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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

August 16, 1991

MONETARY POLICY ALTERNATIVES

Recent Developments

(1) In the weeks immediately after the July FOMC meeting, the Desk sought to maintain existing reserve pressures, basing reserve targets initially on an allowance for adjustment plus seasonal borrowing of \$325 million and expecting federal funds to continue to trade around 5-3/4 percent. Through early August, the federal funds rate averaged close to this expected level.¹ Reserve conditions were eased slightly on August 6 in response to data that raised questions about the strength of the recovery, to indications of abating price pressures, and to substantial declines in M2 and M3 that brought these aggregates close to the lower bounds of their annual ranges. In that action, the borrowing allowance was reduced \$25 million, with the expectation that the federal funds rate would trade around 5-1/2 percent. Federal funds have averaged a bit above this level in recent days.²

(2) In response to downward revisions in market expectations about aggregate demand and price pressures, as well as to the policy easing, market interest rates have declined appreciably since the July FOMC meeting. On balance, most market interest rates fell 30 to 70

1. By late July, the borrowing allowance had been raised in two steps to \$400 million to account for expected increases in seasonal borrowing.

2. In the three maintenance periods completed since the July meeting, borrowing averaged about \$590 million, above the allowance, with part of the overage reflecting special situation borrowing and part reflecting difficulties injecting adequate nonborrowed reserves after sizable revisions to reserve estimates late in maintenance periods. Borrowing thus far in the current maintenance period has averaged \$334 million.

basis points over the intermeeting period; the largest declines were in the intermediate-term area, suggesting that the market focused on the prospects that a somewhat smaller rise in interest rates over the next few years would be consistent with moderate economic expansion. The prime rate, however, remains at 8-1/2 percent, widening bank lending margins. Despite the weaker economic picture, private rates fell as much or even more than Treasury yields and broad stock indexes rose 1 to 4 percent, perhaps responding to the changed interest rate outlook. Spreads on below-investment grade debt were relatively stable even though insurance companies, traditional lenders in this sector, reportedly have become very selective as they attempt to strengthen their balance sheets and boost liquidity in view of the industry's asset quality problems and worries about runs. Lower interest rates and announcements of bank mergers bolstered the securities prices of large banks: The spread between Eurodollar and Treasury bill rates fell about 15 basis points, reaching unusually low levels, and indexes of bank stock prices surged almost 20 percent.

(3) The exchange value of the dollar depreciated 3 percent on a weighted average basis since the last Committee meeting, declining more against the mark, 3-1/2 percent, than against the yen, 1 percent.

. More fundamentally, changes in exchange rates reflected shifting expectations about relative monetary policies here and in Germany, which tended to be confirmed by subsequent actions. On August 15, the Bundesbank raised its discount rate by 1 percentage point and its Lombard rate by 1/4 percentage point; the latter was less than had been anticipated by the market, and in reaction the dollar retraced a portion of its previous decline. Over the intermeeting period, German short-term interest

rates rose 20 basis points; long-term rates were little changed. Japanese short- and long-term interest rates declined about 30 basis points. (The Bank of Japan had reduced its discount rate 1/2 percentage point just prior to the July FOMC meeting.)

(4) The broad monetary aggregates were quite weak in July, with M2 and M3 contracting at 3-3/4 and 4-1/2 percent rates, respectively. Data through early August show M2 about flat and M3 declining further, leaving them around the lower bounds of their annual ranges. Growth of transactions deposits fell off in July, pulling the expansion of M1 down to a 1-3/4 percent rate, but appears to be rebounding in early August, and M1 seems on track to register a strong increase this quarter.³ The nontransactions component of M2, which has been decelerating steadily since March, contracted in June and ran off at a faster rate last month. At the M3 level, declines in M2 were augmented by continued runoffs of large time deposits, as bank credit growth weakened and thrift assets dropped.

(5) Substantial downward revisions to projected nominal income this quarter explain some--but not all--of the weakness in M2 relative to expectations at the last meeting. Even if income comes in

3. Reflecting the deceleration of M1 last month, growth of required reserves and total reserves fell to 4-1/2 and 1-3/4 percent rates, respectively, in July. Nonborrowed reserves contracted at a 3-3/4 percent rate as adjustment and seasonal borrowing rose.

somewhat lower than the current estimate, other factors also must be at work to explain the large shortfall in M2. To a degree, the recent weakness of M2 appears to reflect low yields on M2 instruments, both relative to those to which depositors had become accustomed and--given the steep yield curve--relative to returns on capital market instruments. Supporting this view are increases in noncompetitive tenders at Treasury auctions and anecdotal reports that households continued to invest heavily in bond and equity mutual funds last month. Bank retail CD rates have continued to drop relative to market rates. Among senior financial officers at banks surveyed, a significant portion of those reporting weak deposit growth had bid less aggressively for deposits in the last few months. The recent declines in consumer credit also suggest the wide spreads between returns on deposits and rates on consumer loans may be leading households to pay down debts with liquid assets and to finance expenditures out of savings rather than taking on additional debt. However, household credit flows are in line with model predictions based on historical relationships to spending, and observable flows into capital market instruments fall well short of accounting for the shortfall in M2. A complete explanation for the recent performance of M2 is elusive.

(6) Private credit growth likely was quite weak again in July: Bank loans declined at a 5 percent annual rate, public bond offerings by nonfinancial business dropped well below their second-quarter pace, and municipal security issuance ebbed. The overall sluggishness likely owed predominantly to continued slack demand for credit. Credit supply effects may have been a factor restraining debt growth, too, but whether these effects have intensified recently is an open question. The already-wide spreads between the prime rate and banks' cost of funds have increased further, and insurance companies have become more cautious in their lending. Responses to the latest

survey of senior loan officers show that the extent of credit tightening is waning appreciably, and most quality spreads in open markets are remarkably narrow. Thus far in August, bond markets have absorbed a surge in supply from both corporate and municipal issuers in response to the further drop in yields. In July, total debt growth appears to have been sustained at roughly a 5 percent rate, supported by heavy borrowing by the federal government, leaving domestic non-financial sector debt near the lower end of its monitoring range.

