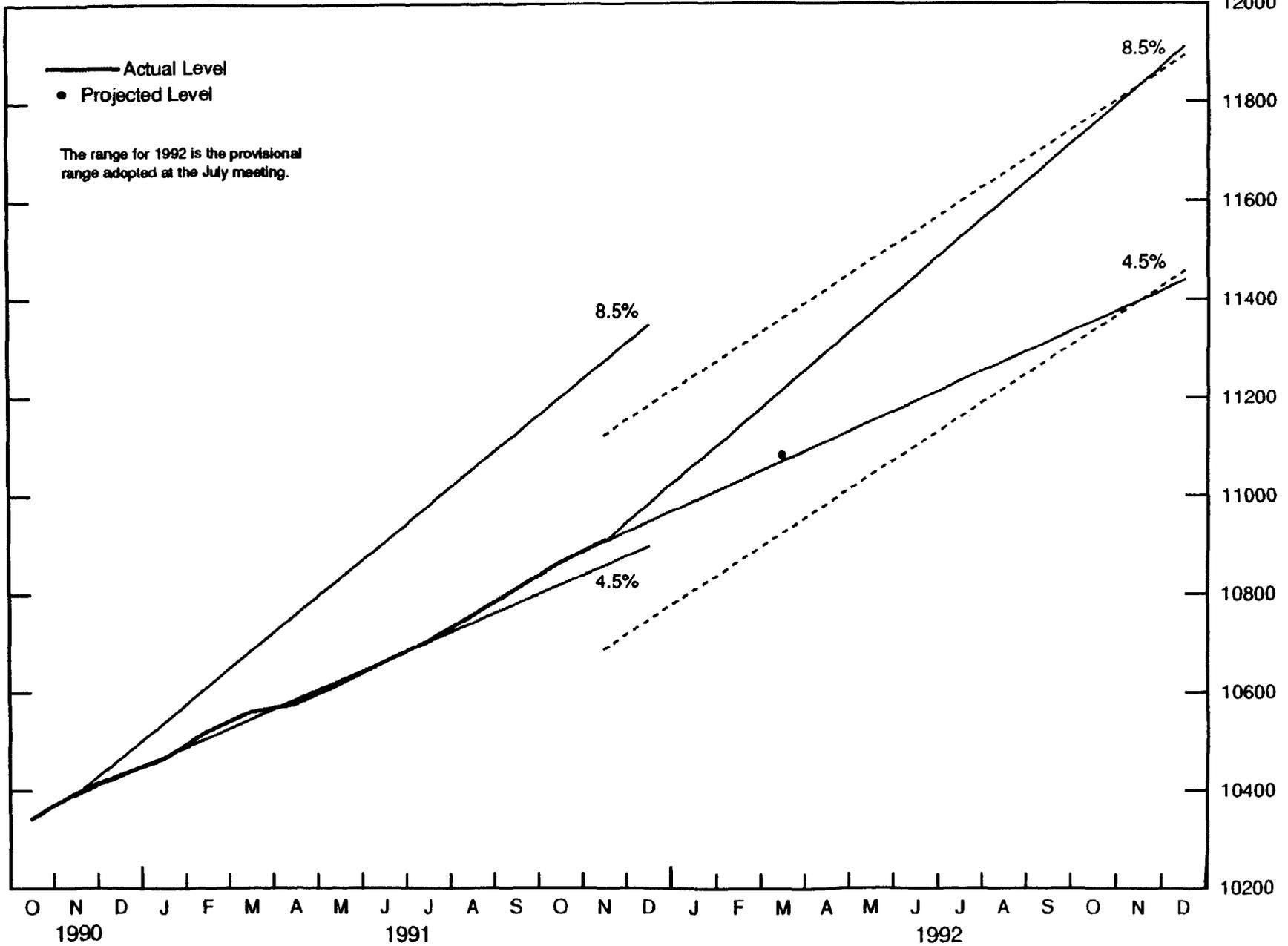


Chart 4

DEBT

Billions of dollars



between longer-term market rates and returns on M2 balances still would remain unusually wide, and any capital gains on market instruments could augment their appeal to retail investors by boosting their reported returns. Finally, the process of household deleveraging, involving reductions both in borrowing and in acquisition of monetary and other assets, is unlikely to abate substantially in coming months. Relative to predictions of standard models of M2 demand, using the interest rates of either alternative, the staff projections for the first quarter imply around a 3 percentage point shortfall of M2 growth in the first quarter, given greenbook income. However, some of the factors restraining monetary expansion in the first quarter relative to income and interest rates may well hold down subsequent spending as well, so that the slow M2 growth cannot simply be interpreted as a benign downward shift in money demand with no implications for spending.

