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January 27, 1984

Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

January 27, 1984

MONETARY POLICY ALTERNATIVES

Recent developments[1]

(1) M2 and M3 expanded at annual rates of about 7-1/4 and 8-1/4 percent, respectively, on average over December and January, based on preliminary estimates for January. Growth of M2 was somewhat below, and M3 a bit above, the 8 percent November-to-March paths specified by the FOMC last month. Expansion of the broad aggregates was bolstered by a pick-up in M1 growth from the reduced pace of late summer and autumn to about an 8-1/4 percent annual rate over the two-month period--a more rapid pace so far than the 6 percent November-to-March rate specified by the Committee. This accelerated growth in M1 partially offset, in terms of effects on M2 and M3, a marked slowing in growth of the nontransactions components of these broad aggregates.

(2) Growth in the monetary and credit aggregates in 1983 relative to FOMC longer-run ranges for the period are shown in the table below. Annual benchmark and seasonal revisions have raised growth rates and redistributed growth during the year--in the case of M1 from the first half of the year into the second half.

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1. All money stock data presented in the bluebook incorporate annual seasonal and benchmark revisions and, for M3, a definitional change to include term Eurodollars. Impacts of these revisions on money growth outcomes in 1983 relative to long-run targets are shown in the table on page 2. More detail on the revisions is presented in Appendix I. The revised data are STRICTLY CONFIDENTIAL until their official release.

KEY MONETARY POLICY AGGREGATES
(Seasonally adjusted annual rates of growth)

	1983		1984	Nov.-	Annual growth rates[1]	
	Nov.	Dec.	Jan.[e]	Jan.[e]	1983	1982
Money and Credit Aggregates						
M1	3.2	5.0	12.1	8.6	10.0	8.7
M2	8.2	8.1	6.5	7.3	12.1	9.5
M3	14.2	8.5	8.3	8.4	9.7	10.5
Domestic nonfinancial debt	10.2	10.1	—	—	10.5	9.2
Bank Credit	13.7	13.1	13.9	13.8	10.8	7.9
Reserve Measures[2]						
Nonborrowed reserves[3]	-17.1	10.2	-2.5	3.8	3.9	7.1
-Total reserves	-6.9	5.8	-4.5	0.7	4.8	6.5
Monetary base	6.1	6.4	14.4	10.4	9.2	7.8
Memo: (Millions of dollars)						
Adjustment and seasonal borrowing	899	772	721	747	666	882
Excess reserves	529	561	680	621	489	362

e--Estimate based on partial data.
1. Fourth quarter to fourth quarter growth rates except for the credit aggregates which are measured from December to December, and borrowings and excess reserves, which are average levels for the year.
2. Growth rates of reserve measures are adjusted to remove the effects of discontinuities resulting from phased changes in reserve ratios under the Monetary Control Act.
3. Includes special borrowing and other extended credit from the Federal Reserve.

N.B. Money stock data in this table are preliminary and reflect annual seasonal and benchmark revisions, as well as a definitional change affecting M3. See Appendix I.

	Ranges[1]	After Revision	Before Revision
M1	5 to 9	7.2	5.5
M2	7 to 10	8.3	7.8
M3	6-1/2 to 9-1/2	9.7[2]	9.1
Debt	8-1/2 to 11-1/2	10.5	10.5

1. Base for M1 is QII '83 and for M2 is the February-March average.
2. Only about one-tenth of a percentage point of the revision reflects the recent redefinition of M3 to include term Eurodollars.

(3) Borrowing by domestic nonfinancial sectors in December, as in November, was above its average pace over the first three quarters of the year. Treasury borrowing, however, was at a slower pace, reflecting in part the timing of auctions in relation to year-end holidays. Consumer credit growth has advanced in recent months with stepped-up purchases of durables, especially automobiles, while financing needs of corporations rose as expansion in fixed investment and inventory accumulation evidently outstripped growth in internally generated funds. In December, bank credit growth was near the very brisk November pace, reflecting a further pick-up in loans, led by the business and consumer categories, and financed in part by a deceleration of security acquisitions.

(4) Nonborrowed reserves expanded modestly in December and January on average, but showed more growth than total reserves as the average level of borrowing dropped somewhat. Excluding the $1.3 billion that was borrowed in the year-end statement week, borrowing has averaged virtually $650 million since the last Committee meeting. The monetary base over the past two months has increased at about a 10-1/2 percent annual rate, boosted in January by accelerated currency growth.

(5) The federal funds rate has averaged close to 9-1/2 percent over the intermeeting period, little different from the weeks just prior to the last FOMC meeting. Other market rates, however, have moved somewhat lower, as the market responded to signs of a slowing in economic expansion relative to expectations and, in the case of short rates, an unwinding of mid-December tax date pressures. Private short-term rates are off about 50 to 70 basis points, and corporate and municipal bond yields are down about 60 basis points. Treasury yields also dropped, though by substantially less.

(6) The dollar has appreciated by about 1-1/4 percent on a weighted average basis since the last FOMC meeting, advancing mainly against European currencies while edging down against the yen. The dollar is currently only slightly below record peaks reached earlier in January.

the United States sold $143 million, intervening on two days during the period. Exchange markets seemed particularly thin and volatile in early January reflecting, among other things, considerable uncertainty over the near-term pace of economic activity in the United States and the accompanying interest rate outlook.

Long-run ranges

(7) The previous bluebook discussed issues that might be considered in establishing long-run ranges for the monetary aggregates and credit for 1984--including consistency with continued economic recovery and progress toward reasonable price stability, the outlook for a return to more predictable velocity patterns, particularly for M1, and factors influencing credit growth. This bluebook presents three alternative sets of longer-term growth ranges for the fourth quarter of 1983 to the fourth quarter of 1984 for Committee consideration, and discusses in general terms possible implications for the economy. The set of ranges announced by the Committee last July as its tentative choices for 1984 are shown below as alternative II. Alternative I contemplates somewhat less rapid growth in money and credit, while alternative III--which continues the ranges set for 1983 into 1984--would allow for more rapid growth in the aggregates.

	Alt. I	Alt. II	Alt. III
M1	4 to 7	4 to 8	5 to 9
M2	5-1/2 to 8-1/2	6-1/2 to 9-1/2	7 to 10
M3	6 to 9	6 to 9	6-1/2 to 9-1/2
Debt	8 to 11	8 to 11	8-1/2 to 11-1/2

(8) Alternative II includes growth ranges for the broad aggregates and credit that are 1/2 point lower than last year's ranges, and a range for M1 that is one point lower than the range adopted for the second half of last year. The 1/2 point reduction in the range for M2 may not represent an "effective" reduction, since last year's range had allowed for some residual shifting into MMDAs from assets outside M2--on the order of 1/2 to 1 percentage point at an annual rate, which is close to what actually developed, as nearly as can be estimated. On that reasoning,

the Committee could consider whether to reduce the M2 range for 1984 by one percentage point from 1983 (rather than 1/2 point) so as to be more consistent with the effective reduction embodied in the other ranges shown in alternative II. That would make the M2 range under alternative II 6 to 9 percent, the same as for M3.