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

	June	July	QIV '90 to July
<u>Money and credit aggregates</u>			
M1	9.6	1.8	6.6
M2	1.4	-3.7	2.8
M3	-2.1	-4.6	1.4
Domestic nonfinancial debt	5.6	5 ^{pe}	4-1/2 ^{pe}
Bank credit	3.5	0.2	2.2
<u>Reserve measures</u>			
Nonborrowed reserves ¹	5.9	-3.7	5.6
Total reserves	8.7	1.8	6.4
Monetary base	3.8	5.5	8.1
Memo: (Millions of dollars)			
Adjustment plus seasonal borrowing	332	561	--
Excess reserves	1008	897	--

pe--preliminary estimate.

1. 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

(7) Two alternatives are presented below for Committee consideration. Under alternative B, federal funds would continue to trade around 5-1/2 percent, at the discount rate, in association with adjustment plus seasonal borrowing of \$375 million.⁴ Under alternative A, the federal funds rate would decline to 5 percent. The money market conditions of this alternative could be achieved through a reduction in borrowing to \$325 million or through a 1/2 percentage point cut in the discount rate, holding borrowing at \$375 million. There are no technical impediments to an easing of policy through open market operations alone--dropping the federal funds rate 50 basis points below the discount rate--although a little more volatility in the funds rate likely would be a by-product, as the discount window became a less effective buffer of reserve market disturbances.

(8) Money growth projections under the two alternatives are presented below. (More detailed data appear in the table and charts on the following pages.) M2 under both alternatives is expected to decline less rapidly in August and to resume growing in September, although unexplained recent weakness adds to uncertainty about the extent of the rebound. The recent easing of policy and a pickup in nominal income growth are expected to boost M2 demands in the period just ahead. In addition, as portfolios become more fully adjusted to the steep yield curve, outflows from M2 should diminish; the recent drop in intermediate-term relative to short-term rates also would tend to damp outflows to shorter maturity bond funds. Nonetheless, growth

4. Based on past patterns, demands for seasonal credit are expected to drift lower over the intermeeting period. However, such demands are more uncertain than normal, given that the rate advantage favoring seasonal credit has essentially disappeared.

in M2 over the June-to-September period will be well below that specified at the July FOMC meeting, and in September this aggregate would be near the lower end of its annual range. In this projection, M2 does not recoup any of its recent shortfall; instead, growth of M2 is assumed to move toward a more normal alignment with growth of income and changes in interest rates, albeit with some continuing weakness relative to model projections. Further declines in depository credit will continue to restrain M2 and especially M3. Even with the modest growth projected for M3 in September, this aggregate would decline over the June-to-September period, instead of expanding at a 3 percent rate as specified in the July directive, and would end up only about 1-1/4 percent at an annual rate above its fourth-quarter 1990 base. M1, in contrast, is expected to expand briskly in August and September. A failure of M2 and M3 to pick up over the intermeeting period would raise additional concerns about the strength of the recovery--in particular, whether spending was increasing as expected, and whether financial conditions, including credit availability, were compatible with a sustained expansion of the economy.

	<u>Alt. A</u>	<u>Alt. B</u>
Growth from June to September		
M2	0	-1/2
M3	-1-1/4	-1-1/2
M1	6-1/4	5-1/2
Implied growth from 1990:Q4 to September		
M2	2-3/4	2-1/2
M3	1-1/4	1-1/4
M1	7	7

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 April	3382.7	3382.7	4170.8	4170.8	842.1	842.1
May	3394.6	3394.6	4172.6	4172.6	851.6	851.6
June	3398.6	3398.6	4165.3	4165.3	858.4	858.4
July	3388.0	3388.0	4149.3	4149.3	859.7	859.7
August	3385.6	3385.2	4143.8	4143.4	865.7	865.5
September	3398.6	3395.6	4152.9	4151.0	871.9	870.4
Monthly Growth Rates						
1991 April	2.8	2.8	0.5	0.5	-1.3	-1.3
May	4.2	4.2	0.5	0.5	13.5	13.5
June	1.4	1.4	-2.1	-2.1	9.6	9.6
July	-3.7	-3.7	-4.6	-4.6	1.8	1.8
August	-0.8	-1.0	-1.6	-1.7	8.4	8.1
September	4.6	3.7	2.6	2.2	8.6	6.8
Quarterly Ave. Growth Rates						
1990 Q3	3.0	3.0	1.6	1.6	3.7	3.7
Q4	2.0	2.0	0.9	0.9	3.4	3.4
1991 Q1	3.4	3.4	4.0	4.0	5.9	5.9
Q2	4.6	4.6	1.8	1.8	7.3	7.3
Q3	-0.1	-0.3	-2.0	-2.1	7.1	6.8
Mar 91 to June 91	2.8	2.8	-0.3	-0.3	7.3	7.3
June 91 to Sept 91	0.0	-0.4	-1.2	-1.4	6.3	5.6
July 91 to Sept 91	1.9	1.3	0.5	0.2	8.5	7.5
Q4 90 to Q2 91	4.0	4.0	2.9	2.9	6.7	6.7
Q4 90 to Q3 91	2.6	2.6	1.3	1.2	6.9	6.8
Q4 90 to July 91	2.8	2.8	1.4	1.4	6.6	6.6
Q4 90 to Aug 91	2.4	2.4	1.1	1.1	6.9	6.8
Q4 90 to Sept 91	2.7	2.5	1.3	1.2	7.1	6.9
1991 Target Ranges:	2.5 to 6.5		1.0 to 5.0			