(15) Under alternative B, both M2 and M3 are projected to grow a little more slowly than their average rates over October and November. M2 would be expected to post a 3 percent growth rate from November to March, and M3 a 1-1/2 percent rate.⁴ Nominal income is projected to grow at about the same rates in the fourth and first quarters, and, given the usual lags, the effects on money demand of the declines in interest rates through early December also would be roughly comparable in the two quarters. It is the resumption of RTC activity early next year that is responsible for the slight ebbing of M2 growth. Restraint

4. Over the four months through March, M1 is expected to grow at a 10-1/2 percent rate, spurred by strong growth of transactions deposits. Required and total reserves are projected to advance at a 16 percent rate, while the monetary base expands at an 8 percent rate. This projection has made no allowance for an unwinding of an ongoing reserve avoidance practice involving NOW accounts and large time deposits, which would be disallowed under a proposed revision to Regulation D to be considered by the Board in January. The staff estimates that closing this loophole could add around 1 percentage point to growth in M1 over the first quarter.

on M3 growth will be exerted not only by heavier RTC activity but also by a moderation in the expansion of bank credit and funding needs with the fading of special factors that have boosted bank lending recently.

(16) The debt of domestic nonfinancial sectors is expected to grow at a 5 percent annual rate from the fourth quarter of this year through next March. Such growth would place the debt aggregate just above the lower bound of the FOMC's provisional monitoring range for next year. Federal debt likely will expand at about an 11 percent rate through March, elevated in part by the financing of resolutions of depository institutions. Nonfederal debt growth over the same interval is seen remaining at nearly a 3 percent rate. This forecast assumes no major change in the degree of caution exercised by borrowers or lenders. However, further tightening of credit terms could result should lending officers involved in upcoming bank consolidations begin to behave more cautiously or should unanticipated deterioration in loan portfolios make banks' access to funds more uncertain.

(17) The lower short-term interest rates associated with alternative A would put M2 on a path that would carry it toward the middle portion of its range later in 1992. This impetus would be supplied in the first months of the year by lower opportunity costs of holding money, and later by the boost to income flows from the decline in interest rates. From November to March, M2 is projected to turn in a 3-3/4 percent growth rate under alternative A. The acceleration would be wholly concentrated in liquid deposits, which should respond to the narrowing of their opportunity costs. While deposit rates will be reduced further--perhaps appreciably at some institutions, if lower market rates jolt them into reassessing long-standing rates on NOW accounts and passbook savings--they are not likely to drop enough to

eliminate the additional stimulus to money growth of the lower interest rates in alternative A. The induced pickup of inflows to liquid deposits should more than offset greater outflows from small time deposits and M2-MMMF shares into capital market instruments with increasingly attractive relative returns. The faster M2 growth under alternative A will show through to M3, though in muted form, since bank and thrift credit growth will accelerate by less than M2 in the short run.

Directive Language

(18) Draft language for the operational paragraph, including the usual options and updating, 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. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly (SOMEWHAT) greater reserve restraint might (WOULD) or slightly (SOMEWHAT) lesser reserve restraint (MIGHT) would 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 THROUGH MARCH September through December at annual rates of about __ AND __ 3 and 1 percent, respectively.

ANNEX

Directive Sentence on Possible
Intermeeting Changes⁵

At its meeting on August 20, the Committee discussed the sentence in the directive that includes a listing of the factors that guide possible changes in monetary policy during intermeeting periods.⁶ The sentence currently reads as follows:

Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or slightly lesser reserve restraint would be acceptable in the intermeeting period.

