70th Annual Report 1983

Board of Governors of the Federal Reserve System

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Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., April 12, 1984

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the Seventieth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1983.

Sincerely,

Paul A. Volcker, *Chairman*

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Part 1

Monetary Policy and the U.S. Economy in 1983

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Introduction

Conditions in the national economy took a decided turn for the better in 1983. Real gross national product rose 6 percent over the four quarters of the year, close to the experience during the first years of past cyclical recoveries but well above earlier projections. Rising production spurred gains in employment large enough to reduce the unemployment rate by 2½ percentage points over the course of the year. At the same time, most broad measures of prices and wages showed further progress toward lower inflation. In short, the performance of the economy in 1983 suggested attainment of the immediate objective of the Federal Reserve: permitting sufficient growth in monetary and credit aggregates to foster a solid economic recovery without encouraging developments that would rekindle inflationary pressures.

Each of the monetary and credit aggregates finished the year within or close to the ranges set by the Federal Open Market Committee. Achievement of these growth rates and the broader goals of the Federal Reserve was brought about by relatively small changes in the reserve position of the banking system and was accompanied by generally stable conditions in financial markets. Interest rates fluctuated far less than in the previous few years. Moreover, although most interest rates rose moderately during the year as the economic recovery progressed, interest rates on average were substantially lower in 1983 than in 1982. For example, rates on level-payment home mortgages averaged nearly 3 percentage points below their 1982 levels; business borrowing costs also declined significantly.

But success cannot be measured by performance during any one year, and in some respects the first year of recovery, which began in the context of excess capacity and high unemployment, provided the most favorable environment for combining economic growth with progress toward price stability. The more stringent and meaningful test will come as we seek to maintain the momentum of expansion and the progress toward stability while the margin of unemployed resources diminishes further.

Several areas of concern remained at the close of 1983. Despite the marked improvement in labor market conditions, unemployment continued to be unacceptably high. In addition, the federal deficit showed a sharp and worrisome increase in 1983. The borrowing necessary to finance the deficit, combined with continuing huge prospective credit demands by the federal government, exerted pressures on market interest rates. These pressures offset the effects of lower inflation and other factors, and thereby tended to temper the expansion of interest-sensitive private sectors of the economy.

The large federal deficit and associated high domestic interest rates helped induce sizable inflows of foreign capital into the United States

NOTE. This discussion of economic and financial developments in 1983 is adapted from the *Monetary Policy Report to the Congress pursuant to the Full Employment and Balanced Growth Act of 1978* (Board of Governors, February 1984).

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throughout the year and contributed to a further rise in the exchange value of the dollar. The strong dollar, in turn, put pressures on industries facing competition from imports and, in an environment of sluggish economic growth in other countries, made it difficult for U.S. industries to sell their products abroad. Consequently, imports increased dramatically relative to exports; this shift significantly moderated the growth in domestic output.

The international debt situation remained a major concern in 1983. Some countries with serious debt problems made considerable progress in formulating and implementing internal adjustment policies, and they continued to receive a moderate flow of new financing. Nonetheless, historically high interest rates in the United States placed heavy burdens on the many developing countries with outstanding debt concentrated in dollars.

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The Economy in 1983

Output and employment registered sharp gains in 1983, lifting the economy out of the most severe recession since World War II. These gains brought a considerable reduction in the unemployment rate, which fell to 8.2 percent by year-end. The first year of recovery was marked by broadly based increases in spending by consumers and businesses; these advances were stronger than generally anticipated, considering the low confidence and historically high credit costs that prevailed as the year began.

The impressive progress in reducing inflation in 1982 extended into 1983. In the smallest increase in more than a decade, the consumer price index rose 3¾ percent. Continued reduction in inflation was aided by favorable price developments in energy markets, by the damping effect of abundant supplies of livestock products on food prices, and by further appreciation of the dollar. Moreover, the broader forces affecting prices and wages also improved in 1983. Business and labor involved in key contract settlements seemed to be adapting constructively to the less inflationary environment. Overall, wage and compensation increases were considerably smaller than during the previous year; nevertheless, because inflation declined even more sharply, real incomes rose. At the same time, the underlying trend in productivity growth appeared to be tilting up, thereby helping to limit increases in labor costs.

Better productivity performance, more realistic wage bargaining, and a more competitive environment for price decisions have improved the prospects for sustained progress against inflation. The relation between supply and demand in the oil market suggests that another inflationary shock from that source is unlikely, and indicators of inflation expectations have remained at reduced levels thus far in the recovery. These factors all provide favorable portents for the future, but they will be tested as economic expansion continues. The firmer labor and product markets that normally appear in the second year of an economic recovery could cause some cyclically sensitive prices to rise; an increase in social security taxes for employers will boost labor costs; and food prices will probably be higher than they otherwise might have been because of the effects of last summer's drought on meat prices.

If associated with other factors, these latter forces could tend to increase inflation expectations and generate broader pressures on prices and wages. One of the possibilities is that the competitive forces associated with the appreciation of the dollar and the ample availability of goods from abroad, which have been exerting downward pressures on the rate of inflation, could recede. More fundamentally, as margins of excess capacity diminish—to the vanishing point in a few industries—and as experienced labor is reabsorbed, there is a risk of a return to the patterns of pricing and wage bargaining characteristic of earlier years of rapid inflation.

Household Sector

Most households experienced financial and economic gains in 1983. With

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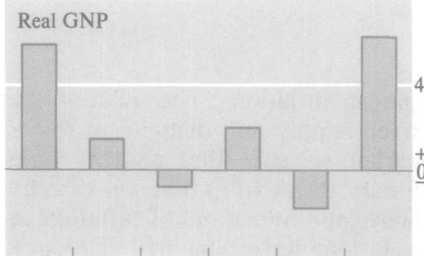
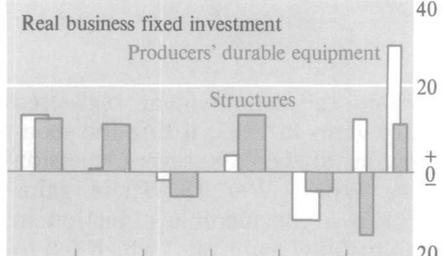
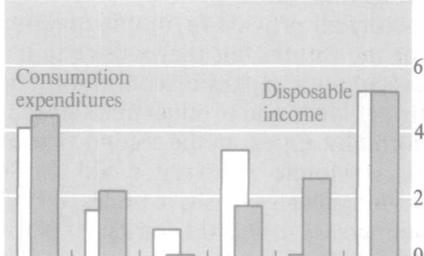
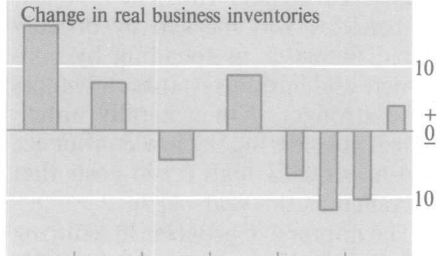
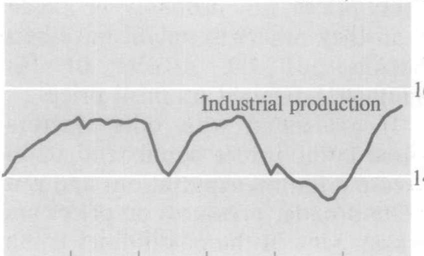
Indicators of Economic Performance

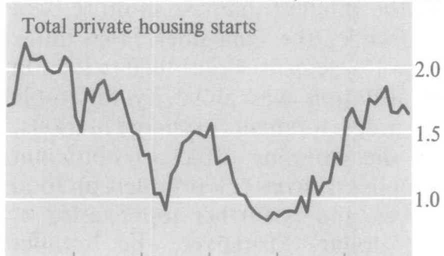


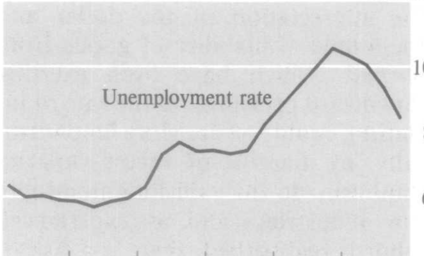


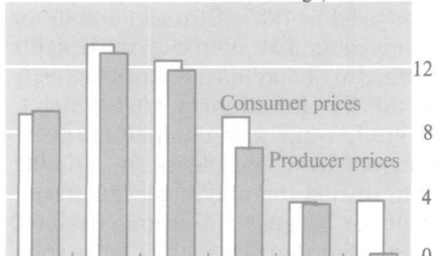












All data are seasonally adjusted, and those that involve dollar amounts are in 1972 dollars. The description and sources of the data are as follows: GNP, income (disposable personal income), consumption (personal consumption expenditures), investment, change in business inventories, and housing starts (annual rates) are from the U.S. Department of Commerce; industrial production is from the Federal Reserve; the unemployment rate and prices are from the U.S. Department of Labor.

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unemployment down and gains in employment sizable, growth in personal income rebounded. Further easing of inflation, lower interest rates, and the cumulative 25 percent reduction in federal tax rates on personal income during the past three years all helped raise the purchasing power of household income. In addition, household net worth rose substantially in 1983, reflecting primarily the surge in stock market prices that began in 1982 and extended into 1983.

These gains no doubt helped boost consumer confidence, which surveys indicated rose sharply last year to its highest level in a decade. In this improved mood, households felt freer to finance major purchases by borrowing and to devote a larger proportion of current income to consumption rather than saving. As a result, the personal saving rate fell from 5.8 percent of disposable income in 1982 to 4.9 percent in 1983.

The improved economic and financial status of households fostered a substantial upswing in consumer spending. Much of the strength came in the automobile sector, as sales recovered from several years of sluggish performance. Sales of domestic models quickened in the first half of the year, spurred by financing incentives from dealers and reduced rates on bank loans. Lower gasoline prices and the introduction of new and better American products apparently also helped. Despite the withdrawal of financing incentives, the recovery in domestic automobile sales continued through the second half of the year. Sales of imported models, still constrained by export restrictions on Japanese models, edged up in 1983, regaining the level they enjoyed in 1980 before the imposition of quotas. Consumer spending for other goods and services also strengthened, paced by large gains in housing-related items such as furniture and appliances as well as by brisk advances in general merchandise and apparel sales.

Demand for housing surged in 1983, as early in the year long-term mortgage interest rates fell below 13 percent for the first time since the summer of 1980. The sharpness of the upturn reflected the considerable volume of demand postponed from the preceding few years of high credit costs and uncertain economic conditions. New housing construction rose considerably in response to rising sales during the first three quarters of the year. The rate of housing starts remained at a relatively high level in the final quarter, despite the renewed rise in mortgage interest rates during the second half of the year, as the lower initial cost of adjustable-rate mortgage financing became increasingly attractive to homebuyers. For the year as a whole, total private housing starts rose 60 percent, the sharpest annual increase in almost 40 years. The construction activity generated by the increase in starts was an important factor in GNP growth, a pattern typical of the first year of an economic recovery.

Business Sector

Economic activity in the business sector also rebounded in 1983. Sales and production rose sharply, bringing greater capacity utilization and productivity in their wake. These gains helped spur before-tax profits, which had been depressed in the early 1980s, to an increase unusually rapid for the first year of an economic expansion. Because effective tax rates were lower, businesses were able to retain a larger

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proportion of their profits than in previous recoveries.

A marked shift in inventory investment from liquidation to accumulation took place in 1983, further boosting GNP. Firms had undertaken massive reductions in stocks during 1982 and early 1983. With final demands strengthening, inventory reduction slowed markedly in the second quarter of the year; and, after midyear, firms began to rebuild their inventories. But sales and shipments were strong enough during the second half of the year that the actual stocks of inventories remained quite lean, and inventory-sales ratios fell to historically low levels.

Business spending on plant and equipment did not reach its cyclical trough until the first quarter of 1983, but such expenditures grew rapidly throughout the rest of the year. Overall, business fixed investment increased 13 percent in real terms between the fourth quarter of 1982 and the fourth quarter of 1983. At year-end, a rising volume of new orders, and surveys showing that businesses planned higher investment spending, suggested that the recovery in investment had developed momentum that would extend into 1984.

Early in 1983, the strength in investment spending was concentrated in the equipment sector, especially in motor vehicles, high-technology office equipment, and computing machinery. The recovery in equipment spending became more broadly based as the year progressed, spreading to traditional heavy equipment. Expenditures for new structures also turned up in the second half of the year, led by investment in stores and warehouses. In contrast, construction of new office buildings declined sharply during the first half of 1983 and maintained that reduced pace during the second half of the year, in response to continuing high vacancy rates.

Foreign Sector

The U.S. trade deficit worsened significantly in 1983. The deterioration reflected both a pace of recovery that was much more vigorous for the United States than for most of its major trading partners and the impact of the further appreciation of the dollar from a level at the end of 1982 that was already high. Thus developments in the foreign sector damped the rate of growth of domestic output in 1983. Real exports of goods and services rose 5 percent during the year, but the increase in foreign demand for U.S. goods and services was outweighed by a strong rise in U.S. expenditures for foreign goods and services. As a result, net exports of goods and services (in volume terms) declined $17 billion between the fourth quarter of 1982 and the fourth quarter of 1983, as part of the strong advance in U.S. spending was satisfied by foreign output.

Government Sector

Government purchases of goods and services were lower in real terms over 1983. However, this decline stemmed largely from a reduction in crop inventories held by the Commodity Credit Corporation (CCC), associated in part with the payment-in-kind (PIK) program. Excluding CCC, real federal purchases in 1983 were up 4½ percent, led by a 5¼ percent increase in defense spending. Purchases by state and local governments picked up slightly after two years of weakness induced by the recession and cutbacks in federal support.

An especially important development in the government sector in 1983

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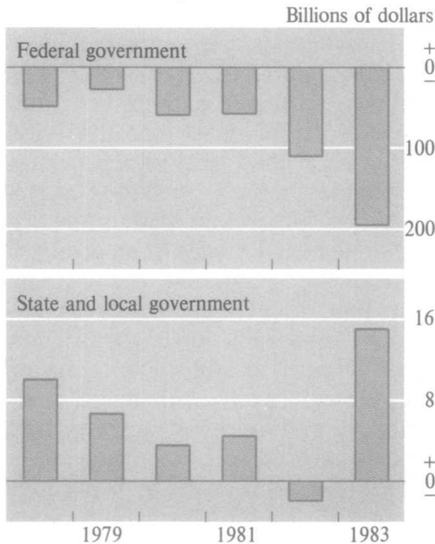
Government Surpluses and Deficits



The data on the federal government deficit are for fiscal years and are on a unified budget basis; they are from the U.S. Department of the Treasury.

The data on state and local governments are for operating budgets. They are on a national income accounts basis, and they come from the U.S. Department of Commerce.

was the shifting fiscal positions of governments. In the fiscal year ending in September 1983, the federal deficit (not including off-budget programs) ballooned to $195 billion, nearly twice as large as the previous year's record deficit and about 6 percent of gross national product; in the previous three decades, the highest ratio of the deficit to GNP had been 4 percent in 1976. In part, the increase in the deficit in fiscal year 1983 reflected the lagged effects of the recession on receipts and transfer payments, but other factors were important also. Revenue growth was limited by the cumulative effects of three years of sizable tax reductions, while spending was buoyed by increases in outlays for defense, social insurance expenditures, and interest payments on the national debt.

At the state and local level, by contrast, operating budgets (excluding social insurance funds) moved dramatically from deficit into surplus. This shift resulted largely from the combination of tax increases and cost-cutting efforts adopted during the recession as well as from an unanticipated increase in the tax base associated with the surprisingly rapid expansion in the economy.

Labor Markets

The recovery of production in 1983 was translated into an impressive improvement in labor markets. Three million workers were added to nonagricultural payrolls in 1983. The most rapid gains were registered in durable goods manufacturing and in construction, the sectors hardest hit during the recession; service jobs also contributed importantly to overall employment growth during the year. Nevertheless, at year-end several key manufacturing industries were operating well below peak capacity, and jobs at contract construction sites were still 400,000 below their 1979 peak.

Despite the rapid expansion in job opportunities, the rise in the labor force was relatively moderate, damped by the long-term slowing in the growth of the young adult population and by stability in labor force participation rates. As a result, the first year of the recovery was marked by an unusual concentration of hiring from the pool of experienced workers, many of whom had been out of work for extended periods.

Nominal wages continued to decelerate in 1983. Hourly compensation in the nonfarm business sector rose at a rate of less than 5 percent over the four quarters of 1983, the slowest

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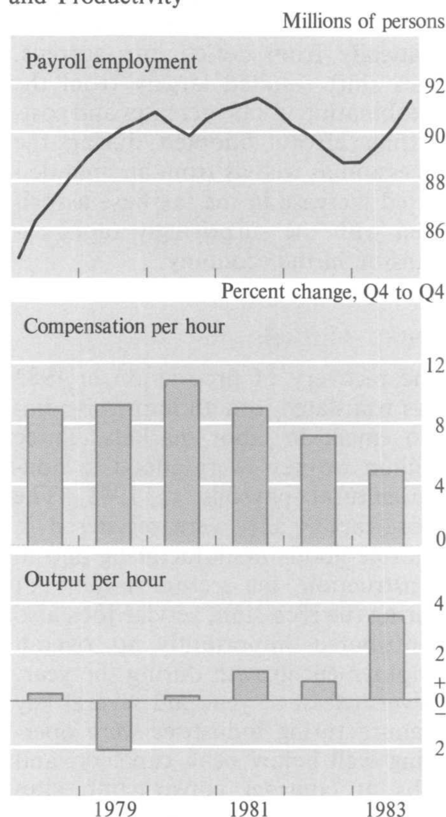
Employment, Compensation, and Productivity



Data on employment cover the total nonfarm sector; the other data cover the nonfarm business sector. All data are from the U.S. Department of Labor.

pace since 1965. The easing of wage increases reflected slack in labor markets in general as well as adjustments in several major collective bargaining agreements. Nearly 40 percent of workers who negotiated major union settlements during 1983 accepted wage freezes or outright pay cuts for the first year of their new contracts. As a result, the "new settlements" component of union wage increases was cut to less than 1 percent. At the same time, cost-of-living adjustments were smaller because of continued moderation in consumer prices.

Nonetheless, wage gains in 1983 exceeded price increases on average, so that workers as a group experienced improved purchasing power. Rising real wages mirrored underlying improvements in labor productivity. Although a good deal of the gain in output per hour worked was attributable to the pickup that is normal during the early stages of an economic recovery, qualitative reports suggest that longer-run improvements also were in train. Revisions in work rules at many establishments during the recession likely contributed to efficiency, and in 1983 business and labor appeared to be cooperating in efforts to trim costs and improve quality. Reflecting wage and productivity developments, unit labor costs rose only 1¼ percent in 1983, the best performance since the mid-1960s.

Prices

Despite the strong recovery in economic activity, the wage–price spiral in evidence throughout the 1970s continued to unwind in 1983. Household surveys revealed that, even though expectations about inflation increased somewhat in the second half of the year, throughout 1983 they remained lower than they had been in some time. Ample productive capacity and a strong dollar also contributed to further progress in reducing the rate of inflation.

That progress was apparent in most key price measures. Increases in the consumer price index remained in a much lower range in 1983. In part, the brighter inflation picture reflected developments in the energy and food markets. Slack demand and large worldwide inventories caused a sharp decline in petroleum prices early in 1983, and prices of food at the consumer level rose only moderately.

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However, the outlook for agricultural prices turned less favorable in the wake of the summer drought. The resulting depletion of grain stocks, along with the federal government's PIK program to reduce agricultural production, put upward pressures on the prices of many agricultural commodities in the latter part of the year that will probably affect consumer food prices in 1984. In addition, severe December weather is likely to curtail the supply of fresh fruits and vegetables in early 1984.

But the easing of price increases in 1983 was not limited to food and energy. The consumer price index excluding those sectors rose less than 5 percent, about half the pace of just two years earlier. Moreover, producer prices in general were little changed in 1983. For finished goods, price increases of capital equipment as well as of consumer goods slowed markedly. And, despite the cyclical rebound in prices of sensitive industrial materials, the producer price index for intermediate materials (excluding food and energy), which comprises a broad range of inputs into production, rose less than 3 percent in 1983.

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Monetary Policy and Financial Markets

In its reports to the Congress in February and July 1983, the Federal Reserve indicated that monetary policy during that year would be conducted with the aim of fostering a recovery in economic activity and encouraging further progress toward price stability. Establishing specific objectives for growth in the monetary aggregates was fraught with difficulties, however. Beginning in 1982, the behavior of M1 in relation to economic activity had diverged sharply from historical trends, raising doubts about the usefulness of that aggregate as a policy target, at least over the near term. The effects of newly introduced "super" negotiable order of withdrawal accounts (Super NOWs) and money market deposit accounts (MMDAs) on the behavior of M1 also were subject to considerable uncertainty. In addition, early in 1983 M2 was clearly being swelled by massive shifts of funds from outside that aggregate into MMDAs, but it was impossible to predict the precise timing and volume of such shifts.

In light of these special factors and uncertainties, the Federal Open Market Committee departed in early 1983 from past practices for establishing monetary objectives. The Committee agreed that the uncertainties regarding M1 continued to warrant the practice, begun in October 1982, of placing principal weight on the broader monetary aggregates—M2 and M3—in the implementation of monetary policy. Although the demands of the public for those aggregates might be affected by shifts in asset preferences that were rooted in regulatory changes or other causes, such effects seemed likely to be smaller and more predictable for the broader aggregates than for M1.

In the case of M2, the FOMC established an annual target range of 7 to 10 percent. It believed that the performance of this aggregate would be measured most appropriately over a period when it would be less influenced by the initial, highly aggressive marketing of MMDAs. Thus the Committee chose the average level of February and March 1983 as the base for measuring growth, rather than the fourth quarter of 1982, the period that would have been consistent with past practice. The range for M2, which was 1 percentage point higher than the range for 1982, was expected to allow for some residual shifting of funds to MMDA accounts over the remainder of the year.

The range for M3, to be measured as usual from the fourth quarter to the fourth quarter, was established at 6½ to 9½ percent. Although this range was the same as that established in the previous year, it encompassed growth below the actual outcome in 1982. In adopting this range, the Committee assumed that any net shift of funds during the year into the new types of deposit accounts from market instruments would be largely offset by reductions in managed liabilities (such as large certificates of deposit) that are included in M3.

Because of difficulties in gauging the relation between transaction balances and economic activity, the range for M1 was set in February at 4 to 8 percent, a band that was 1 percentage point wider than usual. As noted above, the Committee agreed that, in

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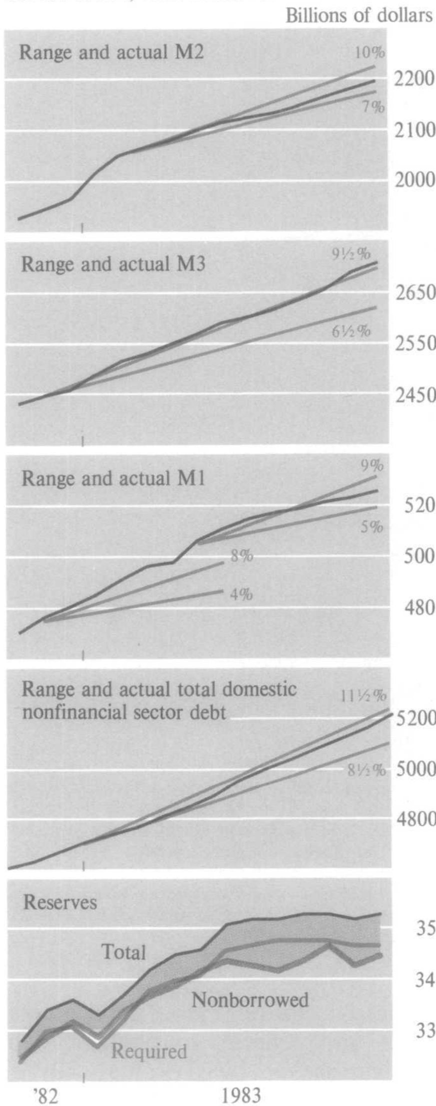
Monetary Aggregates, Nonfinancial Sector Debt, and Reserves



The FOMC adopted the range for M2 for the period from February-March 1983 to 1983:4; for M3, for the period from 1982:4 to 1983:4; and for total debt of the domestic nonfinancial sector, for the period from December 1982 to December 1983. For M1, the range was initially adopted for the period 1982:4 to 1983:4, but at midyear the period was revised to 1983:2 to 1983:4.