Chart 1
ACTUAL AND TARGETED M2

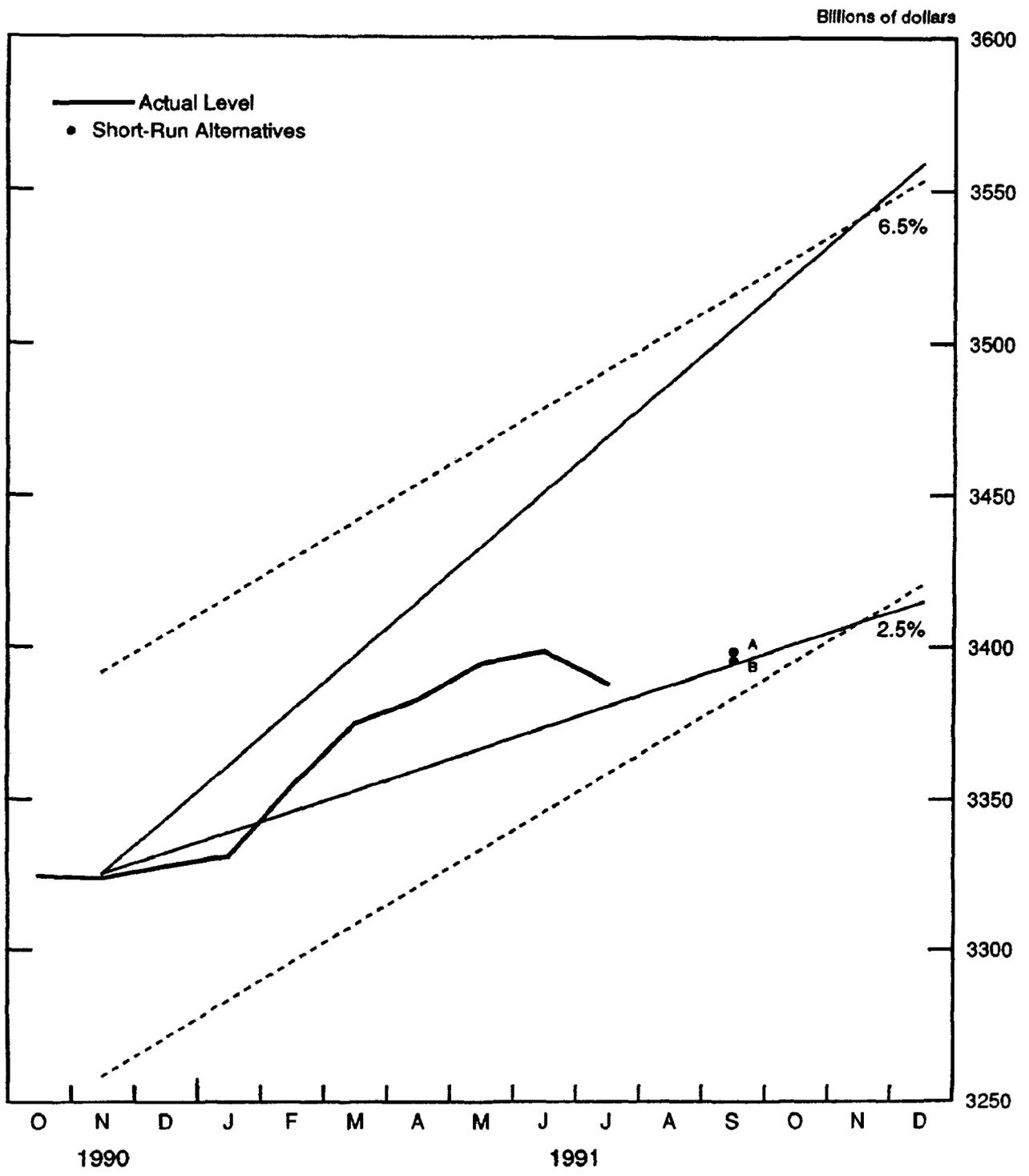


Chart 2
ACTUAL AND TARGETED M3