At the suggestion of the Chairman, Governor Kelley subsequently polled the members with regard to their preferences among three alternative proposals that were made during the meeting. In a memorandum to the Committee dated September 25, 1991, Governor Kelley reported an inconclusive result: seven members were in favor of retaining the current list (subject to a formal review each year); seven preferred to reword the factors, keying them more directly to the Committee's long-run ranges and making them sufficiently general to apply in most circumstances without raising the issue of relative ranking; and two opted for eliminating the listing altogether and explaining the Committee's guidance from meeting to meeting in the text of the policy record.

Of the many members who expressed an interest in reviewing the directive sentence at least yearly, several indicated a preference for doing so at the December meeting. Three alternatives are presented

5. Relates to item 4 in the agenda for the December 17 meeting.

6. Background for this discussion was provided in memoranda from Governor Kelley and Mr. Kohn circulated on August 14, 1991.

below for consideration at the upcoming meeting. The Committee would, of course, retain the option of revising the language at every meeting and of introducing special language in the event of unusual developments such as the stock market crash in October 1987. In any case, on the basis of the comments communicated earlier by many members, the Committee might want to review this directive instruction formally at least once every year.

Proposed Alternatives

1. The Committee may wish to adopt broad language keyed to its long-run objectives and sufficiently general to apply in most circumstances without raising questions about the ranking of the factors. One proposal along these lines is:

In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat/slightly greater reserve restraint or somewhat/slightly lesser restraint would/might be acceptable in the intermeeting period.

2. Alternatively, the Committee may wish to continue to follow the current approach with its list of factors.

If the Committee were to decide to retain this approach, a separate question would be whether to change the order of the factors themselves at this time. The existing order gives precedence to what the Committee may consider to be its most important long-run objective, that of achieving price stability. Moreover, the evidence of progress toward that objective has been an important factor in the Committee's willingness to ease. Alternatively, the members may wish to change the order at least for the near term by moving the reference to trends in economic activity to the head of the list. Because the sentence on intermeeting adjustments is in the operational

paragraph, a change in ordering could be viewed as desirable if the Committee had as its near-term priority promoting a pickup in the economy and wished to emphasize that point. This need not imply that the Committee now considers the long-term objective of price stability to be any less important--and this point could be emphasized in the policy record--because the lead sentence in the directive paragraph on the long-run ranges would continue to indicate that "the Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output."

3. Finally, the Committee may wish to delete the list of factors altogether and to provide any desired explanations of the Committee's thinking in the text of the policy record. In this case, the relevant sentence might read:

Somewhat/slightly greater reserve restraint or somewhat/slightly lesser reserve restraint would/might be acceptable in the intermeeting period.

SELECTED INTEREST RATES
(percent)

