

Prefatory Note

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

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

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

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

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

January 4, 1980

MONETARY AGGREGATES AND
MONEY MARKET CONDITIONS

Recent developments

(1) M-1 in November and December expanded at annual rates of 1 and 5-1/2 percent, respectively.^{1/} Over the three months from September to December, this aggregate grew at a 3 percent annual rate, below the objective of just over 4 percent that was consistent with the Committee's decision at the November FOMC meeting.^{2/} (Actual and targeted growth rates for the fourth quarter and the year 1979 are shown in the table below.) The 7 percent rate of expansion of M-2 for the three-month policy period was also below its targeted growth rate of 8-1/2 percent, with growth in the interest-bearing component of this aggregate slowing as the quarter progressed.

	<u>September to December</u>		<u>1978:Q4 to 1979:Q4</u>	
	<u>Targeted</u>	<u>Actual</u>	<u>Targeted</u>	<u>Actual</u>
Monetary Aggregates				
M-1	4½	3.1	3 to 6 ^{3/}	5.5
M-2	8½	6.9	5 to 8	8.3
M-3	7½	6.3	6 to 9	8.1
Reserve Aggregates^{4/}				
Total Reserves	13½	13.9	--	2.8
Nonborrowed Reserves	10½	13.1	--	0.8
Monetary Base	9½	8.3	--	7.6

1/ All data on monetary aggregates in the Bluebook incorporate benchmark revisions based on December 1978 and March 1979 Call Report data for nonmember banks; the revised aggregates will be published January 10 and are discussed in appendix A.

2/ At the November meeting, the FOMC decided on a 5 percent growth for M-1 from October to December. Since October had grown by 2½ percent, this implied growth from September to December of 4.2 percent.

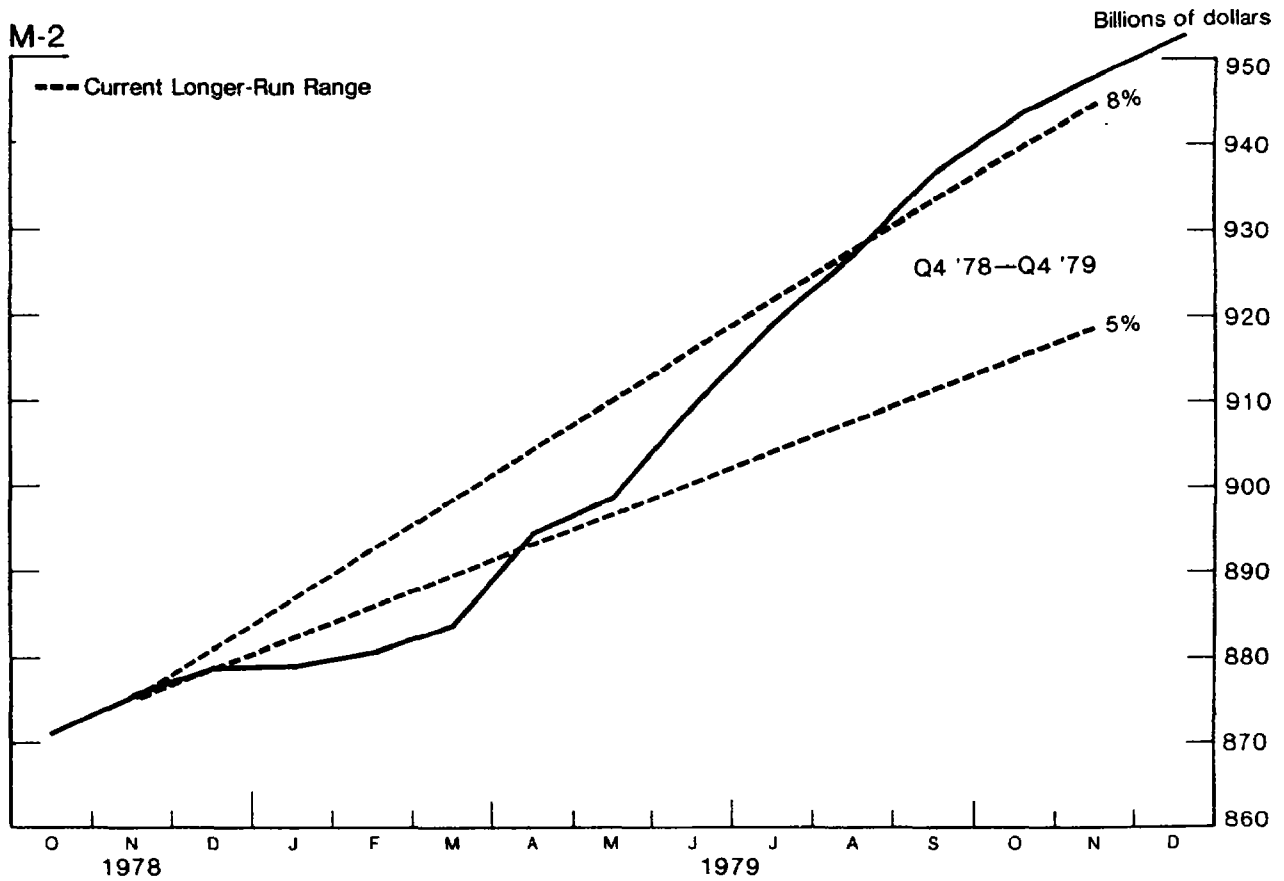
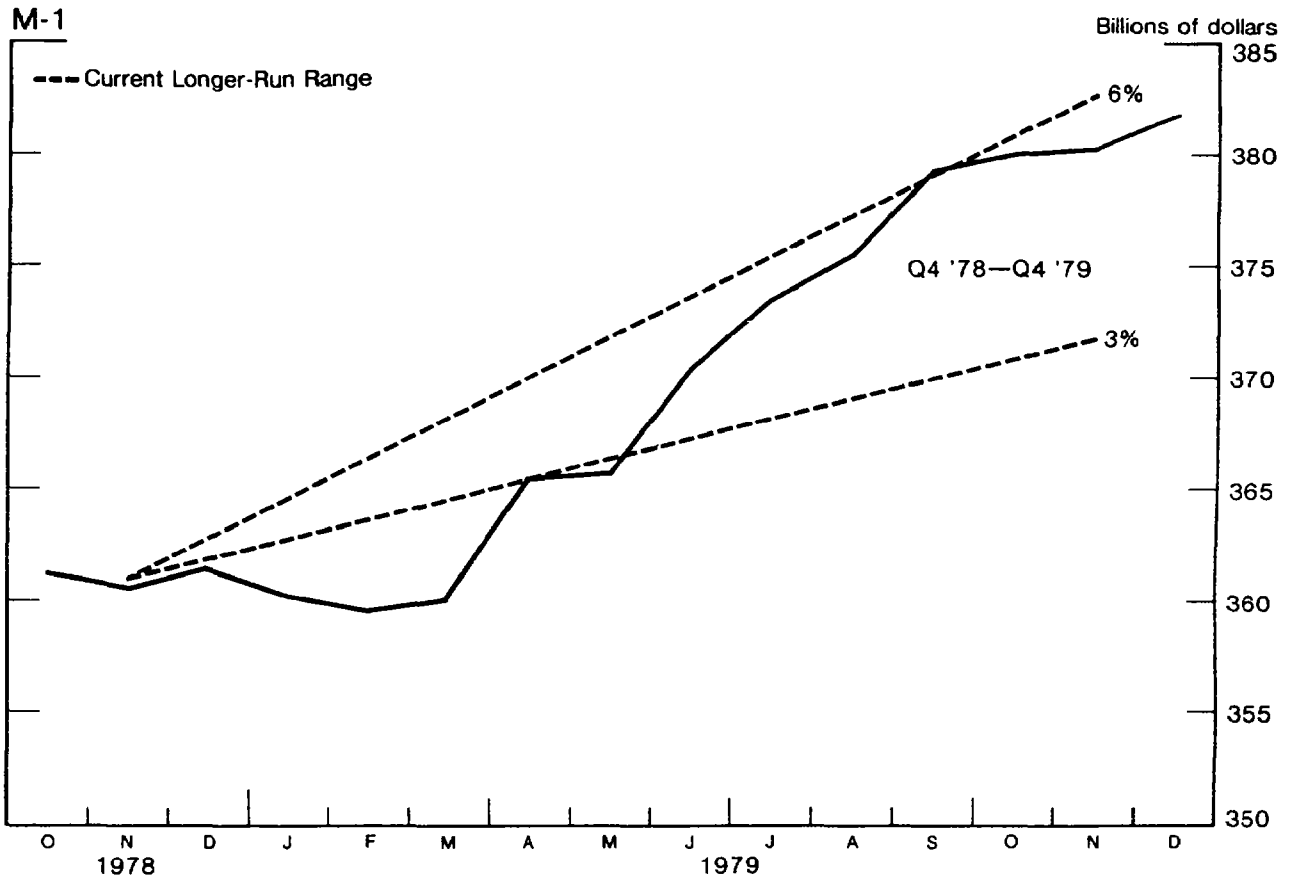
3/ Represents the original 1½ to 4½ percent range specified by the FOMC, adjusted upward by staff's estimate that ATS effects will reduce measured M-1 growth by about 1½ percentage points over the longer-run policy period rather than the 3 percentage points originally estimated in February.

4/ Targeted reserve aggregate paths reflect adjustments made subsequent to the November FOMC meeting for apparent sustained changes in deposit mix and higher than anticipated levels of excess reserves.