(9) The staff's GNP projection for 1984 assumes growth in the money and credit aggregates generally in the upper half of the alternative II ranges (though in the case of M2 right around the midpoint of a 6-1/2 to 9-1/2 percent range). Such outcomes would represent a deceleration of — actual growth rates of the monetary aggregates in 1984 from their rates for 1983 as a whole, though the slowing, if any, would be much less marked for M1 and M2 when comparisons are made with growth in 1983 from their target base periods. Credit growth in 1984 is expected to be close to the 10-1/2 percent pace of 1983.

(10) The staff anticipates that the behavior of money demand in 1984 will be roughly in conformance with historic norms, and that the velocities of the various aggregates will post moderate further increases, partly induced by an updrift of interest rates over the course of this year that is currently projected by the staff in the context of a rising structural budget deficit. Of course, projections of the behavior of the aggregates, not to mention projections of interest rates, remain uncertain. Nonetheless, the pickup in M1 velocity over recent quarters is suggestive of the emergence of somewhat more predictable behavior patterns for that aggregate. The growth in velocity of M1 for 1984, given the projected growth in nominal GNP of around 9 percent, would probably be on the order of 2-1/2 to 3 percent. In the second year of economic expansions since the early 1950s V1 has increased on average by about 3 percent (some of which reflects the impact of cyclical interest rate increases).

(11) The expected relationship between M2 and M3 next year may differ a bit from past patterns. Since the beginning of the 1970s, M3 has for the most part tended to grow a little more rapidly than M2. In 1984, there is more of a possibility that M3 growth may be about the same as M2 growth--given the expanded capacity of institutions to offer market interest rates on assets included in M2 and the likelihood that a substantial portion of bank credit expansion will be funded through the Euro-dollar market (as an aspect of large net inflows of funds from abroad that are the obverse of our current account deficit) rather than through CDs issued in the U.S. In addition, slower growth in mortgage credit should hold back thrift issuance of large CDs.

(12) The specifications of alternative I would be consistent with a policy that exerts somewhat more restraint on demands for goods and services so as to provide greater assurance that inflationary pressures will be kept in check over time. Slower growth in money and a better price performance over 1984 and into 1985, through their impact on expectations, could improve the price-output tradeoff in subsequent stages of the transition to price stability. As growth in M2 and M1 is restrained to rates around the midpoints of the proposed 5-1/2 to 8-1/2 and 4 to 7 percent ranges, respectively, interest rates would probably be subject to more upward pressure this year than under alternative II. As those pressures come sooner, the odds would be reduced that interest rates would need to rise further in 1985 in association with continued deceleration in money growth targets, and by then might well begin to decline. M3 growth in this alternative may be little different than under alternative II as institutions attempt to sustain credit expansion by issuing more large-denomination time deposits, partly to finance a shift in business credit demands from

bond markets to banks under conditions of temporarily rising long-term rates.

(13) The more rapid growth of the aggregates contemplated by Alternative III may not involve any rise of short-term interest rates over the course of next year, but at the risk of being more accommodative to upward price pressures. In that process, the trade-off between output and price changes, for any given money growth, would begin to deteriorate if inflationary expectations worsened. Such expectational effects might tend to push longer-term rates up as the year progressed, and involve higher short-term rates in 1985 in the process of restraining inflation over time.

(14) The preceding analysis of all of the alternatives assumed that underlying demands for goods and services would be about as strong as as in the staff's GNP forecast. Should such demands prove to be substantially weaker, growth of M1 might tend to be substantially stronger than indicated--given M2 growth around, say, the middle of the alternative II range--as falling market interest rates increase the demand for transactions accounts, especially fixed ceiling rate NOW accounts. In such a case, M1 growth toward the upper end of its alternative III range could evolve. This would be similar to the experience with M1 in the last half of 1982 and early 1983, and would be a consequence of a greater interest elasticity for M1 demand under current institutional conditions than for M2. A symmetrical argument might be made if demands for goods and services proved to be substantially stronger than now anticipated--leading to the possibility of reduced M1 growth well below the top of its alternative I range in face of a marked rise in interest rates, although this effect could be muted by shifts of funds into super-NOW accounts from fixed-ceiling NOW accounts and demand deposits.

Prospective developments

(15) The table below shows alternative specifications for the growth of the monetary aggregates for the November-to-March period, the interval used by the Committee in setting monetary growth rates at its December meeting; more detailed data are shown on the table and charts on ensuing pages. The associated federal funds rate ranges for the upcoming intermeeting period and implied growth rates for the aggregates from January to March are presented in the lower panels of the table. The specifications of alternative B retain the growth rate for the broad aggregates chosen by the Committee at its last meeting; however, they also include a somewhat higher growth for M1 in light of recent experience with the relationship between the narrow and broader aggregates. Alternative A calls for more rapid money growth, and alternative C involves slower growth, with M1 growing at the rate specified at the previous meeting.

	Alt. A	Alt. B	Alt. C
Growth from November to March			
M2	8-1/2	8	7-1/2
M3	8-1/2	8	7-1/2
M1	7-1/2	6-3/4	6
Federal funds rate ranges	6 to 9-1/2	6 to 10	7 to 11
Implied growth from January to March			
M2	9-1/4	8-1/4	7-1/4
M3	8-1/2	7-1/2	6-1/2
M1	6-1/2	5	3-1/2

(16) The specifications of alternative B, which are expected to involve little change in money market conditions over the intermeeting period, would bring M2 growth to the middle of its alternative II range by

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M2			M3			M1		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1983--October	2167.4	2167.4	2167.4	2657.2	2657.2	2657.2	521.7	521.7	521.7
November	2182.3	2182.3	2182.3	2688.7	2688.7	2688.7	523.1	523.1	523.1
December	2197.0	2197.0	2197.0	2707.7	2707.7	2707.7	525.3	525.3	525.3
1984--January	2208.9	2208.9	2208.9	2726.4	2726.4	2726.4	530.6	530.6	530.6
February	2226.0	2224.2	2222.4	2745.6	2743.4	2741.2	533.5	532.8	532.2
March	2243.2	2239.6	2235.9	2764.9	2760.4	2755.9	536.4	534.9	533.7
Growth Rates Monthly									
1983--October	10.9	10.9	10.9	9.4	9.4	9.4	6.5	6.5	6.5
November	8.2	8.2	8.2	14.2	14.2	14.2	3.2	3.2	3.2
December	8.1	8.1	8.1	8.5	8.5	8.5	5.0	5.0	5.0
1984--January	6.5	6.5	6.5	8.3	8.3	8.3	12.1	12.1	12.1
February	9.3	8.3	7.3	8.5	7.5	6.5	6.6	5.0	3.6
March	9.3	8.3	7.3	8.4	7.4	6.4	6.5	4.7	3.4
Nov. '83 to Mar. '84	8.5	8.0	7.5	8.5	8.0	7.5	7.6	6.8	6.1
Growth Rates Quarterly Average									
1983--Q1	20.4	20.4	20.4	10.7	10.7	10.7	12.7	12.7	12.7
Q2	10.6	10.6	10.6	9.3	9.3	9.3	11.7	11.7	11.7
Q3	6.9	6.9	6.9	7.4	7.4	7.4	9.4	9.4	9.4
Q4	8.5	8.5	8.5	10.0	10.0	10.0	4.9	4.9	4.9
1984--Q1	8.0	7.7	7.4	9.1	8.8	8.4	7.7	7.2	6.7