The reserve aggregates have been adjusted to remove discontinuities associated with changes in reserve requirements. Nonborrowed reserves include extended credit.

implementing monetary policy, less than customary weight would be assigned to M1, at least until that aggregate had exhibited more regular and predictable behavior. Moreover, the Committee emphasized that the significance it attached to movements in the various monetary measures necessarily would depend on evidence about the strength of economic recovery, the outlook for prices and inflation expectations, and emerging conditions in domestic and international financial markets.

The Committee also set forth for the first time its expectations for growth of the total debt of domestic nonfinancial sectors, indicating that a range of 8½ to 11½ percent, measured from December 1982 to December 1983, would be appropriate. This range was thought to be in line with expected growth in nominal GNP, reflecting the historically similar growth trends of the two. The Committee recognized that, early in other postwar recoveries, growth in GNP had appreciably exceeded growth in debt. But in the current circumstances —including the financial condition of the private sector as the recession ended and the prospective huge volume of federal borrowing—expansion in the debt aggregate might run in the upper half of the stated range during 1983.

Financial Markets

Partly because of the ready availability of funds from abroad, financial markets absorbed without undue stress the increase in demand for credit associated with the financing of the record federal deficit and with the upturn in the economy in 1983. In fact, interest rates were both less variable and lower on average in 1983

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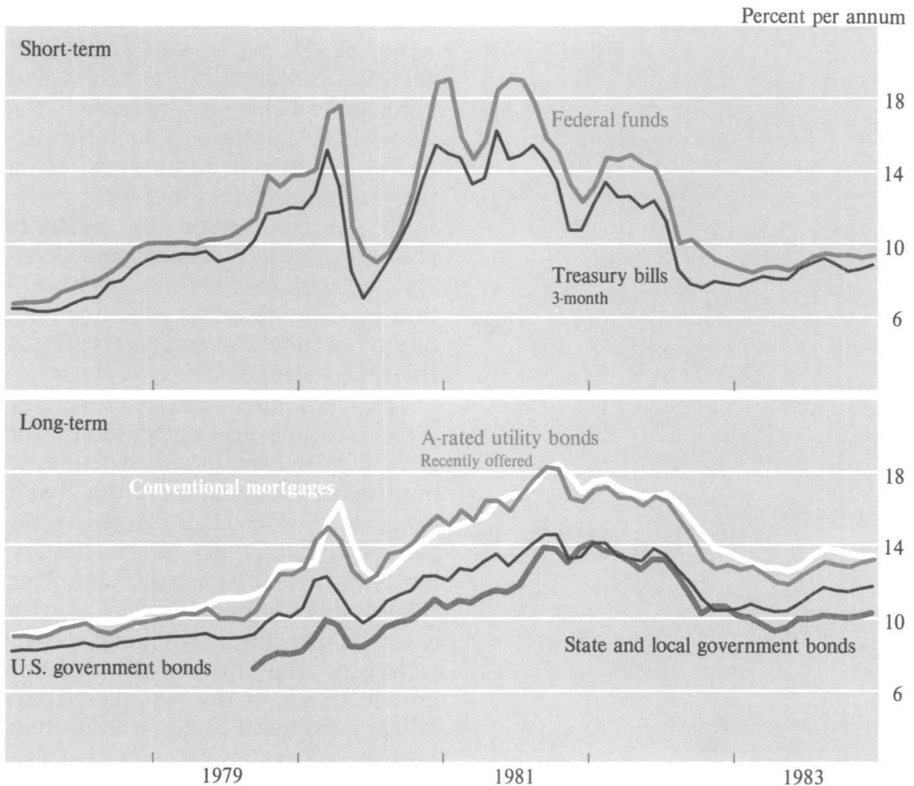
Interest Rates



All the data are monthly averages. Their descriptions and sources are as follows: Federal funds, from the Federal Reserve; three-month Treasury bills, market rate on three-month issues, on a discounted basis, from the U.S. Department of the Treasury; conventional mortgages, weighted averages of 30-year, fixed-rate, level-payment mortgages at savings and loan associations from the Federal Home Loan Mortgage Corporation; A-rated utility bonds, weighted averages of recently offered, 30-year investment-grade bonds adjusted to an A-rated basis by the Federal Reserve; U.S. government bonds, market yields adjusted to 30-year constant maturity by the U.S. Treasury; state and local government bonds, index based on 25 issues of 30-year revenue bonds of mixed quality, from the *Bond Buyer* (data are not available before September 1979).

than during the preceding few years, although most rates were somewhat higher at the end of the year than at its outset.

Other indicators attested to a greater degree of stability and confidence in financial markets and in the economy. Broad measures of stock prices increased about 20 percent. The balance of bond downgradings and upgradings by the principal rating agencies became much more favorable. Spreads between interest rates on private and federal government debt obligations narrowed dramatically, as did spreads between yields on lower- and higher-rated private securities.

Short-term yields were relatively stable early in 1983, after a marked decline during the second half of 1982. In late spring, economic activity accelerated sharply, and the monetary aggregates, as a whole, were continuing to grow at a relatively rapid pace.

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In those circumstances, the Federal Reserve began to restrain somewhat its provision of reserves to depository institutions, and short-term interest rates rose moderately during the summer. For the remainder of the year, most short-term rates fluctuated in a generally narrow range, ending 1983 about 1 percentage point higher than they had been a year earlier.

The decline in long-term interest rates that had commenced in mid-1982 continued through early 1983. These rates also began moving up in the spring, and climbed fairly steadily through August. Thereafter, they fluctuated in a range somewhat above that of the first half of the year; and at the end of 1983, they were generally 1 to 1½ percentage points above their levels of a year earlier. Exceptions to this pattern were mortgage rates and yields on municipal bonds, which were down on balance from their levels at year-end 1982. Long-term interest rates remained quite high relative to the current rate of inflation throughout 1983; continuing uncertainties regarding the speed of the economic expansion and its possible implications for future inflation, as well as concerns about the outlook for federal deficits, were factors.

Monetary Aggregates

The behavior of M1 in early 1983 continued to diverge from precedent.[1] As apparently was the case during the second half of 1982, precautionary motives stemming from highly uncertain employment and income prospects evidently continued to swell demands for liquid balances relative to the rate of spending on goods and services; the lagged effects of earlier declines in interest rates also contributed to increased demands for money. M1 expanded rapidly through late spring; growth was dominated by the component consisting of highly liquid, interest-earning other checkable deposits (OCDs). Growth in OCDs during the first half of the year accounted for more than half of the expansion in M1, a contribution well out of proportion to the importance of this component. In turn, inflows into Super NOW accounts, which had been authorized in early January, exceeded growth in OCDs during the year as a whole. Even so, the introduction of the new deposit accounts appears in retrospect to have had little effect on the overall growth rate of M1, as inflows from outside M1 into Super NOWs probably were roughly offset by outflows from M1 into MMDAs.

In light of the rapid expansion in M1 through midyear and referring back to its recognition that appropriate growth rates for the aggregates would depend on judgment about unfolding economic and financial developments, the FOMC in July established a new monitoring range for M1 for the second half of 1983. This range of 5 to 9 percent was based on the average for the second quarter, rather than that for the fourth quarter of 1982. The decision to adopt a new base for monitoring M1 growth reflected a judgment that the recent rapid growth of M1 would appropriately be treated as a one-time phenomenon that was expected to be neither reversed nor extended. It appeared, in retrospect, that the surge in M1 might largely have reflected an adjustment by the public of its cash balances in response to the pro-

1. The analysis here, as elsewhere in this section, is based on revised data for the monetary aggregates that became available early in 1984, but the data that were available during 1983 support the same finding.

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Reserves, Money Stock, and Debt Aggregates

Annual rate of change based on seasonally adjusted data unless otherwise noted, percent [1]

Item	1981	1982	1983	1982	1983			
				Q4	Q1	Q2	Q3	Q4
Depository institution reserves [2]								
Total	3.2	5.9	6.1	14.0	5.5	11.8	6.0	0.5
Nonborrowed	6.4	6.9	5.4	16.0	4.9	5.2	2.9	8.0
Required	3.6	5.6	5.8	12.9	5.1	12.0	5.9	−0.1
Monetary base [3]	4.8	7.6	9.2	8.2	9.3	10.2	8.1	7.8
Concepts of money [4]								
M1	5.1[5]	8.7	10.0	15.4	12.8	11.6	9.5	4.8
Currency and travelers checks	6.0	8.2	10.4	7.3	10.4	11.1	8.6	9.9
Demand deposits	−12.6	1.0	2.4	10.4	1.7	4.2	4.0	−0.5
Other checkable deposits	179.5	33.9	27.7	39.9	42.3	28.5	21.2	9.6
M2	9.3	9.5	12.1	10.6	20.5	10.6	6.9	8.5
Non-M1 component	10.7	9.8	12.8	9.0	23.0	10.2	6.1	9.6
MMDAs (n.s.a.), savings, and small-denomination time deposits [6]	3.9	6.6	18.1	6.9	34.0	15.0	9.7	9.7
General-purpose and broker/dealer money market mutual fund assets (n.s.a.) [7]	131.9	31.1	−26.3	18.5	−56.3	−44.4	−13.4	−0.9
Overnight RPs and Eurodollars (n.s.a.)	20.1	31.7	24.9	24.6	30.3	48.0	−8.1	23.4
M3	12.3	10.5	9.7	10.0	10.8	9.3	7.4	10.0
Non-M2 component	26.5	14.6	0.5	7.7	−27.1	3.8	9.8	17.1
Large-denomination time deposits	21.1	10.4	−3.6	1.6	−39.2	−0.3	11.9	15.5
Institution-only money market mutual fund assets (n.s.a.)	111.3	46.1	−18.1	40.4	−32.6	−41.7	−17.8	16.6
Large term RPs (n.s.a.)	7.4	9.1	32.7	34.2	12.2	40.4	15.2	50.9
Term Eurodollars (n.s.a.) [8]	41.7	21.3	11.5	−3.8	15.5	28.9	−1.7	2.2
Domestic nonfinancial sector debt	9.6	9.2	10.8	9.3	8.8	12.1	10.1	10.6
Federal	11.8	19.4	18.8	24.0	19.4	25.9	15.2	10.1
Nonfederal	9.1	6.7	8.7	5.5	5.9	8.2	8.7	10.8

1. Changes are calculated from the average amounts outstanding in each quarter, except for debt figures, which are based on data for the last month of each quarter.

2. Data on reserves and the monetary base incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements.

3. The monetary base consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements.

4. M1 consists of currency in circulation; travelers checks of nonbank issuers; demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float; and other checkable deposits (OCDs). OCDs consist of negotiable orders of withdrawal and automatic transfer service accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. M2 is M1 plus overnight (and continuing-contract) repurchase agreements (RPs) issued by commercial banks; overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide; taxable and tax-exempt general-purpose and broker/dealer money market mutual funds; money market deposit accounts; and savings and small time deposits (including retail RPs) at all depository institutions. M3 is M2 plus large-denomination time deposits at all depository institutions; large term RPs issued by commercial banks and thrift institutions; term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere; and assets of institution-only money market mutual funds.

5. After adjustment for the effects of shifts from non-M1 sources into newly authorized NOW accounts, the rate of growth of M1 in 1981 is estimated to have been 2.5 percent.

6. Balances in individual retirement accounts (IRAs) and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.

7. Excludes balances in IRA and Keogh accounts.

8. Held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

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nounced drop in the opportunity cost of holding low-yielding demand deposits and regular NOW accounts. The FOMC emphasized that it still regarded the behavior of M1 as subject to substantial uncertainties, and it reaffirmed its decision to place principal weight on the broader aggregates in the implementation of monetary policy.

After midyear, precautionary demands for liquid balances apparently began to abate, with the improvement in confidence arising from the recovery. A moderate rise in interest rates, which had begun in late spring, also curbed demands for money. Demand deposits peaked in July and edged down, on balance, during the second half of the year, while the growth of OCDs fell to a fraction of its rapid first-half pace. Thus M1 entered its newly established monitoring range in late summer and finished the year in the middle of that range.

During the first quarter of 1983, the velocity of M1 continued to decline at nearly the extraordinary rate of 1982. These declines exceeded those implied by models of past behavior, even taking into account the effects of the large reduction in the opportunity cost of holding money balances brought about by sharp drops in market rates and the introduction of ceiling-free Super NOW accounts. As the year progressed, the velocity of M1 began to increase, slowly at first but more rapidly by the fourth quarter. Even with this acceleration, growth in M1 velocity in the full year after the business cycle trough in the fourth quarter of 1982 was well below the experience typical in a recovery.

As was evident when the target ranges were first established early in 1983, the dramatic response to the authorization of MMDAs substantially boosted M2. Competition for these funds was intense: promotional activity was heavy, and in some regions introductory interest rates were far above yields on market investments. Inflows into MMDAs in January alone totaled $147 billion, and by March outstanding balances had reached $321 billion. However, most of the inflow into MMDAs appears to have come from other instruments included in M2. Analysis by the Board's staff suggests that as much as four-fifths of that inflow may have been transferred from savings deposits, small time deposits, and money market mutual funds (over the course of the year, assets of money market mutual funds dropped 25 percent). Still, a sizable volume of funds came from outside M2 and had an obvious impact on growth in that aggregate.

In the face of the heavy deposit inflows and relative sluggishness of business loan demand at commercial banks, institutions dropped their aggressive promotion of MMDAs. The aggregate level of MMDAs barely increased after June because interest rates offered on those accounts dropped sharply. At the same time, the less liquid small time deposits included in M2 increased quite rapidly over the second half of the year, in response to the steepening yield curve and more attractive rates on such deposits. However, the removal on October 1 of all remaining restrictions on small time deposits with original maturities or notice periods longer than 31 days had little noticeable impact on deposit flows.

Reflecting MMDA inflows, M2 grew 12 percent from the fourth quarter of 1982 through the fourth quarter of 1983. However, from the February–March period used by the FOMC as

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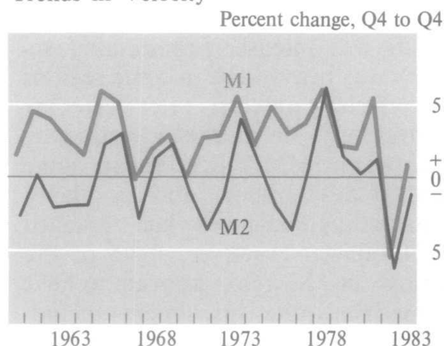
Trends in Velocity



The velocities of M1 and M2 are calculated by dividing GNP by M1 and M2 respectively.

the base for its target growth range, expansion through the fourth quarter was at an 8¼ percent annual rate, well within its range.

After having declined at a record rate in the first quarter, M2 velocity rose somewhat during the rest of the year; over the year as a whole, it fell slightly. As was the case for M1, the velocity of M2 failed by a wide margin to keep pace with the average increase during the first year of a business recovery. However, correction for the volume of funds thought to have been attracted to MMDAs from outside M2 suggests that velocity movements corresponded reasonably well with experience.

Growth in M3 picked up a bit in the first quarter from its late 1982 pace because of the explosion in M2. But until the closing months of the year, expansion in this aggregate was restrained by sharp runoffs in managed liabilities, especially large CDs, in response to the rapid buildup early in the year of MMDA balances and to the limited loan demand at commercial banks. Yet thrift institutions continued to issue large CDs at a rapid pace in response to robust mortgage demands and a cost incentive to pay down advances from the Federal Home Loan Banks. On balance, M3 moved on a track near the upper end of its target range during 1983; growth from fourth quarter to fourth quarter was 9¾ percent, just outside the target range.[2]

Aggregate Credit Flows

The debt of the domestic nonfinancial sector increased 10¾ percent from December 1982 to December 1983, a pace that was a bit faster than that over the previous year and slightly above the midpoint of the range adopted by the FOMC. The outstanding debt of the federal government grew almost 20 percent, about matching its growth in 1982; this expansion accounted for close to 40 percent of the increase in all domestic nonfinancial debt in 1983.

Financing activity of state and local governments in long-term markets surged to a new record; some of the borrowing reflected efforts by the issuers to market debt before the imposition of anticipated constraints, including requirements for bond registration and proposed limits on issuance of revenue bonds. A stepped-up pace of investment in housing and consumer durables led to a near doubling of borrowing by the household sector. But issuance of nonfinancial business debt remained relatively low, as internal cash flows of corporations exceeded capital expenditures for much of the year and relatively high stock prices encouraged offerings of new equity.

2. M3 has been redefined to include term Eurodollars held by U.S. residents, previously included only in the aggregate L. For the data before the early 1984 revisions to take account of new benchmarks, seasonal factors, and definitions, M3—as well as M1 and M2—was well within its range at the end of 1983.

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Net Funds Raised and Supplied in Credit Markets

Billions of dollars

Sector	1981	1982	1983p	1983[1] H1	1983[1] H2p
	Net funds raised				
Total, all sectors	**490**	**480**	**617**	**590**	**645**
U.S. government	87	161	187	231	142
State and local government	10	36	36	50	22
Foreign	27	16	19	19	20
Private domestic nonfinancial	281	198	287	216	359
Business	160	112	123	87	159
Household	121	86	164	128	199
Domestic financial	85	69	89	74	103
Private intermediaries	38	4	20	6	34
Sponsored credit agencies	32	15	2	−2	6
Mortgage pool securities	15	50	67	70	63
	Net funds supplied				
Total, all sectors	**490**	**480**	**617**	**590**	**645**
U.S. government	24	17	10	8	11
State and local government	8	27	43	46	39
Foreign	16	18	25	40	10
Private domestic nonfinancial	79	72	91	67	116
Business	5	15	22	18	26
Household	74	57	69	49	89
Domestic financial	363	346	448	429	468
Private intermediaries	305	272	368	348	389
Commercial banks	104	109	135	128	143
Thrift institutions	27	31	129	130	127
Insurance and pension funds	79	94	102	107	97
Other[2]	95	38	3	−18	23
Sponsored credit agencies	33	16	2	−1	6
Mortgage pool securities	15	50	67	70	63
Federal Reserve System	9	10	11	12	10

1. Seasonally adjusted annual rates.

2. Includes finance companies, money market funds, real estate investment trusts, mutual funds, and security brokers and dealers.

p Includes preliminary data for the fourth quarter.

The share of credit intermediated by depository institutions grew substantially, rising from less than 30 percent in 1982 to more than 40 percent in 1983. This increase reflected both the MMDA inflows and the surge in mortgage and consumer demands. Funds advanced by thrift institutions, in particular, rose sharply from a depressed 1982 pace. Commercial bank credit also expanded more rapidly in 1983; purchases of government securities accounted for more than one-third of net credit extended by banks. Attracted by relatively high U.S. interest rates, funds advanced by the foreign sector also increased substantially during 1983.

The financing needs of the U.S. government were the dominant factor in credit markets again in 1983, a development unusual for the first year of a recovery. Net borrowing by the Treasury in credit markets totaled approximately $187 billion to finance the record combined deficits of the federal government and off-budget agencies. Commercial banks, thrift

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institutions, and state and local governments acquired much of the increase in the issuance of Treasury debt. Acquisitions by foreign investors also rose. In contrast, households reduced their purchases of government and other market securities, channeling funds to new, deregulated deposit accounts instead. And money market mutual funds, faced with large withdrawals after the introduction of the MMDA, allowed their holdings of Treasury bills to shrink.

Activity in municipal long-term markets rose to record levels last year, buoyed by favorable market conditions and by concern about pending legislative changes that would affect the tax-exempt status of some private-purpose issues. As long-term interest rates fell early in the year, the markets received a sizable volume of advance-refunding issues, proceeds from which were invested temporarily in Treasury securities. Housing revenue bonds were issued in heavy volume as the year progressed and as the Congress failed to act on legislation that would have extended the tax-exempt authority for single-family issues beyond 1983. Issuers of industrial revenue and student loan bonds also rushed to market debt before year-end in anticipation of new legislated restrictions. The volume of general-obligation issues by state and local governments, in contrast, changed little from 1982.

The household sector increased its borrowing sharply in 1983 compared with the relatively depressed levels in the previous year. With greatly improved financial positions and prospects for strong income growth, consumers demonstrated unusual willingness to finance increased outlays with borrowed funds. Credit financing of automobile sales surged early in the year, stimulated by attractive financing terms from dealers and lenders, and it continued to expand rapidly in later months. Other types of consumer credit also expanded briskly in association with the fast pace of retail sales—especially sales of durable goods and housing-related items.

The strength in consumer credit accompanied an extremely rapid rise in residential mortgage borrowing. As private housing starts recorded their largest increase in four decades, growth in home mortgage debt exceeded $106 billion, almost double its 1982 volume. The expansion in mortgage activity in 1983 was supported by increased lending by depository institutions and by continued growth of secondary mortgage markets.

The gains also reflected the popularity of financing techniques that provided homebuyers with initial interest rates lower than those quoted for fixed-rate, conventional loans. The record volume of tax-exempt revenue bonds issued by states and localities last year to finance single-family mortgages provided many homebuyers with reduced-cost mortgage financing. Further, as market rates rose during the year, homebuyers increasingly switched to adjustable-rate mortgages. Many such instruments offered an initial rate advantage of 2 percentage points or more. By year-end, 55 percent of all conventional mortgage loans closed had a variable-rate feature of some kind. When mortgage rates were at their recent low point in the spring of 1983, only 30 percent of conventional loans closed were adjustable. In addition, such interest-reducing mechanisms as builders' buydowns and seller financing remained important features of housing finance during the year.

Nonfinancial businesses continued

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to rely to only a moderate extent on credit markets in 1983; instead, they took advantage of much improved cash flows and rising equity prices to strengthen financial positions and rebuild capital. During the first half of the year, firms strengthened their balance sheets by shifting borrowing toward debt with longer maturities and paying down bank loans and open market paper. However, historically high interest rates limited this adjustment, and rising credit costs later in the year sharply reduced the volume of long-term debt financing. Stock offerings proceeded at a record pace, nonetheless, as the strong stock market not only enabled many large firms to strengthen their capital positions but also allowed many young companies to make initial public offerings of their shares.

Commercial banks adapted to important changes in their environment in 1983. The new deposit accounts were successful in attracting funds to both banks and thrift institutions. At the same time, banks experienced relatively soft demand for business loans, especially in the first half of the year, and hence invested heavily in government securities, other market instruments, and loans to consumers. However, credit problems intensified in energy-related businesses, and the financial condition of a number of foreign borrowers remained troubling. A widespread increase, relative to historical experience, occurred in loan-loss provisions. A sizable number of banks—mostly small ones—experienced credit-quality problems so severe that they were closed or merged into other institutions. Nonetheless, the earnings of commercial banks in general appear to have been well maintained in 1983.

The condition of the thrift industry began to improve last year as lower average interest rates significantly reduced operating losses. As a result of the MMDA, these institutions enjoyed a substantial increase in core deposits, and their improved profit position enabled them to expand large time deposits at reasonable cost. In contrast to commercial banks, thrift institutions faced heavy demands for loans last year. In 1983, for the first time, a large proportion of the mortgages they made carried adjustable-rate features, thus repairing some of the severe mismatch in the duration of assets and liabilities. Nevertheless, profit positions remain marginal and highly sensitive to changes in interest rates.