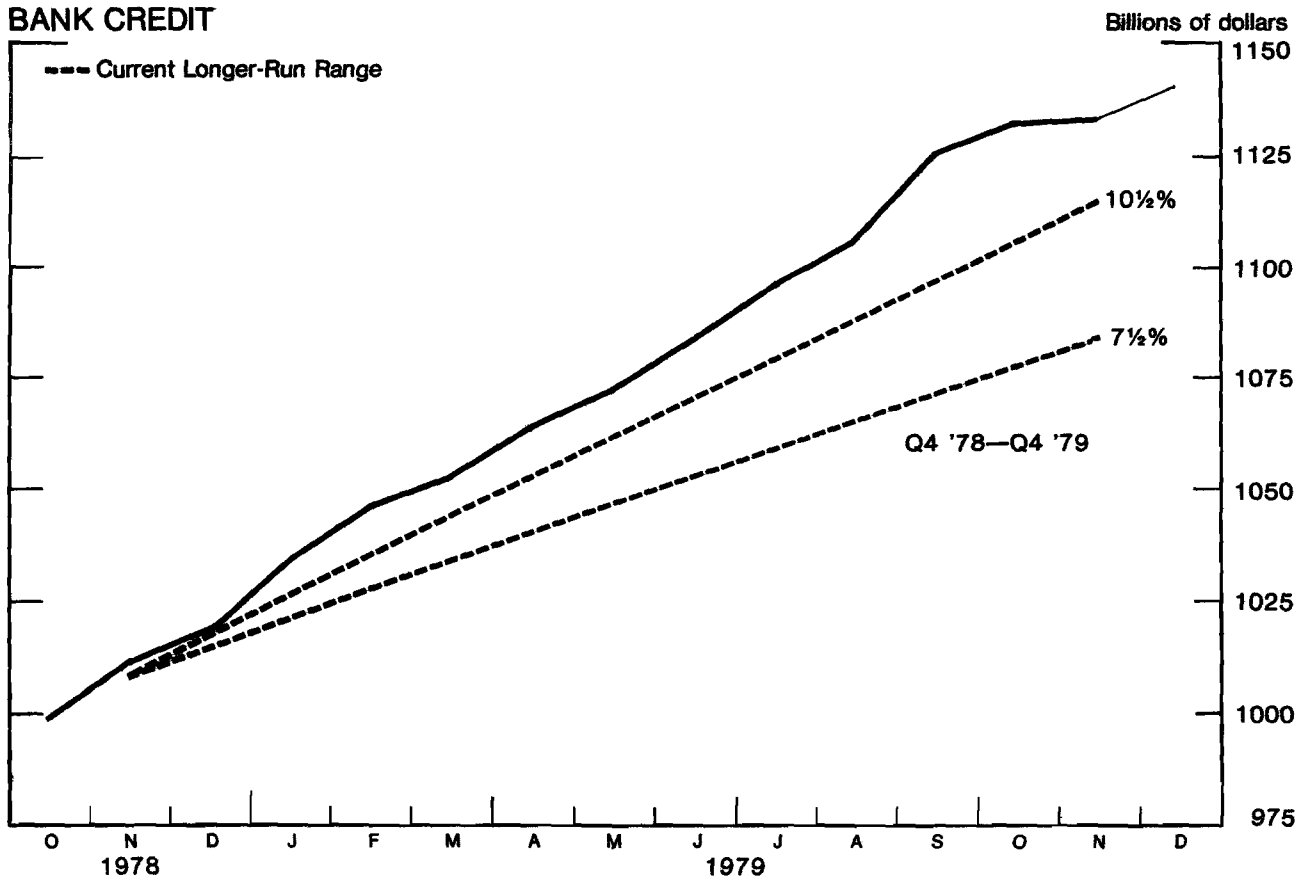
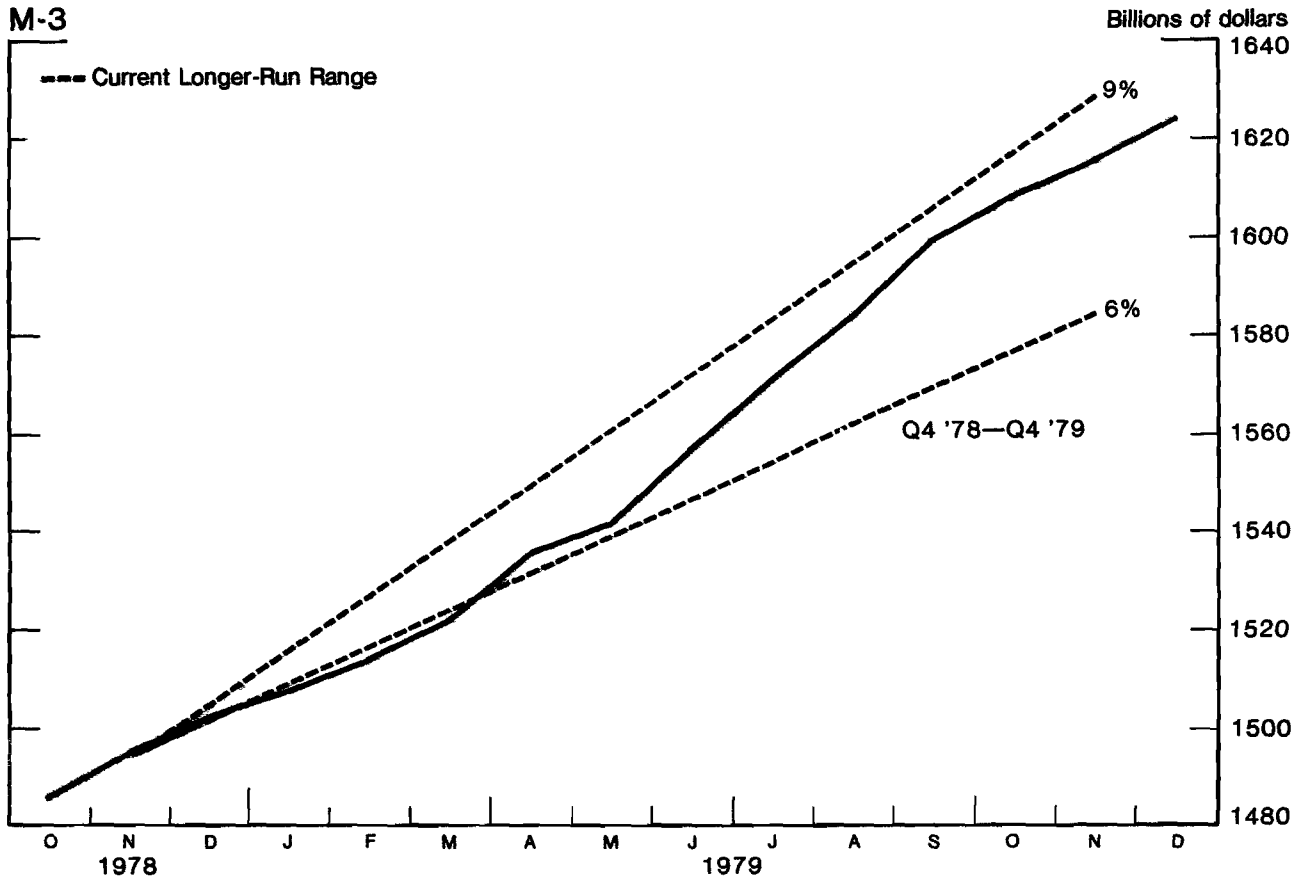
Inflows to MNC's and large denomination time deposits accounted for all of the growth. M-3 registered a 6-1/4 percent rate of growth during the last three months of the year as thrift institutions--particularly credit unions and mutual savings banks--were less successful than banks in attracting deposits in the current environment of high interest rates. As shown in Charts 1 and 2, the deceleration of growth in the monetary aggregates over recent months kept the growth of M-1 and M-3 within the Committee's desired longer-run ranges for the year ending with the fourth quarter of 1979. However, M-2 was somewhat above the upper end of its longer-run range and--even with the sharp fourth quarter deceleration--bank credit exceeded its longer-run growth range.

(2) Over the fourth quarter, growth in total reserves was close to the target path developed by the staff to be consistent with the Committee's desired growth for the key monetary aggregates, while growth in nonborrowed reserves was above path, as may be seen from the bottom panel of the table on the preceding page. Growth in the monetary base was below target as the public's desire to increase holdings of currency--the principal component of the base--turned out to be below even the relatively slow growth that the staff had anticipated. The total reserves supplied could have been sufficient to offset the impact on M-1 of weak currency growth since more reserves than expected were being released in December by shortfalls relative to expectations in non-money liabilities of banks. However, banks in December held an unusually and unexpectedly high level of excess reserves, thereby absorbing the reserves that might otherwise have been used to support money.

Actual and Targeted M-1 and M-2



Actual and Targeted M-3 and Bank Credit



(3) In addition, the relation between reserve and money growth over any particular time span can diverge because of lagged reserve accounting. Demand deposits were weak relative to path in December, thereby affecting the demand for total reserves in late December and early January (and tending to reduce the rate of growth in total reserves on average from December to January). Given the recent weakness in reserve demand, the level of borrowings declined from the \$1.7 billion level initially set at the FOMC meeting. Most recently, the Desk had expected a level of borrowings in the \$1.1 to \$1.3 billion range, reflecting both weakness in required reserves and an upward adjustment of some \$150 million in the nonborrowed reserve path for the three weeks ending January 9 in view of the projected weakness in total reserves.

(4) The drop in member bank borrowing since the Committee meeting has not been associated with any decline in the federal funds rate, as may be seen in the table below. In part, the unusually strong demand by banks for excess reserves in recent weeks may have held up the funds rate. But in addition, in December banks may have shied away from use of the discount window, thereby exerting somewhat pressure on the funds market, following relatively active use of the window in late October and November.

		Average Federal funds rate (percent)	Member bank borrowing (\$ millions)	Excess reserves (\$ millions)
November	21	13.10	1,865	115
	28	12.46	2,021	135
December	5	13.77	1,819	235
	12	13.79	1,291	586
	19	13.90	1,684	119
	26	13.49	1,224	496
January	2	14.04	1,431	678

(5) On balance, since the November FOMC meeting, most short-term market rates--apart from the funds rate--declined about 20 to 50 basis points, and yields on Treasury bonds have fallen about 10 basis points. Yields on high grade corporate and municipal bonds, in contrast, have been essentially unchanged. Mortgage rates have edged higher since the last Committee meeting, and commitments and lending declined sharply at S&Ls in November. The Treasury borrowed heavily during the intermeeting period, raising \$3.5 billion of new cash at its regular bill auctions, \$5.3 billion in cash management bills, and another \$4.8 billion of new cash in note auctions. Business borrowing in securities markets, on the other hand, was relatively light.