Chart 1

Actual and Targeted M2

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1/30/84

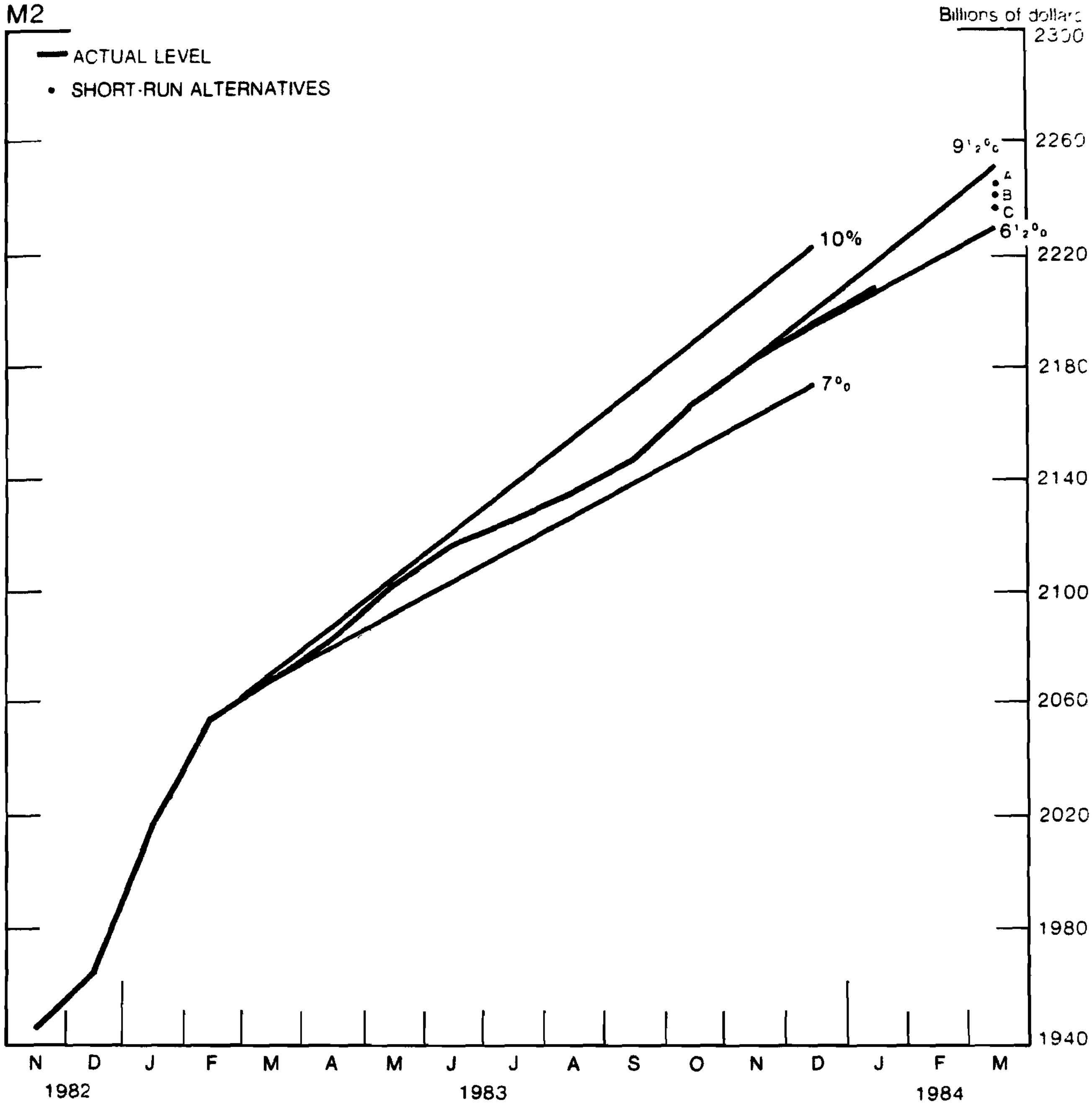


Chart 2

Actual and Targeted M3

CONFIDENTIAL (FR)
Class II FOMC
1/30/84

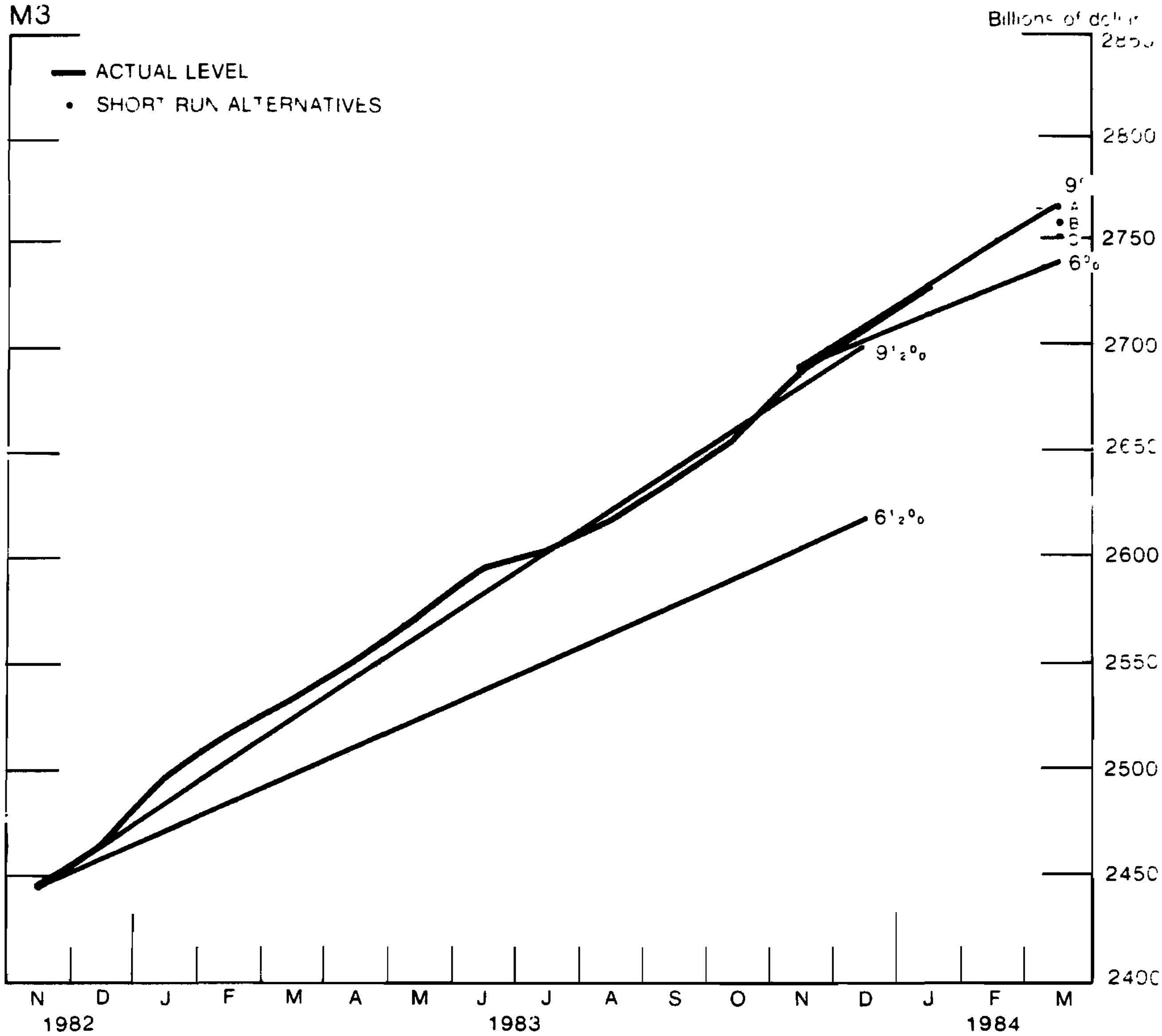
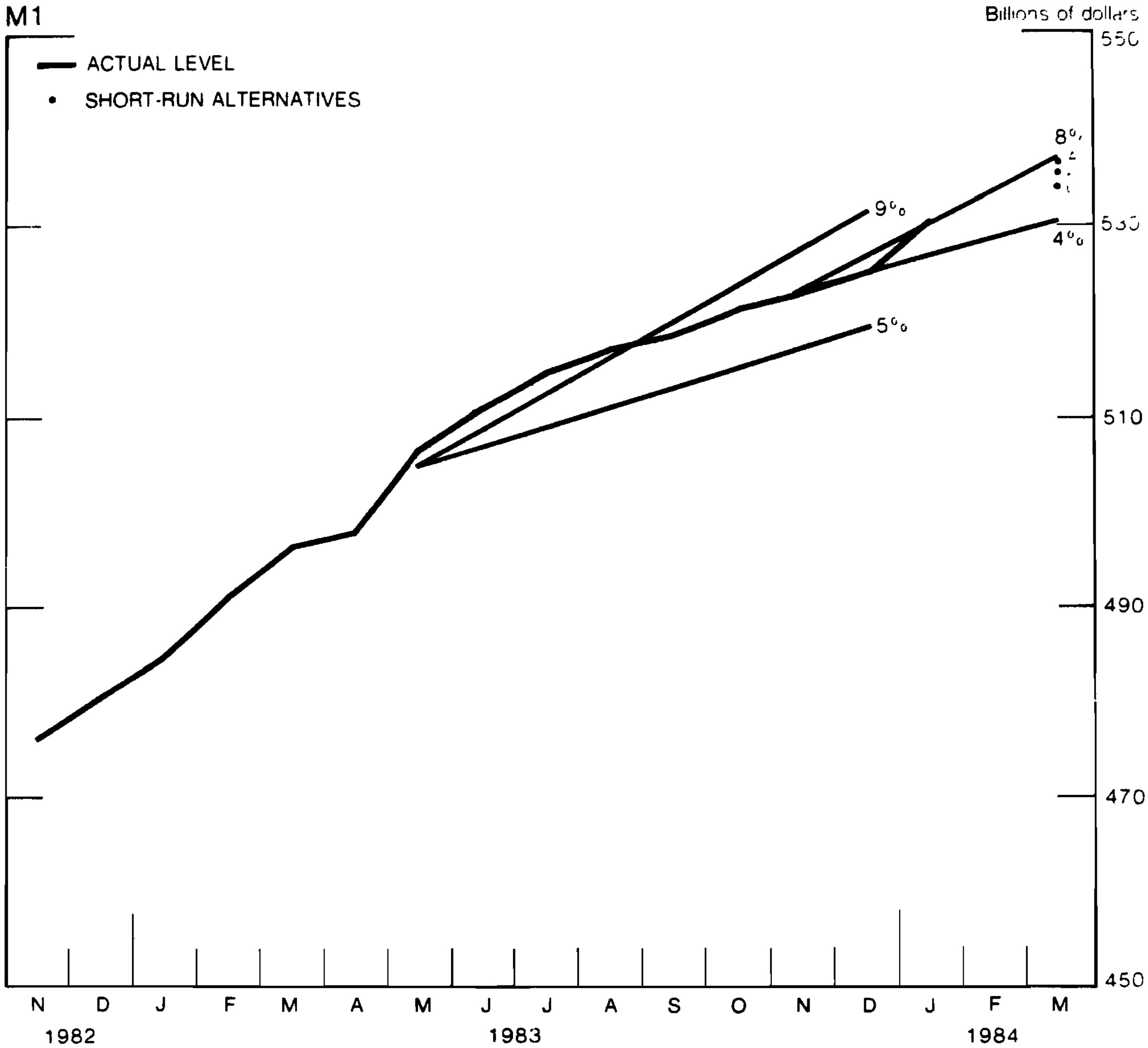


Chart 3

CONFIDENTIAL (FR)
Class II FOMC
1 30 84

Actual and Targeted M1



March, with M1 in the upper part of its range. M1 growth would be expected to moderate in February and March from the relatively rapid average pace of December and January, to about a 5 percent annual rate. On a quarterly average basis, M1 expansion in the first quarter would be around 7-1/4 percent, implying growth in velocity of around 2-1/2 percent, given projected first-quarter nominal GNP growth. Such a velocity rise would be somewhat less than in the fourth quarter--which was about 3-1/2 percent--and roughly in line with predictions of the money demand equations in the Board's quarterly and monthly models. While M1 growth may slow over the next two months, growth in the nontransactions component of M2 is expected to pick up from its depressed January pace and be more in line with growth in income, thereby sustaining M2 growth at around an 8 percent annual rate.

(17) Borrowing at the discount window under alternative B would be expected to range around $650 million, and federal funds to remain in the 9-1/4 to 9-1/2 percent area. However, with contemporaneous reserve requirements being instituted on February 2, reserve paths will have to take account of transitional and more permanent adaptations by banks in their reserve management strategies that could affect, among other things, patterns of borrowing and excess reserves. Reserve paths in the initial stage of CRR implementation would probably need to allow for higher than average excess reserves. By March, however, excess reserves may be closer to "normal," and on that assumption growth in total reserves over the next two months is likely to be around 5 percent under alternative B. Nonborrowed reserve growth, assuming borrowing settles down around $650 million, would increase at a 6 percent annual rate.

(18) Interest rates under alternative B would be expected to fluctuate in a narrow range around current levels over the intermeeting

period. The recent drop in short and long-term rates is not likely to carry further, given the continued growth expected in the monetary aggregates and expansion in credit demands at slightly more than the fourth-quarter pace. Treasury credit demands are likely to be larger this quarter than in the fourth, offsetting some tendency for private borrowing to slow. State and local government bond issuance is expected to be at a relatively reduced pace, given the legislative uncertainty about the status of some types of revenue bonds. The increase in household mortgage and consumer installment debt also is likely to moderate along with the slower growth of consumer durables purchases and the relatively flat pattern of housing starts and expenditures. Corporate borrowing, on the other hand, may be greater than in the fourth quarter as internal fund generation levels off while spending for capital and inventories continues to rise.