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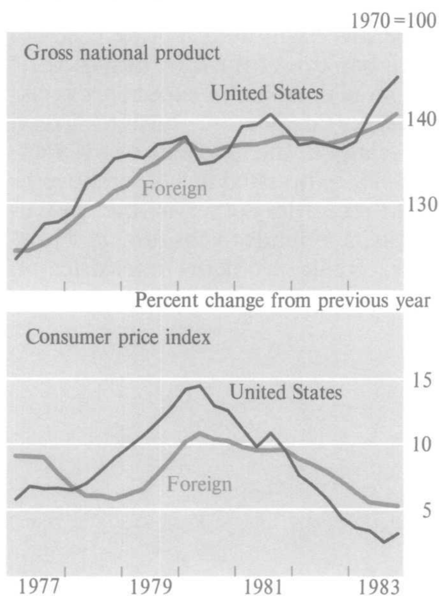
International Developments

The economic recovery that began in 1982 in industrial countries was sustained through 1983, though the pace of the advance varied considerably among countries. Activity in the United States rose at a rapid rate generally in line with earlier cyclical upturns, but aggregate activity in other industrial countries progressed much more slowly. Indeed, among other industrial countries, only Japan and Canada registered substantial gains; in Europe the rate of growth of real GNP over the year was only about 1½ percent, not sufficient to generate significant reductions in unemployment rates. Slow growth was also the experience of many of the larger developing countries, reflecting their efforts to reduce their external financing requirements as well as the depressing effect of relatively slow growth in many of their foreign markets.

As a consequence of the weakness of the recovery in foreign industrial countries and the persistence of a high degree of idle capacity, inflation slowed further abroad, though not so rapidly on average as in the United States. The reduction in the rate of inflation reflected in part the absence of a strong exogenous shock, but in the main it was the result of a general effort among foreign industrial countries to reduce fiscal deficits and maintain firm monetary conditions. A prominent feature of the year was the contrast between the decline in fiscal deficits abroad as a fraction of GNP and the expansion of the U.S. budget deficit.

Another major feature of the year was the further appreciation of the U.S. dollar in foreign exchange markets. From the fourth quarter of 1982 to the fourth quarter of 1983, the trade-weighted average value of the U.S. dollar appreciated 6½ percent; from the fourth quarter of 1980 the rise was nearly 50 percent. There are various explanations for this extraordinary performance, but the sustained, relatively high level of real interest rates in the United States was certainly an important ingredient. Other industrial countries probably would have maintained relatively firm monetary policies in any case, but they were also influenced to do so by the pressure on their exchange rates exerted by the attractive interest rates

GNP and Prices



Foreign data are multilaterally weighted averages for the Group of Ten (G-10) countries plus Switzerland, using 1972–76 total trade weights.

Data for the United States are from the U.S. Departments of Commerce and Labor.

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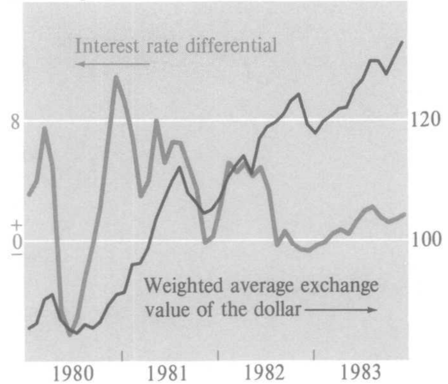
prevailing in the United States. Those rates, in turn, reflected the uniquely expansionary stance of U.S. fiscal policy.

A third feature of the economic scene in 1983 was the stabilization, at least for a time, of the international debt situation. In November the Congress approved the increase in the U.S. quota in the International Monetary Fund (IMF) and the revised and expanded General Arrangements to Borrow, in the total amount of SDR 7.56 billion (about $8 billion at year-end exchange rates). In that legislation the Congress also adopted several provisions intended to improve the supervision of foreign lending by U.S. banks. These provisions were generally in line with recommendations made by the regulatory agencies in April. During the year several major debtors operated under economic stabilization programs agreed with the IMF and commercial bank creditors. Three large debtors (Argentina, Brazil, and Mexico) reduced their combined current account deficit from more than $20 billion in 1982 to an estimated $3 billion in 1983, mainly through a drastic decline in imports. Lending by banks to developing countries outside the Organization of Petroleum Exporting Countries also declined rapidly from a net amount of $31 billion in 1982 to less than $15 billion in 1983. While the groundwork has been laid for the maintenance of bank lending at a moderate rate to developing countries, adherence to stabilization programs agreed with the IMF will be difficult as long as economic growth worldwide is below potential.

U.S. International Transactions

Unprecedented deficits were recorded in the U.S. trade and current accounts

Weighted Average Exchange Value and Interest Rate Differential



Exchange value of U.S. dollar is the index of weighted average exchange value of the U.S. dollar against currencies of the other G-10 countries plus Switzerland, using 1972–76 total trade weights.

Interest rate differential is the interest rate on three-month U.S. certificates of deposit minus the weighted average three-month interest rate for other G-10 countries plus Switzerland using 1972–76 total trade weights.

in 1983, as both deficits rose sharply from their 1982 rates. At the same time recorded private capital flows were sharply reversed, from a net outflow of $23 billion in 1982 to an estimated net inflow of $40 billion in 1983. Any evaluation of this reversal is hampered by the behavior of the statistical discrepancy in the overall accounts, which dropped from net receipts of more than $40 billion in 1982 apparently to a negligible amount in 1983. If the residual were attributed to private capital flows, the combined amount would be a net inflow of about $20 billion in 1982 and the 1983 amount would be nearly $40 billion.

The rise in the U.S. trade deficit from $36 billion in 1982 to $61 billion in 1983 resulted from a small year-over-year decline in the value of exports combined with a large rise in imports. Exports reached a low point late in 1982 and recovered only slight-

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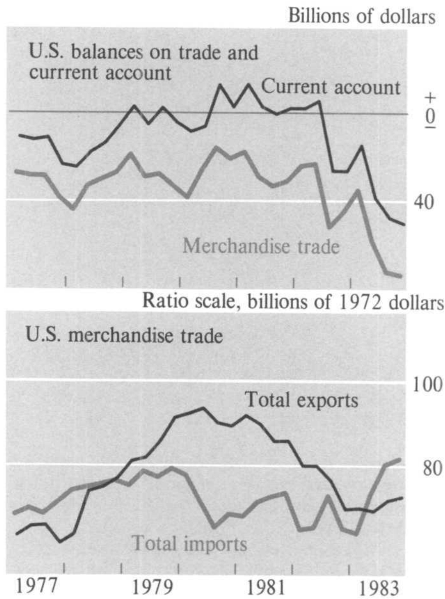
U.S. International Trade



Data are seasonally adjusted at annual rates and are from the U.S. Department of Commerce.

ly thereafter, held back by the slowness of the economic recovery in most major trading partners and by the persistently high level of the exchange value of the dollar. In the course of the year exports to Canada and Japan increased somewhat, but the value of shipments to Western Europe and to developing countries declined.

The increase in imports for the year was widespread across commodities other than petroleum, and largely reflected the strength of the pickup in U.S. economic activity. By area, the increase in non-oil imports came both from the developing countries (particularly those in Asia) and the industrial countries (particularly Japan and Canada). Oil imports declined in 1983, largely because of lower prices as weak world demand and ample supplies put downward pressure on prices in world oil markets. Another factor in the trade picture was the continuation of marketing agreements or quotas that tended to restrict imports of a number of important products. Pressure for additional limitations on imports intensified during the year. Such impediments to trade (apart from those clearly targeted on unfair trade practices by competitors) will ultimately shrink U.S. and world trade, and they are especially harmful to developing countries that need to expand exports to maintain economic and political stability.

An enormous swing in bank-reported capital flows was the main factor in the shift in recorded private capital transactions from a large net outflow in 1982 to a record net inflow in 1983. Banking offices located in the United States increased their claims on non-OPEC developing countries by a much smaller amount than in 1982. Most of the shift in the net foreign position of U.S. banking offices, however, reflected rising U.S. credit demands, including greater offerings of U.S. government issues, and the more favorable terms on which banks could raise funds in the Euromarkets. Net foreign purchases of U.S. securities were up moderately, including record purchases of U.S. corporate equities in the period when U.S. equity prices were rising strongly. Flows reported for U.S. direct foreign investments registered a moderate outflow, reversing the unusual net inflow that occurred in 1982. According to the available data and estimates for some items, the very large positive residual that appeared in 1982 was eliminated in 1983. This change suggests a reduction in capital inflows through channels that escape reporting, possibly indicating a reduction in inflows of flight capital.

Capital flows related to official re-

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serve transactions were moderate in 1983. Foreign official reserve holdings in the United States increased somewhat; reductions in OPEC holdings, and in holdings of some European countries that were intervening to support their currencies, were offset by increased holdings by other countries. U.S. official international reserves increased by a relatively small amount in 1983, partly because $1.3 billion equivalent of reserves was used to retire the remaining part of the German mark and Swiss franc bonds (Carter bonds) issued between December 1978 and January 1980. The U.S. reserve position in the IMF increased when that institution used dollars to provide financing for member countries, and also when the Treasury paid the reserve-asset part of the U.S. subscription to the quota increase, using existing holdings of reserve assets.

U.S. International Transactions[1]

Billions of dollars

Transaction	Year		Quarter				
			1982	1983			
	1982	1983[2]	Q4	Q1	Q2	Q3	Q4[2]
Current account[3]	**−11.2**	**−38.0**	**−6.6**	**−3.6**	**−9.7**	**−12.0**	**−12.7**
Merchandise trade balance	−36.4	−60.6	−11.4	−8.9	−14.7	−18.2	−18.8
Exports	211.2	200.0	48.3	49.4	48.8	50.4	51.5
Imports	−247.6	−260.6	−59.7	−58.2	−63.5	−68.7	−70.3
Investment income (net)[4]	27.3	24.7	6.0	5.1	5.7	6.9	7.0
Other services	5.9	5.6	1.2	1.7	1.1	1.3	1.5
Unilateral transfers, private and government	−8.0	−7.8	−2.4	−1.6	−1.8	−2.1	−2.4
Private capital flows	**−22.7**	**39.6**	**−6.8**	**−3.4**	**9.5**	**16.0**	**17.5**
Bank-reported capital, net (outflows, −)	−45.1	32.6	−14.7	−5.3	6.1	15.8	16.0
U.S. net purchases (−) of foreign securities	−8.0	−6.7	−3.5	−1.8	−3.2	−1.1	−.6
Foreign net purchases (+) of U.S. Treasury securities	7.0	8.6	2.3	2.9	3.1	1.1	1.5
Foreign net purchases of other U.S. securities	6.1	8.6	2.0	3.0	2.6	1.9	1.1
U.S. direct investment abroad[4]	3.0	−7.9	2.0	0.2	−1.0	−4.1	−3.0
Foreign direct investment in United States[4]	10.4	9.2	2.8	2.1	2.2	2.4	2.5
Other corporate capital flows, net	3.9	−4.8	2.4	−4.5	−.3	...	...
Foreign official assets in United States (increase, +)	**3.2**	**5.8**	**1.7**	*	**2.0**	**−3.2**	**7.0**
U.S. government foreign assets, net (increase, −)	**−10.7**	**−6.1**	**−2.9**	**−1.8**	**−1.1**	**−0.7**	**−2.5**
Reserve position in IMF	−2.6	−4.4	−.7	−2.1	−.2	−.1	−2.0
Convertible currencies and other reserve assets	−2.4	3.2	−1.2	1.4	.2	.6	1.0
U.S. government foreign credits and other claims, net	−5.7	−4.9	−.9	−1.1	−1.2	−1.2	−1.5
Seasonal adjustment discrepancy	...	...	**1.0**	**−.2**	**.8**	**−1.4**	**.8**
Statistical discrepancy	**41.4**	**−1.2**	**13.6**	**9.0**	**−1.4**	**1.3**	**−10.1**

1. Details may not add to totals because of rounding.

2. Data for the fourth quarter are partial and preliminary, and include Federal Reserve staff estimates.

3. The current account is seasonally adjusted; other accounts are not seasonally adjusted.

4. Includes reinvested earnings.

* Less than $50 million.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

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Foreign Currency Operations

The weighted-average exchange value of the dollar continued to rise in 1983 but at a slower rate than in 1982. The further rise in the dollar occurred while U.S. real interest rates remained firm relative to foreign rates. Safe-haven considerations and the fall in the U.S. inflation rate probably continued to play significant roles in the dollar's appreciation. The downward pressure on the dollar exerted by the large and growing U.S. current account deficit was evidently overwhelmed by these other factors.

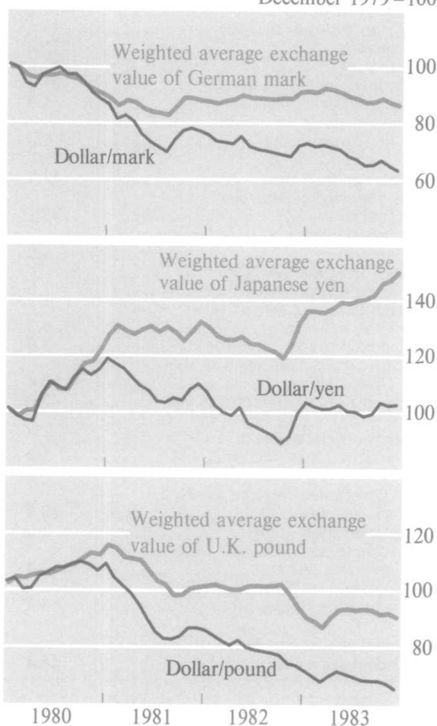
On a bilateral basis the dollar appreciated during 1983 against every major currency except the yen. The yen appreciated strongly against the dollar in late 1982, and since then has appreciated considerably against other currencies as Japan's current account position has strengthened. The German mark displayed particular weakness, depreciating 15 percent against the dollar during 1983, and the pound also depreciated significantly against the dollar. However, both currencies depreciated less against an average of foreign currencies.

Major foreign central banks sold nearly $9 billion in 1983, far less than the $40 billion they had sold in 1982 to support their currencies against the dollar. U.S. monetary authorities intervened on seven days during the year, selling $233 million to purchase marks and $100 million to purchase yen. A large part of the sales came in August, when upward pressure on the dollar was strong and other countries intervened heavily. The U.S. purchases of marks and yen were evenly split between the accounts of the Federal Reserve and the Treasury.

The Federal Reserve held $3,688 million equivalent of foreign currencies at year-end, about three-quarters of which was in marks. The foreign exchange translation loss for 1983 was $456 million, resulting mainly from the depreciation of the mark. Mexico had $483 million outstanding on its regular swap line with the System at the beginning of 1983; this amount was repaid during the year in two installments, one of $110 million in January and the other of $373 million in February. An additional $257 million was outstanding on Mexico's special System swap line at the start of the year; this amount was repaid by the end of August. At the beginning of 1983 the Federal Reserve, under warehousing agreement, held

Indexes of Selected Exchange Rates

December 1979=100



The weighted average value for each currency is its exchange value against the currencies of the other G-10 countries plus Switzerland using 1972-76 total trade weights.

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about $1,300 million equivalent of foreign currencies for the Treasury. These funds were used to retire the last of the Carter notes, which consisted of about $900 million of U.S. Treasury debt denominated in marks and $400 million of U.S. Treasury debt denominated in Swiss francs.

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Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 16, 1983, and on July 20, 1983, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 16, 1983

The Performance of the Economy in 1982

The recession that began in mid-1981 continued through 1982, bringing the cumulative decline in real gross national product over that period to 2½ percent. Unemployment reached a postwar high, while industrial capacity utilization fell to a postwar low. At the same time, however, inflationary pressures were greatly reduced; and while some potential obstacles to growth clearly need attention, an economic environment conducive to sustainable recovery and expansion seemed to be emerging by year-end.

To a considerable extent, the recession and its attendant economic and financial stresses have reflected the difficulties inherent in reversing an inflationary trend that had been gaining momentum for more than a decade. By the late 1970s, the underlying inflation rate had accelerated to near the double-digit level, and expectations of rising wages and prices had become deeply embedded in the behavior of consumers, businesses, and investors. Growing financial dislocations and economic imbalances made it plain that inflation was having a debilitating effect on our economic performance. Although policies to curb the inflation were strengthened considerably in late 1979, the inflation rate remained quite high through 1980 and slowed only a little in 1981.

In this past year, however, the progress against inflation has been more dramatic. The rate of increase in most price measures in 1982 was only a third to a half the peak inflation rates of 1979 and 1980, a much faster deceleration than had generally been thought possible when the year began. The slowdown was attributable to temporary influences to some extent, but there also has been more fundamental progress. In particular, expectations of inflation are being scaled down, productivity is improving, and indications of business and labor adapting their price and wage practices to the competitive realities of a new, less inflationary environment are widespread.

Reflecting both the sharp deceleration of price inflation and the cutbacks in economic activity, nominal gross national product grew only 3¼ percent over the four quarters of 1982, little more than a third the rate of growth in 1981. Nevertheless, the demands for money remained quite strong, as exceptional economic and financial uncertainties bolstered investors' desires to hold liquid balances, and as the attractiveness of depository accounts was enhanced by the progressive liberalization of deposit rate regulations.

The growth in aggregate debt outstanding also was quite strong, with a particularly steep increase in the credit needs of the federal government. Federal borrowing was extraordinarily large in the second half of

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1982, when the federal sector absorbed nearly half of the funds raised by all domestic nonfinancial borrowers. State and local governments, too, issued substantial amounts of new debt in 1982, especially late in the year. Private credit demands, however, were curtailed sharply as economic activity weakened.

Interest rates fell appreciably in 1982, primarily in the second half. By the end of the year, short-term rates were about half the peak levels of 1981, and long-term rates also had declined considerably. In turn, the declines in rates helped trigger an improvement in activity toward year-end in the credit-sensitive sectors of the economy. In particular, automobile sales have perked up in recent months, and an upturn in the housing sector gained momentum as the year progressed. Following an exceptionally rapid liquidation of business inventories in the fourth quarter, the pressures to reduce stocks appeared to be easing early in 1983 as both production and employment increased in January. All told, these and other recent data provide strong indications that recessionary forces are dissipating and that the economy may be entering the initial phases of a new expansion.

Interest Rates

A year ago, as 1982 began, interest rates were moving higher in association with stronger demands for money and credit, reversing a portion of the decline that occurred as the economy slipped into recession in the second half of 1981. However, the rise in rates was soon halted. Short-term interest rates showed little net change from late January through June, and then fell sharply in the third quarter, as sluggish money growth through the early part of the summer reduced the demand for bank reserves, easing pressures in money markets. With market rates falling and the economy still quite sluggish, the Federal Reserve reduced its discount rate 3½ percentage points over the second half of the year in seven separate steps, thereby accommodating the downward movement in money market rates. During this period, the broader monetary aggregates were running at or just above the annual target ranges, but this did not seem inappropriate in light of prevailing economic and financial conditions. By December short-term rates had fallen around 5 percentage points from their average levels in June.

Long-term interest rates also registered substantial declines in the second half of the year, responding not only to the easing in money markets, but also to the sustained moderation of inflation and to the weakness in economic activity. On balance, yields on bonds and conventional mortgages fell 3 to 4 percentage points between June and December. The decline in long-term yields and the promise of a sustained pickup in economic activity helped to maintain a sharp rise in stock prices beginning in the summer, with several broad market indexes reaching historic peaks late in the year and rising to still higher levels in early 1983.

In addition to the general cyclical factors affecting interest rates, the structure of rates across different markets this past year reflected, to an unusual degree, investor concerns about the financial health of borrowers. Severe stress was evident in a high level of bankruptcies, as well as in other difficulties experienced by many businesses and financial institu-

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tions in the United States and abroad. In these circumstances, lenders began to assess credit risks more carefully, demanding larger returns for extending credit to potentially troubled borrowers. Later in the year, however, these risk premiums dropped to more normal levels as an easing of overall credit conditions and anticipations of a pickup in economic activity relieved some of the anxieties in financial markets.

Even with the sharp declines of 1982, interest rates remain at high levels relative both to their historical levels and to current inflation rates. A major factor propping up long-term rates especially is the prospective size of federal government deficits, which threaten to remain massive even as the economy recovers, thereby competing with the rising demands of private borrowers for available savings. Moreover, although inflation moderated substantially in 1982, many potential investors, scarred by the experience of the 1970s, remained cautious about the longer-range outlook—and about the government's commitment to maintain forceful anti-inflationary policies.

Residential Construction

So far, the housing sector has been the main beneficiary of falling interest rates. A gradual upturn in housing activity that began in late 1981 gained momentum in the second half of 1982 as mortgage rates moved sharply lower. By last month the interest rate on commitments for conventional fixed-rate mortgages had dropped to 13 percent from a high of 18½ percent in the fall of 1981, and rates on many types of variable-rate loans had declined even more.

Homebuyers responded favorably to the rate reductions, and in the fourth quarter, sales of both new and existing homes rose to their highest levels since the recession began in mid-1981. Because the inventory of unsold new homes had been drawn down to a low level, the improvement in sales in the second half provided a direct impetus for new construction activity. Starts of new single-family dwellings in the fourth quarter were up almost 50 percent from depressed year-earlier levels, with most of that gain coming in the second half of the year. Starts of new multifamily units rose through most of the year, supported in part by federal subsidies.

Consumer Spending

Consumers continued to exhibit cautious spending patterns through most of 1982. Despite sharp reductions in personal tax liabilities at midyear, real after-tax income rose only 0.6 percent during the year, as reductions in employment cut deeply into wage and salary payments. At the same time, consumers were reluctant to finance purchases by taking on new debt. Domestic auto sales remained depressed through most of the year, with the pace for 1982 as a whole the worst in more than two decades. Foreign car sales also fell, but much less than sales of domestic makes.

Nevertheless, the economic situation in the consumer sector appeared to be improving as the year ended. With liquidity up and debt burdens down, consumers' financial positions, in the aggregate, have improved considerably from the overextended positions of the late 1970s. Consumer confidence began to perk up in the second half of 1982 as inflation remained moderate and as interest rates on consumer loans began gradually to decline. Spending, most notably on durable goods, started to grow more

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rapidly toward year-end. Sales of domestic autos rose significantly in November and have been maintained at a higher level into early 1983, apparently reflecting financing concessions as well as changes in manufacturers' design and pricing policies. Retail sales excluding autos also rose a little in late 1982, and in the fourth quarter, total consumer spending registered its strongest gain, in real terms, since late 1980.

Business Sector

The persistent weakness of economic activity in 1982 led to considerable stress in the private business sector. Among nonfarm businesses, low operating rates depressed corporate profits, and the financial condition of many firms weakened under the burden of reduced availability of internal funds, heavy short-term indebtedness, and high interest charges. Credit ratings deteriorated for many businesses, the incidence of dividend reductions or suspensions increased, and business bankruptcies rose to a postwar high.

Signs of growing financial distress also were evident in the farm sector of the economy. Because of weak demand and exceptionally large crop harvests in 1982, farm prices slumped and income was low for the third year in a row. Land prices in the farm sector have fallen substantially in some areas since mid-1981, farm proprietors' equity has declined, and debt-to-asset ratios have risen noticeably in the past two years. Difficulties in servicing debt have increased, especially among those farmers who came to rely more heavily on credit financing in earlier years, and farm bankruptcies and foreclosures have become more numerous.

Confronted with weak demand and financial strains, many business firms moved aggressively in 1982 to trim inventories and curtail capital spending. In real terms, total fixed investment expenditures in the business sector fell more than 8 percent over the four quarters of 1982. Cutbacks in spending for equipment accounted for nearly all of the decline; purchases fell especially rapidly for heavy industrial machinery such as engines, construction equipment, farm machinery, and transportation equipment.

Business investment spending on nonresidential structures slowed in the first half of 1982 and then turned down in the second half. Much of the decline was concentrated in outlays for oil and gas drilling, which fell sharply over the year as drilling incentives weakened in response to worldwide reductions in energy demand and declines in petroleum prices. In contrast, business spending for new buildings was well maintained through 1982, although part of this strength probably reflected the continuation of projects started some time ago. Forward-looking indicators, such as the constant-dollar value of new construction contracts, fell substantially during the year while vacancy rates for office buildings climbed sharply. These and other indicators suggest that capital spending by businesses, especially for construction, could continue to weaken for some months.

Depressed aggregate demand also caused businesses to liquidate inventories at a rapid pace in 1982. The weakening of final sales in the second half of 1981 had led to an unintended buildup of inventories, and in early 1982 businesses began liquidating those excess stocks at a rapid pace. However, the runoff of inventories

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halted around midyear, possibly because businesses generally anticipated a midyear upturn in sales. When no such upturn occurred, a second round of inventory liquidation began, and stocks were reduced at a particularly rapid pace in the fourth quarter. By year-end many industries had reduced inventories to below prerecession levels, but stocks in some sectors still appeared large relative to the prevailing sales pace.