(6) The dollar's exchange value has dropped by almost 3 percent on a weighted-average basis since the last FOMC meeting, reflecting market reaction to political developments in the Middle East and to a relative increase in foreign interest rates.

. U.S. authorities purchased, net, \$300 million equivalent of marks toward repayment of Federal Reserve swap indebtedness through year-end, but in early January U.S. authorities sold about \$220 million equivalent of foreign currencies, mainly DM. Exchange markets have been thin and volatile--day-to-day fluctuations in rates and the size of bid-asked spreads have been unusually wide. Gold resumed its feverish rise, most recently being quoted at \$590 per ounce, up \$200 from the last Committee meeting.

(7) The table on the next page shows seasonally adjusted annual rates of changes, in percent, for selected monetary and financial flows over various time periods. This is followed by a table that shows rates of growth by the redefined monetary aggregates over the same time periods, in comparison to current definitions.

	1977 ^{1/}	1978 ^{1/}	1979 ^{1/}	Past Six Months Dec. '79 over June '79	Past Three Months Dec. '79 over Sept. '79	Past Month Dec. '79 over Nov. '79
Nonborrowed reserves	3.8	5.4	2.6	12.6	13.1	29.6
Total reserves	5.2	6.1	4.0	12.4	13.9	16.0
Monetary base	8.4	9.0	7.6	10.5	8.3	9.3
<u>Concepts of Money</u>						
M-1 (Currency plus demand deposits ^{2/})	7.9	6.7	5.7	6.4	3.0	5.4
M-2 (M-1 plus time deposits at commercial banks other than large CD's)	9.3	8.6	8.4	9.6	6.9	5.7
M-3 (M-2 plus deposits at thrift institutions)	11.2	9.4	8.0	8.6	6.3	6.2
M-4 (M-2 plus CD's)	10.0	10.5	7.3	10.7	8.7	4.2
M-5 (M-3 plus CD's)	11.6	10.5	7.4	9.3	7.4	5.3
<u>Bank Credit</u>						
Loans and investments of all commercial banks ^{3/}	10.8	13.6	12.0	10.5	5.0	7.9
<u>Managed Liabilities of Banks</u> (Monthly average change in billions)						
Large CD's	0.9	1.9	-0.2 ^{5/}	1.6 ^{5/}	2.0 ^{5/}	-0.8 ^{5/}
Eurodollars	-0.4	0.8	2.7 ^{5/}	1.7 ^{5/}	-0.2 ^{5/}	-0.3 ^{5/}
Other borrowings ^{4/}	1.0	1.3	1.0 ^{5/}	0.2 ^{5/}	-2.9 ^{5/}	-6.2 ^{5/}

^{1/} December to December

^{2/} Other than interbank and U.S. Government.

^{3/} Includes loans sold to affiliates and branches.

^{4/} Primarily Federal funds purchases and securities sold under agreements to repurchase.

^{5/} Through November 1979.

NOTE: All items are based on averages of daily figures, except for data on total loans and investments of commercial banks, commercial paper, and thrift institutions--which are derived from either end-of-month or Wednesday statement date figures. Growth rates for reserve measures in this and subsequent tables are adjusted to remove the effect of discontinuities from breaks in the series when reserve requirements are changed.

				Past Six Months	Past Three Months	Past Month
	1977 ^{1/}	1978 ^{1/}	1979 ^{1/}	Dec. '79 over June '79	Dec. '79 over Sept. '79	Dec. '79 over Nov. '79
<u>Current Concepts of Money</u>						
M-1 (Currency plus demand deposits <u>2/</u>)	7.9	6.7	5.7	6.4	3.0	5.4
M-2 (M-1 plus time deposits at commercial banks other than large CD's)	9.3	8.6	8.4	9.6	6.9	5.7
M-3 (M-2 plus deposits at thrift institutions)	11.2	9.4	8.0	8.6	6.3	6.2
M-4 (M-2 plus CD's)	10.0	10.5	7.3	10.7	8.7	4.2
M-5 (M-4 plus CD's)	11.6	10.5	7.4	9.3	7.4	5.3
<u>Redefined Concepts of Money</u>						
M-1A (Currency plus demand deposits <u>3/</u>)	7.7	6.8	5.2	6.0	3.9	4.9
M-1B (M-1A plus other checkable deposits)	8.1	7.6	7.0	6.6	3.8	4.7
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Euro-dollars)	10.9	7.9	7.7	8.2	6.6	6.9
M-3 (M-2 plus large time deposits and term RP's)	12.3	10.8	9.2	10.8	10.0	12.5

1/ December to December

2/ Other than interbank and U.S. Government.

3/ Other than interbank and U.S. Government and foreign banks and official institutions.

Alternative longer-run targets and strategy

(8) This section of the bluebook presents material to provide a basis for preliminary Committee discussion of longer-run target ranges for the aggregates for 1980, and perhaps beyond--preparatory to making a decision on these matters at the February meeting. The table below shows two alternative sets of ranges for 1980 (QIV '79 to QIV '80) as a starting point for discussion. The ranges shown in the upper panel are in terms of monetary aggregates as currently defined, while preliminary estimates of consistent target ranges based on new definitions of the aggregates are presented in the lower panel. These new definitions will be ready for publication in February, and the Committee would presumably make its decision at the February meeting in terms of the newly defined measures. (The monetary targets for the current and new series are reconciled in appendix B.)

	<u>Alt. I</u>	<u>Alt. II</u>	<u>Current</u>	<u>Addendum: Growth rate in 1979</u>
<u>Current definitions</u>				
M-1	4½ to 7½	3 to 6	3 to 6	5.5
M-2	6 to 9	5 to 8	5 to 8	8.3
M-3	6½ to 9½	5½ to 8½	6 to 9	8.1
Bank Credit	7 to 10	6½ to 9½	7½ to 10½	12.5
<u>New definitions</u>				
M-1A	4½ to 7½	3 to 6	--	5.0
M-1B	5 to 8	3½ to 6½	--	7.3
M-2	7 to 10	6½ to 9½	--	8.2
M-3	7 to 10	6½ to 9½	--	8.9

(9) Alternative I represents a continuation of current policy with respect to growth of M-1 after adjustment is made for shifts out of existing demand deposits into ATS accounts. In recent months, it has been assumed that such shifts would reduce M-1 growth for 1979 as a whole by about 1-1/2 percentage points, with the bulk of the shift having occurred in the first half of the year. The staff's judgment at present is that the initial stock adjustment to the introduction of the new payments service has been virtually completed and therefore that growth in ATS accounts in the future will not reflect significant shifts out of existing demand deposit accounts.^{1/} Thus, the 4-1/2 to 7-1/2 percent M-1 growth under alternative I for 1980 would be equivalent--after allowance for estimated ATS effects--to the 3 to 6 percent target for 1979. The consistent M-2 range for 1980, given the staff's projection of the time and savings deposit components of M-2, would be 6 to 9 percent. If the present 5 to 8 percent range for M-2 were retained, growth would probably again be near the upper end of the range.

(10) Alternative II presents a set of monetary growth ranges for 1980 indexed by a 3 to 6 percent rate of growth for M-1. The sizable difference in growth rates of M-1 between alternatives I and II--a difference of 1-1/2 percentage points--has been chosen to help clarify differential economic impacts of policy alternatives. Of course, the Committee may wish to choose growth rates between I

^{1/} Legislation has been enacted that authorizes ATS accounts and credit union share drafts until March 31 and that also authorizes NOW accounts in New Jersey. It is expected that the impact of NOW accounts in New Jersey on measured M-1 growth will be very small. However, if NOW accounts are extended nationwide later in 1980, this would probably entail large shifts out of existing demand deposits and a re-evaluation of FOMC targets.

and II, or even higher than I or lower than II. Economic effects of various longer-run strategies are noted in the ensuing paragraphs.

(11) The implications for the economy of alternative I, which assumes a 6 percent M-1 growth over the projection period, are laid out in detail in the Greenbook. A summary of effects of this assumption on nominal GNP, real GNP, prices, and unemployment is shown in the first row of each panel of the table on the next page. The second row of each panel shows the projected effects of holding M-1 growth to $4\frac{1}{2}$ percent--the midpoint of the alternative II range--over each of the next three years. As compared with the higher money growth rate, the lower M-1 growth rate reduces the rate of increase in prices by about a percentage point after three years (the end of 1982), but retarding effects on real GNP throughout the period are substantial. The differential impacts of alternative M-1 strategies assume the rather long lag between monetary policy changes and price effects that has characterized past experience and that is reflected in our quarterly econometric model. If price expectations in labor and product markets have become more directly sensitive to announced monetary policy, the damping effects on price from a slowing in money growth might well be more pronounced, and the retarding effects on output less so. Announcement of a $4\frac{1}{2}$ percent M-1 target may also have a favorable effect on the exchange value of the dollar since it would probably be taken to signify stronger efforts to contain inflation. But any benefits achieved by announcement of a relatively low money growth target would be quickly dissipated if sustained inflationary momentum, in combination with a need to moderate economic weakness, made it impractical for the Committee to hold money growth to the target.

Economic Implications of
Alternative Long-Run
Policy Strategies

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Nominal GNP (% Change, Q4/Q4)			
Strategy I	7.0	10.1	10.1
Strategy II	5.6	7.3	7.4
Strategy III	7.0	9.0	7.5
Strategy IV	7.0	9.4	8.0
Real GNP (% Change, Q4/Q4)			
Strategy I	-2.3	1.3	2.3
Strategy II	-3.3	-0.9	0.5
Strategy III	-2.3	0.4	0.3
Strategy IV	-2.3	1.4	1.0
Implicit GNP Deflator (% Change, Q4/Q4)			
Strategy I	9.5	8.7	7.7
Strategy II	9.1	8.2	6.8
Strategy III	9.5	8.5	7.2
Strategy IV	9.5	7.8	7.0
Unemployment Rate (% , Q4 Level)			
Strategy I	8.1	8.8	9.3
Strategy II	8.4	10.1	11.6
Strategy III	8.1	9.1	10.5
Strategy IV	8.1	8.7	9.7

NOTE: Strategy I represents 6% M-1 growth in each year; II represents 4½% growth in each year; III represents 6% M-1 growth in 1980, 5% in 1981, and 4% in 1982; IV represents the same strategy as III with regard to M-1, but also includes a federal tax cut. The tax cut amounts to about \$30 billion, half of which reflects a reduction in corporate income tax rates, effective mid-1980, and the other half a rollback of social security rate and base increases scheduled for 1981.