	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A-utility recently offered	municipal Bond Buyer	conventional home mortgages		
		3-month	6-month	1-year					3-month	10-year	30-year			secondary market	primary market	
		1	2	3					4	5	6			7	8	9
90 - High	8.33	7.96	8.00	7.97	8.58	8.60	8.06	10.50	9.09	9.07	9.13	10.50	7.83	10.99	10.67	8.63
- Low	7.16	6.54	6.60	6.51	7.63	7.80	7.16	10.00	7.42	7.94	8.00	9.55	7.28	9.91	9.56	7.86
91 - High	7.46	6.46	6.49	6.43	7.75	8.49	7.37	9.93	7.47	8.35	8.52	9.96	7.40	9.97	9.75	7.78
- Low	4.54	4.21	4.21	4.27	4.57	4.90	4.63	7.50	5.52	7.22	7.80	8.76	6.86	8.67	8.53	6.23
Monthly																
Dec 90	7.31	6.74	6.70	6.61	7.82	8.28	7.20	10.00	7.47	8.07	8.24	9.95	7.34	9.95	9.67	7.93
Jan 91	6.91	6.22	6.28	6.25	7.17	7.12	6.92	9.52	7.38	8.09	8.27	9.83	7.32	9.89	9.64	7.74
Feb 91	6.25	5.94	5.93	5.91	6.52	6.53	6.10	9.05	7.08	7.85	8.03	9.54	7.17	9.63	9.37	7.65
Mar 91	6.12	5.90	5.92	6.00	6.45	6.48	6.12	9.00	7.35	8.11	8.29	9.58	7.32	9.81	9.50	7.47
Apr 91	5.91	5.65	5.71	5.85	6.06	6.08	5.89	9.00	7.23	8.04	8.21	9.46	7.24	9.75	9.49	7.38
May 91	5.78	5.46	5.61	5.76	5.91	5.91	5.60	8.50	7.12	8.07	8.27	9.45	7.13	9.73	9.47	7.22
Jun 91	5.90	5.57	5.75	5.96	6.07	6.06	5.49	8.50	7.39	8.28	8.47	9.53	7.30	9.93	9.62	7.24
Jul 91	5.82	5.58	5.70	5.91	5.98	5.98	5.46	8.50	7.38	8.27	8.45	9.55	7.18	9.79	9.57	7.23
Aug 91	5.66	5.33	5.39	5.45	5.65	5.72	5.38	8.50	6.80	7.90	8.14	9.25	7.05	9.44	9.24	7.08
Sep 91	5.45	5.21	5.25	5.26	5.47	5.57	5.24	8.20	6.50	7.65	7.95	9.05	6.97	9.18	9.01	6.87
Oct 91	5.21	4.99	5.04	5.04	5.33	5.29	5.03	8.00	6.23	7.53	7.93	9.02	6.89	9.04	8.86	6.71
Nov 91	4.81	4.56	4.61	4.64	4.94	4.95	4.82	7.58	5.90	7.42	7.92	8.95	6.89	8.86	8.71	6.42
Weekly																
Aug 28 91	5.58	5.36	5.40	5.43	5.64	5.71	5.31	8.50	6.73	7.86	8.11	9.17	7.00	9.38	9.15	6.96
Sep 4 91	5.60	5.32	5.35	5.38	5.60	5.73	5.26	8.50	6.65	7.80	8.04	9.11	7.02	9.33	9.14	6.93
Sep 11 91	5.56	5.28	5.30	5.32	5.55	5.65	5.26	8.50	6.61	7.76	8.03	9.04	7.00	9.18	9.02	6.87
Sep 18 91	5.44	5.19	5.22	5.24	5.42	5.51	5.21	8.07	6.50	7.64	7.94	9.01	6.95	9.11	8.95	6.83
Sep 25 91	5.29	5.19	5.24	5.24	5.40	5.49	5.18	8.00	6.43	7.57	7.90	8.96	6.91	9.09	8.92	6.83
Oct 2 91	5.33	5.11	5.14	5.13	5.46	5.50	5.16	8.00	6.30	7.49	7.84	8.93	6.87	9.03	8.87	6.74
Oct 9 91	5.19	5.02	5.08	5.07	5.34	5.31	5.08	8.00	6.21	7.44	7.83	9.02	6.90	9.02	8.82	6.74
Oct 16 91	5.28	4.99	5.03	5.03	5.30	5.26	5.02	8.00	6.22	7.50	7.91	9.04	6.91	9.02	8.82	6.71
Oct 23 91	5.24	5.04	5.09	5.11	5.34	5.28	5.02	8.00	6.29	7.61	8.04	9.12	6.93	9.11	8.91	6.66
Oct 30 91	5.10	4.92	4.97	4.97	5.30	5.26	4.97	8.00	6.21	7.59	7.98	8.98	6.86	8.86	8.78	6.58
Nov 6 91	5.05	4.74	4.78	4.78	5.05	5.04	4.93	7.93	6.02	7.50	7.96	8.92	6.87	8.81	8.76	6.46
Nov 13 91	4.74	4.63	4.70	4.72	4.96	4.95	4.81	7.50	5.97	7.41	7.87	8.87	6.86	8.80	8.69	6.40
Nov 20 91	4.89	4.56	4.61	4.63	4.94	4.96	4.78	7.50	5.87	7.35	7.86	9.04	6.91	8.87	8.63	6.34
Nov 27 91	4.68	4.41	4.48	4.52	4.87	4.90	4.70	7.50	5.82	7.42	7.97	8.98	6.93	8.94	8.70	6.34
Dec 4 91	4.79	4.35	4.37	4.42	4.84	5.10	4.66	7.50	5.68	7.29	7.90	8.80	6.96	8.71	8.62	6.29
Dec 11 91	4.54	4.21	4.21	4.27	4.57	5.00	4.63	7.50	5.52	7.22	7.80	8.76	6.90	8.67	8.53	6.23
Daily																
Dec 6 91	4.52	4.24	4.22	4.30	4.61	5.02	--	7.50	5.58	7.26	7.78	--	--	--	--	--
Dec 12 91	4.57	4.15	4.16	4.24	4.46	4.91	--	7.50	5.43	7.19	7.77	--	--	--	--	--
Dec 13 91	4.37p	4.15	4.17	4.22	4.46	4.90	--	--	5.46	7.22	7.79	--	--	--	--	--