Reflecting the reductions in inventories and capital spending, businesses reduced their credit usage appreciably in 1982. The strong rally in the stock market that began during the summer also helped reduce borrowing, as firms started relying more heavily on equity financing and relatively less on new debt issuance. Falling long-term interest rates enabled businesses to accomplish some lengthening of their debt maturities toward the end of 1982, but even so, business balance sheets at year-end were heavily laden with short-term debt.

Government Sector

Total government purchases of goods and services rose 2½ percent in real terms during 1982, about the same as in the previous year. At the federal level, real outlays for national defense expanded rapidly for the second year in a row. Spending also rose considerably for agricultural programs, as the federal government accumulated farm inventories under programs designed to keep farm prices and farm incomes from falling further. Federal purchases of other goods and services, on balance, were cut back sharply.

The credit demands of the federal government rose steeply in 1982, and accounted for almost 40 percent of total credit flows to the domestic nonfinancial sectors of the economy. Federal borrowing from the public rose from $87 billion in 1981 to $161 billion in 1982, as the federal deficit widened in response to weak growth in taxable incomes, reductions in tax rates, the further rise in government purchases, and a recession-induced increase in unemployment compensation and other transfer payments.

Real purchases of goods and services by state and local governments were little changed over the four quarters of 1982. Faced with a recession-induced shrinkage in tax revenues and cutbacks in federal support, many state legislatures enacted increases in sales, income, or corporate taxes to help maintain service levels. In addition, state and local borrowing increased substantially, not only to finance traditional functions but also, in a number of cases, to support mortgage lending in local communities. A surge in new bond issues in the fourth quarter was in part an attempt by state and local governments to raise funds before a requirement to register all new issues of tax-exempt securities after year-end (later postponed to mid-1983) was scheduled to take effect.

International Payments and Trade

Following a steep advance in 1981, the weighted-average value of the dollar appreciated another 20 percent from the beginning of 1982 through early November. The strengthening apparently was in large part a response to the progress made in reducing inflation and the sense of a continuing commitment of U.S. authorities to ensure greater economic stability. Moreover, during a period of major strains in the international financial system and considerable economic uncertainty, there evidently

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was a view that dollar assets, especially U.S. assets, would provide a "safe haven." Since early November the foreign exchange value of the dollar has fallen a little, on net, as market participants have reacted to the prospect of very large deficits in 1983 in the U.S. merchandise trade and current accounts.

A movement toward deficit in the U.S. current account was already evident in 1982. Reflecting the effects of the strong dollar, as well as sluggish economic growth abroad, real exports of goods and services decreased 13 percent over the four quarters of 1982. The volume of imports of goods and services also declined during 1982, but the decline was smaller than for exports; the increasing price competitiveness of foreign goods, which resulted in part from the strong dollar, helped support import demand. As a result of these trade patterns, net exports, in real terms, fell $15 billion over the four quarters of 1982; the trade sector thus made an atypically large contribution to the recession. The U.S. current account, which was in small surplus for 1981 as a whole, recorded surpluses in the first half of the year but then swung into deficit in the second half as exports weakened.

The external financial position of several large borrowing countries—notably Argentina, Brazil, and Mexico—worsened in 1982. These financing problems have placed severe strains on the banking system and on international markets generally, as the need arose to refinance or reschedule existing debt. During the year, borrowers and private and official lending institutions made repeated cooperative efforts to address these problems, and the debtor countries, to gain control of rising debt burdens, are adopting strong policies of internal and external adjustment. As a result, debtor countries have reduced their demand for exports from major industrial countries, particularly the United States because of its close ties to Latin America.

Labor Markets

Employment in the United States fell steadily throughout 1982, and by year-end total nonfarm payroll employment was more than 2¾ million below its July 1981 peak. As is typical in recessions, the largest job losses were in the cyclically sensitive manufacturing and construction industries. In addition, employment fell in the oil- and gas-drilling industries, and trade employment suffered an unusually sizable decline. Employment in the service sector continued to grow in 1982, but at a slower pace than in recent years.

The back-to-back recessions of the early 1980s were accompanied by a rise in total unemployment of about 5½ million, and by the end of 1982, the unemployment rate, at 10.8 percent, was nearly 2 percentage points above its previous postwar peak. Increases in unemployment were especially large among adult men, who hold a disproportionate number of jobs in the cyclically sensitive industries. As the recession persisted through 1982, the number of workers unemployed for longer than a half-year increased to more than 2½ million. In order to support the incomes of these long-term unemployed, the period of eligibility for unemployment benefits was lengthened twice, to as much as 55 weeks for some workers.

Nevertheless, a little improvement in labor demand began to be evident around the turn of the year. The incidence of layoffs appeared to be

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moderating toward the end of 1982; unemployed workers have been recalled in some industries. And in January of this year, the civilian unemployment rate declined to 10.4 percent.

Wages and Labor Costs

The falloff in labor demand in 1982, along with the general unwinding of inflation, led to a sharp slowing in the rise of wages and labor costs. The wage rates of production workers increased about 6 percent during 1982, the smallest advance in 15 years. The moderation in wage increases was especially striking among new contracts negotiated under major collective bargaining agreements; in 1982, first-year wage increases under these agreements averaged 3¾ percent, less than half the average increases reached when these workers last negotiated. In some particularly hard-pressed industries, workers agreed to new contracts that eliminated altogether the fixed wage increases that had been customary in past wage agreements, and in some cases there were outright wage reductions. Nevertheless, with price inflation slowing even more rapidly than nominal wages, real wage rates in the nonfarm business sector actually rose faster than in most recent years.

Labor costs per unit of output were up only 4½ percent over the four quarters of 1982, as an improved productivity performance reinforced the impact of slower nominal increases in wages and benefits. Qualitative reports throughout the year suggested that business firms, many of them hard-pressed financially, were engaged in aggressive efforts to cut costs and bolster efficiency. Productivity gains in the second half of the year were particularly noteworthy, given that business output was still declining cyclically; normally, productivity tends to slump in the contraction phase of the business cycle as firms reduce output by more than the hours worked.

Prices

In 1982, all major price indexes advanced at considerably slower rates than in 1981, and for some price measures, the increases in 1982 were the smallest in more than a decade. The consumer price index rose 3.9 percent over the year, compared with 12½ percent just two years earlier. Capital goods prices were up less than half as much as in 1981, and prices were little changed for a broad range of materials used in manufacturing and construction.

In many ways the slowing of inflation this past year has reflected the pervasive influence of the recession on product and labor markets. In addition, the strength of the dollar has helped to hold down the prices of U.S. imports; bountiful harvests have contributed to declines in agricultural prices; and the worldwide recession has depressed the prices of oil and other commodities. Although these influences themselves may prove to be temporary, the foundation is now in place for more lasting gains against inflation. In particular, the wage-price interactions that served to perpetuate inflation through the 1970s appear to have lost much of their momentum. Workers generally are agreeing to smaller pay increases than in earlier years, and in some sectors in which long-term wage agreements are prevalent, the settlements concluded in 1982 will help ensure diminished labor cost pressures in coming years. Lower labor costs are relieving pressures on prices, and, in

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turn, an improved price performance is reducing expectations of inflation and thus leading to a further slowing of labor costs. This cumulative process of disinflation still appeared to have momentum at year-end, thereby providing solid grounds for continuing better price performance in 1983.

The Growth of Money and Credit in 1982

The Federal Reserve has been seeking to provide enough liquidity to facilitate an early upturn in economic activity, while maintaining the monetary discipline needed to sustain the progress toward lower rates of inflation—a crucial element in satisfactory economic performance over the longer run. The specific monetary target ranges chosen by the Federal Open Market Committee (FOMC) last February and reaffirmed in July were as follows, with growth measured from the fourth quarter of 1981 to the fourth quarter of 1982: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The associated range for bank credit was 6 to 9 percent at an annual rate, measured from the average level of December 1981 and January 1982 to the fourth quarter of 1982; the base period for bank credit was selected to minimize distortions from the shifting of assets to newly established international banking facilities, first authorized in late 1981.

It was recognized when selecting these ranges that several factors could affect the relationship of monetary and credit growth to income and expenditure in the economy. In particular, the Committee contemplated that M1 might deviate for periods of time from expected patterns of growth in the event that economic and financial uncertainties fostered unusual desires for liquidity. Such desires had already been indicated by a surge in growth around year-end 1981, at which time it was believed that vigorous efforts to bring money back within target ranges rapidly would not be appropriate when the economy was still quite weak. In addition, the demand for M1 was seen as likely to demonstrate a continuing sensitivity to changing financial technology and the proliferation of new money- and near-money-type instruments. The Committee also anticipated that the broader aggregates, M2 and M3, might be affected by legislative and regulatory changes, such as broadened eligibility for individual retirement accounts (IRAs) and Keogh accounts and the ongoing deregulation of deposit rates, as well as unusual desires for liquidity. In July, while the Committee decided to retain the ranges adopted earlier for monetary growth, it underscored in its report to the Congress its willingness to accommodate any unusual precautionary demands for liquidity that might be associated with unsettled economic and financial conditions.

The behavior of the aggregates over the year indeed diverged substantially from normal historical patterns. Precautionary motives evidently boosted demands for money and other highly liquid assets relative to the expansion of nominal GNP, which remained quite sluggish. M1 expanded 8½ percent on a fourth-quarter to fourth-quarter basis, 3 percentage points above the FOMC's target range, largely reflecting relatively rapid growth over the course of the year in interest-bearing checking accounts that also serve a savings function. In addition, M1 growth was boosted by special developments late in the year

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in connection with the large amounts of maturing all savers certificates.

The broader aggregates, M2 and M3, expanded at rates of 9.2 and 10.1 percent respectively, much closer to—though still somewhat above—the upper limits of their ranges. These growth rates for M2 and M3 are lower than those observed before some recent changes in money stock definitions, the previous figures being 9.8 and 10.3 percent respectively. To maintain consistency in the treatment of various kinds of financial assets, M2 and M3 now include balances in tax-exempt money market mutual funds, which have attributes very similar to those of the highly liquid taxable money funds, and exclude balances in IRAs and Keogh accounts, which closely resemble pension funds and consequently are much less like money balances. The table shows figures for growth of M2 and M3 in recent years under both the old and the new definitions.

The income velocity of various measures of money—defined as the ratio of gross national product to measures of money—fell sharply in 1982. The velocity of M1 dropped 4¾ percent and that of M2 5½ percent, from the fourth quarter of 1981 to the fourth quarter of 1982. For M1, this was the largest four-quarter decline in the postwar period, and in fact there have been very few four-quarter spans in which M1 velocity declined at all. In the case of M2, no parallels for the steep velocity decline of last year are to be found since the 1950s.

Although declines in velocity of M2 have not been uncommon during periods of recession, in past periods they were explainable largely in terms of reflows of funds from securities into M2-type balances when market rates of interest fell below deposit rate ceilings—a factor of much reduced importance in the present regulatory environment and with the emergence of money market mutual funds as an important investment outlet. The recent weakness in velocity more

Growth of Money and Credit[1]

Percentage change

Period	M1	New M2	Old M2	New M3	Old M3	Bank credit[2]	Outstanding debt of domestic nonfinancial sectors
Fourth quarter to fourth quarter							
1978	8.2	8.0	8.2	11.1	11.3	13.3	12.9
1979	7.4	8.1	8.4	9.6	9.8	12.6	12.1
1980	7.2	9.0	9.2	9.7	10.0	8.0	9.9
1981	5.1 (2.5)	9.4	9.5	11.7	11.4	8.1	9.9
1982p	8.5	9.2	9.8	10.1	10.3	7.1	9.5
Annual average to annual average							
1978	8.2	8.5	8.8	11.5	11.7	12.4	12.2
1979	7.7	8.2	8.5	10.2	10.3	13.6	13.1
1980	6.2	8.0	8.3	9.0	9.3	8.6	12.3
1981	7.2 (4.8)	9.5	9.8	11.6	11.6	9.4	10.0
1982p	6.5	9.4	9.8	10.5	10.5	5.8	10.0

1. M1 and the new M2 and M3 figures incorporate minor effects of benchmark and seasonal adjustment revisions. New M2 and M3 incorporate definitional changes as well.

M1 figures in parentheses are adjusted for shifts to NOW accounts in 1981.

2. Bank credit data are not adjusted for shifts to international banking facilities in 1981 and 1982. The 1982 growth rate, however, is calculated from a December 1981 and January 1982 base to minimize distortions owing to such shifts.

p Preliminary.

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probably reflects strong demands for relatively safe, liquid assets on the part of the public because of uncertainties in the business and financial outlook.

Further evidence of strong precautionary demands is to be found in the particular types of monetary assets that the public chose to acquire last year. Interest-bearing negotiable order of withdrawal (NOW) accounts—which are included in M1—continued to expand rapidly, though growth was, of course, less rapid than in 1981 when they first became available nationwide. Such deposits, while serving the transaction needs of holders, have many of the characteristics of savings accounts, which in the past have tended to grow during periods of economic adversity. Indeed, during the first half of last year, when interest rates on other investments were still relatively high, individuals began once again to add to their savings balances following a long downtrend in such deposits; growth in savings deposits surged once more in the final months of 1982, apparently buoyed in part by deposits of proceeds from maturing all savers certificates. The attractiveness of NOW and savings accounts no doubt was enhanced after midyear as lower interest rates reduced the earnings disadvantage of keeping funds in such highly liquid form. Other types of liquid assets included in the aggregates also grew rapidly in 1982. A sizable buildup of balances occurred in the 7- to 31-day accounts and 91-day accounts at depository institutions, soon after these accounts were authorized in May and September respectively. Shares of money market mutual funds also increased substantially, albeit much less rapidly than in 1981, when many people were first attracted to these savings vehicles. By contrast, inflows to longer-maturity time deposits were moderate.

The apparent strong desire for liquidity, and the associated shifting in asset demands, had an important bearing on the FOMC's assessment of the behavior of the aggregates as the year progressed. The Committee felt that some growth in the aggregates above the longer-run target ranges could be tolerated in the prevailing economic conditions, which appeared to be giving rise to greater precautionary demands for money than might be anticipated in normal circumstances. The lengthening recession and associated economic dislocations prompted more cautious financial management on the part of households and businesses, and this attitude of caution in financial markets was intensified from time to time by concerns about strains on some financial institutions and about the ability of private and governmental borrowers in a number of foreign countries to meet their debt-service obligations. The latter part of the year, moreover, brought a number of institutional developments that further complicated the interpretation of the movements in the money supply, necessitating a more than ordinary degree of flexibility in responding to incoming data on monetary growth.

Recognized in the early fall was that the behavior of M1 during the final three months of the year would very likely be distorted by special factors. In particular, an extremely large volume of all savers certificates matured beginning in early October, and this volume was expected to have sizable temporary effects on M1. Also of potential importance was the introduction (mandated by the Garn-St Germain Depository Institutions

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Act of 1982) of new deposit instruments for banks and thrift institutions that were to be competitive with money market mutual funds. In the event, the Depository Institutions Deregulation Committee authorized, beginning December 14, depository institutions to offer a money market deposit account (MMDA), which could be used to a limited extent for transaction purposes and would be free from interest rate ceilings, and authorized Super NOW accounts free of interest rate ceilings beginning January 5.

MMDAs, because of their more limited transaction feature, are included only in the broader aggregates, while Super NOWs, which have unlimited transaction features but also include a savings element, are included in M1. These distinctions are not clear-cut, and they illustrate the increasing fuzziness of the dividing line between M1- and non-M1-type balances. In fact, in making this definitional decision, the Federal Reserve Board noted that it would be monitoring carefully the behavior of the new accounts to determine whether some alteration in their treatment might be advisable.

The sizable shifts of funds that might result from these developments in the fourth quarter—and, in the case of the new accounts, possibly even shifts in anticipation of their availability—seemed likely to have direct and indirect effects on M1 that would be large in magnitude and would, particularly in the case of the new accounts, affect the underlying behavior of narrow money as the public reallocated transaction and savings funds. As a result, the FOMC at its October meeting decided that it would give considerably less weight to M1 in the conduct of policy and rely more on the broader aggregates, M2 and M3. It anticipated in this decision that the special factors affecting growth of M1 in the fourth quarter would have a much smaller impact on M2 and M3 because a major portion of the shifts of funds would occur among assets contained in these broader aggregates; for example, proceeds from maturing all savers certificates (a component of M2) that were deposited in transaction balances would remain part of M2. However, it was recognized that the advent of the MMDA might boost expansion of M2 late in the year.

In late December, growth of M2 in fact was raised by sizable inflows to MMDAs from sources outside M2—such as market instruments and large certificates of deposit—and growth continued at an extraordinarily rapid pace into the early weeks of 1983. The new accounts were heavily advertised by the depository institutions and often were offered initially at interest rates that were exceptionally high relative to prevailing rates on comparable investments. By year-end, MMDAs outstanding had risen to a level of about $87 billion, and by the end of January 1983 were about $230 billion. Growth of Super NOW accounts was much slower, reaching about $18 billion by the end of January.

Commercial bank credit grew 7.1 percent in 1982, near the midpoint of the FOMC's range. The pace of bank loan growth during the year was considerably affected by changes in the pattern of business financing. During the first half, when the persistence of high long-term interest rates encouraged firms to concentrate their borrowing in short-term markets, business loans at banks expanded rapidly. But as interest rates moved lower over

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the second half, corporations increasingly shifted their financing to long-term debt and equity markets; in the third quarter, business loan growth slowed sharply, and in the fourth quarter these loans showed no net increase, as corporations used the proceeds from bond sales to avoid increasing bank indebtedness. Real estate loans at banks also slowed as the year progressed and, for the year as a whole, increased only 5½ percent —a rate below that of recent years. Consumer loans continued weak, expanding only 3½ percent. While loan growth slowed, banks greatly expanded their holdings of U.S. Treasury obligations during the year, acquiring close to $13 billion in the final quarter alone.

The Federal Reserve's Objectives for the Growth of Money and Credit

The economy over the past year and a half has passed through a most difficult period, one of high unemployment, depressed incomes, and severe distortions in financial markets. There is substantial evidence that the recession is ending. Forces seem to be in place that are consistent with recovery in economic activity. One positive factor is the improvement in financial market conditions in the past six months, which is stimulating activity in major credit-sensitive sectors of the economy. A better balance is being established between inventories and final demands. Inflationary expectations, while still sensitive, have abated. Substantial progress toward restoring price stability has been made and there is good reason to believe that further progress can be achieved even as business activity picks up. An improvement in productivity should bolster growth in real income and profitability during recovery and can be a factor in sustaining better price performance. Diminishing inflation and a lowering of inflation expectations, in turn, should promote further declines in interest rates.

Against this backdrop, monetary policy has been, and will continue to be, concerned with fostering a lasting expansion in business economic activity in a framework of continuing progress against inflation. Monetary expansion and liquidity should be adequate to support the moderate recovery that appears to be starting. At the same time, although the recent gains that have been made against inflation are highly encouraging, clearly the test of the success of our anti-inflationary effort is still ahead. Thus, the Federal Reserve remains committed to a course of monetary discipline that is essential to avoid a resurgence of inflationary pressures as economic expansion proceeds.

In setting guidelines for monetary growth consistent with these goals, the Federal Open Market Committee recognized that the relationship between growth ranges and ultimate economic objectives had deviated substantially from past patterns during 1982. As noted earlier, monetary growth was quite rapid relative to income, and by year-end exceeded the targets set by the Committee for 1982. This growth, however, appeared fully consistent with the needs of the economy and progress against inflation, given the indications of unusual demands for monetary assets that persisted during the past year. With velocity declining sharply, rigid adherence to the 1982 targets would have produced a much more restric-

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tive economic effect than was appropriate.

The atypical behavior of velocity last year will likely prove at least in part temporary, to be followed by an unwinding of the exceptional liquidity demands this year; appreciable increases in M1 velocity, in particular, are common during the early stages of economic recovery. It may well be that the experience of 1982 reflected in part a more basic shift in underlying demands for money, at least as now defined. Institutional changes have led to the increased availability of transaction accounts that pay interest tied to market rates, and this availability is likely to affect the trend growth of money. The deceleration of prices may increase the incentives to hold money over time, especially as the reduced inflation is reflected fully in market interest rates. These considerations suggest that velocity in 1983 may well follow a pattern different from that of past recoveries. In setting targets for 1983, account had to be taken of the experience of 1982, past cyclical behavior, and the possible alteration of underlying relationships between money and ultimate economic objectives.

The members of the FOMC also recognized that the introduction of new deposit instruments very recently has affected, and would continue to affect for a time, the growth rates and behavioral characteristics of the various aggregates. The extremely rapid buildup of money market deposit accounts, in particular, already has resulted in a substantial flow of funds into M2 from market instruments, greatly inflating the growth of this aggregate in the current quarter. Anticipations are that the redistribution of funds associated with the MMDAs and, to a lesser extent, Super NOW accounts will continue to influence the behavior of the aggregates, though the effect of such shifts on the growth rates of the different monetary measures clearly cannot be determined with a high degree of confidence.

While the effects of these new deposit instruments on M1 seemed smaller than might have been expected to date, the rapidly changing composition of M1 since the introduction of nationwide NOW accounts at the beginning of 1981 seems to have altered and made less predictable the behavior of that aggregate. The NOW accounts appear to behave partly like savings accounts and partly like transaction accounts. Thus, the pattern of M1 movements has come to be influenced by individuals' attitudes toward saving as well as by transaction needs and interest rates. As a result, the relationship of this aggregate to income may well be in the process of change that, by the nature of things, can be accurately determined only as new behavior patterns are reflected over time in the data. Though they have not grown rapidly in the early weeks of the year when depository institutions were promoting MMDAs so aggressively, Super NOW accounts, which can be offered free of interest rate ceilings, have the potential for further disturbing M1 behavior relative to historical tendencies.

All of these factors contributed to the complexity of setting target ranges for 1983, and the Committee recognized that an unusual degree of judgment would be necessary in interpreting the growth of money and credit in coming months. Some flexibility in reassessing the ranges could be important. The Committee decided to continue setting target ranges for all three measures of money, but with

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some departures from past practice to deal with the special uncertainties it faces currently.

In the case of M2, the Committee felt that performance of this aggregate would be most appropriately measured from a base period that would be less affected by the initial, highly aggressive marketing of MMDAs. Thus, the expected growth of M2 is 7 to 10 percent, measured from the average level of February and March 1983 to the average level of the fourth quarter of this year. This range is 1 percentage point higher than that set for M2 last year, but it makes allowance for some further shifting of funds into MMDAs from non-M2 sources over the remainder of the year, although at a greatly reduced pace from what evidently has occurred to date.

The range for M3 was set at 6½ to 9½ percent, measured in accordance with past convention from fourth quarter to fourth quarter. This range is identical to that set for 1982, but the Committee contemplates growth below the actual outcome last year. In adopting the range, the Committee assumed that any net shifts of funds over the year into the new types of deposit accounts from market instruments would be moderate. M3 was expected to be less affected by the new accounts because many depositories have the option of reducing their issuance of large CDs if sizable inflows of MMDAs and other core deposits satisfy their needs for funds. Whether this in fact turns out to be the case will depend in part on the public's perceptions of the risks entailed in uninsured investments and on the ability and desire of depository institutions to use their new liability powers to expand their market shares in financial intermediation.

For M1, a growth range of 4 to 8 percent was specified for the period from the fourth quarter of 1982 to the fourth quarter of 1983. This range, while pointing to slower actual growth than in 1982, is both wider and higher than the range tentatively set last July. The new range reflects allowance for a possible change in cyclical behavior as well as for the evolving character of M1 as a more important repository for savings, especially in an environment of lower inflation and lower interest rates. The comparatively wide range set for M1 also reflects the Committee's judgment that some allowance should be made in this fashion for the uncertainties introduced by the existence of the new deposit accounts.