(12) A faster rate of growth in M-1 than the midpoint of alternative I--say one near the 7½ percent upper end of the range--would raise output and prices, with impacts roughly equal in magnitude to the constraining effects of alternative II. While such an accelerated rate of M-1 growth for 1980 could be construed as a temporary accommodation to the increase in energy prices imposed by OPEC, it is also likely that its announcement would further fuel inflationary expectations and adversely affect the dollar in exchange markets. Thus, it could result in an even more rapid increase in prices, less stimulative impacts on output, and, over time, further upward pressures on interest rates.

(13) The third row of each panel in the table indicates the probable results of a strategy of maintaining a 6 percent rate of growth in M-1 for 1980, but reducing this growth rate gradually over the next two years to 5 percent and then to 4 percent. This strategy would be associated with less output loss over the period than strategy II and would restrain inflation more than strategy I. Whether such a policy can be undertaken with even less adverse effects on output and employment depends, of course, on success of the policy in reducing inflationary expectations, particularly as such expectations affect decisions in labor and product markets. Announcement of a firmly held intention to lower growth rates might tend to reduce such expectations more than would announcement of only, for example, a one-year goal of 6 percent M-1 growth. On the other hand, announcement of multi-year targets leaves the System more exposed to the possibility that unforeseen events will require adjustments in the announced targets, and therefore heightens the risk that the credibility of the targeting process may be impaired.

(14) While there is not yet any clear Administration or Congressional impetus for a discretionary fiscal policy change, the forecasted weakness of the economy does suggest the distinct possibility of a tax cut initiative later this year. To provide the Committee with some idea of how such an action--particularly one designed to have a relatively favorable price impact--might affect the environment for monetary policy, a tax cut projection has been included in the fourth row of each panel. The rate of price increase is reduced by a rollback of social security tax increases now scheduled for the beginning of 1981. This, and an assumed general corporate tax cut taking effect in the third quarter of 1980, also would tend to increase real spending.

Policy alternatives for the short-run

(15) Shown below for Committee consideration are three alternative growth rates for the monetary aggregates covering the first three months of 1980 and associated federal funds rate ranges for the period between now and the February meeting. Aggregates in the upper panel are based on the current definitions, which would provide the basis for operations until the next meeting. Preliminary estimates of consistent rates of growth on the new definitions are shown in the second panel to help prepare the transition to such measures at the February meeting. More detailed data for current definitions, including growth rates on a quarterly average basis related to alternative longer-run paths, are shown in the tables on pp. 15 and 16 .

	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
<u>Annual growth rates, December to March</u>			
Current definitions:			
M-1	6.0	5.0	4.0
M-2	7.5	7.0	6.5
M-3	8.0	7.5	7.0
Revised definitions:			
M-1A	6.0	5.0	4.0
M-1B	6.2	5.2	4.2
M-2	9.0	8.5	8.0
M-3	8.7	8.2	7.7
Federal funds rate range until next FOMC meeting	10½ to 15½	11½ to 15½	11½ to 16

(16) The Committee's choice of a shorter-run monetary growth path for the first three months of 1980 may depend in part on the longer-run target it chooses and in part on the pattern of money growth it wishes to see over the course of the year. (The relation of the proposed shorter-run targets to the midpoints of longer-run alternatives I and II is displayed in chart 3, following page 16). Growth through the year can be targeted at a pace roughly equal to the longer-run objective, or growth can be higher (lower) early in the year and offsettingly lower (higher) later in the year. Given the projected pattern of money demand, various target paths during the year selected by the Committee would have differing effects on interest rates, on exchange markets, and on the probability of success in attaining particular long-run targets. In the ensuing analysis the transactions demand for money is assumed to be weakest in the first

Alternative Levels and Growth Rates for Key Monetary Aggregates

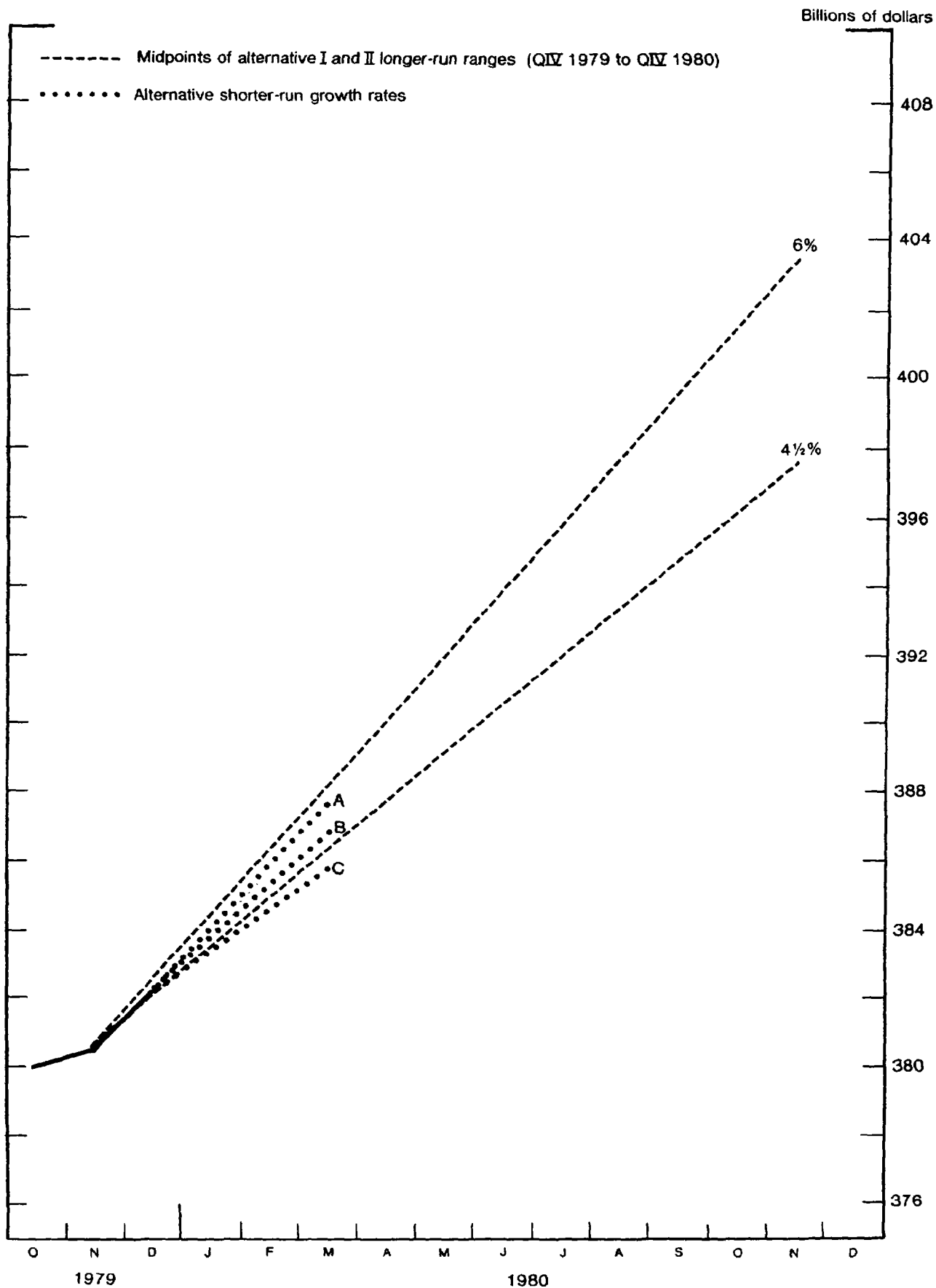
	M-1			M-2		
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
1979 December	382.1	382.1	382.1	952.7	952.7	952.7
1980 January	383.7	383.4	383.2	957.9	957.6	957.2
February	385.5	385.0	384.5	964.3	963.4	962.5
March	387.8	386.9	386.0	970.9	969.2	967.9
<u>Growth Rates</u>						
<u>Monthly</u>						
1980 January	5.0	4.1	3.5	6.5	6.2	5.7
February	5.6	5.0	4.1	8.0	7.3	6.6
March	7.2	5.9	4.7	8.2	7.2	6.7
	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>
<u>Quarterly Average</u>						
1980 QI	5	5	4½	4½	4	4
QII	6	5	5½	5	5½	5
QIII	6½	4	6½	4	7	4
QIV	6	3½	6½	4	7	4½
1979 QIV to 1980 QIV	6	4½	6	4½	6	4½
	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>
1980 QI	7	7	6½	6½	6	6
QII	7½	7	7	6¾	6¾	6½
QIII	7½	5½	7½	6	7¾	6½
QIV	7½	5½	7½	6	8¼	6½
1979 QIV to 1980 QIV	7½	6½	7½	6½	7½	6½

Alternative Levels and Growth Rates for Key Monetary Aggregates (cont'd)

	<u>M-3</u>			<u>Bank Credit</u>								
	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>
1979 December	1624.2	1624.2	1624.2	1140.5	1140.5	1140.5						
1980 January	1633.3	1632.9	1632.5	1148.4	1148.0	1147.8						
February	1644.2	1643.3	1642.4	1156.8	1156.0	1155.5						
March	1656.1	1654.4	1653.0	1167.0	1165.5	1164.6						
<u>Growth Rates</u>												
<u>Monthly</u>												
1980 January	6.7	6.4	6.1	8.3	7.9	7.7						
February	8.0	7.6	7.3	8.8	8.4	8.1						
March	8.7	8.1	7.7	10.6	9.8	9.5						
	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>	<u>Alt. I</u>	<u>Alt. II</u>
<u>Quarterly Average</u>												
1980 QI	7	7	6½	6½	6½	6½	7½	7½	7½	7½	7½	7½
QII	8	7½	7½	7½	7½	7	8	7½	7½	7½	7	7½
QIII	7½	6½	8	6½	8	6½	8½	7½	9	8	9½	8
QIV	7½	6½	8	6½	8½	6½	8½	7½	9	8	9½	8½
<u>Annual</u>												
1979 QIV to 1980 QIV	7½	7	7½	7	7½	7	8½	8	8½	8	8½	8

Chart 3

Alternative M-1 Growth Paths



half of the year, when economic activity and nominal GNP growth are projected to be weakest, and then to strengthen, along with nominal GNP, in the second half.