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 major institutional lenders. Column 16 is the average initial contract rate on new commitments for 1-year, adjustable-rate mortgages (ARMs) at major institutional lenders offering both FRMs and ARMs with the same number of discount points.

p - preliminary data

Money and Credit Aggregate Measures

Seasonally adjusted

DEC. 16, 1991

Period	Money stock measures and liquid assets					L	Bank credit total loans and investments	Domestic nonfinancial debt ¹		
	M1	M2	nontransactions components		M3			U.S. government ¹	other ¹	total ¹
			in M2	in M3 only						
	1	2	3	4	5	6	7	8	9	10
ANN. GROWTH RATES (%) :										
ANNUALLY (Q4 TO Q4)										
1988	4.2	5.2	5.5	10.7	6.3	7.2	7.7	8.0	9.5	9.2
1989	0.6	4.7	6.1	-0.6	3.6	4.8	7.5	7.5	7.8	7.7
1990	4.2	3.8	3.7	-6.4	1.7	1.9	5.4	11.0	5.3	6.6
QUARTERLY AVERAGE										
1990-4th QTR.	3.4	2.0	1.5	-3.6	0.9	1.8	2.9	11.6	3.7	5.6
1991-1st QTR.	5.9	3.4	2.6	6.4	4.0	3.3	2.7	11.9	2.6	4.8
1991-2nd QTR.	7.3	4.7	3.9	-10.5	1.8	-2.4	2.7	5.6	3.4	3.9
1991-3rd QTR.	6.8	-0.5	-3.0	-11.3	-2.5	0.2	1.4	13.7	2.4	5.2
MONTHLY										
1990-NOV.	3.1	-0.3	-1.4	0.3	-0.2	1.3	1.3	16.2	2.7	5.9
DEC.	3.1	1.5	1.0	-2.0	0.8	1.5	3.1	12.9	1.7	4.4
1991-JAN.	1.9	1.3	1.1	14.2	3.8	4.0	-1.0	10.2	1.6	3.7
FEB.	14.1	8.4	6.6	18.6	10.4	6.5	6.3	14.3	4.0	6.5
MAR.	9.5	7.4	6.7	-18.2	2.5	0.1	6.7	5.4	4.2	4.5
APR.	-1.3	3.0	4.4	-9.2	0.6	-7.9	0.1	-3.3	3.4	1.7
MAY	13.5	4.4	1.4	-15.7	0.7	-5.2	-0.6	10.3	2.8	4.6
JUNE	9.6	1.6	-1.1	-18.5	-2.2	5.6	5.5	14.9	2.0	5.2
JULY	1.5	-4.0	-5.9	-9.9	-5.1	0.9	0.0	12.0	2.2	4.7
AUG.	9.2	-0.1	-3.2	-4.7	-0.9	-2.1	-0.7	15.8	2.5	5.8
SEP.	5.4	0.0	-1.9	-11.0	-2.0	-2.5	3.2	13.8	3.4	6.0
OCT.	12.6	2.3	-1.1	-4.7	1.1	3.6	6.8	14.3	3.2	6.0
NOV. p	15.2	4.5	0.7	-4.5	2.8		6.3	11.4	2.9	5.0
LEVELS (\$BILLIONS) :										
MONTHLY										
1991-JULY	859.5	3389.2	2529.7	758.1	4147.3	4983.3	2763.3	2671.9	8032.1	10704.0
AUG.	866.1	3389.0	2522.9	755.1	4144.2	4974.5	2761.6	2707.0	8048.8	10755.8
SEP.	870.0	3389.0	2518.9	748.2	4137.2	4964.2	2768.9	2738.1	8071.5	10809.6
OCT.	879.1	3395.6	2516.6	745.3	4141.0	4978.9	2784.5	2770.8	8092.8	10863.6
NOV. p	890.2	3408.2	2518.0	742.5	4150.7		2799.1	2797.2	8112.1	10909.3
WEEKLY										
1991-NOV. 4	883.8	3398.1	2514.2	741.4	4139.5					
11	885.4	3403.8	2518.4	743.2	4147.1					
18	888.9	3409.4	2520.5	741.8	4151.2					
25 p	890.4	3411.4	2521.0	744.0	4155.4					
DEC. 2 p	901.9	3414.9	2513.0	741.4	4156.3					