An associated range for total domestic nonfinancial debt was estimated at 8½ to 11½ percent over the four quarters of 1983. This range encompasses growth about in line with expected growth of nominal GNP, in accordance with long-term trends; however, Committee analysis of the outlook suggested that, in the particular circumstances of 1983, somewhat more rapid growth of credit also might be consistent with its overall objectives. Owing to the extraordinary size of the federal budget deficit, the share of credit flowing to the private sector is expected to be lower than that experienced generally in the past. The commercial bank share of total debt expansion is also expected to put bank credit growth at between 6 and 9 percent this year.

The Committee members agreed that the monetary ranges should be reviewed in the spring in light of the accumulated evidence available at that time regarding the behavior of the aggregates and their relationship to other economic variables. For the

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time being, in implementing monetary policy, the Committee agreed that substantial weight would be placed on the behavior of the broader aggregates—M2 and M3—in anticipation that current distortions from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of emphasis given to that aggregate over time dependent on evidence that velocity behavior is resuming a more predictable pattern. Debt expansion, while not targeted directly, will be evaluated in assessing the behavior of the money aggregates and the impact of monetary policy.

The Committee emphasized that policy implementation in 1983 necessarily will involve a continuing appraisal of the relationships between each of the measures of money and credit and economic activity and prices, particularly in the aftermath of the unusual behavior of the velocities of both money and credit aggregates last year. This appraisal will involve taking account of patterns of saving behavior and cash management among businesses and households and of indications of changing conditions in domestic and international credit markets and in foreign exchange markets.

The Outlook for the Economy

There are encouraging signs that the economy will soon be in the early stages of an economic upturn, if indeed the expansion has not already begun. In its initial phases, the economic recovery may be less robust than the average postwar expansion, but, at the same time, the chances that the recovery can be sustained over the long run have been considerably enhanced by the significant progress against inflation in the past year or so.

Indications that the economy is turning up have been apparent in recent weeks. The housing sector appears to be well along in the recovery process, as both house sales and new construction have registered significant advances. Retail sales also picked up toward the end of 1982 and held steady in January; auto sales in particular have been at improved levels in recent months. In the business sector, inventory liquidation apparently has become less of a depressant of real activity, as both industrial production and employment showed appreciable gains in January.

To be sure, because of the length of the recession and the stresses and uncertainties it has generated, consumers and businesses may follow cautious economic strategies in coming quarters. In the business sector a high degree of unused industrial capacity probably will discourage investment spending for some time, as firms boost the operating rates for existing plant and equipment, rather than investing in new physical capital; commercial construction in the office building area may be particularly weak for a while. The export sector may well continue to be a drag on U.S. economic activity well into 1983. Exports fell sharply in the second half of last year, and given the widespread weakness in foreign economies and the still high value of the dollar, a quick turnaround in export demand is not likely.

Although the January employment report provided encouraging signs of improved labor demand, the gains in coming months, on balance, may be relatively moderate in view of the uncertainties still present in the business environment. As demands pick

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up initially, businesses appear likely to boost output in part by lengthening work schedules or improving efficiency, rather than by committing themselves fully to higher levels of employment. Therefore, during the early stages of the recovery, the unemployment rate probably will be slow to retrace the increases sustained during the past recession. The difficulties of bringing unemployment down quickly may be compounded by structural changes now apparent in the U.S. economy; although the service sector and industries in the forefront of technology will be adding employees, job opportunities in some traditional industries may be trending lower over a long period, and legitimate concern exists about the ability of displaced workers to find new employment readily in the expanding sectors.

Nevertheless, once the recovery is under way, the chance that it can be sustained appears good. Fiscal policy is providing significant near-term support for the economy through a continued rise in defense spending, countercyclical transfer payments, and further tax cuts. The current monetary policy, too, is consistent with an expansion: barring some unexpected reemergence of serious inflationary pressures in 1983, the monetary growth targets established by the FOMC should provide the liquidity needed to support a recovery in real activity.

A resurgence of inflation seems unlikely in the near term, even though some commodity prices may rebound from cyclically depressed levels as the recovery takes hold. The underlying trend in labor costs appears to have moved down. In addition, the current supply situations in agricultural and energy markets appear conducive to continuing progress against inflation; indeed, recent developments in the international oil market seem to portend quite favorable price movements for this key commodity.

There still are, however, reasons for concern about the longer-run outlook for the economy. One major source of concern is the prospect that federal deficits will continue to be massive in the years ahead, even as the economy is well along in the expansion. This prospect suggests a serious risk that pressures on credit markets will mount as the credit demands of private borrowers grow with the recovery. In addition, the prospective deficits tend to cast doubt on the commitment of economic policy to gain control of inflation over the long run. For these reasons, the budgetary picture continues to have an unsettling influence on financial markets, and lenders remain hesitant to commit funds for a long period, except at interest rates that are high relative to the current pace of inflation.

Overcoming the still deep skepticism about the anti-inflation effort is crucial in other ways to the achievement of strong and sustained economic growth. Generally recognized is that periods of slowing inflation in the past two decades have proved to be temporary, and unless the commitment to see the present effort through is made fully credible by the actions of the fiscal and monetary authorities, there will be a danger that as markets improve with recovery we will see a reversion to aggressive patterns of wage and price behavior. If this came to pass, the viability of the economic expansion would be severely jeopardized.

We need, too, to deal with the strains existing in the international financial arena. Timely action to

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enhance the resources of the International Monetary Fund is essential. But more generally, we must maintain the spirit of cooperation among borrowers, lenders, and governmental authorities that has been the hallmark to date of the effort to resolve the difficult problems confronting us.

The members of the Federal Open Market Committee, together with other Federal Reserve Bank presidents who alternate as Committee members, believe that the economic expansion that now appears to be starting will result in a solid gain in real GNP over the four quarters of 1983. The increases expected are moderate in comparison with the first year of most past recoveries, and the consensus is that these gains can be achieved without a resurgence in inflationary pressures, especially in light of the favorable underlying trend of unit labor costs.

In formulating these projections for 1983, members of the FOMC and the presidents of the Reserve Banks took account of the target ranges established for the various monetary and credit aggregates, and assumed that the Congress and the administration will make progress in the months ahead in reducing federal deficits for coming years, thereby diminishing the threat those deficits would otherwise pose to long-run price stability and sustainable economic growth. No specific allowance was made for a large decline in oil prices; also, the special restraining influence on prices exerted by the appreciation of the dollar in 1982 is not expected to be repeated in 1983.

The ranges of growth in money and credit specified by the Committee for 1983 would appear compatible with some further decline in market rates of interest as inflation abates. However, the direction of fiscal policy decisions will play a major role. Decisive action to reduce the Treasury's demands on the credit markets in the years ahead would be well received by investors and would contribute greatly to a relaxation of the continuing pressures on interest rates. Of critical importance to the interest rate outlook—and one certainly not divorced from the budget picture—is the behavior of inflation and expectations of inflation. Lower rates of inflation contribute directly to the reduction of demands for money and credit, and sustained progress in slowing the advance of wages and prices would do much to relieve the concerns of in-

Economic Projections for 1983

Item	FOMC members and other Bank presidents		Administration	CBO
	Range	Central tendency		
Change, fourth quarter to fourth quarter, percent				
Nominal GNP	7¼ to 11¼	8.0 to 9.0	8.8	8.9
Real GNP	3 to 5½	3.5 to 4.5	3.1	4.0
GNP deflator	3½ to 5½	4.0 to 5.0	5.6	4.7
Average level in the fourth quarter, percent				
Unemployment rate[1]	9½ to 10½	9.9 to 10.4	10.4	n.a.

1. Percent of total labor force, including persons in the Armed Forces stationed in the United States.

n.a. Not available.

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vestors as to the future course of interest rates.

Projections of the majority of the Committee members (and other presidents of Reserve Banks) for growth in the real GNP from the fourth quarter of 1982 to the fourth quarter of 1983 were in a range of 3½ to just over 4 percent, a little higher than the recent forecast of the administration, and similar to the projection of the Congressional Budget Office in the accompanying table. Several expected significantly more growth. Nearly all believed that prospects were excellent for less inflation than the 5.6 percent increase in the GNP deflator projected by the administration, with the majority expecting an increase of 4.5 percent or less. The combination of real growth and inflation resulted in a central tendency of 8 to 9 percent in nominal GNP growth. Unemployment was expected to remain high during the first year of recovery.

Behavior of Domestic Nonfinancial Sector Debt

Changes in percent, fourth quarter to fourth quarter

Year	Change in debt	Change in ratio of debt to GNP
1960	5.2	3.1
1961	5.7	-1.6
1962	6.7	.9
1963	6.9	.3
1964	7.2	1.2
1965	7.2	-3.0
1966	6.9	-1.1
1967	6.8	.5
1968	8.4	-.9
1969	7.1	.3
1970	6.9	1.9
1971	9.3	-.3
1972	10.0	-1.4
1973	11.3	-.2
1974	9.3	2.1
1975	8.9	-1.0
1976	10.7	1.3
1977	12.3	.1
1978	12.9	-1.6
1979	12.3	2.4
1980	9.9	.4
1981	10.1	.4
1982	9.1	5.7
MEMO: average annual change	8.7	.4

Appendix

Note on Credit Aggregate

The specific measure of aggregate credit used by the FOMC in establishing a range for growth is the total debt of domestic nonfinancial sectors, as derived from the Board's flow of funds accounts. This measure includes borrowing by private domestic nonfinancial sectors and by the federal and state and local governments in U.S. markets and from abroad; it excludes borrowing by foreign entities in the United States.

Various statistical tests were used to compare this measure with other potential credit aggregates—such as totals that included borrowing by foreign entities or by financial institutions, or that were augmented by equities. Comparisons also were made with less comprehensive totals such as aggregate private borrowing or financial assets other than equities held by nonfinancial sectors. In these comparisons, which involved examining the stability and predictability of relationships to GNP and other economic variables, the domestic nonfinancial debt total generally performed as well as or better than the other series considered. The private borrowing aggregate clearly performed least well.

Report on July 20, 1983

The Outlook for the Economy

When the year began, an economic expansion was under way, but it was expected that the recovery, at least in

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its initial phases, would be significantly less rapid than the average postwar cyclical upswing. The economic recessions of the early 1980s and inflation that was more moderate than anticipated had exposed serious financial strains both at home and abroad—strains that in part grew out of practices that developed during years of inflation. Consumer confidence was still at a low ebb, and a high degree of caution was apparent in the business community. Interest rates, despite having declined substantially, were still at levels that appeared likely to inhibit strong growth of activity in interest-sensitive sectors, and a weak demand for U.S. exports was expected to damp the pace of economic expansion.

By the second quarter, however, the recovery had gained vigor, and was following in most respects a typical cyclical pattern. Advances in residential construction were exceptionally large during the first half, and there were sustained increases in consumer spending, particularly for durable goods. Businesses continued to liquidate inventories at a rapid pace through the first quarter, but then apparently began rebuilding stocks in the second quarter as final demands strengthened. Employment gains became substantial as the recovery gathered speed, and the unemployment rate in June—while still high historically—was ¾ of a percent below the earlier peak.

Given the momentum of the recovery—and the added stimulus of another reduction in personal taxes at midyear—there is a strong likelihood that real gross national product will continue growing at a healthy pace through the second half of 1983. Gains in employment have generated sizable increases in income, which in turn are laying the groundwork for further advances in consumer spending. And business spending on equipment appears to be turning up. The cumulative forces of economic expansion thus appear to be well established.

Real GNP growth in the second half as a whole may not match the rapid second-quarter pace, which partly reflected the sharp swing in inventory positions. In addition, given the level of housing starts reached in the second quarter, and with mortgage interest rates no longer falling, outlays for residential construction seem unlikely to continue rising at the extraordinary pace of early 1983. Business spending for structures may still be sluggish in the second half, particularly with office space in ample supply in most cities. The foreign sector, too, will exert a restraining influence on growth of output in the United States, owing to a strong dollar, relatively slow growth in the other industrial nations, and financial difficulties besetting many developing countries.

Employment is likely to continue expanding as the recovery in output progresses, with gradual declines in the unemployment rate. If past experience is any guide, however, the strengthening economy will itself prompt more job seekers to enter the labor force, thereby reinforcing the inertia of the unemployment rate. Consequently, unemployment will remain high, relative to the earlier postwar period, for some time.

The near-term outlook for inflation continues to be reasonably favorable. Wage pressures have moderated further into 1983; productivity is improving; and the continued strength of the dollar is limiting increases in the prices of imported goods. A par-

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tial rebound in energy prices during the early spring, following the pronounced weakness earlier in the year, appeared to be abating by midyear. A spurt in some food prices resulting from bad weather does not appear to be cumulating into a major price advance. Given these considerations, as well as the favorable first-half price performance, the chances appear excellent that inflation rates for 1983 as a whole will be as low as, or even lower than, those of 1982.

At the same time that the general trend of price increase is still slowing, there are indications that some of the cyclical influences that helped reduce inflation during the recession have waned. With demands for goods and services strengthening, price discounting is diminishing; and the downward pressures on prices and wages in some markets will lessen as orders and labor demand rise. Such developments are to some extent inevitable. What is of critical importance is that these cyclical influences not impair more lasting progress toward reduction in the underlying rate of inflation, as reflected in the interactions of wages, productivity, and costs.

Recently, the concerns on that score have been heightened somewhat by several factors. Preliminary indications are that growth in nominal GNP approached 11 percent in the second quarter. That high rate of spending growth is a welcome development insofar as it has come about in the context of accelerated growth of real output and moderating prices. However, growth in some measures of money and credit also has been relatively large recently, and growth in *nominal* spending at the present rate over a sustained period would suggest renewed inflationary pressures.

The vigor of the private economy at midyear also has underscored the potential problems associated with federal budget deficits that will remain massive in the years ahead unless there are decisive actions to reduce expenditures or—absent such action—to increase revenues. Prospects for interest rates are related to a number of factors, including importantly the actual and perceived trend in inflation. In 1982, when the economy was mired in recession and the inflation rate was falling, record large government deficits were consistent with declining interest rates. However, should public credit demands remain at or near record highs while private credit demands are expanding rapidly in response to rising business activity, the outlook for interest rates would clearly be affected.

The difficulties of controlling federal deficits are evident in the legislative developments of recent months, during which there have been extensive and laborious efforts to arrive at a workable budget resolution. These difficulties notwithstanding, unless there is further progress in reducing deficits, the risk of strains in credit markets intensifying is apparent, impairing the prospects for a balanced economic recovery.

Economic Projections of FOMC Members

Members of the Federal Open Market Committee believe that the current economic recovery will be well maintained over the remainder of 1983 and on through 1984. The central tendency of forecasts of the FOMC members shows this year's growth in real GNP ranging between 5 and 5¾ percent—a significantly stronger rate of growth than in the projections previously submitted to the Congress in

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the Monetary Policy Report of last February. Real growth in 1984 is expected to be about 1 percent slower than in 1983, and the unemployment rate is projected to trend lower through the end of next year.

Most FOMC members expect this year's increase in the GNP implicit price deflator to range between 4¼ and 4¾ percent—about the same as last year's increase and in line with the projections of the February Monetary Policy Report. There is less consensus about the inflation outlook for 1984, with some concerned that inflation is likely to accelerate. However, most FOMC members feel that, with appropriate policies, prices overall are likely to rise in the same range as, or only a shade more rapidly than, in 1983. The cyclical strengthening of demand associated with the recovery is one factor in this inflation projection, but price developments next year will also reflect a number of special factors, such as policies to reduce farm product supplies and raise farm incomes, cost pressures from increased payroll taxes, and the possibility of some weakening in the foreign exchange value of the dollar.

The central-tendency projections of the FOMC members, for prices as well as for real GNP and unemployment, are closely in line with the economic assumptions prepared by the administration for its midsession review of the budget.

While most FOMC members are relatively optimistic about the prospects for maintaining economic growth and containing inflation over the next year and a half, they also are mindful of potential difficulties that could disrupt the outlook and cause the nation's economic performance to be less favorable than is now expected. There is, as already noted, the prospect that federal budget deficits will remain extremely large into the indefinite future; as the private recovery lengthens, the dangers associated with those deficits are likely to increase, posing a threat to both the inflation outlook and the sustainability of a balanced expansion.

Economic Projections for 1983 and 1984

Item	FOMC members		Administration
	Range	Central tendency	
Percent change, fourth quarter to fourth quarter, 1983			
Nominal GNP	9¼ to 10¾	9¾ to 10	10.4
Real GNP	4¾ to 6	5 to 5¾	5.5
Implicit deflator for GNP	4 to 5¼	4¼ to 4¾	4.6
Average level in the fourth quarter, percent			
Unemployment rate	9 to 9¾	About 9½	9.6
Percent change, fourth quarter to fourth quarter, 1984			
Nominal GNP	7 to 10¼	9 to 10	9.7
Real GNP	3 to 5	4 to 4½	4.5
Implicit deflator for GNP	3¼ to 6½	4¼ to 5	5.0
Average level in the fourth quarter, percent			
Unemployment rate	8¼ to 9¼	8¼ to 8¾	8.6

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There also are some broader risks, not specifically related to the budget, that some of the progress against inflation could be reversed as the private economy strengthens. The persistence of inflationary expectations is evident both in recent surveys of private opinion and in the behavior of financial markets in which borrowers remain willing to pay high nominal rates of return on long-term debt instruments. As the recovery progresses, wage and price development must be monitored with great care to make sure that these still present expectations of inflation are not undergirding a new round of acceleration in actual wage and price increases.

More generally, the United States has become much more integrated into the world economy than it was a decade ago, and our economic fortunes have become closely linked with those of other nations. Because of those close linkages, the economic difficulties of many foreign nations, particularly the serious financial problems still plaguing many developing countries, could affect this nation's economic performance in the period ahead.

To some extent, these risks in the economic outlook can be moderated by appropriate policies. For example, the risk of a further deterioration in the economic prospects facing the developing nations can be lessened if lenders, borrowers, national authorities, and international organizations maintain the high degree of cooperation that has become evident in the past year. Prompt action by the United States to bolster the resources of the International Monetary Fund and of the multilateral development banks is an essential element in managing successfully a difficult adjustment process.

This country's budgetary problems also are manageable, provided the Congress and the administration take action. The Federal Reserve, for its part, remains committed to monetary policies that will provide enough money and credit to support economic growth in a context of containing inflation; without reductions in future fiscal deficits, the goal of maintaining a balanced recovery while at the same time holding down inflation could prove elusive.

The Federal Reserve's Objective for Growth of Money and Credit

The Committee reviewed its target ranges for 1983 and established tentative ranges for 1984 in light of its basic objectives of encouraging sustained economic recovery while continuing to make progress toward stability in the average level of prices. In setting these ranges, the Committee recognized that the relationships among the money and credit aggregates and economic activity in the period ahead are subject to considerable uncertainty; consequently, it was emphasized that, in implementing policy, the significance to be attached to movements in the various aggregates would depend on evidence about the strength of economic recovery, the outlook for prices and inflationary expectations, and emerging conditions in domestic and international financial markets.

With respect to the ranges for the broader monetary aggregates—M2 and M3—the Committee reaffirmed the 1983 ranges of 7 to 10 percent and 6½ to 9½ percent respectively that had been established earlier in the year. The tentative ranges for next year set for these aggregates were

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reduced ½ percentage point to 6½ to 9½ percent and 6 to 9 percent respectively, measured in both cases from the fourth quarter of 1983 to the fourth quarter of 1984.

It was expected, in setting these tentative ranges, that shifts into money market deposit accounts (MMDAs) would not significantly distort growth in the broader aggregates, particularly M2, in contrast to the experience in the early part of this year. However, it was also recognized that the greater flexibility in liability management for banks and thrift institutions resulting from the availability of MMDAs, together with the recent decision of the Depository Institutions Deregulation Committee to eliminate ceiling rates on time deposits by October 1 of this year,[1] would be a factor encouraging somewhat more rapid growth in M2 relative to M3, as banks and thrifts may rely relatively less on large CDs and other money market liabilities in funding credit expansion. With greater growth in real (and nominal) GNP than anticipated earlier—but in the context of moderating inflation—actual growth in M2 and M3 may reasonably be higher in the ranges than was thought likely earlier.

The FOMC also agreed that principal weight would continue to be placed on the broader monetary aggregates in the implementation of monetary policy, in view of the continuing uncertainties that attach to the behavior and trend of M1 over time. As discussed in the section entitled "The Growth of Money and Credit in the First Half of 1983," an unusual, sizable decline in the velocity of M1 has been experienced over the past several quarters, likely reflecting in part the fact that interest-bearing, negotiable order of withdrawal (NOW) accounts have become an important component of M1. These accounts, which have both savings and transaction characteristics, appear to have increased the response of M1 demand to changes in market interest rates, which may explain a good part of the acceleration of growth in M1 that began last summer. Also, particularly in the course of 1982, demand for M1 may have increased because savers sought to hold funds in highly liquid forms in light of various economic and financial uncertainties.

Recent evidence suggests that the decline in the velocity of M1 may be abating. The income velocity of M1 evidently declined only modestly in the second quarter of this year. As the upward impact on M1 demand of earlier interest rate declines has faded and a sizable buildup in liquid balances has taken place, it seems probable that some pickup in the velocity of M1 will develop over the quarters ahead, in closer conformance with cyclical and secular patterns of earlier years.

Whether any rise in velocity would be as strong as in earlier decades of the post-World-War-II period remains uncertain. Experience to date with a measure of M1 that reflects to a greater extent the savings propensities of the public, as well as transaction demands, has been relatively limited, which makes it difficult to assess its behavior under varying economic circumstances. Moreover, it is not clear how responsive M1 demand will be to market interest rates over the period ahead if Super NOW accounts, which yield a market return to holders, become a more important element in the aggregate. (If the authority to pay

1. Except for accounts of less than $2,500 maturing in 31 days or less.

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interest on transaction balances were extended beyond currently eligible accounts, this too would affect M1 behavior, presumably in the short run increasing the demand for the aggregate. No specific allowance has been made for that possibility.)

Taking account of these various uncertainties, for the purpose of monitoring M1 behavior, the Committee established a growth range of 5 to 9 percent (annual rate) for the period from the second quarter to the fourth quarter of this year. The decision to establish a new base for monitoring M1 reflected a judgment that the rapid growth over the past several quarters should be treated as a onetime phenonemon, to be neither retraced nor long extended. A monitoring range of 4 to 8 percent was tentatively established for the period from the fourth quarter of 1983 to the fourth quarter of 1984. These ranges anticipate no further decline in the velocity of M1 during a period of relatively strong growth in economic activity and allow for the likelihood of some rebound in velocity. M1 growth would be expected to move lower in these ranges as and if velocity strengthens.

The Committee reaffirmed the range of 8½ to 11½ percent used for monitoring the behavior of domestic nonfinancial sector debt in 1983. That range was reduced to 8 to 11 percent for 1984. The federal government next year is expected to continue absorbing an unusually large share of overall credit supplies. The Committee's range would encompass the possibility of growth of total debt in excess of likely GNP growth (and the long-term trend of credit in relation to GNP) in light of the analysis of various factors bearing on credit growth. Nevertheless, the prospect of intensifying conflict between sustained large government requirements and growing private sector credit demands is a serious concern.

The Performance of the Economy in the First Half of 1983

The economic expansion that began at the end of 1982 gathered momentum over the first half of 1983. After increasing moderately in the first quarter, real gross national product registered a strong advance in the second quarter, as production and employment rose in a broad range of industries. An apparent completion of the recession-induced inventory liquidation accounted for much of the second-quarter growth; but domestic final sales also strengthened considerably, and forward-looking indicators point to further output gains in the months ahead.

To be sure, a number of serious economic problems remain. The economic recovery is far from complete. At midyear, 10 percent of the civilian labor force was still unemployed. Many companies continue to face major adjustments in an effort to stay competitive in their industries here and abroad. Some domestic energy producers remain in financial difficulty, as do many producers in the agricultural sector. The nation's external sector continues to be a weak link in the recovery, as exports are being limited by a strong dollar, the sluggishness of a number of other industrialized economies, and the severe adjustment problems of much of Latin America; the international indebtedness and related economic difficulties of a number of developing countries remain matters of particular concern.