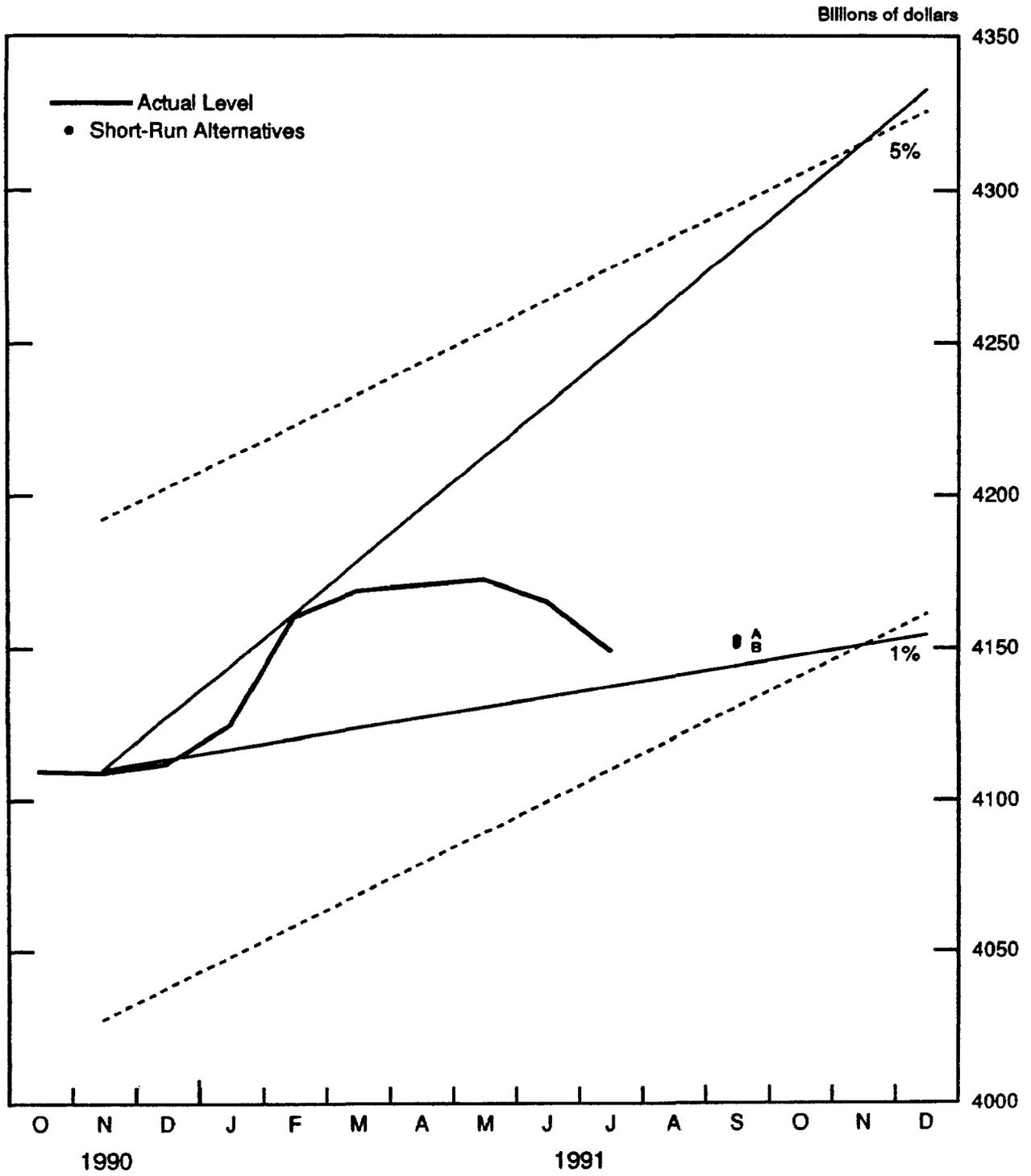


Chart 3
M1

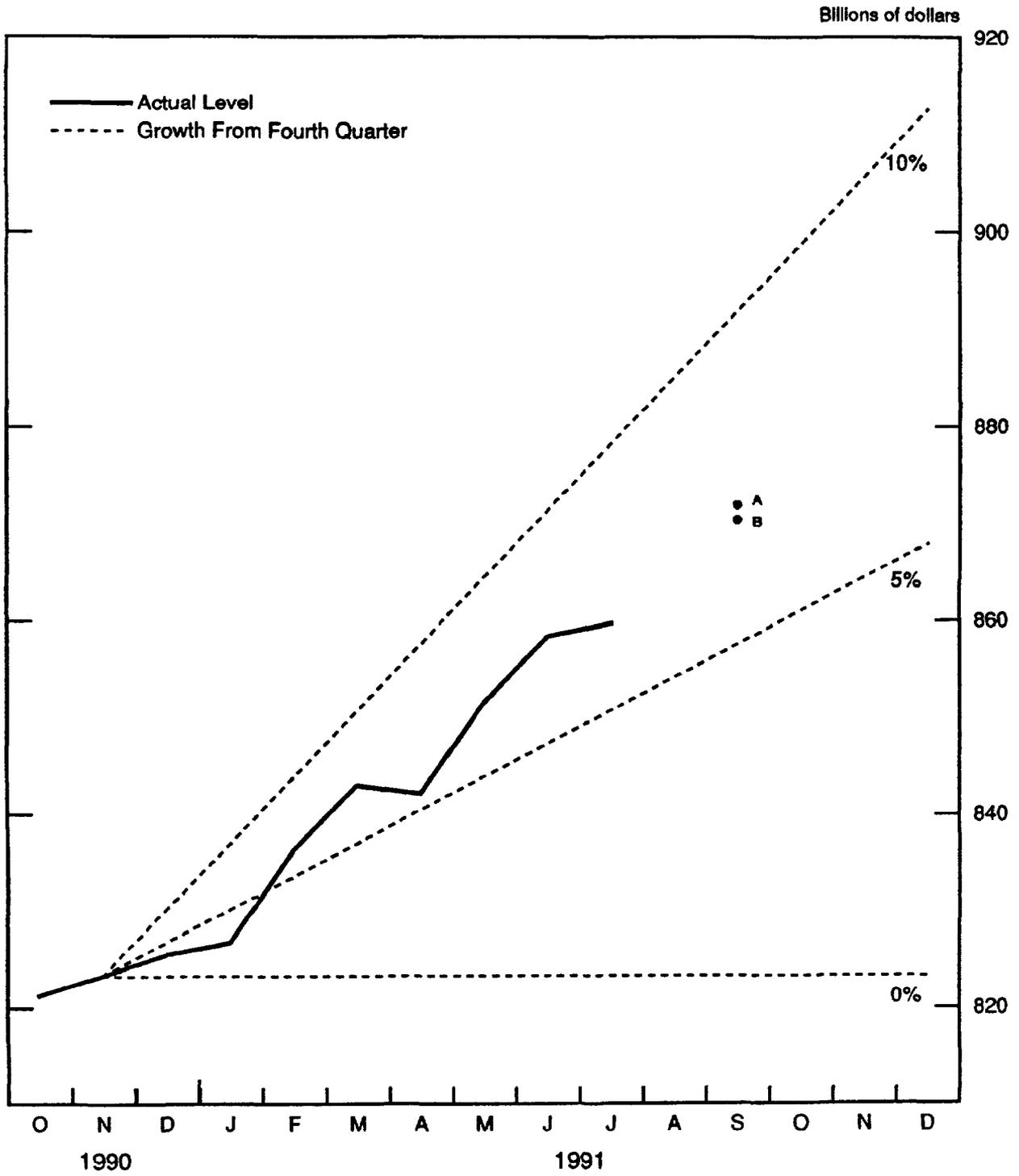
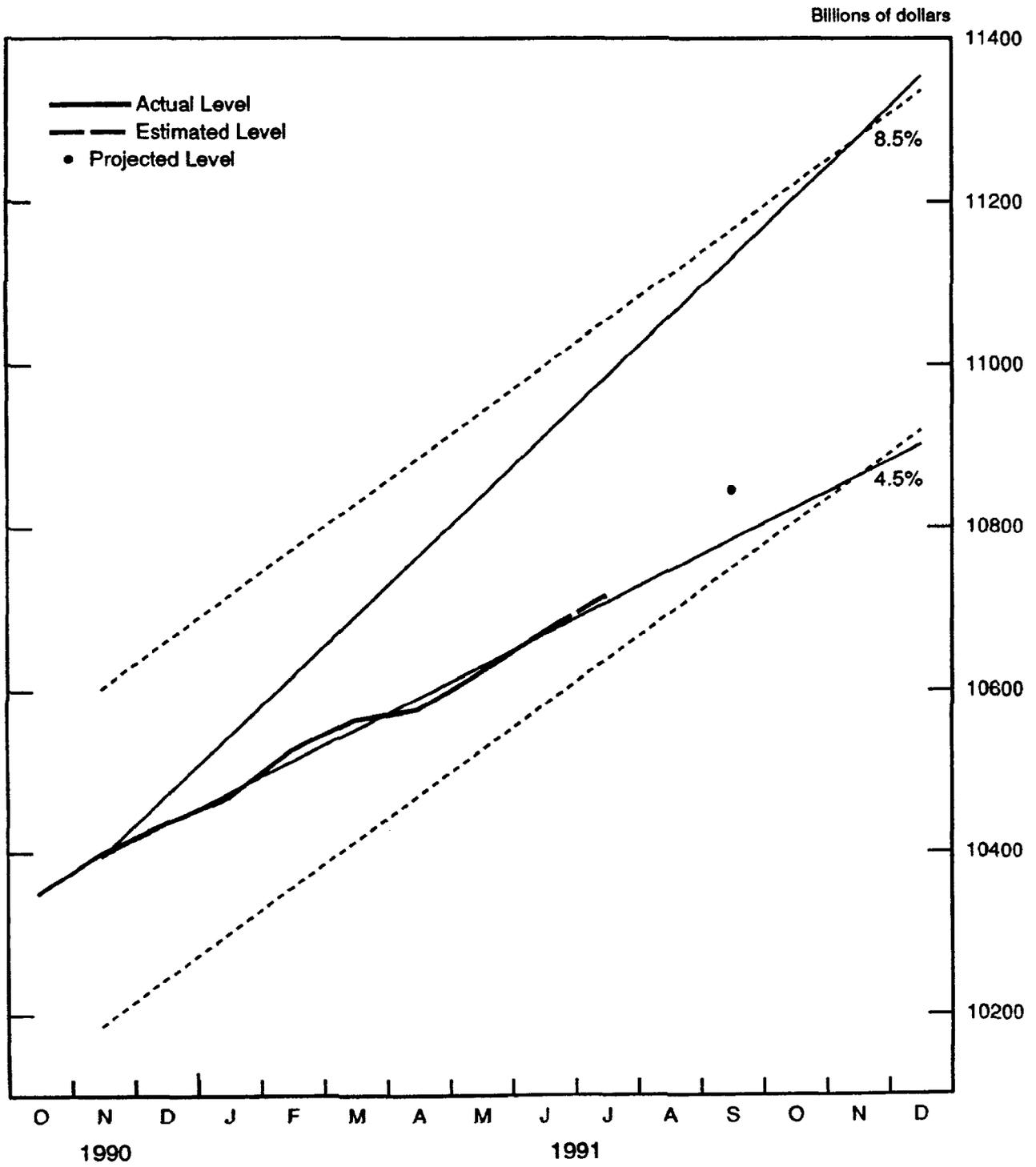


