FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-76
April 14, 1981

MONEY SUPPLY DATA

Proposals Regarding Reporting Procedures

TO ALL FINANCIAL INSTITUTIONS
AND INDIVIDUALS USING THE FEDERAL
RESERVE ESTIMATES OF THE MONEY STOCK:

On April 2, 1981, the Federal Reserve Board invited public comment on a number of proposals regarding the publication of weekly money supply data. Printed on the following pages is a copy of a press release that presents a detailed explanation of the issues involved and a letter Chairman Volcker directed to Senator Garn regarding this matter.

Money supply figures are published weekly by the Federal Reserve in the statistical release H.6 (508), Money Stock Measures. A report is released every Friday containing statistics on the U. S. money stock through the week ending on Wednesday of the previous week. These statistics are closely followed by financial institutions and the securities markets.

The Board is concerned over the occasionally erratic nature of the weekly figures. The Federal Reserve Board is considering revising the publication schedule and/or format of the report. Comments and suggestions are being solicited from the general public to assist the Federal Reserve in its evaluation process. Any observations you may wish to make should be submitted directly to Thomas D. Simpson at the Federal Reserve Board.

If you have any questions regarding this matter or would like to discuss the proposed changes with someone locally, please contact Patrick J. Lawler, Senior Economist in our Research Department, Ext. 6613.

Sincerely yours,

William H. Wallace

First Vice President

FEDERAL RESERVE press release

For immediate release April 2, 1981

The Federal Reserve Board today invited public comment on the desirability of continuing to report money supply data on a weekly basis, or whether another reporting procedure should be used.

Weekly money supply statistics are erratic and often poor indicators of underlying trends, Board Chairman Paul A. Volcker said in a recent letter to Senators Jake Garn and William Proxmire, the chairman and former chairman respectively of the Senate Banking Committee.

The Board has not concluded that the present procedure should be changed and will continue to publish money supply data each Friday, as it has in the past.

In his letter, the Chairman said:

"There is considerable merit to the view that weekly data as such convey little information and that weekly seasonal adjustments are subject to substantial uncertainty. However, the Board is not certain at present that the public interest would necessarily be better served if any of the alternatives noted (in the letter) were adopted."

As possible alternatives to the present procedure, the following options are being considered:

(OVER)

1. To delay weekly publication an additional seven days to incorporate more data.

2. To publish only data that are not seasonally adjusted.

3. To publish data only monthly--as is now the case with the broader definitions of money--or use moving average data.

To assist in the assessment of the publication schedule, the Board requested comment on the desirability of continuing the present procedure or of shifting to another option. Comments, which need not be limited to the options above, should be sent to Thomas D. Simpson, chief of the Banking Section, Division of Research and Statistics, Federal Reserve Board, Washington, D. C. 20551.

A copy of the Chairman's letter is attached

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

March 24, 1981

The Honorable Jake Garn
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Garn:

The concerns and questions raised in the recent letter from you and Senator Proxmire about weekly money supply data have been discussed and debated by the Federal Reserve Board, the Federal Open Market Committee, and the staff for some time. The issues are extremely important and strong arguments--other than Freedom of Information Act implications--can be made for and against publication of weekly data.

There is nearly unanimous agreement by all observers that weekly money statistics are extremely erratic and therefore poor indicators of underlying trends. While monthly data can often deviate considerably from such trends, the weekly observations are particularly "noisy". Week-to-week changes are quite large and recent estimates indicate that the "noise" element--attributable to the random nature of money flows and difficulties in seasonal adjustment--accounts for plus or minus $3.3 billion in weekly change two-thirds of the time. Such a large erratic element appears intrinsic to money behavior, rather than implying poor underlying statistics. In 1980, weekly M-1A and M-1B statistics revised on average only about $300 million between the first published and "final" data several weeks later, though in twelve weeks, revisions were larger than $500 million, and the largest single revision was $1.6 billion.

The great preponderance of active market participants are by now aware of the highly volatile nature of the weekly series. Publication has had that educational advantage, and the data are to be used with a certain caution. However, from time to time overreactions have occurred.

As a result of concerns about the reaction to and significance of weekly figures, the Federal Reserve has considered possible revisions to its current publication schedule or to its method of presentation. One option might be to delay weekly publication an additional seven days to incorporate more data--an important issue with additional reporters under the Monetary Control Act. This could reduce revisions to the weekly statistics. On the other hand, this option would increase the risk of inadvertent leaks and would increase the interval over which market participants might react to guesses and rumors of money stock changes, based in part on fragmentary data such as may be available in the weekly figures from large banks on deposits and loans. Even if no greater volatility in interest rates occurred over the unpublished interval, lagged publication of a more accurate, but still different than expected, change in weekly money might simply postpone the market reaction. In any event, weekly revisions are usually small, as noted above, relative to the underlying volatility of the series.

Another option might be to publish seasonally unadjusted money data in order to reduce the "importance" of the statistics. Our concern here is that market participants would then create their own seasonally adjusted series. The availability of a large number of conflicting series would only heighten market confusion, and might inevitably lead to questions to the Federal Reserve about what it considers to be the "normal seasonal" change in a particular week if what might seem to be an unusual change occurs in a seasonally unadjusted figure.

Another approach might be to publish data only monthly--as is now done, because of data reporting problems, with M-2 and M-3--and/or to publish weekly, but only a moving average series of weeks. Under the monthly approach, market participants would still try to estimate weekly series from bank balance sheets and clearing house data, and the market could be swept by rumors and guesses on movements in the money supply. And they would also probably attempt to glean the weekly number from a moving average series. In any event when a monthly figure was finally published, deviations from market expectations could cause yet further changes in interest rates as the new information was incorporated into market expectations. I might note that this has not been a significant problem with monthly publication of M-2 and M-3. A relatively small portion of these aggregates are supported by reserves, and they have played a less important role in the day-to-day targeting process than M-1.

In general, there is considerable merit to the view that weekly data as such convey little information and that weekly seasonal adjustments are subject to substantial uncertainty. However, the Board is not certain at present that the public interest would necessarily be better served if any of the alternatives noted above were adopted. While no one can be sure of their judgment in this respect, it does seem possible that volatility of money market conditions could be encouraged by misinterpretation of fragmentary data as well as by the continued availability of the present weekly data.

We will, of course, continue to review the money supply publication schedule, taking account of the constraints imposed by the Freedom of Information Act. To aid in our assessment of the value of weekly money supply data, we plan to ask for public comment on the desirability of continuing the weekly series, or of shifting to the options noted above. Our decision will be taken in the light of those comments. Should Freedom of Information Act requirements present difficulties in the light of the appropriate course, we will consult with you further.

I appreciate your interest in these questions. They are of concern to all of us.

Sincerely,

Paul

Identical letter also sent to Senator Proxmire.