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This country's period of moderating inflation lengthened in the first half of 1983. In 1982, many price measures recorded the smallest increases in a decade, and price developments so far this year have been even more favorable. Transitory elements clearly have played a part in this improving price performance, but there also continue to be indications of more lasting progress. In particular, productivity has been improving and increases in compensation continue to moderate, so that the interactions between costs and prices, which imparted a stubborn momentum to inflation through the 1970s, are still working to reduce the underlying or trend rate of inflation.

However, even though prices have slowed dramatically, concerns persist that inflation will reaccelerate as the recovery progresses. To a considerable extent, these concerns arise from the experience of past business cycles and from an expectation that the federal government's budget deficits will remain massive in the years ahead, making more difficult the sustained application of a noninflationary monetary policy. Because of such concerns about the future, as well as the present high level of actual government borrowing, short- and long-term interest rates in the first half of 1983 continued to be quite high, relative both to historical experience and to the current pace of inflation.

As had been true during the recession, government debt rose rapidly in the first half of 1983; in addition, household borrowing picked up as the expansion accelerated. Even though the growth in business borrowing remained relatively low, total debt outstanding in the domestic nonfinancial sectors grew at an annual rate of about 10½ percent—a faster pace than in 1982. Debt grew faster in the second quarter than in the first.

Money holdings also increased rapidly in the first half of 1983, as a strengthening of private spending bolstered the demand for transaction balances and as lower interest rates led many individuals and businesses to hold a larger portion of their financial assets in the form of money balances. In addition, money growth was affected by portfolio shifts arising from the progressive liberalization of regulations on deposit rates; these shifts were especially important in boosting growth of the broader monetary aggregates early in the year.

Interest Rates

Short-term interest rates had fallen sharply in the second half of 1982, when the recession was deepening; and by the end of last year, rates were only about half the peak levels of 1981. Yields then fluctuated in a relatively narrow range through most of the first half of 1983, before moving a little higher around midyear as the recovery strengthened. At midyear, short-term yields were generally 50 to 125 basis points above their December levels; the Federal Reserve discount rate remained unchanged over the first half of the year.

Long-term rates eased further into early 1983, extending the decline that began in mid-1982. The further reduction in long-term yields resulted from beliefs that the recovery might be relatively weak, thereby limiting private credit needs and, at the same time, enhancing the prospects for a continued moderation of price inflation. In the second quarter, however, long-term rates turned up slightly as economic activity strengthened further and as market participants began to focus more directly on the poten-

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tial effects of heavy federal borrowing and the implications of continued rapid money growth.

Consumer Spending

Much of the vigor of the current expansion has arisen from increases in income and spending in the household sector. Throughout the recession, the nominal disposable incomes of consumers had been unusually well maintained by a combination of countercyclical transfer payments, rising interest income, and reductions in tax rates. A rapid decline in inflation enhanced the purchasing power of these nominal income gains, and by the end of 1982, real disposable personal income was about 2 percent above its prerecession level of mid-1981.

Households have strengthened their balance sheets considerably in recent years by acquiring large amounts of liquid assets and holding down the accumulation of new indebtedness. In addition, a sharp, sustained rise in stock prices added considerably to household wealth after mid-1982. Thus, when aggregate wage and salary income began rising with the upturn in activity, consumers were well positioned to boost spending on goods and services.

After a period of sluggish growth through most of 1982, consumer spending improved toward the end of last year and strengthened further in the first half of 1983. Second-quarter spending, in particular, was quite vigorous, as purchases of autos and other big-ticket items increased markedly. Sales of domestic autos were at an annual rate of about 6¾ million units in the second quarter, the best quarterly sales pace since mid-1981; sales of foreign models were maintained at a rate of about 2¼ million units.

With income growth accelerating, economic prospects brightening, and interest rates lower than in 1982, consumers became more willing to take on new debt in the first half of 1983. In addition, lenders showed a greater interest in making consumer loans, partly—in the case of depository institutions—as an outlet for investing the large inflows to new accounts. Thus, after rising only 4 percent in 1982, installment debt rose at more than a 7 percent annual rate in the first quarter, and still faster growth appears to have occurred in the second quarter.

Business Spending

Economic conditions in the business sector also have improved. Reduced interest rates, the elimination of unwanted inventories, and an expanding economy have relieved some of the financial strains brought on by the recession and, at the same time, have created a better climate for investment spending. Business cash flows improved in the first half, as profit margins widened considerably. Buoyed by rising investor confidence, stock prices rose to new highs, enabling businesses to rely heavily on equity financing while limiting the growth in indebtedness. In addition, encouraged by bond yields that were well below earlier peaks, firms strengthened their balance sheets by shifting their borrowing toward longer-term maturities. These general trends notwithstanding, many firms that were weakened by the recession continued to face financial difficulties in the first half of 1983, and the number of business bankruptcies—though declining—remained high.

Business investment spending, which fell nearly 8 percent in real terms during the recession, turned up

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in the first half of 1983, as real outlays for equipment rose in both the first and second quarters. In contrast to equipment, spending for structures fell appreciably during the first half of 1983, led by reduced outlays for commercial and industrial buildings. With office and industrial vacancy rates now quite high, it may be some time before the expanding economy generates a sustained increase in outlays for these types of facilities.

Businesses had liquidated inventories at a rapid pace during the recession in an effort to bring stocks more in line with the recession-reduced sales levels, and the momentum of that liquidation carried into early 1983. More recently, with final sales continuing to rise, businesses appear to have begun a cautious rebuilding of stocks. In the second quarter, a move from sizable inventory liquidation to an apparent small accumulation of stocks provided a strong impetus for increased production, resulting in a rise in second-quarter GNP much larger than the advance in final sales.

Residential Construction

Responding to lower interest rates, activity in the housing sector rose sharply in late 1982 and increased further in the first half of this year. At the end of last year, mortgage rates were about 5 percentage points below the peak rates reached in the fall of 1981, and they continued to trend gradually lower before firming in the past two months. Mortgage credit flows increased strongly in the first half—especially at thrift institutions, whose fund availability was enhanced by the advent of new deposit instruments.

In response to the drop in financing costs, as well as demographic influences, home sales turned up in 1982 and rose rapidly through the first half of 1983. By the second quarter of 1983, sales were up nearly a third from the final quarter of 1982; both new and existing homes shared in the sales gains. With the inventory of unsold new homes quite low, rising sales have supported a strong advance in new construction activity. Continuing the uptrend evident in 1982, starts of new single-family homes in the first five months of 1983 rose to a level about three-fourths above a year earlier—a sharper rebound than many analysts had expected in light of prevailing mortgage rates. Starts of multifamily units also have been quite strong so far in 1983, partly reflecting enhanced profitability in the markets for rental property. Low levels of housing construction over the past few years clearly left a sizable pent-up demand that has provided strong support for new construction activity.

Government Sector

Federal spending declined moderately during the first half of 1983, but the drop resulted mainly from transitory factors, particularly a reduced rate of accumulation of farm inventories by the Commodity Credit Corporation (CCC). Abstracting from these inventory swings, federal expenditures were still trending up in the first half. Excluding outlays of the CCC, federal purchases of goods and services, in current dollars, appear to have increased at an annual rate of more than 10 percent from the fourth quarter of 1982 to the second quarter of this year.

The federal budget deficit was extremely large in the first half of 1983. Because of changes in tax laws and, until recently, slow growth in taxable incomes, receipts have increased only

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moderately from the levels of two years ago. During the same period, spending has increased considerably, owing to increased defense purchases, recession-induced transfer payments, and, on average, relatively high payments to support farm incomes. As a result, the combined federal deficit (unified plus off-budget) accumulated to about $95 billion over the first half of 1983, three times the level of a year earlier. During the first half, direct federal borrowing (which does not include federally guaranteed loans or the debt of sponsored credit agencies) absorbed more than two-fifths of all funds raised in credit markets by the domestic nonfinancial sectors.

Real estate and local government purchases edged lower in the first half of 1983, extending the gradual decline evident over the preceding two years. Real outlays for employee compensation and new construction spending were held down by the budget concerns still apparent among many states and localities. As in 1982, a number of governmental units raised taxes to relieve pressing financial difficulties. By midyear, however, some of the budgetary strains began to ease, as rising economic activity expanded the state and local tax base, boosting the sector's overall operating budget back into surplus.

Borrowing by state and local governments also increased rapidly, though part of the rise probably reflected a rush to market debt instruments in advance of a new requirement that securities be issued in registered, rather than bearer, form; the requirement took effect on July 1, after having been postponed from January 1. In addition, tax-exempt borrowers took advantage of lower interest rates to refund or prerefund bond issues that were sold when borrowing costs had been higher.

The International Sector

As in 1982, net exports continued to exert a negative influence on U.S. economic activity in early 1983; slow growth in foreign industrial economies and a strong dollar have both constrained export sales. At the same time, the vigorous expansion in the U.S. domestic economy pushed imports higher, so that the trade account showed an increasing deficit over the first half of the year.

An additional element limiting prospects for U.S. exports is the serious external financing problems facing a number of developing countries, including some that are major trading partners of the United States. Among these nations, reduced trade volume and depressed commodity prices have limited export earnings and—in the face of high world interest rates—made debt repayment difficult. So far, these repayment problems have been contained through an extraordinary degree of cooperation among borrowers, private creditors, national authorities, and international organizations; in many instances, existing debts have been restructured and new funds have been raised, and the borrowing nations are implementing programs to restore internal financial stability, to increase their debt-servicing capacity, and to convince international lenders of their creditworthiness. Nevertheless, the process of adjustment is still far from complete.

Labor Markets

Labor markets began to strengthen around the turn of the year, and by June, payroll employment had increased 1.1 million from its December trough, regaining more than one-

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third of the losses sustained during the recession. Job gains have been widespread over the past six months, with especially large advances in services and manufacturing. In manufacturing, increases in employment during the past six months have retraced nearly a fifth of the 2 million jobs lost during the 1981–82 recession. Employment growth in the services industry, which had slowed during the recession, appears to be showing renewed vigor as the expansion has taken hold.

The total number of unemployed workers declined almost a million during the first half of 1983, and the civilian unemployment rate fell to 10 percent, ¾ of a percentage point below the postwar peak reached last December. Layoffs had begun easing late last year, and with labor demands strengthening through the first half, many firms have started rehiring. Despite these gains, jobless rates at midyear remained far above the levels of late 1979, before the two back-to-back recessions that added greatly to labor market slack in the early 1980s.

Wages and Labor Costs

The falloff of labor demand during the recession, along with the general unwinding of inflation, led to a sharp slowing in the rate of wage and labor cost increases, and that slowdown has continued into the first half of 1983. From the fourth quarter of last year to the second quarter of 1983, the average hourly earnings of production workers rose at about a 4¼ percent annual rate, the slowest rate of nominal wage increase since the mid-1960s. But, because the rise in consumer prices has slowed even faster, the slower nominal wage gain has been consistent with increases in real purchasing power.

The slowing of nominal wage increases has been broad based, affecting nearly all major industrial and occupational groups. With inflation easing, workers in general are feeling less pressure to catch up with past inflation or to try to stay ahead of anticipated future inflation. In addition, in industries particularly hard hit by recession, as well as by heightened domestic or foreign competition, workers have agreed to contract adjustments calling for wage freezes or outright wage reductions.

Unit labor costs also moderated further in the first half of 1983, as strong productivity gains reinforced the impact of smaller wage increases. In the nonfarm business sector, labor costs rose at only a 1¼ percent rate in the first quarter, and evidently the second-quarter advance also was quite moderate.

The sizable productivity gains of recent quarters have been an especially encouraging development because they may reflect not only the customary cyclical patterns of an economic expansion, but also some improvement in the trend rate of productivity growth. Work rules in many establishments are being revised to enhance efficiency, and qualitative reports from the business sector point to strong efforts to trim costs and improve market competitiveness.

Price Developments

Price developments continued to be favorable in the first half of 1983. The consumer price index rose at an annual rate of only 3 percent from December to May, and over the first half the producer price index for finished goods actually declined. An acceleration of prices from the first to the second quarter resulted mainly from swings in energy prices that ap-

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pear to be temporary and from the transitory effects of adverse weather on the prices of some foods. The prices of raw industrial materials rebounded from depressed levels early in the year, but have leveled off in recent months. In other markets, including those for both consumer goods and capital equipment, price inflation in the second quarter still seemed to be trending lower.

Price increases during the past year have been the smallest since the early 1970s, and the period of moderating inflation has now extended over two and one-half years. Still, the recent period of slower price increases has by no means erased the memories of accelerating inflation during the previous two decades. The recent deceleration in prices occurred during a business recession, and there remains a deep-seated skepticism about whether the gains against inflation can be maintained as the period of economic expansion is extended. The task of economic policy is to overcome that skepticism by preserving the gains already won against inflation while sustaining the economic expansion that took hold in the first half of 1983.

The Growth of Money and Credit in the First Half of 1983

The 1983 ranges for the monetary and credit aggregates announced in February were chosen by the Federal Open Market Committee with the objective of providing sufficient liquidity to support economic recovery while continuing to encourage progress toward price stability. In setting those guidelines, the Committee recognized that the relationship between the growth of the monetary aggregates and economic activity had deviated from the usual historical relationships during 1982, and looking ahead, account had to be taken of the possibility that past patterns might be shifting in some respects.

Specifically, during 1982, monetary growth had been quite rapid relative to income; the velocities of both M1 and M2 had registered exceptionally large declines over the year. Although these declines in velocity were thought likely to be in part temporary—M1 velocity in particular commonly has increased appreciably in the early stages of a recovery—it also was believed that the experience of 1982 might well be indicative of a more basic shift in the underlying demands for money. Institutional changes have led to the increased availability of transaction accounts that bear interest, which would be likely to increase the public's willingness to hold M1-type accounts. These accounts are used partly as repositories for savings, as well as to support transactions, and this tendency was expected to be reinforced by the introduction of Super NOW accounts.

The Committee also recognized that the introduction of new deposit instruments had affected, and would continue to affect, the behavior of the broader aggregates. A very substantial inflow of funds into money market deposit accounts (MMDAs) from market instruments had greatly inflated growth of M2 at the end of 1982 and in the early weeks of 1983. It was anticipated that further flows into these accounts, and to a lesser extent into Super NOW accounts, would continue to affect the aggregates for some time, although the impact could not be determined with a high degree of accuracy.

In implementing policy, Commit-

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tee members agreed that, for the time being, primary emphasis would be placed on the broader aggregates. It was expected that distortions resulting from the initial adjustment to new deposit instruments would lessen. The behavior of M1 would be monitored, with any increase in the emphasis placed on that aggregate dependent on evidence that its velocity behavior was assuming a more predictable pattern. Debt expansion, although not targeted directly, would be reviewed in assessing the behavior of the monetary aggregates and the stance of monetary policy. The Committee emphasized that, given the above uncertainties, policy implementation in 1983 would require a greater degree of judgment, involving crucially the evaluation of the relationship of monetary growth to movements in income and prices, until such time as the aggregates returned to more predictable behavior.

The specific target ranges announced in February were the following: for M2, an annual rate of 7 to 10 percent for the period from February-March of 1983 to the fourth quarter of 1983; and for M3, 6½ to 9½ percent for the period from the fourth quarter of 1982 to the fourth quarter of 1983. Also for the latter period, a tentative range was established for M1 of 4 to 8 percent, with the width of this range reflecting the relative uncertainty about the behavior of this aggregate. An associated range of growth for total domestic nonfinancial debt was estimated to be 8½ to 11½ percent, December to December, while bank credit growth was expected to be between 6 and 9 percent for the year.

Growth in M2 and M3 appears to be broadly consistent with the target ranges adopted in February. M2 expanded through June at a 9 percent annual rate from the February-March base period, a little above the midpoint of its range. M3 growth was somewhat stronger and, at 9½ percent from the fourth quarter of 1982 through June, was at the upper end of its target growth path. In contrast, M1 continued to surge, with growth averaging 14 percent at an annual rate from the fourth quarter of last year.

In setting the annual target range for M2, the Committee selected the February-March base period to reduce the distortions resulting from the massive inflows to MMDAs after the introduction of these accounts in December. Moreover, the range of 7 to 10 percent was 1 percentage point higher than that set for 1982, to allow for some residual shifting from outside M2 into these accounts through the remainder of the year. There is growing evidence that the stock adjustment to MMDAs is abating; inflows to these new instruments slowed from around $17 billion per week in February to an average of about $1 billion weekly in June. Thus, it appears that the distorting effects of these instruments have, as expected, become relatively minor as time has progressed. The interest rates offered on these deposits—in absolute level and relative to other short-term rates—have fallen considerably from the extraordinary yields posted immediately after the introduction of this account. Since March, the average rates on MMDAs have been below rates available on virtually all market instruments, although they remain somewhat above the returns on money market mutual funds.

The recent behavior of other components of M2 also appears to reflect the waning of the public's initial adjustment to the availability of MMDAs.

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Runoffs of small-denomination time deposits and M2-type money market funds, which were substantial during the first quarter, have slowed considerably, and in fact small time deposits registered a slight increase in June. Savings deposits, which likewise had declined by record amounts earlier in the year, increased at a moderate rate in May and June.

For M3, the range selected of 6 to 9 percent was identical to that for 1982. It was believed that M3 would be less affected by the new accounts because some of the funds flowing into them would come directly from large deposits and, in any case, many depositories have the option of reducing their issuance of large certificates of deposit in response to greater inflows to MMDAs or other core deposits. However, the extent to which this would occur depended in part on changes in the public's perceptions of the desirability of insured deposit accounts relative to open market instruments and the willingness of depositories to make use of their new deposit authority to increase the extent of their financial intermediation. In the event, large CDs in the aggregate declined sharply in the months after the introduction of the new accounts, but have tended to pick up recently as inflows to MMDAs have slowed.

Besides running off large CDs, commercial banks responded to the influx of MMDA funds by increasing their holdings of liquid assets, principally Treasury securities: commercial bank holdings of Treasury securities expanded at an annual rate of more than 50 percent during the first half of the year. Small banks in particular, which rely less on managed liabilities than do large banks, invested heavily in these assets. Savings and loan associations appear to have relied largely on asset adjustments to MMDA inflows. These institutions showed a sharp acceleration in their holdings of cash and investment securities over the first quarter of 1983, and only moderate declines in large time deposits. In the second quarter, with slower inflows into the new accounts and an apparent pickup in mortgage lending, issuance of large time deposits by savings and loans registered a sizable increase.

The impacts on M1 of portfolio shifts into the new accounts are difficult to assess, but appear to have been largely offsetting. Funds shifted into Super NOWs from outside M1 likely were about equal in magnitude to the outflow of funds from M1 into MMDAs. Nevertheless, M1 has been growing at a rate well above the range of 4 to 8 percent that was set in February and much faster relative to nominal GNP than has been normal during periods of economic recovery, when velocity has tended to rise at above-average rates. In fact, the income velocity of M1 continued to decline during the first half of the year, although the second-quarter decline was modest.

The decreases in M1 velocity may reflect in substantial part the changing nature of M1. With interest-bearing regular NOW accounts and Super NOWs making up a growing share of M1, this aggregate is becoming increasingly influenced by components that bear interest and thereby may attract "savings" as well as transaction balances. Indeed, there is evidence that the introduction of NOW accounts nationwide at the beginning of 1981 has made M1 more responsive to fluctuations in market rates. With market rates registering large declines in the latter half of 1982, the opportunity cost of holding

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NOW accounts—which carry a ceiling rate of 5¼ percent—fell sharply. As money demand usually responds to falling rates with a lag, this would help explain the strong growth of M1 in the latter half of 1982 and early 1983. More recently, however, some of the strength likely reflected growing transaction needs accompanying the pickup in economic activity. Given the limited experience with NOW and Super NOW accounts, uncertainty surrounding M1 behavior remains substantial, but account should be taken of the possibility that more normal cyclical patterns may be returning.

Full data are not yet available for the second quarter, but preliminary indications are that the aggregate debt of domestic nonfinancial sectors grew over the first half at a rate somewhat above the midpoint of the range of 8½ to 11½ percent projected by the FOMC, with a marked increase in the second quarter. This aggregate was swollen by federal borrowing, which has accounted for more than 40 percent of total credit flowing to domestic nonfinancial sectors since December. As indicated in the accompanying table, growth in federal debt has been very rapid in recent quarters, averaging in excess of 20 percent at an annual rate over the last four quarters. Residential mortgage financing and consumer credit have picked up since last year, reflecting the strengthening of these sectors. Business borrowing has remained moderate due to reduced needs for external financing and has been concentrated mainly in longer-maturity debt: short- and intermediate-term business borrowing has been weak since the fourth quarter of last year. Borrowings by state and local governments were strong during the first half, as noted earlier, partly reflecting heavy issuance of tax-exempt bonds in advance of the July 1 registration date and borrowing for future refunding of higher-cost debt.

Commercial bank credit, boosted by heavy acquisitions of Treasury securities, has expanded at an annual rate of 10½ percent since December. Reflecting the general weakness in business demand for short-term credit, business loans at commercial banks were about flat over the first half, while bank mortgage and consumer lending has picked up. Some of the buildup of Treasury securities

Domestic Nonfinancial Sector Debt

Annual rates of growth, in percent[1]

Period	Total	U.S. government	Households	Nonfinancial business	State and local government
Annually[2]					
1979	12.1	6.0	15.1	13.5	7.4
1980	9.9	11.9	8.7	10.1	9.3
1981	9.9	11.8	8.2	11.3	7.0
1982	9.5	19.4	5.6	7.4	13.4
Quarterly[3]					
1982:3	10.2	24.5	4.9	8.1	9.2
1982:4	9.8	24.5	5.9	3.7	18.2
1983:1	9.6	19.1	7.4	5.3	13.5
1983:2p	11.4	23.0	8.5	5.4	19.1

1. Based on end-of-period data.
2. December to December.
3. End-of-quarter to end-of-quarter.
p Preliminary.

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could be a temporary response to strong inflows into MMDAs; these securities could be held as a hedge against possible withdrawals as rates on MMDAs remain below market yields. On the other hand, since some investors evidently shifted funds to insured MMDA accounts from open market instruments, the increase in investment holdings could mark a permanent increase in overall intermediation by commercial banks, thereby raising bank credit above its normal range. Indeed, as thrift institutions likewise have become more competitive with the introduction of MMDAs, the share of total credit extended by all depository institutions rose appreciably over the first half of this year: about 40 percent of domestic nonfinancial credit was extended by depositories during the first half, compared with an average of less than 30 percent from 1980 through 1982. During the first half, acquisitions of Treasury securities by commercial banks helped to absorb the massive increase in Treasury financing, but, as private demands for credit pick up in response to rising business activity, such an absorption of Treasury debt may be more difficult within the context of noninflationary growth of the monetary aggregates.

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

Regulation D (Reserve Requirements of Depository Institutions)

January 7, 1983—Amendments

The Board amended Regulation D to implement congressional action that exempted money market deposit accounts from the phase-in of reserve requirements specified in the Monetary Control Act of 1980. In a related action, the Board also modified the procedure for allocating the $2.1 million exemption from reserve requirements.

> Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

Beginning December 14, 1982, federally insured depository institutions were authorized to offer money market deposit accounts, which are deposit instruments having initial and average balance requirements of $2,500, no interest ceiling, no minimum maturity, and limited transaction capabilities. If the accounts were subject to the reserve requirements specified in the Monetary Control Act, personal money market deposit accounts at nonmember institutions would have a zero percent reserve requirement, and member banks would be phasing down reserve requirements to that level until 1984. On nonpersonal accounts, nonmember institutions would be phasing up to a 3 percent reserve requirement; member institutions already are subject to that ratio.

On January 12, 1983, however, Senate Joint Resolution 271, which exempted money market deposit accounts from the phase-in of reserve requirements, became effective. The revision makes all covered institutions subject to reserve requirements of zero percent on personal money market deposit accounts and 3 percent on nonpersonal accounts. The Board amended Regulation D to implement that change.

The Monetary Control Act of 1980 provided for an exemption from reserve requirements on the first $2.1 million of an institution's reservable liabilities. To provide institutions with the maximum benefit from the recent congressional action, the Board revised the procedure for allocating the $2.1 million so that the base amount would apply first to nonpersonal money market deposit accounts.