Chart 4
DEBT



(9) In light of persistent weakness in the broader monetary aggregates and other indicators pointing to a sluggish recovery, markets currently see a distinct possibility of some further easing of policy in the weeks ahead. With reserve market pressures unchanged, as under alternative B, rates might firm a touch. Such a firming would further diminish prospects for a cut in the prime rate. The extent of any backup in rates, though, would depend on incoming information: Indeed, rates might remain near current levels should M2 run along the lower band of its annual range, as the staff expects, and if new information casts further doubts on the strength of the recovery. Should pressures on insurance companies mount, quality spreads on lower-rated corporate debt could widen as insurers curtail lending to this segment of the market. The dollar likely would trade around current levels under alternative B, but could firm a notch if U.S. interest rates were to back up.

(10) The 1/2 percentage point drop in the funds rate contemplated under alternative A is larger than the easing of policy currently anticipated in the markets; thus, short-term rates are likely to move down under this alternative--but not by as much as the cut in the funds rate--with the three-month bill rate drifting to near 5 percent. If this alternative were implemented through open market operations alone, bringing the funds rate well below the discount rate, market participants might speculate about the need for a discount rate cut, and whether such a cut would be accompanied by an additional easing. The prime rate likely would decline by the 50 basis point drop in the funds rate, leaving the spread over funding costs at a historically high level. Bond rates initially would decrease a bit, but such declines might erode should incoming information suggest that the economic recovery is more solidly under way.

along the lines of the staff forecast. The dollar would decline on foreign exchange markets.

(11) Under alternative B, M2 would be expected to increase over the balance of the quarter. On a monthly average basis, the sizable decline in M2 in July would be followed by a small drop in August and a 4 percent rate of expansion in September. Absent a subsequent change in policy, M2 would be expected to continue to increase at about a 4 percent pace over the fourth quarter, as the anticipated strengthening of income offsets the waning effects of earlier declines in rates; growth for the year would be 2-3/4 percent. The recent easing would be expected to have its greatest effect on liquid deposits, whose offering rates adjust especially sluggishly. M1 is projected to increase at a 7-1/2 percent rate in August and September, while outflows from the nontransactions component of M2 would ebb. On a quarterly average basis, M2 would be about flat in the third quarter--well below the growth predicted by models of money demand incorporating the staff's economic forecast--and its velocity would rise at a 5 percent rate. M1, in contrast, would grow at nearly a 7 percent annual rate in the current quarter and its velocity would fall at a 2 percent rate.