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

Components of Money Stock and Related Measures

seasonally adjusted unless otherwise noted

DEC. 16, 1991

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA ¹	Savings deposits ²	Small denomination time deposits ³	Money market mutual funds		Large denomination time deposits ⁴	Term RPs NSA ⁵	Term Eurodollars NSA ⁵	Savings bonds	Short-term Treasury securities	Commercial paper ⁵	Bankers acceptances
							general purpose and broker/dealer ¹	Institutions only							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
LEVELS (\$BILLIONS) :															
ANNUALLY (4TH QTR.)															
1988	210.8	287.3	280.1	83.4	930.3	1022.4	237.5	86.7	538.8	123.2	102.8	108.8	266.8	326.6	40.5
1989	220.9	278.9	282.9	76.1	884.9	1142.4	308.9	101.4	565.0	106.6	80.2	116.8	321.5	350.4	40.4
1990	245.1	277.1	292.8	78.6	917.6	1162.5	343.0	121.9	511.6	93.2	70.5	125.2	333.2	359.1	33.8
MONTHLY															
1990-NOV.	245.0	277.2	292.8	77.8	917.8	1161.8	341.9	120.5	512.5	95.1	70.0	125.2	333.8	359.0	34.0
DEC.	246.4	276.9	293.8	74.3	916.7	1164.2	345.4	125.7	507.1	89.4	71.4	126.0	335.4	359.4	34.7
1991-JAN.	251.6	272.9	293.9	71.5	917.1	1163.8	354.0	130.1	511.9	87.3	71.9	126.7	333.2	363.2	36.0
FEB.	255.1	276.1	296.9	70.4	926.9	1162.5	358.4	139.3	516.0	85.8	72.6	127.8	331.4	355.9	35.2
MAR.	256.7	277.1	301.0	69.5	939.7	1158.0	364.0	142.0	511.5	82.0	71.1	128.9	327.8	353.0	32.4
APR.	256.6	275.8	301.9	70.1	953.8	1149.4	365.1	145.6	507.3	80.8	68.2	130.1	307.6	338.6	30.7
MAY	256.8	278.7	308.1	68.9	969.2	1138.9	366.5	146.2	503.9	79.5	65.4	131.4	299.6	323.7	28.8
JUNE	257.6	281.0	311.9	68.5	981.0	1126.6	366.3	143.3	498.7	77.0	64.8	132.5	326.8	327.3	27.7
JULY	258.9	278.9	314.1	65.3	990.0	1115.3	361.4	141.8	491.2	78.2	65.8	133.5	337.5	337.2	27.8
AUG.	260.8	279.8	317.9	67.9	996.2	1106.6	355.0	144.8	484.7	78.2	66.4	134.4	335.1	333.8	27.0
SEP.	262.4	279.3	320.5	67.1	1002.7	1098.3	351.6	149.3	476.7	77.1	63.9	135.3	329.7	337.0	25.0
OCT.	264.4	282.6	324.1	69.3	1013.2	1085.2	350.3	155.4	467.0	75.9	62.8	136.2	334.0	343.0	24.8
NOV. p	265.3	287.5	329.4	71.4	1025.0	1071.1	348.8	161.0	460.0	75.5	61.5				