For member institutions, these actions were effective December 14, 1982; for nonmember institutions, they were effective January 13, 1983, and applicable to the reserve maintenance period beginning January 27.

March 16, 1983—Amendment

The Board amended Regulation D, effective March 31, 1983, to eliminate reserve requirements on personal time deposits with maturities of 2½ years or longer.

> Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

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Beginning April 1, 1983, the Depository Institutions Deregulation Committee authorized a reduction in the minimum maturity for time deposits that are not subject to interest rate ceilings from 3½ years to 2½ years. Regulation D had provided that nonpersonal time deposits issued in maturities of 2½ years to 3½ years would have a reserve requirement of 3 percent, while those with maturities of more than 3½ years would have no reserve requirements. Because such a reserve structure would present a disincentive for offering personal time deposits in maturities of 2½ to 3½ years, the Board amended Regulation D so that reserve requirements on nonpersonal time deposits with maturities of 2½ years or longer would have a zero percent reserve requirement, after completion of the phase-in periods.

In taking this action, Board members expressed concern that continued adjustment of the reserve structure could impair monetary control, and they indicated that this amendment should not be regarded as a commitment to continue adjusting reserve requirements in line with actions by the Depository Institutions Deregulation Committee to eliminate interest rate ceilings.

June 15, 1983—Amendment

The Board amended Regulation D, effective June 20, 1983, to impose reserve requirements on ineligible bankers acceptances, regardless of whether they subsequently are discounted and resold.

> Votes for this action: Messrs. Volcker, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin and Mrs. Teeters.

Eligible acceptances are exempt from reserve requirements if they arise from transactions involving the exporting, importing, or domestic shipment or storage of goods, and have an original maturity of less than six months. Ineligible acceptances do not meet those criteria.

Under previous provisions of Regulation D, an ineligible bankers acceptance was subject to reserve requirements only if the institution that created it also discounted and resold it. The Board had become aware of arrangements between banks and brokers or other third parties whereby a broker would discount and resell ineligible acceptances created by the bank. Because the Board regarded such arrangements primarily as devices for avoiding reserve requirements, and because of the difficulty of proving the existence of such devices, the Board decided that any ineligible acceptance created after June 20, 1983, would be subject to reserve requirements.

September 30, 1983—Amendments

The Board amended Regulation D (1) to reduce reserve requirements on certain nonpersonal time deposits to zero percent, effective October 6, 1983, and (2) to reduce the minimum maturity of time deposits to 7 days, effective October 1, 1983.

> Votes for these actions: Messrs. Volcker, Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Wallich.

In June 1983, the Depository Institutions Deregulation Committee removed interest rate restrictions on most time deposits issued after September 30, 1983, and also authorized institutions to issue time deposits in

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negotiable form with original maturities or required notice periods of 7 to 31 days. Existing provisions of Regulation D established reserve requirements of 3 percent for nonpersonal time deposits with maturities shorter than 2½ years; such time deposits with longer maturities carried a zero percent reserve requirement. The Board decided to amend Regulation D to reduce to 18 months the minimum maturity of nonpersonal time deposits that carry a zero percent reserve requirement.

In a related action, the Board also amended Regulation D and made a conforming amendment to Regulation Q (Interest on Deposits), to reduce to 7 days the minimum maturity or required notice period for time deposits. This action also reflected revisions authorized by the Depository Institutions Deregulation Committee.

November 30, 1983—Amendments

The Board amended Regulation D, effective January 12, 1984, (1) to increase the amount of transaction balances to which the lower reserve requirement applies; and (2) to increase the amount of reservable liabilities subject to a zero percent reserve requirement.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mrs. Teeters.

Under the Monetary Control Act of 1980, depository institutions, Edge and Agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. Initially, reserve requirements were set at 3 percent of an institution's first $25 million in transaction balances and 12 percent on balances above that level. The act directed the Board to adjust annually the amount subject to the 3 percent requirement to reflect changes in the amount of transaction balances in the banking system nationwide; by the beginning of 1983 the amount had been raised to $26.3 million. Recent growth in such balances indicated that a further increase of $2.6 million was warranted. The Board, therefore, amended Regulation D to increase to $28.9 million the amount of transaction balances to which the lower reserve requirement applies.

The Garn–St Germain Depository Institutions Act of 1982 established a zero percent reserve requirement on the first $2 million of an institution's reservable liabilities. It also provided for annual adjustments to that exemption based on nationwide growth in deposits. Recent growth in deposits indicated that the amount subject to the zero percent reserve requirement should be increased from $2.1 million to $2.2 million, and the Board amended Regulation D accordingly.

Regulation G (Securities Credit by Persons Other than Banks, Brokers, or Dealers) and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks)

July 27, 1983—Revisions

The Board adopted revised and simplified Regulations G and U, effective August 31, 1983, pursuant to its Regulatory Improvement Project.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Partee.

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As part of the general effort to improve and simplify regulations, the Board proposed revisions to its securities credit regulations early in the year. The Board revised Regulation T (Credit by Brokers and Dealers) in May and Regulations G and U in July to reorganize them, remove unnecessary and obsolete provisions, and reduce regulatory and reporting burdens.

One of the changes in Regulation G amends certain registration requirements for lenders other than banks or broker-dealers. The revised regulation allows a lender to extend more credit before registration is required and exempts from registration those who arrange credit but do not extend it. Also, the new regulation deletes the prohibition against lending to brokers or dealers on an unsecured basis.

The changes to Regulation U include the elimination of certain filing and reporting requirements. Also eliminated are the special filing and collateral requirements for loans to over-the-counter market makers, third-market makers, and block positioners. Bank loans to qualified employee stock-ownership plans are now exempt from margin requirements. Also, a new section, similar to one in Regulation T, has been added to notify nonmember banks that they are required by statute to comply with laws and regulations that govern member institutions.

Regulation K (International Banking Operations)

June 1, 1983—Amendments

The Board amended Regulation K, effective July 8, 1983, to implement provisions of the Bank Export Services Act.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Bank Export Services Act permits investments in export trading companies by bank holding companies, Edge and Agreement corporation subsidiaries of bank holding companies, and bankers' banks. The new regulations, which were adopted as amendments to Regulation K, define an export trading company as one that is engaged exclusively in activities related to international trade and that derives more than half of its revenue from exporting or from facilitating exports of goods or services produced in the United States by persons other than the export trading company or its subsidiaries. The new regulations provide criteria for determining whether a company is engaged exclusively in international trade. In addition, the regulations implement provisions in the act that require the filing of a notice by organizations proposing to invest in an export trading company or to expand the activities of such a company.

The Board indicated that after some experience with the regulations, it will determine whether expedited procedures would be appropriate for certain types of investments in export trading companies.

December 16, 1983—Amendments

The Board amended Regulation K, effective December 20, 1983, (1) to clarify when a bank holding company must provide subsequent notice for certain investments, and (2) to permit the foreign subsidiaries of U.S. bank holding companies and Edge and Agreement corporations to operate travel agencies abroad.

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Votes for these actions: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker.

Regulation K had permitted an eligible banking organization to invest in an export trading company 60 days after notifying the Board of its intention to make the investment if the Board raised no objection to the proposal. However, it had required an organization to provide a second notice if the export trading company subsequently intended to take title to goods and had not described that activity in the original notice. The Board amended Regulation K to eliminate the need for the subsequent notice if the trading company takes title to goods only against firm orders for the sale of those goods. The Board also added a technical amendment to require that the proposed investment in the export trading company be accomplished within a year after the Board had reviewed the proposal.

The second action was an outgrowth of consideration by the Board of an application by an Edge corporation to invest in a foreign company that offered travel agency services in conjunction with other financial services. The Board found that in some foreign countries banking institutions are permitted to offer travel agency services as a routine part of their operations. The Board, therefore, amended Regulation K to add travel agency services to the list of permissible activities for U.S. banking organizations operating abroad, provided the travel agency is operated in connection with other financial services. The amendment does not permit a bank holding company or an Edge corporation to operate a travel agency in the United States.

Regulation L (Management Official Interlocks)

August 31, 1983—Amendments

The Board amended Regulation L, effective November 30, 1983, to implement recent amendments to the Depository Institutions Management Interlocks Act.

Votes for this action: Messrs. Martin, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker, Wallich, and Rice.

The Depository Institutions Management Interlocks Act generally prohibits interlocking relationships between management officials of depository institutions in the same community. It also authorizes the federal financial regulatory agencies to adopt rules for granting exceptions to the prohibitions. The Board adopted several technical amendments that will (1) simplify the procedures for obtaining an exception, (2) broaden the circumstances under which exceptions can be granted, (3) clarify the circumstances that require termination of an interlocking relationship, and (4) establish a 15-month period within which to complete a required termination of an interlock.

The other four federal regulators of depository institutions adopted similar amendments to their regulations.

Regulation O (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks)

August 31, 1983—Amendments

The Board amended Regulation O, effective October 20, 1983, to implement portions of the Garn–St Germain Depository Institutions Act of 1982.

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Votes for this action: Messrs. Martin, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker, Wallich, and Rice.

In October 1982, the Board amended Regulation O to incorporate portions of the Garn–St Germain act that eliminated existing limitations on certain types of loans to insiders and authorized the federal regulatory agencies to prescribe rules governing loans for home mortgages and educational purposes to bank insiders or their affiliates. At that time, the Board deferred adoption of the remaining portions of the act pending further review.

Having completed its review, the Board amended Regulation O to limit loans to executive officers for purposes other than a mortgage or education to no more than $25,000 or 2.5 percent of the bank's capital and unimpaired surplus, whichever is greater. At no time, however, may a bank's outstanding loans to any executive officer for other than mortgage or educational purposes exceed $100,000. In addition, the amendments require approval by the member bank's board of directors in the following instances: (1) any loan to an executive officer, director, or principal shareholder or related interest that, when added to other such loans, would exceed $25,000 or 5 percent of the bank's capital and unimpaired surplus; and (2) all insider loans that exceed $500,000 in the aggregate. Moreover, loans to executive officers, principal shareholders, or their interests may not exceed the general lending limits on loans to a single borrower.

December 16, 1983—Amendment

The Board amended certain reporting and disclosure requirements in Regulation O, effective December 31, 1983, to implement portions of the Garn–St Germain Depository Institutions Act of 1982.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The Financial Institutions Regulatory and Interest Rate Control Act required insured banks to disclose annually specific information about loans by the bank to its officers, principal shareholders, and their related interests. Regulation O, which implements that act, required, among other things, annual disclosures of the aggregate amount of such insider lending and the names of all insiders who borrowed from the bank.

The Garn–St Germain act deleted those specific requirements and instead authorized each federal banking agency to develop appropriate disclosure rules. Accordingly, the Board adopted a rule that requires member banks to disclose, upon request, the names of each executive officer or principal shareholder who has, or whose related interests have, borrowed from the bank or its correspondents $500,000 or more or 5 percent of the bank's capital and unimpaired surplus, whichever is less. Disclosures are not required if the aggregate lending to an individual and related interests by the bank or its correspondent is less than $25,000. Member banks must maintain records of requests for the required information and of the disposition of such requests.

Regulation Q (Interest on Deposits)

September 30, 1983—Amendments

The Board amended Regulation Q,

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effective October 1, 1983, to incorporate actions adopted by the Depository Institutions Deregulation Committee to remove interest rate ceilings on most small-denomination time deposits and to reduce to 7 days the minimum maturity of time deposits.

Votes for these actions: Messrs. Volcker, Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Wallich.

The Depository Institutions Deregulation Committee, which is authorized to prescribe rules governing the payment of interest on deposits, removed the interest rate ceilings on most time accounts and reduced the penalties for early withdrawal of time deposit contracts entered into, renewed, or extended after October 1, 1983. The Board amended Regulation Q to eliminate interest ceilings on time deposits with original maturities or required notice periods of more than 31 days. For time deposits with maturities of 7 to 31 days, only those denominations of less than $2,500 are subject to interest rate limitations. The ceilings for passbook savings and NOW accounts remain in effect.

The Board also adopted an amendment, similar to a change in Regulation D (Reserve Requirements of Depository Institutions), that reduced to 7 days the minimum maturity or notice period for all time deposits.

December 16, 1983—Amendments

The Board amended Regulation Q, effective January 1, 1984, in conformance with recent actions by the Depository Institutions Deregulation Committee.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The technical amendments adopted by the Board relate to actions taken by the Depository Institutions Deregulation Committee since June 1983 concerning the removal of minimum denominations on money market accounts, Super NOW accounts, and deposits with maturities of 7 to 31 days held for depositors' individual retirement accounts or under a Keogh plan; that removal became effective December 1, 1983. The minimum denominations on such accounts other than those in an IRA or a Keogh plan will be phased out by January 1, 1986. The Depository Institutions Deregulation Committee also removed the differential on the maximum rate of interest payable on passbook savings accounts and on 7- to 31-day deposits of less than $2,500 at thrift institutions and banks; beginning in 1984, the ceiling for all such accounts is 5½ percent.

Regulation T (Credit by Brokers and Dealers)

May 16, 1983—Revision

The Board adopted a revised and simplified Regulation T, effective March 31, 1984, in connection with its Regulatory Improvement Project.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

In 1982, when the Board made several substantive amendments to Regulation T and its other margin regulations, it also published for comment a complete revision of Regulation T. On the basis of comments received and its own review, the Board has adopted a completely revised Regulation T. The revised regulation takes account of newly authorized types of securities as well as recent revisions to

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the Securities Exchange Act of 1934. The margin requirements for the new securities are equal to the amount specified by the rules of the exchange on which the instruments are traded. In addition, margin credit is now authorized for corporate debt securities traded over the counter if at least $25 million of the securities were issued originally; previously, margin credit was authorized if at least $25 million of the securities were outstanding when the credit was extended.

The Board had established an effective date of November 21, 1983, for the new regulation, and allowed creditors the option of operating under the new rules after June 20, 1983. Because a number of brokers and dealers reported operational difficulties in conforming to the regulation, the Board delayed the effective date until March 31, 1984.

Regulation X (Borrowers of Securities Credit)

December 16, 1983—Revision

The Board revised Regulation X, effective January 23, 1984, as part of its Regulatory Improvement Project.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

Early in 1983, the Board revised the margin credit regulations affecting lenders, as part of its ongoing efforts to update and simplify its regulations, to eliminate unnecessary provisions, and to reduce compliance burdens. Regulation X, which affects borrowers of margin credit, has been revised along those same lines. The new regulation eliminates the provisions that govern purely domestic borrowings because those rules are included in the margin rules applicable to lenders. However, borrowers who willfully cause a violation of the margin regulations are not excluded from coverage. In addition, the revised regulation increases from $5,000 to $100,000 the exemption for margin credit extended to U.S. persons living abroad.

Regulation Y (Bank Holding Companies and Change in Bank Control)

August 10, 1983—Amendments

The Board amended Regulation Y, effective September 9, 1983, to add securities brokerage and related margin lending to the list of activities permissible for bank holding companies.

Votes for this action: Messrs. Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Martin, and Mrs. Teeters.

In January 1983, when the Board approved an application by a holding company to acquire a discount securities brokerage firm, it also determined that operating a discount brokerage firm was an activity closely related to banking. In February, the Board published for comment a proposal to make the activity generally permissible for bank holding companies.

After consideration of the comments received and after court opinion upholding the Board's approval of the acquisition, the Board amended Regulation Y to permit holding companies to acquire discount brokerage firms provided the firm conducts the brokerage service solely as agent for customers. Underwriting securities and providing investment advice cannot be coupled with discount brokerage services. The amendment also permits holding companies and their nonbank subsidiaries to provide re-

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lated margin credit, subject to the Board's Regulation T.

December 14, 1983—Revision

The Board adopted a revised and simplified Regulation Y in conjunction with its Regulatory Improvement Project.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin.

Over the past several years, the Board has been systematically reviewing all of its regulations to clarify and simplify the language, eliminate unnecessary and obsolete provisions, reduce regulatory and compliance burdens, and codify within the regulations many important interpretations. The revision to Regulation Y significantly accelerates the processing of certain types of bank holding company applications and notices, and eliminates them for certain other types, particularly nonbanking applications.

The new Regulation Y also clarifies the definition of "bank" and incorporates outstanding interpretations that defined a bank and two related terms: demand deposits and commercial loans. Negotiable order of withdrawal (NOW) accounts are considered demand deposits, and the purchase of commercial paper and certificates of deposit and the sale of federal funds are now considered commercial lending. A nonbank company that has acquired a financial institution that would be considered a bank under the definition in the revised regulation will have two years to divest the bank, to alter the bank's activities so that it is no longer within the definition, or to conform its nonbanking activities to those permissible for bank holding companies. Companies that acquired such institutions before December 10, 1982, may petition the Board for relief based on hardship or unfairness.

The revised regulation adds to the list of activities permissible for bank holding companies five activities that the Board had approved by order for individual companies: (1) issuing money orders, (2) arranging equity financing, (3) underwriting government securities and money market instruments, (4) acting as a futures commission merchant, and (5) providing foreign exchange services. The Board soon will consider whether to make certain other activities generally permissible.

Among other changes, the regulation now specifies the procedures to be followed by holding companies seeking to redeem their own stock. Also, bank holding companies must obtain Board approval before investing in companies under the Bank Service Corporation Act.

The revisions to the application procedures are effective for applications filed after December 31, 1983; the other changes in the regulation are effective February 5, 1984.

Regulation Z (Truth in Lending)

March 31, 1983—Amendments

The Board adopted several amendments to Regulation Z, effective April 1, 1983, regarding arrangers of credit, student loans, and the calculation of annual percentage rates.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Mrs. Teeters, and Mr. Gramley. Votes against these actions: None. Absent and not voting: Messrs. Partee and Rice.

The Garn–St Germain Depository Institutions Act of 1982 made two re-

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visions to provisions of the truth in lending legislation. One change deleted from the definition of "creditor" those who arrange extensions of credit between two parties but who otherwise are not involved in the credit transaction. The second revision exempted from truth in lending coverage loans made, insured, or guaranteed under a program authorized by Title IV of the Higher Education Act of 1965. The Board amended Regulation Z to implement these two changes.

The Board also amended the regulation to reinstate provisions that protect creditors from liability if they use faulty calculation tools. Before October 1982, creditors who made errors in disclosing annual percentage rates were protected from civil or administrative actions if the errors had resulted from faulty calculation tools that had been used in good faith. In October 1982, the Board deleted those provisions from the regulation in the belief that the recent expansion of the bona fide error defense in the Truth in Lending Act made them unnecessary. Further review, however, disclosed that the protections provided by the bona fide error clause were not so complete as the deleted provisions of the regulation had been. The Board therefore reinstated those provisions to provide that additional protection.

Policy Statements and Other Actions

June 13, 1983—Revisions to the Capital Adequacy Guidelines

The Board amended the capital adequacy guidelines for state member banks and bank holding companies.

Votes for this action: Messrs. Volcker, Martin, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich and Mrs. Teeters.

In December 1981, the Board and the Comptroller of the Currency adopted guidelines for assessing the capital adequacy of well-managed national banks, state member banks, and bank holding companies. The guidelines divided banking organizations into three categories: 17 large multinational organizations, as selected by the two agencies; regional organizations (those with more than $1 billion in assets that are not in the multinational group); and community organizations (those with less than $1 billion in assets). Specific capital standards, based on the relation of primary and secondary capital to total assets, were established for regional and community organizations. Multinational firms have ratios that are set and monitored individually.

The revisions to these guidelines, which also were adopted jointly with the Comptroller of the Currency, (1) establish specific guidelines for multinational organizations equal to those for regional firms, and (2) expand the definition of secondary capital to include unsecured long-term debt of the parent or nonbank affiliates. In revising the guidelines, the Board emphasized that banking organizations are expected to operate with capital levels at or above the minimums specified. In addition, banks whose operations expose them to risks that are greater than average are expected to have commensurately higher capital levels.

June 15, 1983—Interpretation of Bankers Acceptance Issues

The Board issued an interpretation, effective July 20, 1983, to clarify the treatment of participations in certain bankers acceptances under the Bank Export Services Act.

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Votes for this action: Messrs. Volcker, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin and Mrs. Teeters.

The Bank Export Services Act permits member banks and certain U.S. agencies and branches of foreign banks to create eligible bankers acceptances totaling up to 150 percent of paid-up capital and unimpaired surplus (or up to 200 percent with the Board's permission). The act prohibits those institutions from issuing to an individual eligible acceptances exceeding 10 percent of the institution's capital and surplus; eligible acceptances arising from domestic transactions cannot exceed 50 percent of all the acceptances authorized for the institution. The act also provides that the Board will calculate the equivalent value in dollars of the foreign parent's capital to determine the limitations applicable to agencies and branches of foreign organizations. Questions had arisen regarding which institution is subject to the limitations if acceptances are transferred to another institution under participation agreements and how the assets of a foreign company are to be evaluated.

Under the interpretation adopted by the Board, eligible acceptances created by institutions covered by the act's limitations and transferred through participations to organizations not covered will continue to be included in the limitations on the creating institutions. Participations to covered institutions will be subject to the limitations on the recipients rather than on the issuers, regardless of whether the issuers were covered.

The Board decided to use the Annual Reports of Foreign Banking Organizations (Form F.R. Y-7) to calculate a foreign company's capital and the U.S. agency's limitations. The reports are prepared according to local accounting practices.

November 30, 1983—Participations in Bankers Acceptances

The Board issued an interpretation, effective June 10, 1984, clarifying the limitations in the Bank Export Services Act on participations in bankers acceptances.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mrs. Teeters.

When the Board adopted an interpretation in June 1983 regarding bankers acceptances, it also published for comment a proposed interpretation that would clarify the applicability of the act's limitations on the issuance of bankers acceptances to participations in such acceptances. The act provides that any eligible acceptance created by a covered bank (the senior bank) and conveyed by a participation agreement to a second covered bank (the junior bank) is excluded from the senior bank's limitations and included in the junior bank's limitations. The statute did not define a participation agreement.

The interpretation of these provisions adopted by the Board specifies that the agreement must satisfy the following minimum requirements to be considered a participation in an eligible acceptance that is exempt from the act's limitations: (1) the written agreement between the two banks must specify that the junior bank acquires the claim of the senior bank against the account party for the amount of the participation that is enforceable if the account party fails to perform according to the terms of the acceptance; and (2) the agreement must provide that the senior bank will

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obtain a claim against the junior bank for the amount of the participation that is enforceable if the account party fails to perform according to the agreement. An eligible acceptance conveyed through a participation agreement that does not meet these minimum requirements is included in the senior bank's limitations.

The Board decided not to include as a minimum requirement a third provision that had been published for comment; namely, that the senior bank and the account party specifically agree that the senior bank's rights could be assigned.

1983 Discount Rates

There were no changes in discount rates during 1983, but the Board voted at 15 meetings to turn down requests for changes submitted by individual Federal Reserve Banks. Under the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to depository institutions at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved disapprovals of actions to change existing rates; votes involving requests for maintaining rates already in effect are not shown.

In reaching its decisions, the Board took into account the general economic and financial developments that are covered elsewhere in this REPORT. Its individual decisions were also made on the basis of current judgments about the course of market interest rates, the spread between those rates and the discount rate, the volume of borrowing by depository institutions, and information about the monetary aggregates in relation to the objectives established by the Federal Open Market Committee.

The basic discount rate cited in the listing below is the rate on discounts for and advances to depository institutions for short-term adjustment credit. Other categories of discount window credit include advances made over extended periods to depository institutions that are under sustained liquidity pressure. Such extended credit may also be provided when exceptional circumstances or practices adversely affect a particular depository institution. Finally, so-called seasonal credit may be provided for periods longer than those permitted under adjustment credit to assist smaller institutions in meeting regular needs for funds arising from certain expected movements in their deposits and loans.

As of December 31, 1983, the structure of rates was as follows: a basic rate of 8½ percent for short-term adjustment credit and for seasonal credit; and a rate on extended credit of 8½ percent for the first 60 days of borrowing, 9½ percent for the next 90 days of borrowing, and 10½ percent after 150 days.

The listing of the Board's discount rate actions during 1983, including the votes on those actions, follows.