(19) The less rapid growth of money under alternative C, though still leaving the aggregates well within the alternative II longer-run range by March, would also be consistent with the slower annual growth rates of longer-run alternative I. The November-to-March growth rates of 7-1/2 and 6 percent for M2 and M1, respectively, contemplated by this alternative would bring these aggregates to levels just above the mid-points of the alternative I ranges by March. Such growth rates would probably entail somewhat greater restraint on reserve positions over the weeks ahead, with borrowing rising to the neighborhood of $1 billion. Nonborrowed reserves might contract slightly over the next two months.

(20) A funds rate of around 10 percent might evolve from these reserve conditions. Because market expectations of higher rates have become more muted in recent weeks, interest rates generally would also rise rather sharply, although interpretations of developments by market participants might for a time be made more difficult by uncertainties in connection

with CRR. The 3-month Treasury bill rate might move up to the area of 9-1/2 percent, bank CD rates to around 10 percent, and the dollar would rise further on foreign exchange markets. The tendency for bond yields to rise might be moderated--especially once the forthcoming Treasury refunding is distributed--as corporate bond offerings fall off and if expectations of a weakening in economic activity become more pervasive.

(21) The more rapid growth of money under alternative A would bring M1 near the upper limit of, and M2 into the upper part of, their respective alternative II longer-run ranges. In that sense alternative A may be more consistent with the more expansive longer-run growth rates of alternative III.

(22) Expansion of M1 and M2 at annual rates of 6-1/2 and 9-1/4 percent, respectively, from January to March, as contemplated by A, would probably involve a decline of interest rates over the next few weeks as borrowing at the discount window dropped to an average of around $400 million and nonborrowed reserve growth accelerated to about a 12 percent annual rate for the January to March period. The funds rate would drop to 9 percent or a little lower, and other short-term rates would fall by comparable amounts, with the Treasury bill rates moving to below 8-1/2 percent; and the dollar would decline--perhaps sharply--on foreign exchange markets. Such an easing of money market conditions would likely also set off a substantial rally in bond and stock markets, though a rally that could be reversed if market participants concluded that greater inflationary pressures would become more likely.

Directive language

(23) Given below are two alternative approaches to the directive paragraphs that specify the long-run ranges for 1984 and the objectives for operations over the intermeeting period. The first alternative retains the present degree of emphasis on M1, while the second is suggested should the Committee wish to place additional weight on that aggregate.

Alternative 1 (No change in M1 emphasis)

The proposed language related to the long-term ranges is presented in paragraphs (a) and (b) and language related to operations is shown in paragraph (c). Paragraph (a) presents the long-run targets in the same order and with essentially the same language as in the current directive. The qualifying language in the current directive about the relationship of the aggregates to economic goals is shown in brackets at the end of paragraph (a)--with suggested modifications indicated--should the Committee still wish to emphasize particular uncertainties in that respect. Paragraph (b), taken without change from the present directive, indicates weights to the given to the various aggregates and other factors in policy implementation.

Proposed Language for Long-term Ranges

(a) The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In furtherance of these objectives the Committee established growth ranges for the broader aggregates of __ to __ percent for M2 and __ to __ percent for M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee considered that growth of M1 in a range of __ to __ percent from the fourth quarter of 1983 to the fourth quarter of 1984 would be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was set at ___ to ___ percent for 1984. [The Committee recognized that the relationships between such ranges and ultimate economic goals MAY have become less predictable; that the impact of ~~new~~ DEREGULATED deposit accounts on ~~growth~~ ONGOING BEHAVIOR of monetary aggregates cannot YET be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts may be reflected in some changes in the historical trends in velocity.]

(b) In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on the behavior of the broader monetary aggregates. The behavior of M1 and total domestic nonfinancial debt would be monitored, with the degree of weight placed on M1 over time dependent on evidence that velocity characteristics are resuming more predictable patterns. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

Proposed Operational Paragraph

(c) The Committee seeks in the short run to maintain at least (or MAINTAIN/INCREASE SLIGHTLY/DECREASE SLIGHTLY) the existing degree of reserve restraint, TAKING ACCOUNT OF EFFECTS OF THE SHIFT TO THE CONTEMPORANEOUS RESERVE REQUIREMENT SYSTEM,

PARTICULARLY IN THE PERIOD IMMEDIATELY FOLLOWING IMPLEMENTATION, ON RESERVE MANAGEMENT BY DEPOSITORY INSTITUTIONS. The action is is expected to be associated with growth of M2 and M3 at annual rates of around ~~8~~ ___ AND ___ percent RESPECTIVELY from November to March. The Committee anticipates that M1 growth at an annual rate of around ~~6~~ ___ percent from November to March will be consistent with its objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt WILL BE WITHIN THE RANGE ESTABLISHED FOR THE YEAR ~~would continue at around its recent pace~~. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly WHILE LESSER RESTRAINT MIGHT BE ACCEPTABLE IN THE CONTEXT OF A SIGNIFICANT SHORTFALL IN GROWTH OF THE AGGREGATES FROM CURRENT EXPECTATIONS. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of ~~6 to 10~~ ___ TO ___ percent.

Alternative 2 (Increased emphasis on M1)

Paragraphs (d) and (e) below present alternative language that would give more emphasis to M1 as a long-run target, while paragraph (f) suggests conforming changes in the operational paragraph.

Proposed Language for Long-term Ranges

(d) The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In furtherance of these objectives the Committee established the following growth ranges for monetary and credit aggregates for the period from the fourth quarter of 1983 to the fourth quarter of 1984: ___ to ___ percent for M1, ___ to ___ percent for M2, and ___ to ___ percent for M3. The associated range for total domestic nonfinancial debt was set at ___ to ___ percent in 1984.

(e) In implementing monetary policy the Committee agreed to increase somewhat the weight on M1 as behavior of its velocity has recently been broadly consistent with historical patterns. Still, uncertainties remain about the future behavior of M1 velocity, in view of the substantial changes in the composition of M1 and the characteristics of deposits in this aggregate; and the Committee will continue to place substantial weight on the behavior of the broader monetary aggregates and to monitor expansion in total domestic nonfinancial debt. In general, the Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

Proposed Operational Paragraph

(f) The Committee seeks in the short run to maintain at least (or MAINTAIN/INCREASE SLIGHTLY/DECREASE SLIGHTLY) the existing degree of reserve restraint, TAKING ACCOUNT OF EFFECTS OF THE SHIFT TO THE CONTEMPORANEOUS RESERVE REQUIREMENT SYSTEM, PARTICULARLY IN THE PERIOD IMMEDIATELY FOLLOWING ITS IMPLEMENTATION, ON RESERVE MANAGEMENT BY DEPOSITORY INSTITUTIONS. THE ACTION IS EXPECTED TO BE ASSOCIATED WITH GROWTH OF M1, M2, AND M3 AT ANNUAL RATES OF AROUND __ PERCENT, __ PERCENT, AND __ PERCENT RESPECTIVELY FROM NOVEMBER TO MARCH. EXPANSION OF NONFINANCIAL DEBT IS EXPECTED TO BE WITHIN THE RANGE ESTABLISHED FOR THE YEAR. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly WHILE LESSER RESTRAINT MIGHT BE ACCEPTABLE IN THE CONTEXT OF A SIGNIFICANT SHORTFALL IN GROWTH OF THE AGGREGATES FROM CURRENT EXPECTATIONS. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of ~~6 to 10~~ ___ TO ___ percent.