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

NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES¹
 Millions of dollars, not seasonally adjusted

December 13, 1991

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					
1988	7,635	2,200	5,435	2,176	4,685	1,404	1,398	--	9,665	587	14,513	1,557
1989	1,468	12,730	-11,263	327	946	258	284	500	1,315	442	-10,390	-1,683
1990	17,448	4,400	13,048	425	50	-100	--	--	375	183	13,240	11,128
1990 --Q1	-3,790	1,400	-5,190	100	100	--	--	--	200	--	-5,000	-4,061
--Q2	10,892	--	10,892	--	150	--	--	--	150	78	10,964	509
--Q3	5,115	--	5,115	--	--	--	--	--	--	70	5,045	-2,124
--Q4	5,241	3,000	2,241	325	-200	-100	--	--	25	35	2,230	16,805
1991 --Q1	2,160	1,000	1,160	800	2,950	400	--	--	4,150	--	5,310	-16,964
--Q2	4,356	--	4,356	900	550	--	--	--	1,450	91	5,715	992
--Q3	7,664	--	7,664	1,165	650	--	--	--	1,815	55	9,419	152
1990 December	-2,350	3,000	-5,350	--	-200	-100	--	--	-300	1	-5,651	13,839
1991 January	-120	1,000	-1,120	--	--	--	--	--	--	--	-1,120	-944
February	1,967	--	1,967	100	--	350	--	--	450	--	2,417	-1,127
March	313	--	313	700	2,950	50	--	--	3,700	--	4,013	-14,793
April	908	--	908	700	550	--	--	--	1,250	91	2,067	1,370
May	3,411	--	3,411	200	--	--	--	--	200	--	3,611	-1,153
June	37	--	37	--	--	--	--	--	--	--	37	775
July	1,359	--	1,359	625	--	--	--	--	625	55	1,929	71
August	5,776	--	5,776	340	--	--	--	--	340	--	6,116	-2,134
September	529	--	529	200	650	--	--	--	850	--	1,374	2,216
October	2,198	--	2,198	--	--	--	--	--	--	14	2,185	6,942
November	3,023	--	3,023	202	1,916	880	--	--	2,998	50	5,972	-8,871
Weekly												
September 4	4,093	--	4,093	--	--	--	--	--	--	--	4,093	10,301
11	15	--	15	--	175	--	--	--	175	--	185	-11,482
18	179	--	179	200	450	--	--	--	650	--	829	15,116
25	--	--	--	--	25	--	--	--	25	--	25	-15,745
October 2	--	--	--	--	--	--	--	--	--	--	--	1,027
9	--	--	--	--	--	--	--	--	--	--	--	-2,429
16	--	--	--	--	--	--	--	--	--	3	-3	6,347
23	--	--	--	--	--	--	--	--	--	10	-10	-5,179
30	--	--	--	--	--	--	--	--	--	--	--	914
November 6	2,438	--	2,438	--	--	100	--	--	100	--	2,538	2,650
13	626	--	626	--	350	--	--	--	350	--	977	9,016
20	671	--	671	--	--	400	--	--	400	--	1,071	-11,969
27	1,287	--	1,287	--	400	--	--	--	400	50	1,637	1,550
December 4	593	--	593	202	1,166	380	--	--	1,748	--	2,342	535
11	444	--	444	--	200	--	--	--	200	--	644	1,985
Memo: LEVEL (bil. \$) ⁶												
December 11			138.7	31.1	63.5	14.5	24.5		133.6		278.6	-2.8

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 exchange for maturing bills. Excludes maturity shifts and rollovers of maturing issues.

4. Reflects net change in redemptions (-) of Treasury and agency securities.

5. Includes change 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
2.3	2.5	1.0	0.2	6.0

December 11