(17) The recent relatively slow growth of M-1 raises the possibility that the record level of interest rates following the October 6 program may have induced another round of one-time shifts out of existing money balances. Even if any such shift has about run its course, demands for cash in the first quarter of 1980 may still be fairly weak, given the less than 5 percent annual rate of increase in nominal GNP that is projected for that period. Thus, achievement of the 6 percent annual growth rate for M-1 over the first quarter in alternative A--which appears to involve increases of about 8 and 3½ percent in the monetary base and total reserves, respectively--may be accompanied by relatively substantial declines of interest rates from current levels.

(18) The federal funds rate may drop to, or conceivably below, the bottom of the 10½ to 15½ percent range specified for alternative A over the next few weeks, and the 3-month bill rate could be in a 9 to 10 percent area. If the discount rate were not changed from the present 12 percent level, borrowings would decline to minimal levels of about \$200 to \$300 million, and nonborrowed reserves would expand by about 15 percent over the quarter. Of course, if the discount rate were reduced significantly under the circumstances, member bank borrowing would be somewhat higher.

(19) A sizable rally in bond markets would seem likely under this alternative, even though some pick-up in bond offerings may be expected as corporations take the opportunity to fund large short-term indebtedness.

Mortgage rates also would decline, as spreads widen against bond yields and thrift institutions become more confident about the availability of lower cost deposits to fund mortgage acquisitions.

(20) The substantial decline in short rates that appear to be implied by alternative A probably would be accompanied by significant downward pressures on the international value of the dollar, especially if the dollar also remains under pressure because of the crises in the mid-East. Downward pressures would be strongest if market participants come to expect a further decline in U.S. interest rates and interpret the decline of interest rates as a sign that the Fed's resolve to combat inflation has weakened.

(21) However, assuming that the decline in economic activity has begun to abate by summer, but that the rate of inflation has not slowed significantly, interest rates would probably begin rising during the spring or summer if M-1 growth over the year 1980 were held to 6 percent or less, as shown in the first and fourth columns of appendix C. For a given longer-run growth rate, interest rates would be at higher levels by year-end under this alternative than under alternatives B and C, partly because it will provide a little greater stimulus to economic activity and partly because the larger expansion of M-1 in the first quarter will allow less scope to accommodate the subsequent increase in the transactions demand for money as nominal GNP expands in the second half.

(22) In order to achieve the 5 percent rate of growth of M-1 in the first quarter specified under alternative B, a decline in interest rates from current levels would also be likely. The funds rate, for example, would probably drop over the next few weeks into the lower half of the 11½ to 15½ percent rate range shown for this alternative, with the 3-month bill rate declining to the 10 to 11 percent area. Over the first quarter the

monetary base and total reserves might have to increase at about $7\frac{1}{2}$ and $2\frac{1}{2}$ percent rates, respectively, and with member bank borrowings falling to around \$800 to \$900 million, nonborrowed reserves would expand by about 8 percent over the 3-month period.

(23) Even the more modest decline in money market rates associated with alternative B is likely to induce a rally in bond markets as it becomes clear that interest rates have peaked. The decline in mortgage rates would probably be moderate, though. Net inflows of funds to thrift institutions are likely to pick up only modestly from their second half of 1979 pace, and costs of such funds would not decline as much as under alternative A. The exchange value of the dollar under alternative B is likely to decline somewhat as market participants focus on the decline of interest rates, but there would be less downward pressure than under alternative A, in part because any interest rate declines under alternative B would be associated with slower money growth.

(24) The more modest money growth over the next few months under alternative B provides more scope for expansion in M-1 in the second half of 1980 than does alternative A. Moreover, the smaller reduction of interest rates, as compared with alternative A, would provide less stimulus to nominal GNP and money demand later this year. Thus, under this alternative interest rates may drift downward through summer under longer-run alternative I, shown in the second column of appendix C. However, under the more restrictive longer-run policy of alternative II, interest rates would probably begin rising by spring as the quantity of money demanded tended to expand more rapidly than the supply that would be provided consistent with the $4\frac{1}{2}$ percent midpoint of the alternative II path.

(25) Alternative C contemplates a rate of growth of M-1 of about 4 percent in the first three months of 1980, which, given the staff's GNP outlook, would probably involve little, if any, decline in interest rates from current levels in that period. The funds rate may be a bit below the $13\frac{3}{4}$ percent midpoint of the $11\frac{1}{2}$ to 16 percent federal funds rates specified for this alternative, with the 3-month bill rate around $11\frac{1}{2}$ to 12 percent. The first quarter rate of increase in the monetary base and total reserves is likely to be about 7 and $1\frac{1}{2}$ percent, respectively; assuming borrowings of about $\$1\frac{1}{2}$ billion or a bit higher, nonborrowed reserves might increase at about a 4 percent rate. Longer-term interest rates probably would decline no more than modestly from current levels over the next few weeks, as it became clear to market participants that, despite relatively slow growth in M-1, very little ease was developing in money market conditions. Alternative C would tend to help support the exchange value of the dollar since it would be associated with maintenance of a relatively high level of interest rates.

(26) The relatively high level of interest rates of alternative C in the first quarter would probably not be long sustained, however, if the Committee sought a 6 percent growth rate for M-1 for the year 1980. The funds rate would be expected to decline by early spring, and reach levels by year-end lower than under alternative B. However, should the Committee seek to restrain M-1 growth to a $4\frac{1}{2}$ percent rate during 1980, interest rates would probably change little over the balance of the year.

Directive language

(27) Given below are suggested operational paragraphs for the directive consistent with the form of the directive adopted at the October and November meetings. It calls for expansion of reserve aggregates at a pace consistent with the desired rates of growth in M-1 and M-2 over the first quarter of 1980, provided that the federal funds rate on a weekly average basis remains within a specified range. The range for the funds rate adopted on November 20 is shown in strike-through form.

In the short run, the Committee seeks ~~to-restrain~~ expansion of reserve aggregates ~~to-a-pace~~ consistent with ~~deceleration-in~~ growth of M-1, AND M-2, ~~and-M-3-in~~ OVER the ~~fourth~~ FIRST quarter of ~~1979-to~~ 1980 AT ANNUAL rates OF ABOUT _____ AND _____ PERCENT RESPECTIVELY ~~that-would-hold-growth~~ ~~of-these-monetary-aggregates-over-the-whole-period-from-the~~ ~~fourth-quarter-of-1978-to-the-fourth-quarter-of-1979-within~~ the-Committee's-longer-run-ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~11 1/2-to-15 1/2~~ _____ TO _____ percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Appendix A

BENCHMARK REVISIONS TO THE MONETARY AGGREGATES

Money stock measures and related data have been benchmarked to the final December 1978 and preliminary March 1979 call reports. The December 1978 M-1 benchmark was minor, raising the level of the series about \$300 million in that month. The March adjustment was somewhat larger and raised the level of M-1 an additional \$700 million. By the end of 1979 the benchmarked M-1 is about \$1.5 billion higher than the old series.

The December 1978 benchmark adjustment raised the level of M-2 about \$3.2 billion. Most of this adjustment reflected strong growth in time deposits at foreign related institutions in late 1978. The March benchmark raised the M-2 series an additional \$1.2 billion and by the end of 1979 the level of the revised series was about \$4½ billion higher than the old series.

The attached table shows the impact of the benchmark revisions on annual, quarterly and monthly M-1 and M-2 growth rates. M-1 growth was unchanged for the year 1978, but M-2 growth was raised about a quarter of a percentage point from 8.4 to 8.7 percent. In 1979 the growth rates of both measures were raised slightly--M-1 from 5.1 to 5.4 percent and M-2 from 8.0 to 8.3 percent.

The benchmarked series will be published on January 10 and are confidential until then.

Money Stock Growth Rates
(Percent annual rates)

<u>Annual</u> ^{1/}	<u>M1</u>		<u>M2</u>	
	<u>Old</u>	<u>Benchmarked</u>	<u>Old</u>	<u>Benchmarked</u>
1978	7.2	7.2	8.4	8.7
1979	5.1	5.5	8.0	8.3
<u>Quarterly</u> ^{1/}				
1978 QIV	4.1	4.3	7.6	8.5
1979 QI	-2.1	-1.3	1.8	2.8
QII	7.6	8.1	8.6	8.7
QIII	9.7	9.7	12.0	11.9
QIV	4.9	5.0	8.8	8.9
<u>Monthly</u>				
1978. Oct.	1.7	1.7	6.5	7.2
Nov.	-2.0	-1.7	4.8	6.6
Dec.	2.0	2.7	2.9	4.6
1979 Jan.	-5.0	-4.3	-1.1	0.0
Feb.	-3.7	-2.7	2.3	2.6
Mar.	1.3	2.0	3.8	4.1
Apr.	17.7	18.3	14.1	14.3
May	0.7	0.7	5.4	5.4
June	14.8	15.1	14.2	14.2
July	10.4	10.0	12.9	12.8
Aug.	6.8	6.7	11.0	11.0
Sept.	11.2	11.5	12.4	12.3
Oct.	2.5	2.5	8.5	8.6
Nov.	1.0	1.3	6.1	6.2
Dec.	5.7	5.4	5.9	5.7

^{1/} Based on quarterly average data.