Appendix I

Money Stock Revisions

Measures of the money stock have been revised to reflect annual seasonal and benchmark revisions, as well as a definitional change affecting M3. These revisions are preliminary and are to be regarded as strictly confidential until their release. This appendix discusses the revisions and presents tables comparing growth rates of the old series and estimates of the new series (which should still be considered preliminary).

Definitional Change

The definition of M3 has been changed to include term Eurodollars held by U.S. residents in Canada and the United Kingdom, and at foreign branches of U.S. banks elsewhere. A recent reporting change provides data on term Eurodollars at a panel of branches of large U.S. banks on a schedule similar to other M3 elements. The inclusion of term Eurodollars raised the level of M3 by about $90 billion but had a minimal effect on M3 growth in 1983.

Benchmark Revisions

Deposits have been benchmarked to recent call reports; further revisions to deposits stem from changes to System reporting procedures made in 1983, largely related to reduced reporting under the Garn-St Germain Act of 1982. In addition, the currency component was revised to reflect revisions to figures on the amount of coin in circulation. The net impact of these revisions was to raise the levels and boost the growth rates of each of the aggregates in 1983.

Seasonal Revisions

Seasonal factors have been updated using the X-11 ARIMA procedure adopted in 1982. Nontransactions M2 has been seasonally adjusted as a whole--instead of being built up from seasonally adjusted savings and small time deposits--in order to reduce distortions caused by portfolio shifts arising from financial change in recent years, especially shifts to MMDAs in 1983. A similar procedure has been used to seasonally adjust the non-M2 portion of M3.

The effects of revisions to seasonal adjustment factors on M1 growth are larger than average while those for M2 and M3 are more typical of recent years. Seasonal revisions tended to boost growth in all of the aggregates in the latter part of 1983.

Table I-1

COMPARISON OF REVISED AND OLD M1 GROWTH RATES
(percent changes at annual rates)

	Revised M1 (1)	Old M1 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1982--Oct.	17.6	14.2	3.4	0.9	2.5
Nov.	15.8	13.6	2.2	0.6	1.6
Dec.	10.3	10.6	-0.3	-0.5	0.2
1983--Jan.	11.0	9.8	1.2	-2.7	3.9
Feb.	15.1	22.4	-7.3	0.4	-7.7
Mar.	13.2	15.9	-2.7	0.2	-2.9
Apr.	3.4	-2.7	6.1	1.8	4.3
May	21.5	26.3	-4.8	0.5	-5.3
June	9.9	10.2	-0.3	1.2	-1.5
July	9.2	8.9	0.3	0.9	-0.6
Aug.	5.8	2.8	3.0	0.1	2.9
Sept.	3.5	0.9	2.6	0.4	2.2
Oct.	6.5	1.9	4.6	1.7	2.9
Nov.	3.2	0.9	2.3	0.2	2.1
Dec.	5.0	6.5	-1.5	-1.0	-0.5
1984--Jan.	12.1	8.8	3.3	0.5	2.8
Quarterly					
1982--QIV	15.5	13.1	2.4	0.3	2.1
1983--QI	12.7	14.1	-1.4	-0.8	-0.6
QII	11.7	12.2	-0.5	0.9	-1.4
QIII	9.4	8.9	0.5	0.7	-0.2
QIV	4.9	2.1	2.8	0.6	2.2
Annual					
1983--QIV '82 to QIV '83	10.0	9.6	0.4	0.4	0.0
Semi-Annual					
QIV '82 to QII '83	12.4	13.3	-0.9	0.0	-0.9
QII '83 to QIV '83	7.2	5.5	1.7	0.7	1.0

Table I-2

COMPARISON OF REVISED AND OLD M2 GROWTH RATES
(percent changes at annual rates)

	Revised M2 (1)	Old M2 (2)	Difference (1-2) (3)	Difference due to Benchmark (4)	Difference due to Seasonals (5)
Monthly					
1982--Oct.	9.3	7.9	1.4	-0.1	1.5
Nov.	10.5	9.5	1.0	0.4	0.6
Dec.	12.1	8.9	3.2	0.5	2.7
1983--Jan.	31.6	30.9	0.7	-0.7	1.4
Feb.	21.9	24.4	-2.5	-0.7	-1.8
Mar.	7.9	11.2	-3.3	0.1	-3.4
Apr.	8.3	2.8	5.5	1.9	3.6
May	11.8	12.4	-0.6	0.1	-0.7
June	8.4	10.4	-2.0	-0.1	-1.9
July	5.3	6.8	-1.5	0.0	-1.5
Aug.	5.0	6.0	-1.0	0.0	-1.0
Sept.	7.1	4.8	2.3	0.6	1.7
Oct.	10.9	9.1	1.8	0.8	1.0
Nov.	8.2	7.2	1.0	0.1	0.9
Dec.	8.1	5.5	2.6	0.3	2.3
1984--Jan.	6.5	6.8	-0.3	-0.4	0.1
Quarterly					
1982--QIV	10.6	9.3	1.3	0.3	1.0
1983--QI	20.4	20.3	0.1	-0.3	0.4
QII	10.6	10.1	0.5	0.6	-0.1
QIII	6.9	7.8	-0.9	0.1	-1.0
QIV	8.6	7.0	1.6	0.5	1.1
Annual					
1982--QIV '82 to QIV '83	12.1	11.8	0.3	0.2	0.1
Feb/Mar. '83 to QIV '83	8.3	7.8	0.5	0.5	0.0

Table I-3

COMPARISON OF REVISED AND OLD M3 GROWTH RATES[1]
(percent changes at annual rates)

	Revised M3 (1)	Old M3 (2)	Difference (1-2) (3)	Difference Due to Benchmark (4)	Difference Due to Seasonals (5)
Monthly					
1982--Oct.	11.7	9.3	2.4	0.0	2.4
Nov.	7.8	9.3	-1.5	-0.7	-0.8
Dec.	5.7	3.7	2.0	-0.3	2.3
1983--Jan.	14.2	13.0	1.2	-1.4	2.6
Feb.	13.3	13.7	-0.4	1.5	-1.9
Mar.	7.3	8.1	-0.8	1.3	-2.1
Apr.	8.6	3.3	5.3	2.8	2.5
May	9.6	10.9	-1.3	0.6	-1.9
June	10.3	11.0	-0.7	0.2	-0.9
July	5.0	5.5	-0.5	-0.2	-0.3
Aug.	6.1	8.6	-2.5	0.1	-2.6
Sept.	8.8	7.4	1.4	-0.2	1.6
Oct.	9.4	8.3	1.1	-0.6	1.7
Nov.	14.2	11.6	2.6	3.2	-0.6
Dec.	8.5	6.4	2.1	0.2	1.9
1984--Jan.	8.3	6.9	1.4	-0.5	1.9
Quarterly					
1982--QIV	10.0	9.5	0.5	-0.4	0.9
1983--QI	10.7	10.2	0.5	-0.1	0.6
QII	9.3	8.1	1.2	1.6	-0.4
QIII	7.4	8.3	-0.9	0.0	-0.9
QIV	10.0	8.7	1.3	0.5	0.8
Annual					
1982--QIV '82 to QIV '83	9.7	9.1	0.6	0.5	0.1

1. Revised M3 includes term Eurodollars; the inclusion of Eurodollars boosted M3 growth in 1983 by no more than 0.1 percentage points.