(12) M3 would resume growing in September under alternative B, albeit at just a 2-1/4 percent pace. Still, on a quarterly average basis, M3 would fall at a 2 percent rate, its first quarterly decline in more than two decades. Contributing to the expected September turnaround in M3 is the pickup in M2 and a resumption of flows to institution-only money funds, prompted by recent declines in market rates. On the other hand, acting to hold down M3 growth in the months ahead will be further large decreases in thrift assets owing in part to fairly brisk RTC resolution activity. Moreover, banks remain quite reluctant to lend, as suggested by recent senior loan officer survey

results and the unusually high prime rate in relation to funding costs, and banks involved in mergers could, given various uncertainties during the consolidation phase, be making more cautious credit decisions. In addition, credit demands are expected to stay light. Weak capital spending and fairly strong equity issuance will be acting to hold down business credit demands in the months ahead. With bond yields down and rate spreads quite narrow, investment-grade borrowers are expected to continue to rely heavily on the bond market for funds. Lower-rated firms, more dependent on banks and private placements with insurance companies, however, are likely to encounter continued difficulties in getting credit. Borrowing by state and local governments should remain light as these units struggle with budgetary shortfalls and debt downgradings. Household borrowing is expected to strengthen a bit as single-family housing activity and consumption outlays continue to firm. Growth of debt of domestic nonfinancial sectors other than the federal government, while picking up a bit, is expected to remain at depressed levels. In contrast, federal borrowing will be robust as deposit insurance outlays remain substantial. Total debt of domestic nonfinancial sectors is expected to grow at around a 7 percent rate over August and September, leaving this aggregate in the lower portion of its monitoring range in September.

(13) The easing of monetary policy under alternative A would boost M2 to a 4-1/2 percent annual rate of expansion in September and the pace would firm further in the fourth quarter, lifting growth of this aggregate for the year to around 3 percent. Pacing M2 next month would be an 8-1/2 percent rate of growth in its M1 component and more rapid expansion in its other liquid deposits, whose opportunity costs would diminish still further. The opening of even larger intermediation spreads on some credits would enhance bank efforts to raise capital and encourage bankers to pursue more lending opportunities. With

a little more bank credit to fund and larger inflows to institution-only money funds, M3 would pick up to a 2-1/2 percent pace in September and remain around that rate early in the fourth quarter.

Directive Language

(14) Draft language for the operational paragraph, including the usual options, is shown below. Two versions are presented. The first retains the structure of the current directive, but it includes possible changes in the sentence on monetary growth. The proposed language would highlight the unusual decline in money thus far this quarter and the expectation that the broad aggregates will resume growing in the weeks ahead. In light of the current weakness of these aggregates in relation to their ranges, the Committee may wish to give special emphasis to the aggregates in the directive, at least in the period ahead. In that case, a second version is provided that enhances the role of the aggregates in guiding intermeeting changes. However, this version might be viewed as less relevant if the Committee decides to ease at this meeting.

OPERATIONAL PARAGRAPH

Version I

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, somewhat (SLIGHTLY) greater reserve restraint (MIGHT/WOULD) or somewhat (SLIGHTLY) lesser reserve restraint might (WOULD) be acceptable in the intermeeting period. The contemplated reserve conditions

are expected to be consistent with A RESUMPTION OF growth of M2 and M3 IN THE WEEKS AHEAD, BUT IN VIEW OF THE DECLINE ALREADY POSTED SINCE JUNE, THE COMMITTEE ANTICIPATES THAT M2 WOULD BE LITTLE CHANGED AND M3 WOULD BE DOWN ___ PERCENT over the period from June through September at annual rates of about 5-1/2 and 3 percent, respectively.