Appendix B

RECONCILIATION TABLE
(billions of dollars)

	Average Level QIV 1979	ALT. I		ALT. II	
		Dollar Change in 1980	Growth Rate	Dollar Change in 1980	Growth Rate
<u>Old M-1</u>	380.8	22.8	6.0	17.0	4.5
Less Foreign Deposits	13.1	0.8		0.8	
Equals <u>New M-1A</u>	367.7	22.0	6.0	16.3	4.4
Plus Other Checkable Deposits	15.3	2.0		2.0	
Equals <u>New M-1B</u>	383.1	24.0	6.3	18.3	4.8
<u>Old M-2</u>	948.1	70.4	7.4	61.5	6.5
Plus Deposits at Thrifts	668.2	56.9		49.9	
Equals <u>Old M-3</u>	1616.2	127.3	7.9	111.4	6.9
Less large time deposits at all institutions in old M-3	161.2	18.0		21.0	
Less Foreign demand deposits in old M-3	13.1	0.8		0.8	
Plus Overnight RP's and Eurodollars	23.0	3.0		4.0	
Plus money market mutual fund shares	40.5	20.0		25.0	
Plus demand deposits at MSB's	1.0	0.1		0.1	
Less new M-2 consolidation	3.0	0.5		0.5	
Equals <u>New M-2</u>	1503.4	131.1	8.7	118.2	7.9
Plus large time deposits at banks and thrift institutions ^{1/}	217.5	18.0		22.0	
Plus term RP's at banks and S&L's	29.0	2.0		3.0	
Equals <u>New M-3</u>	1749.9	151.1	8.6	143.2	8.1

^{1/} Excluding large time deposits held by money market mutual funds,

Appendix C

PROJECTED FEDERAL FUNDS RATES
FOR 1980
UNDER ALTERNATIVE MONETARY ASSUMPTIONS

	<u>Long-Run Alternative I</u>			<u>Long-Run Alternative II</u>		
	<u>Alt. A</u> (1)	<u>Alt. B</u> ^{1/} (2)	<u>Alt. C</u> (3)	<u>Alt. A</u> (4)	<u>Alt. B</u> (5)	<u>Alt. C</u> (6)
QI	10½	12½	13½	10½	12½	13½
QII	10	11	11½	12	13	13½
QIII	11½	10½	10½	14½	14½	13½
QIV	11½	10½	10½	15½	14½	14

^{1/} Consistent with M-1 and interest rate assumptions underlying the Greenbook GNP projections.

Table 1

JAN. 4, 1980

Money and Credit Aggregate Measures

Period	Bank Reserves ^{1/}			Bank Credit	Money Stock Measures							
	Total	Non-borrowed	Monetary Base	Total Loans and Investments	M-1	M-1+	M-2	M-3	M-4	M-5	M-6	M-7
	1	2	3	4	5	6	7	8	9	10	11	12
	(PER CENT ANNUAL RATES OF GROWTH)											
ANNUALLY: ^{2/}												
1976	0.7	0.9	6.7	7.5	5.8	12.6	10.9	12.7	7.1	10.2	9.9	9.9
1977	5.3	3.1	8.3	11.1	7.9	9.3	9.8	11.7	10.1	11.7	11.5	11.6
1978	6.7	6.8	9.1	13.5	7.2	5.2	8.7	9.5	10.6	10.6	10.3	11.5
SEMI-ANNUALLY: ^{2/}												
1ST HALF 1978	7.6	7.6	8.8	12.5	8.0	6.2	7.7	8.3	10.6	10.0	10.0	11.3
2ND HALF 1978	5.6	5.7	9.0	13.6	6.1	4.1	9.2	10.2	10.1	10.7	10.1	11.0
1ST HALF 1979	-3.9	-6.1	4.8	12.8	3.4	-0.7	5.8	6.7	4.6	5.9	7.2	9.7
QUARTERLY:												
4TH QTR. 1978	0.7	2.6	7.3	12.7	0.9	-2.1	6.2	8.0	9.0	9.6	9.2	11.6
1ST QTR. 1979	-4.5	-5.8	4.2	13.3	-1.7	-5.3	2.2	4.9	3.0	5.2	6.5	8.7
2ND QTR. 1979	-3.4	-8.3	4.7	11.9	11.4	7.5	11.4	9.2	4.5	5.2	6.8	9.1
3RD QTR. 1979	10.6	11.7	12.5	15.8	9.6	8.1	12.1	10.8	12.4	11.0	9.8	12.7
QUARTERLY-AV:												
4TH QTR. 1978	2.4	4.7	8.5	13.7	4.3	2.3	8.5	9.8	10.1	10.7	10.2	11.6
1ST QTR. 1979	-3.0	-3.4	5.6	13.9	-1.3	-5.3	2.8	5.3	5.4	6.8	7.6	10.2
2ND QTR. 1979	-5.0	-8.8	3.9	11.3	8.1	3.9	8.8	8.0	3.7	4.9	6.8	8.9
3RD QTR. 1979	6.3	8.2	9.8	13.4	9.7	8.4	11.9	10.5	9.2	8.9	8.5	11.2
MONTHLY:												
1978--NOV.	-2.9	14.1	5.9	15.4	-1.7	-4.9	6.6	7.8	14.5	12.5	10.9	13.5
DEC.	0.0	-4.9	7.9	8.3	2.7	-1.8	4.7	6.7	5.7	7.2	8.8	12.0
1979--JAN.	5.6	1.8	8.5	18.7	-4.3	-8.6	0.0	3.5	4.8	6.2	7.0	9.5
FEB.	-21.2	-20.9	-0.7	12.9	-2.7	-6.4	2.6	4.9	4.3	5.8	6.2	8.4
MAR.	2.1	1.6	4.7	8.0	2.0	-1.0	4.1	6.3	-0.1	3.6	6.2	8.0
APR.	-5.5	-3.5	4.8	13.9	18.3	11.8	14.3	10.6	7.9	7.0	9.3	11.1
MAY	-4.7	-30.3	3.2	8.8	0.7	-1.8	5.4	4.8	-0.5	1.3	3.1	5.6
JUNE	-1.5	9.1	6.2	12.6	15.1	12.6	14.2	11.9	5.9	7.1	7.9	10.4
JULY	12.7	20.7	11.2	13.4	10.4	10.4	12.8	11.3	11.3	10.5	9.4	12.1
AUG.	7.2	10.0	12.1	11.6	6.7	6.7	11.0	9.9	11.6	10.4	8.7	11.0
SEPT.	11.5	4.2	13.9	21.7	11.5	7.2	12.3	10.9	13.9	11.9	11.0	13.9
OCT.	20.3	0.7	10.6	6.4	2.5	-4.8	8.6	7.2	11.4	8.9	8.0	10.9
NOV. P	5.0	8.6	4.7	-0.5	1.3	-11.8	6.2	5.4	10.2	8.0	7.3	10.0

1/ BASED ON DATA ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS.

2/ BASED ON QUARTERLY AVERAGE DATA.

P - PRELIMINARY

Table 2

JAN. 4, 1980

Money and Credit Aggregate Measures

Seasonally Adjusted, Billions of Dollars

Period	Bank Reserves 1/			Bank Credit	Money Stock Measures							
	Total	Non-borrowed	Monetary Base	Total Loans and Investments	M-1	M-1+	M-2	M-3	M-4	M-5	M-6	M-7
	1	2	3	4	5	6	7	8	9	10	11	12
ANNUALLY:												
1976	37,242	37,189	120,801	808.1	313.8	517.2	740.6	1235.6	803.0	1298.0	1436.1	1483.8
1977	39,179	38,610	130,896	895.9	338.7	560.6	809.4	1374.3	843.1	1448.0	1601.8	1658.1
1978	41,572	40,703	142,685	1018.1	361.5	586.1	879.0	1503.3	975.6	1600.0	1765.8	1851.2
MONTHLY:												
1978--NOV.	41,573	40,870	141,748	1011.1	360.7	587.0	875.6	1495.0	971.0	1590.4	1753.0	1832.8
DEC.	41,572	40,703	142,685	1018.1	361.5	586.1	879.0	1503.3	975.6	1600.0	1765.8	1851.2
1979--JAN.	41,767	40,764	143,700	1034.5	360.2	581.9	879.0	1507.7	979.5	1608.2	1770.1	1865.9
FEB.	41,028	40,055	143,616	1045.6	359.4	578.8	880.9	1513.9	983.0	1616.0	1785.3	1879.0
MAR.	41,100	40,109	144,176	1052.5	360.0	578.3	883.9	1521.9	982.9	1620.9	1794.5	1891.5
APR.	40,910	39,993	144,748	1064.7	365.5	584.0	894.4	1535.4	989.4	1630.4	1808.4	1909.0
MAY	40,749	38,984	145,129	1072.5	365.7	583.1	898.4	1541.6	989.0	1632.1	1813.1	1917.9
JUNE	40,697	39,279	145,877	1083.8	370.3	589.2	909.0	1556.9	993.9	1641.8	1825.1	1934.0
JULY	41,127	39,957	147,240	1095.9	373.5	594.3	918.7	1571.6	1003.3	1656.2	1839.4	1954.1
AUG.	41,375	40,290	148,725	1106.5	375.6	597.6	927.1	1584.6	1013.0	1670.5	1852.8	1973.0
SEPT.	41,773	40,432	150,445	1126.5	379.2	601.2	936.6	1599.0	1024.7	1687.1	1869.8	1995.8
OCT.	42,480	40,457	151,770	1132.5	380.0	598.8	943.3	1608.6	1034.4	1699.6	1882.3	2013.9
NOV. P	42,658	40,747	152,367	1132.0	380.4	592.9	948.2	1615.9	1043.2	1710.9	1893.7	2030.7
WEEKLY:												
1979--NOV. 7P	42,637	40,709	152,386		381.1	594.9	947.4		1041.3			
14P	42,306	40,448	152,015		379.9	592.7	948.3		1042.7			
21P	42,955	41,090	152,757		381.4	593.6	949.4		1044.6			
28P	42,577	40,556	152,465		380.3	591.8	948.4		1044.4			
DEC. 5P	43,208	41,388	152,780		380.5	591.4	949.7		1045.7			
12P	43,441	42,149	153,379		381.6	592.5	951.2		1046.5			
19P	42,944	41,260	153,008		381.1	591.9	951.7		1045.9			
26P	43,259	42,035	153,662		383.1	593.3	954.2		1047.6			
1980--JAN. 2P	43,284	41,853	154,942									

NOTES: WEEKLY DATA ARE DAILY AVERAGES FOR STATEMENT WEEKS. MONTHLY DATA ARE DAILY AVERAGES. WEEKLY DATA ARE NOT AVAILABLE FOR M3, M5, M6, M7, AND TOTAL LOANS AND INVESTMENTS.