Selected Interest Rates

Percent

January 30, 1984

Period	Short-Term								Long-Term							
	federal funds	Treasury bills secondary market			CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields			corporate A utility recently offered	muni-cipal Bond Buyer	home mortgages		
		3-month	6-month	1-year					3-year	10-year	30-year			conven-tional at S&Ls	FHA/VA ceiling	FNMA 1-year ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1982--High	15.61	14.41	14.23	13.51	15.84	15.56	13.89	16.86	15.01	14.81	14.63	17.47	14.32	17.66	16.50	17.41
Low	8.69	7.43	7.84	8.12	8.53	8.19	8.09	11.50	9.81	10.46	10.42	12.58	9.78	13.57	12.00	11.07
1983--High	10.21	9.49	9.64	9.79	9.93	9.85	8.79	11.50	11.57	12.14	12.11	13.42	10.56	13.89	13.50	12.53
Low	8.42	7.63	7.72	7.82	8.15	8.02	7.71	10.50	9.40	10.18	10.32	11.64	9.21	12.55	11.50	10.49
1982--Dec.	8.95	7.94	8.16	8.23	8.66	8.53	8.22	11.50	9.88	10.54	10.54	13.00	10.74	13.62	12.00	11.24
1983--Jan.	8.68	7.86	7.93	8.01	8.36	8.19	7.06	11.16	9.64	10.46	10.63	12.74	10.24	13.31	12.00	10.89
Feb.	8.51	8.11	8.23	8.28	8.54	8.30	7.79	10.98	9.91	10.72	10.88	12.88	10.13	13.04	12.00	11.16
March	8.77	8.35	8.37	8.36	8.69	8.56	7.77	10.50	9.84	10.51	10.63	12.47	9.78	12.80	12.00	10.71
April	8.80	8.21	8.30	8.29	8.63	8.58	7.96	10.50	9.76	10.40	10.48	12.05	9.40	12.78	12.00	11.04
May	8.63	8.19	8.22	8.23	8.49	8.36	7.83	10.50	9.66	10.38	10.53	11.92	9.56	12.63	11.63	10.68
June	8.98	8.79	8.89	8.87	9.20	8.97	8.01	10.50	10.32	10.85	10.93	12.39	10.07	12.87	11.88	11.36
July	9.37	9.08	9.26	9.34	9.50	9.15	8.34	10.50	10.90	11.38	11.40	12.78	10.06	13.42	12.30	11.93
Aug.	9.56	9.34	9.51	9.60	9.77	9.41	8.69	10.89	11.30	11.85	11.82	13.16	10.25	13.81	13.38	12.16
Sept.	9.45	9.00	9.15	9.27	9.39	9.19	8.77	11.00	11.07	11.65	11.63	12.98	10.20	13.73	13.00	11.86
Oct.	9.48	8.64	8.83	8.98	9.18	9.03	8.67	11.00	10.87	11.54	11.58	12.91	10.14	13.54	13.00	11.40
Nov.	9.34	8.76	8.93	9.08	9.36	9.10	8.55	11.00	10.96	11.69	11.75	13.15	10.22	13.44	12.50	11.40
Dec.	9.47	9.00	9.17	9.24	9.69	9.56	8.69	11.00	11.13	11.83	11.88	13.29	10.40	13.42	12.50	11.56
1983--Nov. 2	9.40	8.55	8.77	9.00	9.24	9.03	8.59	11.00	10.96	11.69	11.75	13.21	10.28	13.42	12.50	11.40
9	9.36	8.75	8.91	9.13	9.40	9.14	8.52	11.00	11.08	11.82	11.88	13.10	10.18	13.47	12.50	11.40
16	9.42	8.78	8.94	9.05	9.38	9.14	8.56	11.00	10.94	11.70	11.74	13.15	10.19	13.42	12.50	11.40
23	9.26	8.81	8.97	9.08	9.39	9.10	8.54	11.00	10.92	11.65	11.71	13.13	10.22	13.43	12.50	11.40
30	9.27	8.85	9.02	9.11	9.32	9.04	8.49	11.00	10.93	11.60	11.66	13.07	10.39	13.41	12.50	11.40
Dec. 7	9.49	8.92	9.11	9.19	9.42	9.20	8.55	11.00	11.05	11.74	11.78	13.30	10.45	13.38	12.50	11.60
14	9.52	9.04	9.21	9.27	9.71	9.51	8.61	11.00	11.18	11.92	11.97	13.42	10.56	13.42	12.50	11.60
21	9.62	9.08	9.24	9.27	9.91	9.85	8.73	11.00	11.18	11.88	11.94	13.32	10.38	13.46	12.50	11.60
28	8.96	8.94	9.14	9.23	9.73	9.68	8.71	11.00	11.10	11.78	11.84	13.33	10.23	13.43	12.50	11.60
1984--Jan 4	10.06	8.98	9.15	9.22	9.64	9.55	8.94	11.00	11.09	11.81	11.87	13.16	10.13	13.43	12.50	11.60
11	9.53	8.91	9.08	9.14	9.47	9.26	8.81	11.00	11.00	11.74	11.82	12.95	10.07	13.40	12.50	11.40
18	9.54	8.84	8.94	9.01	9.36	9.17	8.78	11.00	10.87	11.62	11.69	12.88r	9.98	13.35	12.50	11.40
25	9.53	8.93	9.00	9.06	9.40	9.23	8.75	11.00	10.89	11.63	11.70	12.85	9.95	13.29	12.50	11.40
Daily--Jan. 20	9.48	8.97	9.02	9.08	9.36	9.23	--	11.00	10.91	11.64	11.71	--	--	--	--	--
26	9.48	8.93	8.98	9.03	9.40	9.18	--	11.00	10.90	11.63	11.70	--	--	--	--	--
27	9.32p	8.91	8.97	9.01	9.36	9.15	--	11.00	10.87p	11.62p	11.69p	--	--	--	--	--

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 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 13 is the Bond Buyer revenue index. Column 14 is an average of contract interest rates on new commitments for conventional first mortgages with 80 percent loan-to-value ratios at a sample of savings and loan associations on the Friday following the end of the statement week. After November 30, 1983, column 15 refers only to VA-guaranteed loans. Column 16 is the initial gross yield posted by FNMA, on the Friday following the end of the statement week, in its purchase program for adjustable-rate home mortgages having rate and payment adjustments once a year.