Version II

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. The contemplated reserve conditions are expected to be consistent with A RESUMPTION OF growth of M2 and M3 IN THE WEEKS AHEAD, BUT IN VIEW OF THE DECLINE ALREADY POSTED SINCE JUNE, THE COMMITTEE ANTICIPATES THAT M2 WOULD BE LITTLE CHANGED AND M3 WOULD BE DOWN ___ PERCENT over the period from June through September at annual rates of about 5-1/2 and 3 percent, respectively. TAKING ACCOUNT OF THE BEHAVIOR OF THE MONETARY AGGREGATES AND 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, somewhat (SLIGHTLY) greater reserve restraint (MIGHT/WOULD) or somewhat (SLIGHTLY) lesser reserve restraint might (WOULD) 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-year	10-year	30-year			secondary market fixed-rate	primary market fixed-rate	ARM
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
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	5.62	5.32	5.39	5.45	5.63	5.68	5.40	8.50	6.84	7.79	7.97	9.18	7.03	9.40	9.19	7.05
Monthly																
Aug 90	8.13	7.45	7.38	7.26	7.97	7.99	7.49	10.00	8.22	8.75	8.86	10.29	7.57	10.41	10.10	8.35
Sep 90	8.20	7.36	7.32	7.24	8.06	8.09	7.47	10.00	8.27	8.89	9.03	10.28	7.72	10.45	10.18	8.28
Oct 90	8.11	7.17	7.16	7.06	8.06	8.04	7.45	10.00	8.07	8.72	8.86	10.23	7.74	10.47	10.18	8.21
Nov 90	7.81	7.06	7.03	6.85	8.03	7.84	7.34	10.00	7.74	8.39	8.54	10.07	7.45	10.25	10.01	8.10
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
Weekly																
May 1 91	5.92	5.57	5.65	5.77	5.98	6.00	5.73	8.93	7.19	8.05	8.21	9.42	7.14	9.73	9.47	7.23
May 8 91	5.79	5.48	5.60	5.74	5.90	5.91	5.65	8.50	7.13	8.03	8.21	9.51	7.09	9.70	9.47	7.23
May 15 91	5.78	5.47	5.61	5.75	5.92	5.92	5.58	8.50	7.13	8.10	8.30	9.43	7.14	9.80	9.50	7.23
May 22 91	5.79	5.44	5.61	5.79	5.92	5.93	5.58	8.50	7.13	8.08	8.29	9.47	7.16	9.74	9.47	7.22
May 29 91	5.72	5.41	5.62	5.74	5.89	5.89	5.52	8.50	7.08	8.09	8.30	9.39	7.13	9.69	9.45	7.17
Jun 5 91	5.91	5.55	5.69	5.84	5.99	5.97	5.51	8.50	7.16	8.11	8.31	9.55	7.24	9.95	9.48	7.24
Jun 12 91	5.75	5.57	5.76	5.99	6.11	6.07	5.48	8.50	7.41	8.29	8.48	9.52	7.36	9.96	9.66	7.22
Jun 19 91	5.78	5.59	5.78	5.98	6.08	6.09	5.48	8.50	7.44	8.32	8.51	9.57	7.31	9.91	9.65	7.24
Jun 26 91	5.79	5.57	5.75	5.97	6.02	6.05	5.48	8.50	7.43	8.32	8.50	9.51	7.30	9.91	9.67	7.25
Jul 3 91	6.34	5.56	5.71	5.98	6.05	6.07	5.50	8.50	7.39	8.27	8.44	9.58	7.24	9.94	9.62	7.25
Jul 10 91	5.79	5.58	5.69	5.94	6.04	6.04	5.46	8.50	7.47	8.35	8.52	9.53	7.19	9.78	9.64	7.22
Jul 17 91	5.85	5.58	5.71	5.90	5.97	5.98	5.47	8.50	7.38	8.28	8.46	9.61	7.17	9.74	9.54	7.23
Jul 24 91	5.75	5.58	5.73	5.91	5.97	5.94	5.46	8.50	7.38	8.28	8.48	9.53	7.13	9.70	9.50	7.21
Jul 31 91	5.79	5.56	5.69	5.85	5.92	5.92	5.44	8.50	7.27	8.20	8.38	9.35	7.10	9.57	9.44	7.22
Aug 7 91	5.83	5.46	5.54	5.66	5.80	5.83	5.44	8.50	7.03	8.04	8.24	9.30	7.07	9.46	9.27	7.14
Aug 14 91	5.62	5.32	5.39	5.45	5.63	5.68	5.40	8.50	6.84	7.93	8.18	9.18	7.03	9.40	9.19	7.05
Daily																
Aug 9 91	5.59	5.32	5.38	5.46	5.62	5.67	..	8.50	6.86	7.98	8.23	..	..	..	..	..
Aug 15 91	5.77	5.30	5.35	5.35	5.61	5.69	..	8.50	6.73	7.84	8.09	..	..	..	..	..
Aug 16 91	5.66 _p	5.26	5.30	5.33	5.58	5.69	..	8.50	6.68 _p	7.84 _p	8.09 _p	..	..	..	..	..

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

AUG. 19, 1991

Period	Money stock measures and liquid assets					Bank credit	Domestic nonfinancial debt ¹			
	M1	M2	nontransactions components		M3	L	total loans and investments	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	1.8	5.4	11.0	5.4	6.7
QUARTERLY AVERAGE										
1990-3rd QTR.	3.7	3.0	2.7	-3.8	1.6	1.9	6.1	14.4	4.8	7.1
1990-4th QTR.	3.4	2.0	1.5	-3.5	0.9	1.7	2.9	11.6	3.7	5.5
1991-1st QTR.	5.9	3.4	2.6	6.7	4.0	3.2	2.7	12.2	2.4	4.8
1991-2nd QTR.	7.3	4.6	3.7	-10.2	1.8	-2.7	2.4	5.4	3.5	4.0
MONTHLY										
1990-JULY	-1.2	1.8	2.7	-2.1	1.0	0.9	5.9	13.9	5.1	7.1
AUG.	8.6	5.1	4.0	0.2	4.1	1.9	9.7	18.9	4.7	8.1
SEP.	7.8	4.4	3.2	-9.7	1.7	5.2	1.5	11.0	5.0	6.4
OCT.	-0.9	1.0	1.6	-3.8	0.1	-0.1	2.6	5.8	3.8	4.3
NOV.	3.1	-0.3	-1.4	0.5	-0.1	1.2	1.3	16.2	2.5	5.8
DEC.	3.1	1.5	1.0	-1.8	0.8	1.4	3.1	12.9	1.5	4.2
1991-JAN.	1.9	1.2	1.0	14.5	3.8	4.0	-1.0	10.4	1.5	3.6
FEB.	14.1	8.4	6.5	18.9	10.4	6.4	6.3	15.2	3.9	6.7
MAR.	9.5	7.4	6.7	-18.0	2.5	-0.2	6.7	5.1	4.1	4.3
APR.	-1.3	2.8	4.1	-8.9	0.5	-8.7	0.0	-4.1	3.2	1.4
MAY	13.5	4.2	1.1	-15.4	0.5	-5.9	-0.7	10.3	3.5	5.2
JUNE	9.6	1.4	-1.3	-17.4	-2.1	7.2	3.5	14.9	2.6	5.6
JULY p	1.8	-3.7	-5.6	-8.5	-4.6		0.2	12.1	2.7	5.0
LEVELS (\$BILLIONS) :										
MONTHLY										
1991-MAR.	843.0	3374.9	2531.9	794.0	4168.9	5008.0	2750.9	2599.7	7964.2	10563.9
APR.	842.1	3382.7	2540.5	788.1	4170.8	4971.7	2751.6	2590.8	7985.4	10576.2
MAY	851.6	3394.6	2542.9	778.0	4172.6	4947.4	2750.0	2613.1	8008.5	10621.6
JUNE	858.4	3398.6	2540.2	766.7	4165.3	4977.2	2758.1	2645.5	8026.1	10671.6
JULY p	859.7	3388.0	2528.3	761.3	4149.3		2758.6	2672.2	8044.2	10716.4
WEEKLY										
1991-JULY 1	861.8	3396.6	2534.9	754.8	4151.5					
8	856.7	3390.5	2533.8	760.8	4151.3					
15	857.5	3391.1	2533.6	763.0	4154.1					
22	859.9	3385.7	2525.8	762.1	4147.8					
29 p	864.3	3386.0	2521.7	762.0	4148.0					
AUG. 5 p	867.6	3387.2	2519.6	755.2	4142.4					