1/ BASED ON DATA ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS. DATA SHOWN IN MILLIONS OF DOLLARS.

P - PRELIMINARY

Table 3

JAN. 4, 1980

COMPONENTS OF MONEY STOCK AND RELATED MEASURES

Period	Currency	Demand Deposits	Time and Savings Deposits					Mutual Savings Bank & S&L Shares ^{1/}	Credit Union Shares ^{1/}	Savings Bonds ^{1/}	Short Term U.S. Gov't Securities ^{1/}	Other Private Short-term Assets ^{1/}
			Total	Other Than CDs			CDs					
				Total	Savings	Other						
	1	2	3	4	5	6	7	8	9	10	11	12
(Per cent annual rates of growth)												
ANNUALLY: ^{2/}												
1976	9.5	4.6	8.1	15.0	25.0	7.5	-23.3	15.4	17.8	6.9	7.1	12.1
1977	9.3	7.4	11.4	11.2	11.1	11.4	12.8	14.0	19.5	6.6	12.6	13.5
1978	10.3	6.2	12.8	9.7	1.8	16.7	32.8	10.2	15.0	5.4	8.9	46.7
SEMI-ANNUALLY: ^{2/}												
1ST HALF 1978	9.3	7.6	12.2	7.6	2.9	11.7	42.6	8.5	17.0	6.3	12.5	50.9
2ND HALF 1978	10.7	4.6	12.6	11.4	0.7	20.5	19.0	11.5	12.0	4.3	4.9	33.9
1ST HALF 1979	8.3	1.4	5.3	7.6	-7.6	19.3	-7.1	8.2	4.5	0.7	39.5	62.2
QUARTERLY:												
4TH QTR. 1978	10.5	-2.6	13.9	10.0	-7.4	24.1	36.6	10.7	7.7	4.0	6.2	69.3
1ST QTR. 1979	7.4	-5.0	5.7	4.9	-11.4	17.0	9.9	9.5	1.5	0.0	36.1	54.9
2ND QTR. 1979	8.0	12.6	0.4	11.4	0.6	19.1	-57.0	5.9	9.8	0.0	41.7	51.5
3RD QTR. 1979	13.4	8.5	14.0	13.8	5.4	19.3	15.1	8.0	19.8	0.5	-2.7	60.3
QUARTERLY-AV:												
4TH QTR. 1978	11.5	1.8	13.5	11.5	-1.2	21.9	25.0	11.8	10.1	4.0	7.3	44.4
1ST QTR. 1979	9.1	-5.3	9.5	5.8	-11.8	19.3	29.9	9.6	0.8	1.5	29.2	66.9
2ND QTR. 1979	7.3	8.3	1.1	9.3	-3.5	18.4	-41.0	6.7	8.3	0.0	46.4	49.2
3RD QTR. 1979	11.1	9.3	8.9	13.3	5.8	18.5	-17.7	7.5	19.3	0.0	8.0	58.3
MONTHLY:												
1978--NOV.	10.0	-5.9	24.1	12.2	-10.6	30.8	92.1	9.8	4.6	3.0	-14.4	75.0
DEC.	12.4	-0.9	7.7	6.3	-9.7	18.1	15.1	9.5	9.1	4.5	45.3	81.1
1979--JAN.	8.6	-9.1	10.2	3.2	-15.2	17.0	48.4	9.7	-4.5	1.5	28.1	61.9
FEB.	7.3	-6.4	8.3	6.0	-12.6	19.6	19.1	9.6	-6.8	-1.5	19.2	53.5
MAR.	6.1	0.5	-1.3	5.5	-6.7	13.8	-36.4	8.9	16.0	0.0	58.2	42.3
APR.	8.4	22.1	1.9	11.5	0.0	19.8	-48.5	5.5	6.8	0.0	55.5	44.5
MAY	6.0	-1.4	-1.3	8.6	-6.7	19.1	-55.6	3.9	4.5	0.0	38.2	50.1
JUNE	9.5	16.8	0.8	13.7	8.4	17.3	-75.5	8.1	17.8	0.0	27.5	53.8
JULY	10.6	10.7	11.9	14.0	10.0	17.1	-2.8	7.9	24.2	0.0	-1.2	55.9
AUG.	14.1	4.4	14.3	13.9	6.1	18.7	17.0	7.2	21.5	0.0	-11.7	58.6
SEPT.	15.1	10.1	15.3	13.1	0.0	21.3	30.7	8.6	12.7	1.5	4.7	57.4
OCT.	5.7	0.9	16.7	12.7	-17.0	32.2	40.9	6.5	-10.5	1.5	-1.2	53.3
NOV. P	4.6	0.0	15.4	9.6	-35.1	37.3	51.4	5.5	-6.3	0.0	1.2	49.2

^{1/} GROWTH RATES ARE BASED ON ESTIMATED MONTHLY AVERAGE LEVELS DERIVED BY AVERAGING END OF CURRENT MONTH AND END OF PREVIOUS MONTH REPORTED DATA.

^{2/} BASED ON QUARTERLY AVERAGE DATA.

P - PRELIMINARY.

COMPONENTS OF MONEY STOCK AND RELATED MEASURES

Period	Currency	Demand Deposits	Time and Savings Deposits					Mutual Savings Bank & S&L Shares ^{1/}	Credit Union Shares ^{1/}	Savings Bonds ^{1/}	Short-Term U.S. Gov't Sec ^{1/}	Other Private Short-term Assets ^{1/2/}	Non-Deposit Funds ^{3/}	Total Gov't Demand Deposits ^{4/}
			Total	Other Than CDs			CDs							
				Total	Savings	Other								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
ANNUALLY:														
1976	80.8	233.0	489.2	426.7	202.1	224.7	62.4	456.1	38.9	71.9	66.2	47.7	54.6	11.4
1977	88.6	250.1	544.4	470.7	219.7	251.0	73.7	518.3	46.6	76.6	77.2	56.3	61.8	11.7
1978	97.7	263.8	614.1	517.5	221.6	295.9	96.6	571.2	53.1	80.6	85.3	85.3	84.9	15.5
MONTHLY:														
1978--NOV.	96.7	264.0	610.2	514.8	223.4	291.5	95.4	566.7	52.7	80.3	82.2	79.9	82.5	21.1
DEC.	97.7	263.8	614.1	517.5	221.6	295.9	96.6	571.2	53.1	80.6	85.3	85.3	84.9	15.5
1979--JAN.	98.4	261.8	619.3	518.9	218.8	300.1	100.5	575.8	52.9	80.7	87.3	89.7	83.1	14.8
FEB.	99.0	260.4	623.6	521.5	216.5	305.0	102.1	580.4	52.6	80.6	88.7	93.7	95.8	10.2
MAR.	99.5	260.5	622.9	523.9	215.3	308.5	99.0	584.7	53.3	80.6	93.0	97.0	100.8	9.4
APR.	100.2	265.3	623.9	528.9	215.3	313.6	95.0	587.4	53.6	80.6	97.3	100.6	104.9	8.2
MAY	100.7	265.0	623.2	532.7	214.1	318.6	90.6	589.3	53.8	80.6	100.4	104.8	111.2	9.3
JUNE	101.5	268.7	623.6	538.8	215.6	323.2	84.9	593.3	54.6	80.6	102.7	109.5	115.8	13.8
JULY	102.4	271.1	629.8	545.1	217.4	327.8	84.7	597.2	55.7	80.6	102.6	114.6	119.5	16.0
AUG.	103.6	272.1	637.3	551.4	218.5	332.9	85.9	600.8	56.7	80.6	101.6	120.2	130.3	16.0
SEPT.	104.9	274.4	645.4	557.4	218.5	338.8	88.1	605.1	57.3	80.7	102.0	126.0	131.4	15.9
OCT.	105.4	274.6	654.4	563.3	215.4	347.9	91.1	608.4	56.8	80.8	101.9	131.6	130.4	15.7
NOV. P	105.8	274.6	662.8	567.8	209.1	358.7	95.0	611.2	56.5	80.8	102.0	137.0	125.5	11.1
WEEKLY:														
1979--OCT. 31	105.7	271.9	657.4	564.9	212.6	352.3	92.5							16.5
NOV. 7P	106.0	275.2	660.2	566.3	210.4	355.9	93.9							11.2
14P	105.9	274.1	662.8	568.4	209.4	358.9	94.4							10.0
21P	105.9	275.5	663.2	568.0	208.8	359.1	95.3							10.8
28P	106.0	274.3	664.1	568.2	208.2	360.0	95.9							12.2
DEC. 5P	105.6	274.9	665.2	569.2	207.5	361.7	96.0							11.4
12P	106.1	275.4	664.9	569.7	207.5	362.1	95.2							13.5
19P	106.2	275.0	664.8	570.6	207.4	363.2	94.2							11.9
26P	106.5	276.5	664.5	571.2	206.9	364.3	93.4							14.9

1/ ESTIMATED MONTHLY AVERAGE LEVELS DERIVED BY AVERAGING END OF CURRENT MONTH AND END OF PREVIOUS MONTH REPORTED DATA.

2/ INCLUDES PRIVATE DOMESTIC NONFINANCIAL INVESTORS' HOLDINGS OF COMMERCIAL PAPER, BANKERS ACCEPTANCES, SECURITY RP'S AND MONEY MARKET MUTUAL FUND SHARES.

3/ BORROWINGS BY BANKS FROM OTHER THAN COMMERCIAL BANKS IN THE FORM OF FEDERAL FUNDS PURCHASED, SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, AND OTHER LIABILITIES FOR BORROWED MONEY. PLUS NET LIABILITIES TO RELATED FOREIGN INSTITUTIONS, (NET EURO DOLLAR BORROWINGS), LOANS SOLD TO AFFILIATES, LOAN RPS, AND OTHER MINOR ITEMS.