Security Dealer Positions

Millions of dollars

January 30, 1984

Period	Net[1] Total	Cash Positions: Treasury bills	Cash Positions: Treasury coupons under 1 year	Cash Positions: Treasury coupons over 1 year	Cash Positions: federal agency	Cash Positions: private short-term	Forward and Futures Positions: Treasury bills	Forward and Futures Positions: Treasury coupons under 1 year	Forward and Futures Positions: Treasury coupons over 1 year	Forward and Futures Positions: federal agency	Forward and Futures Positions: private short-term
1982--High	49,437	11,156	679	8,169	6,281	16,213	7,674	36	-687	-526	853
Low	-18,698	-2,151	-747	1,005	1,955	6,758	-11,077	-56	-4,182	-2,715	-6,455
1983--High	20,857	13,273	499	8,700	12,022	17,006	1,654	14	1,516*	-907	-4,411
Low	-296	-3,461*	-687	-3,267*	4,013	8,839	-11,293	-95	-3,270	-8,013	-9,564
1982--Dec.	18,876	8,732	428	5,655	5,949	14,046	-5,519	-29	-2,898	-2,443	-5,045
1983--Jan.	13,041	9,962	-232	4,950	5,125	13,166	-7,782	-50	-2,766	-2,654	-6,677
Feb.	16,604	10,534	-428	4,061	4,455	11,477	-3,631	-70	-1,807	-2,099	-5,886
March	15,933	9,544	3	1,852	4,855	12,087	-1,734	-4	-2,357	-1,990	-6,325
April	8,509	7,775	-371	1,610	5,278	11,753	-7,705	-9	-2,479	-1,482	-5,860
May	5,119	4,538	31	1,818	5,694	10,914	-7,288	0	-2,636	-1,666	-6,286
June	7,618	3,657	63	157	5,631	9,787	-914	-23	-722	-1,595	-8,423
July	3,235	416	126	9	6,859	10,275	-2,635	-6	-1,302	-1,836	-8,673
Aug.	7,515	877	-198	2,573	7,995	10,360	-1,861	-3	-2,706	-3,623	-5,899
Sept.	9,788	1,779	-558	6,279	9,170	13,137	-7,302	-2	-2,613	-5,018	-5,084
Oct.	5,885	2,144	-464	3,317	10,152	14,250	-9,132	-12	-1,662	-5,911	-6,798
Nov.	5,607	1,598	-142	216	9,364	15,289	-7,984	-2	-1,039	-5,399	-6,294
Dec.	6,851*	-1,437*	47*	-979*	11,518*	15,488*	-5,539*	-2*	670*	-7,317*	-5,598*
1983--Nov. 2	7,543	2,493	-472	1,632	9,864	14,972	8,326	-2	-1,074	-4,852	-6,692
9	9,040	3,247	-375	-905	11,300	15,078	-5,396	-2	-880	-6,175	-6,852
16	5,433	1,681	-96	-178	10,741	14,876	-7,643	-3	-986	-6,121	-6,838
23	428	-336	-24	-470	7,624	14,887	-9,250	-2	-1,220	-4,696	-6,084
30	6,135	536	45	2,291	7,877	16,330	-9,331	-2	-1,146	-5,130	-5,335
Dec. 7	9,756	443	499	692	10,065	17,006	-6,430	-2	-422	-6,410	-5,684
14	6,569	527	75	-2,264	12,022	15,638	-6,599	1	722	-8,013	-5,540
21	4,456	-3,461	-112	-3,267	12,006	14,710	-3,180	0	961	-7,318	-5,882
28	6,971	-2,182	-174	-482	11,787	14,552	-5,455	-4	1,516	-7,372	-5,217
1984--Jan. 4	2,077*	-4,079*	-362*	2,351*	11,758*	14,241*	-6,799*	-9*	-1,943*	-7,426*	-5,655*
11	4,499*	1,569*	-272*	1,286*	11,235*	12,668*	-9,579*	-1*	308*	-7,386*	-5,789*
18	4,863*	2,869*	22*	1,354*	11,765*	13,327*	-10,855*	-2*	-390*	-7,914*	-5,314*
25	1,005*	5,822*	-182*	706*	10,890*	11,808*	-12,660*	-3*	-378*	-7,476*	-6,109*

NOTE: Government securities dealer cash positions consist of securities already delivered, commitments to buy (sell) securities on an outright basis for immediate delivery (5 business days or less), and certain "when-issued" securities for delayed delivery (more than 5 business days). Futures and forward positions include all other commitments involving delayed delivery; futures contracts are arranged on organized exchanges.

1. Cash plus forward plus futures positions in Treasury, federal agency, and private short-term securities.

* Strictly confidential

Net Changes in System Holdings of Securities[1]

Millions of dollars, not seasonally adjusted

January 30, 1984

Period	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		
1979	6,243	603	3,456	523	454	5,035	131	317	5	-	454	10,290	-2,597
1980	-3,052	912	2,138	703	811	4,564	217	398	29	24	668	2,035	2,462
1981	5,337	294	1,702	393	379	2,768	133	360	--	--	494	8,491	684
1982	5,698	312	1,794	388	307	2,803	--	--	--	--	--	8,312	1,461
1983	13,068	484	1,896	890	383	3,653	--	--	--	--	--	16,342	-5,445
1982--Qtr. IV	4,292	88	485	194	132	900	--	--	--	--	--	5,179	-20
1983--Qtr. I	-1,403	--	--	--	--	--	--	--	--	--	--	-1,425	-3,325
II	5,116	173	595	326	108	1,203	--	--	--	--	--	6,208	-793
III	4,617	156	481	215	124	975	--	--	--	--	--	5,439	9,412
IV	4,738	155	820	349	151	1,474	--	--	--	--	--	6,120	-10,739
1983--July	666	156	481	215	124	975	--	--	--	--	--	1,632	523
Aug.	1,480	--	--	--	--	--	--	--	--	--	--	1,341	1,152
Sept.	2,471	--	--	--	--	--	--	--	--	--	--	2,466	7,737
Oct.	309	--	--	--	--	--	--	--	--	--	--	302	-11,307
Nov.	735	155	820	349	151	1,474	--	--	--	--	--	2,125	1,133
Dec.	3,695	--	--	--	--	--	--	--	--	--	--	3,693	-565
1983--Nov. 2	--	--	--	--	--	--	--	--	--	--	--	--	-226
9	-211	--	--	--	--	--	--	--	--	--	--	-211	-5,902
16	316	--	--	--	--	--	--	--	--	--	--	315	5,910
23	180	155	820	349	151	1,474	--	--	--	--	--	1,654	2,700
30	450	--	--	--	--	--	--	--	--	--	--	367	-2,524
Dec. 7	648	--	--	--	--	--	--	--	--	--	--	648	-541
14	653	--	--	--	--	--	--	--	--	--	--	651	-142
21	2,319	--	--	--	--	--	--	--	--	--	--	2,319	4
28	75	--	--	--	--	--	--	--	--	--	--	75	116
1984--Jan. 4	-197	--	--	--	--	--	--	--	--	--	--	-197	5,911
11	-400	--	--	--	--	--	--	--	--	--	--	-410	-4,144
18	-500	--	--	--	--	--	--	--	--	--	--	-500	298
25	-1,798	--	--	--	--	--	--	--	--	--	--	-1,828	429
LEVEL--Jan. 25	68.2	19.2	34.2	13.4	18.0	84.7	2.6	4.3	1.3	.4	8.6	161.6	-.8

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 the net purchases of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions ( ) of agency and Treasury coupon issues

6 Includes changes in RPs (+), matched sale purchase transactions (-), and matched purchase sale transactions (+)