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

AUG. 19, 1991

Period	Currency	Demand deposits	Other checkable deposits	Overnight RPs and Eurodollars NSA ¹	MMDAs	Savings deposits	Small denomination time deposits ²	Money market mutual funds		Large denomination time deposits ³	Term RPs NSA ⁴	Term Eurodollars NSA ⁴	Savings bonds	Short-term Treasury securities	Commercial paper ⁴	Bankers acceptances
								general purpose and broker/dealer ¹	Institutions only							
								8	9							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
LEVELS (\$BILLIONS) :																
ANNUALLY (4TH QTR.)																
1988	210.8	287.3	280.1	83.4	505.8	424.5	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	482.0	402.9	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	78.4	506.5	411.1	1162.5	343.0	121.9	511.6	93.8	70.5	125.2	332.2	359.1	33.8
MONTHLY																
1990-JULY	235.7	275.6	291.7	84.0	503.4	412.7	1156.8	329.2	109.8	535.0	100.5	65.1	122.2	333.9	348.2	33.0
AUG.	238.4	278.0	292.1	82.7	505.9	412.7	1158.3	335.8	114.0	529.2	102.0	68.3	123.0	328.6	347.0	32.3
SEP.	241.5	279.1	293.0	81.5	507.4	412.3	1160.1	339.3	116.2	521.9	98.3	70.0	123.8	331.9	359.0	31.8
OCT.	243.9	277.1	291.8	83.5	506.7	411.5	1161.4	341.6	119.6	515.1	95.6	70.2	124.5	329.9	358.8	32.6
NOV.	245.0	277.2	292.8	77.6	506.8	411.1	1161.8	341.9	120.5	512.5	95.7	70.0	125.2	332.8	359.0	34.0
DEC.	246.4	276.9	293.8	74.0	505.9	410.8	1164.2	345.4	125.7	507.1	90.2	71.4	126.0	333.9	359.4	34.7
1991-JAN.	251.6	272.9	293.9	71.2	505.2	412.0	1163.9	353.9	130.1	511.9	88.2	71.9	126.7	331.7	363.2	36.0
FEB.	255.1	276.1	296.9	70.1	511.5	415.4	1162.7	358.2	139.3	516.0	86.8	72.6	127.8	329.6	355.9	35.2
MAR.	256.7	277.1	301.0	69.1	519.2	420.5	1158.3	363.6	142.0	511.5	83.2	71.1	128.9	325.7	352.0	32.4
APR.	256.6	275.8	301.9	69.1	526.6	427.2	1150.2	364.2	145.6	507.3	82.1	68.2	130.1	302.6	337.6	30.7
MAY	256.8	278.7	308.1	67.1	536.1	433.1	1140.5	365.1	146.2	503.9	81.0	65.5	131.4	292.0	322.7	28.8
JUNE	257.6	281.0	312.0	65.8	542.1	438.9	1129.2	364.3	143.3	499.0	78.7	65.1	132.5	321.2	330.6	27.6
JULY p	258.9	278.9	314.2	62.6	547.1	442.9	1118.7	359.4	141.8	491.8	80.2	65.7				

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 SECURITIES¹
 Millions of dollars, not seasonally adjusted

STRICTLY CONFIDENTIAL (FR)
 CLASS II-FOMC

August 16, 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	-1,883
1990	17,448	4,400	13,048	425	50	-100	--	--	375	183	13,240	11,128
1990 --Q1	-3,799	1,400	-5,199	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	-16,864
--Q2	4,356	--	4,356	200	--	--	--	--	6,689	91	10,954	992
1990 August	4,197	--	4,197	--	--	--	--	--	--	37	4,160	1,110
September	631	--	631	--	--	--	--	--	--	--	631	-3,878
October	933	--	933	--	--	--	--	--	--	34	899	2,457
November	6,658	--	6,658	325	--	--	--	--	325	--	6,983	509
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	--	--	--	--	--	6,489	91	7,306	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
Weekly												
June 5	2,526	--	2,526	200	--	--	--	--	200	--	2,726	-2,019
June 12	--	--	--	--	--	--	--	--	--	--	--	-252
June 19	--	--	--	--	--	--	--	--	--	--	--	3
June 26	--	--	--	--	--	--	--	--	--	--	--	3,311
July 3	439	--	439	--	--	--	--	--	--	--	439	-156
July 10	109	--	109	--	--	--	--	--	--	--	109	4,790
July 17	719	--	719	500	--	--	--	--	500	--	1,219	-7,270
July 24	129	--	129	125	--	--	--	--	125	55	199	-2,134
July 31	--	--	--	--	--	--	--	--	--	--	--	1,801
August 7	184	--	184	150	--	--	--	--	150	--	334	3,541
August 14	468	--	468	90	--	--	--	--	90	--	558	-5,781
Memo: LEVEL (bil. \$) ⁶												
August 14			127.2	29.2	62.3	12.8	24.7		129.0		262.4	-6.6

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
2.4	2.5	1.0	0.2	6.1