4/ INCLUDES TREASURY DEMAND DEPOSITS AT COMMERCIAL BANKS AND FEDERAL RESERVE BANKS AND TREASURY NOTE BALANCES.

P - PRELIMINARY

TABLE 5
SELECTED INTEREST RATES
(percent)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
JANUARY 4, 1980

	Short-Term							Long-Term								
	Federal funds	Treasury Bills			CDs Secondary Market 3-mo	Comm. Paper 3-mo*	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp.-Aaa Utility		Municipal Bond Buyer	Home Mortgages		
		Market		Auction				3-yr	10-yr	30-yr	New Issue	Recently Offered		Primary Conv.	Secondary Market	
		3-mo	1-yr	6-mo											FNMA Auc.	GNMA Sec.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
1978--High	10.25	9.30	9.62	9.58	10.96	10.52	11.57	9.59	9.14	8.98	9.30	9.54	6.67	10.38	10.60	9.68
Low	6.58	6.16	6.55	6.42	6.76	6.68	7.75	7.40	7.83	8.08	8.61	8.48	5.58	8.98	9.13	8.43
1979--High	15.61	12.60	11.89	12.65	14.53	14.26	15.75	11.83	10.89	10.45	11.50	11.45	7.38	12.90	13.29	11.77
Low	9.93	8.85	8.64	8.87	9.84	9.66	11.50	8.78	8.79	8.82	9.40	9.39	6.08	10.38	10.42	9.51
1978--Dec.	10.03	9.08	9.44	9.40	10.72	10.37	11.55	9.33	9.01	8.88	9.28	9.41	6.51	10.35	10.50	9.38
1979--Jan.	10.07	9.35	9.54	9.50	10.51	10.25	11.75	9.50	9.10	8.94	9.54	9.51	6.47	10.39	10.70	9.67
Feb.	10.06	9.32	9.39	9.35	10.19	9.95	11.75	9.29	9.10	9.00	9.53	9.56	6.31	10.41	10.54	9.67
Mar.	10.09	9.48	9.38	9.46	10.13	9.90	11.75	9.38	9.12	9.03	9.62	9.62	6.33	10.43	10.43	9.70
Apr.	10.01	9.46	9.28	9.50	10.06	9.85	11.75	9.43	9.18	9.09	9.70	9.74	6.29	10.50	10.59	9.78
May	10.24	9.61	9.27	9.53	10.16	9.95	11.75	9.42	9.25	9.19	9.83	9.84	6.25	10.69	10.84	9.89
June	10.29	9.06	8.81	9.06	9.95	9.76	11.65	8.95	8.91	8.92	9.50	9.50	6.13	11.04	10.77	9.75
July	10.47	9.24	8.87	9.19	10.11	9.87	11.54	8.94	8.95	8.93	9.58	9.53	6.13	11.09	10.66	9.77
Aug.	10.94	9.52	9.16	9.45	10.71	10.43	11.91	9.14	9.03	8.98	9.48	9.49	6.20	11.09	10.67	9.90
Sept.	11.43	10.26	9.89	10.13	11.89	11.63	12.90	9.69	9.33	9.17	9.93	9.87	6.52	11.30	11.09	10.31
Oct.	13.77	11.70	11.23	11.34	13.66	13.23	14.39	10.95	10.30	9.85	10.97	10.91	7.08	11.64	12.52	11.25
Nov.	13.18	11.79	11.22	11.86	13.90	13.57	15.55	11.18	10.65	10.30	11.42	11.36	7.30	12.83	12.75	11.57
Dec.	13.78	12.04	10.92	11.85	13.43	13.24	15.30	10.71	10.39	10.12	11.25	11.33	7.22	12.90	12.49	11.35
1979--Nov. 7	13.77	12.16	11.74	12.09	14.53	14.26	15.25	11.56	10.87	10.45	11.50	11.45	7.27	12.85	--	11.73
14	13.30	12.11	11.31	11.95	14.28	14.09	15.46	11.12	10.69	10.36	11.50	11.41	7.31	12.80	12.93	11.51
21	13.10	11.87	11.27	12.04	14.06	13.58	15.71	11.31	10.71	10.35	11.45	11.38	7.38	12.80	--	11.69
28	12.46	11.22	10.75	11.02	13.14	12.90	15.75	10.64	10.34	10.07	11.20	11.17	7.26	12.90	12.57	11.36
Dec. 5	13.77	11.58	10.88	11.77	13.06	12.70	15.54	10.61	10.29	10.03	11.22	11.16	7.17	12.90	--	11.29
12	13.79	12.11	10.97	11.77	13.26	12.96	15.29	10.86	10.45	10.18	11.28	11.37	7.26	12.90	12.42	11.18
19	13.90	12.21	10.95	12.00	13.82	13.69	15.25	10.68	10.37	10.13	--	11.35	7.22	12.90	--	11.49
26	13.49	12.01	10.86	11.85	13.36	13.35	15.25	10.71	10.45	10.18	--	11.39	7.23	12.90	12.55	11.39
1980--Jan. 2	14.04	12.03	10.88	11.88	13.42	13.20	15.25	10.73p	10.45p	10.20p	--	11.41p	7.32	n.a.	--	11.39
9																
16																
23																
30																
Daily--Dec. 27	13.87	11.97	10.84	--	13.50	13.27	15.25	10.71	10.46	10.19	--	--	--	--	--	--
Jan. 3	13.95p	12.10	11.04	--	13.59	13.05	15.25	10.79	10.60p	10.30p	--	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, 5, 6, and 7 are statement week averages of daily data. Weekly data in column 4 are average rates set in the auctions of 6-month bills that will be issued on the Thursday following the end of the statement week. For columns 8 through 11, the weekly date is the mid-point of the calendar week over which data are averaged. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. Column 15 gives FNMA auction data for Monday preceding the end of the statement week. Column 16 is a 1-day quote for Monday preceding the end of the statement week. The FNMA auction yield is the average yield in bi-weekly auction for short-term forward commitments for government underwritten mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

* 90-119 day maturity prior to November 1979.

TABLE 6
NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES^{1/}
(millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
JANUARY 4, 1980

	Treasury Bills Net Change ^{2/}	Treasury Coupons Net Purchases ^{3/}					Federal Agencies Net Purchases ^{4/}					Net Change Outright Holdings Total ^{5/}	Net RPs ^{6/}
		Within 1 year	1 - 5	5 - 10	Over 10	Total	Within 1 year	1 - 5	5 - 10	Over 10	Total		
1975	-468	337	3,284	1,510	1,070	6,202	191	824	460	138	1,613	7,267	1,272
1976	863	472	3,025	1,048	642	5,187	105	469	203	114	891	6,227	3,607
1977	4,361	517	2,833	758	553	4,660	--	792	428	213	1,433	10,035	-2,892
1978	870	1,184	4,188	1,526	1,063	7,962	-47	45	104	24	127	8,724	-1,774
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1978--Qtr. IV	-5,072	212	1,135	250	247	1,844	--	--	--	--	--	-3,283	-2,130
1979--Qtr. I	-3,750	48	426	134	93	700	-170	-229	--	--	-399	-882 ^{7/}	680
Qtr. II	465	42	640	--	--	682	110	258	2	--	371	-1,795 ^{8/}	2,542
Qtr. III	5,363	395	1,289	309	310	2,302	191	288	3	--	482	8,129	-2,019
Qtr. IV	4,164	118	1,101	81	51	1,351	--	--	--	--	--	4,839	-3,801
1979--July	2,252	218	237	96	142	693	191	288	3	--	482	3,427	-1,665
Aug.	1,712	57	699	140	81	976	--	--	--	--	--	2,687	-2,279
Sept.	1,399	120	354	73	87	634	--	--	--	--	--	2,015	1,922
Oct.	-219	28	703	--	--	731	--	--	--	--	--	-159 ^{9/}	-2,499
Nov.	2,297	--	--	--	--	--	--	--	--	--	--	2,297	2,078
Dec.	2,086	90	398	81	51	620	--	--	--	--	--	2,701	-3,380
1979--Nov. 7	-198	--	--	--	--	--	--	--	--	--	--	-198	-2,903
14	1,937	--	--	--	--	--	--	--	--	--	--	1,937	-643
21	--	--	--	--	--	--	--	--	--	--	--	--	1,667
28	359	--	--	--	--	--	--	--	--	--	--	359	1,066
Dec. 5	122	--	--	--	--	--	--	--	--	--	--	122	-1,125
12	--	90	398	81	51	620	--	--	--	--	--	615	455
19	301	--	--	--	--	--	--	--	--	--	--	301	-1,426
26	1,379	--	--	--	--	--	--	--	--	--	--	1,379	-2,978
1980--Jan. 2	484	--	--	--	--	--	--	--	--	--	--	484	7,200
9													
16													
23													
30													
LEVEL--Jan. 2	50.0	17.7	27.9	12.8	12.7	71.0	1.9	4.2	1.3	.7	8.2	128.8	-7.0

(in billions)

- 1/ Change from end-of-period to end-of-period.
- 2/ Outright transactions in market and with foreign accounts, and redemptions (-) in bill auctions.
- 3/ Outright transactions in market and with foreign accounts, and short-term notes acquired in exchange for maturing bills. Excludes redemptions, maturity shifts, rollovers of maturing coupon issues, and direct Treasury borrowing from the System.
- 4/ Outright transactions in market and with foreign accounts only. Excludes redemptions and maturity shifts.
- 5/ In addition to net purchases of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowings from the System and redemptions (-) of agency and Treasury coupon issues.
- 6/ Includes changes in both RPs (+) and matched sale-purchase transactions (-).
- 7/ The Treasury sold \$2,600 million of special certificates to the Federal Reserve on March 31, 1979 and redeemed the last of them on April 4, 1979.
- 8/ \$640 million of 2-year notes were exchanged for a like amount of cash management bills on April 3, 1979. On April 9, 1979, the bills were exchanged for new 2-year notes.
- 9/ On October 1, 1979, \$668 million of maturing 2- and 4-year notes were exchanged for a like amount of short-term bills, because the note auctions were delayed. On October 9 and 10, the bills were exchanged for new 2- and 4-year notes, respectively.