March 7, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Minneapolis on February 24 to reduce the basic discount rate to 8¼ percent (a reduction from 8½ percent), and by the directors of the Federal Reserve Banks of Chicago and Kansas City on February 24, by the directors of the Federal Reserve Bank of San Francisco on March 2, and by the directors of the Federal Reserve Bank of Boston on March 3

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to reduce the basic discount rate to 8 percent.

Votes for these actions: Messrs. Volcker, Martin, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Messrs. Wallich and Gramley.

March 21, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Boston on March 17 to reduce the basic discount rate to 8 percent, and by the directors of the Federal Reserve Bank of Richmond on March 10 to increase the basic discount rate to 9 percent.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, and Messrs. Rice, and Gramley. Votes against these actions: None.

April 4, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on March 30 to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: None. Absent and not voting: Mr. Rice.

April 11, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on April 7 to reduce the basic discount rate to 8 percent.

Votes for this action: Mr. Volcker, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Martin, Wallich, and Partee.

April 18, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Richmond on April 14 to increase the basic discount rate to 9 percent, and by the directors of the Federal Reserve Bank of Chicago on April 14 to reduce the basic discount rate to 8 percent.

Votes for these actions: Messrs. Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.

April 25, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on April 21 to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

May 9, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Boston and Philadelphia on May 5 to reduce the basic discount rate to 8 percent.

Votes for these actions: Messrs. Martin, Partee, and Gramley. Votes against these actions: Mrs. Teeters and Mr. Rice. Absent and not voting: Messrs. Volcker and Wallich.

Mrs. Teeters and Mr. Rice would have preferred to table the pending reduction for later consideration on the basis of further evidence on the performance of the economy and related financial developments.

May 16, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on May 12

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to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin.

May 31, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of New York on May 19 to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Martin, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Partee.

June 13, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on June 9 to increase the basic discount rate to 9 percent.

Votes for this action: Messrs. Volcker, Martin, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich and Mrs. Teeters.

October 31, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on October 27 to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

November 21, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and San Francisco on November 10 to reduce the basic discount rate to 8 percent and 8¼ percent respectively.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against these action: None. Absent and not voting: Mr. Rice.

November 28, 1983

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Chicago on November 22 to reduce the basic discount rate to 8 percent, and by the directors of the Federal Reserve Bank of San Francisco on November 23 to reduce the basic discount rate to 8¼ percent.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mrs. Teeters.

December 5, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on December 1 to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Martin, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker and Mrs. Teeters.

December 12, 1983

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on December 8 to reduce the basic discount rate to 8¼ percent.

Votes for this action: Messrs. Martin, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker, Wallich, and Mrs. Teeters.

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Record of Policy Actions of the Federal Open Market Committee

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1983, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were made by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

During 1983 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin.*

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities, the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee: an Authorization for Domestic Open Market Operations and a Domestic Policy Directive. (A new Domestic Policy Directive is adopted at each regularly scheduled meeting.) In the foreign currency area, it operates under an Authorization for Foreign Currency Operations and a Foreign Currency Directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1983. Changes in the instruments during the year are reported in the records for the individual meetings.

Authorization for Domestic Open Market Operations

In Effect January 1, 1983

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent

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necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $4.0 billion[1] during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed 30 days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury, provided that the rate charged on such certificates shall be a rate of ¼ of 1 percent below the discount

1. Pursuant to an action taken by the Committee at its meeting on December 20–21, 1982, the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities was set at $4.0 billion for the period through the close of business on February 9, 1983, at which time it reverted to $3.0 billion.

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rate of the Federal Reserve Bank of New York at the time of such purchases and provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

3. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the basis set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1 (c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Domestic Policy Directive

In Effect January 1, 1983[2]

The information reviewed at this meeting suggests that real GNP declined in the fourth quarter, although final sales apparently were maintained, and that the rise in prices remained much less rapid than in 1981. Retail sales and housing activity have strengthened in recent months, but business fixed investment apparently has weakened further and efforts to reduce inventories have continued. In November industrial production and nonfarm payroll employment declined further, and the unemployment rate rose 0.4 percentage point to 10.8 percent. Initial claims for unemployment insurance, although down from the early autumn peaks, have remained relatively high. In recent months the advance in the index of average hourly earnings has slowed appreciably further.

The weighted average value of the dollar against major foreign currencies has declined from peaks reached in early November. The U.S. merchandise trade deficit rose sharply further in October.

Growth of M1 has remained rapid in recent months, while growth of M2 and M3 has continued at about or somewhat below the rates of earlier in the year. On balance short-term market interest rates have declined since mid-November, while bond yields have risen somewhat in response to unusually heavy borrowing by businesses and governments; mortgage rates have edged down further. The Federal Reserve announced reductions in the discount rate from 9½ percent to 9 percent on November 19 and to 8½ percent on December 13.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges were 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat

2. Adopted by the Committee at its meeting on December 20–21, 1983.

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above the target should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee had also earlier indicated that it was tentatively planning to continue the current ranges for 1983, but it will review that decision carefully at its February 1983 meeting in light of economic developments and institutional changes associated with the new deposit accounts authorized by the Depository Institutions Deregulation Committee.

Specification of the behavior of M1 over the months ahead remains subject to substantial uncertainty because of special circumstances in connection with the public's response to the new deposit accounts available at depository institutions. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the coming quarter. The institutional changes also add a degree of uncertainty to the behavior of the broader monetary aggregates.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves consistent with growth of M2 of around 9½ percent at an annual rate, and of M3 at about an 8 percent rate, from December to March, allowing in the case of M2 for modest shifting into the new money market accounts from large-denomination CDs or market instruments. The Committee indicated that greater growth would be acceptable if analysis of incoming data and other evidence from bank and market reports indicate that the new money market accounts are generating more substantial shifts of funds into broader aggregates from market instruments. 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 percent.

Authorization for Foreign Currency Operations

In Effect January 1, 1983

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for

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periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico[1]	
Regular	700
Special	325
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

1. Pursuant to an action taken by the Committee on August 24, 1982, the special reciprocal currency arrangement with the Bank of Mexico of $325 million in addition to the regular $700 million arrangement was added, effective for the period from August 28, 1982, through August 23, 1983.

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at nonmarket exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other members of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency opera-

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tions between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

Foreign Currency Directive

In Effect January 1, 1983

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

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Meeting Held on February 8–9, 1983

Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that real gross national product had declined at an annual rate of 2½ percent in the fourth quarter of 1982. The decline was the result mainly of a sharp contraction in business inventories; final sales increased appreciably in the quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, rose at an annual rate of about 4¾ percent. Over the four quarters of 1982, real GNP declined about 1¼ percent, nominal GNP grew about 3¼ percent, and the increase in prices on average decelerated sharply to about 4¾ percent.

The nominal value of retail sales edged down in December, but rose 3 percent in the fourth quarter as a whole. Retail sales at automotive outlets strengthened considerably in the fourth quarter, and sales at general merchandise and furniture and appliance stores also picked up. Sales of new domestic automobiles were at an annual rate of about 6 million units in the fourth quarter, compared with an average selling pace of about 5½ million units during much of 1982; in January, sales continued at about the fourth-quarter pace.

Private housing starts fell somewhat in December, following a surge in November, but at an annual rate of 1¼ million units in the fourth quarter, starts were about 45 percent above the cyclical trough of a year earlier. Combined sales of new and existing homes have advanced appreciably in recent months.

Spending for business fixed investment declined substantially further in the fourth quarter to a rate nearly 8½ percent below the recent peak in the fourth quarter of 1981. The decline was concentrated in outlays for durable equipment, but nonresidential construction spending also fell somewhat. According to the Department of Commerce survey taken in November and December, plant and equipment spending would decline about 1¼ percent in 1983; taking account of respondents' expectations of inflation, the survey results implied a decline of about 5¼ percent in real terms, compared with a decline of 4¾ percent in 1982.

Nonfarm payroll employment increased 340,000 in January, after an average monthly decline of about 200,000 in the second half of 1982. Other indicators also suggested improvement in labor markets: in manufacturing, employment edged up for the first time in about a year and a half and the factory workweek increased 0.8 hour to 39.7 hours. However, the January data may have overstated the improvement in labor market conditions because of seasonal adjustment problems. The civilian unemployment rate fell 0.4 percentage point to 10.4 percent, as the civilian labor force declined substantially.

The producer price index for finished goods was about unchanged in December, reflecting a decline in prices of energy-related items and only modest increases in prices of consumer foods and other goods. During 1982 the index rose 3½ percent, about half the pace recorded in 1981. The consumer price index declined 0.3 percent in December, as homeownership costs fell sharply and prices for food and energy declined as well. Over the year the index increased less than 4 percent, compared with a rise of about 9 percent in 1981. Price increases were smaller in 1982

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than in 1981 for all major components of the index. The rise in the index of average hourly earnings slowed further in the final months of 1982. Over the year the index rose about 6 percent, compared with an increase of about 8½ percent over 1981.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had declined about 3 percent further from mid-December to about mid-January. Subsequently, the dollar appreciated and was up on balance over the period since the Committee's meeting in December. In the fourth quarter the U.S. merchandise trade deficit was close to the relatively high third-quarter rate. Agricultural exports continued at about the reduced third-quarter rate while a decline in nonagricultural exports was roughly offset by a decline in imports.

In July 1982 the Committee reaffirmed the objectives for monetary growth that it had set in early February for the period from the fourth quarter of 1981 to the fourth quarter of 1982 and also decided tentatively to retain the 1982 target ranges for 1983. Those objectives included ranges of 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable and that it would tolerate for some period of time growth somewhat above the target ranges if uncertainties relating to unsettled economic and financial conditions should lead to unusual precautionary demands for money and liquidity.

Actual monetary growth during 1982 was above the Committee's target ranges. M1 grew about 8½ percent on a fourth-quarter to fourth-quarter basis, substantially more than in 1981 and well above the target range. M2 and M3 expanded 9.2 percent and 10.1 percent respectively over the four quarters of 1982, somewhat above the upper limits of their target ranges; prior to certain revisions and redefinitions of M2 and M3 in early 1983, their indicated growth rates for 1982 had been 9.8 percent and 10.3 percent respectively.[3] Bank credit expanded about 7 percent during the year.

At its meeting on December 20–21, the Committee had decided to seek to maintain expansion in bank reserves consistent with growth of M2 at an annual rate of around 9½ percent

3. The revised data for the monetary aggregates reflect new benchmarks and revised seasonal factors and some relatively minor changes in definitions of the broader aggregates that were published on February 11, 1983. As redefined, the broader aggregates now include balances in tax-exempt money market mutual funds on the same basis as those in taxable money funds and no longer include balances in individual retirement or Keogh accounts at depository institutions and money market mutual funds.

M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, travelers checks, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, and credit union share draft accounts. M2 contains M1 and savings and small-denomination time deposits at all depository institutions, money market deposit accounts (MMDAs) at all depository institutions, overnight repurchase agreements (RPs) at commercial banks and retail RPs at all depository institutions, overnight Eurodollars held at foreign branches of U.S. banks by U.S. residents other than banks, and taxable and tax-exempt money market mutual fund shares other than those restricted to institutions. M3 is M2 plus large-denomination time deposits at all depository institutions, large-denomination term RPs at commercial banks and savings and loan associations, and taxable and tax-exempt institution-only money market mutual fund shares.

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and growth of M3 at an annual rate of about 8 percent for the period from December to March. The objective for M2 was designed to allow for a modest amount of growth resulting from shifts into the newly authorized money market deposit accounts (MMDAs) from large-denomination certificates of deposit or market instruments. For both M2 and M3, the Committee had noted that greater growth would be acceptable if analysis of incoming data and other evidence from banking and market reports indicated that the new MMDAs were generating more substantial shifts of funds from market instruments into the broader aggregates. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 6 to 10 percent.

On several occasions following the December meeting, the Committee discussed the extraordinarily rapid growth in MMDAs that had taken place since the accounts had become available in mid-December and the implications of that growth for the behavior and interpretation of the monetary aggregates. At the conclusion of a discussion on January 28, 1983, it was the Committee consensus to maintain the existing degree of reserve restraint further in response to the reported over-target growth of the broader monetary aggregates because that growth appeared to be primarily related to the massive redistribution of funds under way.

M2 grew at an estimated annual rate of about 29 percent in January, following an increase at an annual rate of about 8 percent in December. At this meeting it was reported that MMDAs had grown to more than $210 billion by late January, and available evidence suggested that some of the December increase in M2 and much of the surge in January was related to the associated shifts of funds out of non-M2 assets—such as market instruments and large-denomination CDs—into MMDAs. Abstracting from such shifts, which could be calculated only very roughly, the growth of M2 over the December–January period was estimated to have been at a pace that was generally consistent with the Committee's longer-run growth objective for this aggregate. Growth of M3, estimated at annual rates of about 3¼ percent in December and 11 percent in January, was much less affected by the introduction of MMDAs, as depository institutions responded to large net inflows of funds in part by allowing their large-denomination certificates of deposit to run off. Growth of M1 remained rapid in January, although the increase was appreciably smaller than the average pace in other recent months. To date, M1 growth appeared to have been little affected on balance by the introduction of MMDAs in mid-December or of Super NOW accounts in early January.

Expansion in total and nonborrowed reserves slowed considerably in January; the slowing reflected the moderation in growth of transaction balances as well as the substantial reduction in required reserves associated with the attrition of large-denomination CDs and shifts out of savings and other time deposits into nonreservable MMDAs. Excess reserves were extraordinarily high around the turn of the year, and also were on the high side around mid-January, reflecting usual year-end pressures and the implementation of two mandated reserve requirement reductions. Also reflecting typical year-end money market churning, adjustment borrowing (including seasonal

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borrowing) was quite large at the beginning of the year, but it tended to be relatively low thereafter, with the federal funds rate remaining close to the 8½ percent discount rate except for a brief period around year-end.

Interest rates on private short-term market instruments were little changed over the period, while yields on corporate bonds were up about 30 basis points. Yields on most U.S. Treasury bills rose about 35 to 40 basis points, and rates on Treasury notes and bonds increased about 35 to 45 basis points, apparently in response to the substantially increased recent and prospective volume of Treasury financing. The prime rate charged by most commercial banks on short-term business loans was reduced ½ percentage point to 11 percent in mid-January. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations declined about ½ percentage point over the intermeeting period to a level a little above 13 percent.

Total credit at U.S. commercial banks accelerated to an annual rate of about 10½ percent in December and was estimated to have picked up further in January. Banks responded to the strong inflows of funds into MMDAs by purchasing sizable amounts of Treasury and other securities. Banks also expanded their loans somewhat.

Staff projections presented at this meeting suggested that real GNP would turn upward in the first quarter and continue to grow moderately during 1983. The unemployment rate was expected to remain at a high level, while inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to slow somewhat further over the year.

In the Committee's discussion of the economic situation and outlook, members emphasized that signs of an economic recovery had multiplied in recent weeks, and while some question remained about the actual onset of the recovery the members generally agreed that moderate growth in real GNP was a reasonable prospect for 1983 as a whole. The members also believed that economic recovery could be achieved without a resurgence in inflation, partly in light of favorable prospects for productivity growth and for oil prices. The cautionary note was expressed, however, that inflationary expectations, as well as actual prices and wages, would be importantly influenced by federal budgetary developments, and monetary policy also needed to remain clearly oriented toward fostering further progress in containing inflation.

While the outlook for economic activity and prices was generally viewed as favorable, it remained subject to considerable uncertainty. Some members stressed the potential obstacles to a sustained recovery, including the prospect of continuing large federal deficits in the absence of new legislation, the outlook for weak export markets, real interest rates that were still high by historical standards, and the possibility of further disturbances in international and domestic financial markets. On the other hand, a number of members commented that once under way, the recovery might gather momentum and prove to be markedly more vigorous than the staff had projected, with the expansion in 1983 perhaps more in line with the average experience in the first year of previous economic recoveries.

For the period from the fourth quarter of 1982 to the fourth quarter of 1983, the central tendency of the members' projections was for growth

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in real GNP in a range of 3½ percent to 4½ percent, while the range for all members was from 3¼ percent to 5½ percent. The central tendency for the GNP deflator was a range of 4 to 5 percent, and for growth in nominal GNP it was a range of 8 to 9 percent. Projections for the rate of unemployment in the fourth quarter of 1983 ranged from 9¾ to 10½ percent, with a central tendency of 9.9 to 10.4 percent. These projections were based on the Committee's objectives for monetary and credit growth established at this meeting, and the members generally assumed that legislative progress would be made over the months ahead in reducing federal deficits in future years.

In reviewing at this meeting the monetary and credit objectives for 1983 that it had tentatively established in July within the framework of the Full Employment and Balanced Growth ("Humphrey-Hawkins") Act of 1978, the Committee recognized that its assessment of appropriate growth targets for implementing broad economic goals was complicated by a number of economic and institutional factors. Members took particular note of the fact that the relationships between monetary and credit growth to income and expenditures had deviated markedly from past patterns during 1982. The deviations in question were reflected in atypical behavior of the income velocity of various measures of money—the ratio of gross national product to the individual monetary measures—all of which fell sharply in 1982. To a considerable extent the declines in velocity appeared to be a consequence of strong precautionary demands for monetary assets in a period characterized by economic uncertainties and severe strains in financial markets. In addition, declining short-term market rates in the latter half of the year had encouraged inflows into NOW accounts, which have become an increasingly important component of M1, as the cost of holding such accounts relative to market instruments fell considerably. Late in the year, the authorization by the Depository Institutions Deregulation Committee (DIDC) of new deposit instruments incorporating transaction features and paying interest returns tied to market rates may have been associated with some anticipatory increases in balances at depository institutions. Against the background of sharply declining velocity, the Committee had concluded that rigid adherence to the 1982 targets would have resulted in a much more restrictive policy impact than had been intended.

For 1983 the Committee faced the question of whether underlying relationships between monetary and ultimate economic objectives might still be in the process of changing. Past cyclical expansions had typically been accompanied by sharp increases in velocity, particularly for the narrower measures of money. Developments during 1982 suggested, however, that increases in velocity might be relatively restrained in 1983. Reduced rates of inflation, a markedly lower level of interest rates, and institutional changes characterized by a greater availability of market-related interest rates on transaction accounts could induce larger holdings of monetary assets relative to income than usually occurs during a cyclical upturn. The payment of market rates on the new Super NOW account could have an especially pronounced impact on the income velocity of M1 as could the continued attractiveness of regular NOW accounts if short-term market interest rates were to remain near, or fall

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below, current levels. More generally, movements in M1 could be influenced increasingly by attitudes toward savings as well as by transaction needs as the share of NOW accounts, which have both savings and transaction features, expands in this aggregate. Members recognized that it could take some time before this newly emerging behavior of M1 in relation to GNP became clear. The broader monetary aggregates, too, were being affected by institutional changes, with M2 especially influenced in 1983 by shifts into its MMDA component from market instruments and large-denomination CDs. Moreover, the phased deregulation of interest rate ceilings was undoubtedly changing the cyclical characteristics of the broader aggregates.

The Committee's assessment of appropriate monetary growth ranges was greatly complicated by the massive flows of funds associated with recently introduced deposit instruments, the Super NOW accounts and especially the money market deposit accounts. The extremely rapid buildup of MMDAs since mid-December had resulted in a substantial flow of funds into M2 from market instruments and large-denomination certificates of deposit, which are not included in M2, with the consequence that growth of that aggregate had been greatly inflated over the course of recent weeks. It was anticipated that further redistribution of funds associated with MMDAs and to a lesser extent with Super NOW accounts would continue to influence the behavior of the monetary aggregates to some degree. While uncertainties in predicting flows into these accounts were obviously great, the staff expected those inflows to moderate over the weeks ahead.

In the course of the Committee's discussion, a consensus emerged in favor of setting target ranges for all three measures of money but to depart from past practice in some respects in light of the complexities and uncertainties that were involved. Most of the Committee members agreed that it would be desirable for the time being to place substantial weight on the broader aggregates, M2 and M3. It was expected that, once the bulk of shifts had taken place, the performance of those aggregates in relation to economic activity might be somewhat more predictable than that of M1 during the year ahead, although major uncertainties affected all of the aggregates. Thus the members recognized that an unusual degree of judgment would be required in interpreting the performance of the monetary aggregates as a group. The ongoing appropriateness of the target ranges would need to be judged in the light of evolving economic conditions, including developments in domestic and international financial markets. In this connection a number of members stressed the overriding importance of assuring that monetary performance remained consistent with the basic objectives of fostering sustained economic recovery in a context of continuing progress toward price stability.

After weighing alternative growth ranges for 1983, a majority of the Committee expressed support for retaining the 1982 range for M3 and adopting higher ranges for M2 and M1 than had been targeted in 1982 to allow for ongoing institutional changes. The preferred range for M3 was therefore 6½ percent to 9½ percent on a fourth-quarter 1982 to fourth-quarter 1983 basis. In favoring this range, which contemplated growth below the actual outcome for 1982, Committee members assumed

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that M3 would not be greatly affected on balance by shifts of funds associated with the new deposit accounts. Depository institutions had the option, which many had already exercised in recent weeks, of reducing their issuance of large-denomination certificates of deposit if sizable inflows of MMDAs and other core deposits satisfied their need for funds.

For M2 majority sentiment centered on a range of 7 to 10 percent and the use of a February–March 1983 base period in the expectation that the latter would minimize distortions stemming from the highly aggressive marketing of MMDAs in the weeks since their mid-December introduction. The members assumed that the bulk of the MMDA-generated shifts into M2 from assets not included in that aggregate would be accomplished by March. The range did, however, allow for some modest future asset shifts into M2. Thus, while the new 7 to 10 percent range was above its 1982 counterpart, it was judged in practical effect to represent about the same or slightly lower growth over the balance of the year, after abstracting from the further anticipated shifts of funds into M2. Moreover, given the growth experienced in 1982, an actual outcome within the target range implied slower effective growth in 1983.

Committee members' views varied considerably on the weight to attach to M1—which had been given much less emphasis as a target beginning in the fourth quarter of last year when its behavior was distorted by maturing all-savers certificates and preparation for the introduction of new depository accounts—and some members questioned the desirability of adopting an M1 target at this time. More generally, the performance of that aggregate had been subject over the past year or more to substantial uncertainties related to the growing role of NOW accounts and an apparent shift in the behavior of its income velocity. Against that background, a majority of the members supported setting an M1 target with a relatively wide range for 1983 as a whole, and most members found acceptable a proposal to establish a specific range of 4 to 8 percent. The comparatively wide range for M1 reflected allowance for some possible change in its cyclical behavior as well as for its evolving character as an increasingly important vehicle for savings, especially in an environment of reduced inflation and interest rates. Only modest allowance was made for the possibility that the new Super NOW accounts would draw funds into M1 from other sources. It was understood that the target for M1 would have to be reassessed if the DIDC should extend the authority for depository institutions to pay market rates on transaction balances held by business firms.

It was agreed that the behavior of M1 would be monitored and that the degree of emphasis to be placed on that aggregate as the year progressed would depend on evidence about whether the behavior of the velocity of M1 was becoming more predictable and beginning to show its usual cyclical characteristics. Over the year, growth in the lower part of the range would be appropriate if velocity rose strongly, as had usually been the case during recoveries. An outcome near the upper end would be appropriate if velocity did not rebound sharply from the declines in 1982 and tended to stabilize close to current levels.

In addition to the specification of monetary growth targets, the members agreed on the desirability of indicating for the first time the Commit-

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tee's expectations with respect to growth of total debt of domestic nonfinancial sectors during 1983 and a consensus was expressed for a growth range of 8½ to 11½ percent for that variable. A consistent range for growth in bank credit, which the Committee had associated with its monetary targets in previous years, was judged to be 6 to 9 percent, unchanged from the range in 1982. The new range for total credit encompassed growth about in line with expected growth of nominal GNP in accordance with longer-term trends, but the Committee recognized that in the particular circumstances likely to prevail in 1983, growth in the upper part of the range might occur. It was observed that data for such a broad credit aggregate were not currently available on a monthly basis, and that the Committee did not have the tools to exert close influence over total flows of credit. However, the Committee intended to monitor total debt flows closely for whatever information they could provide in assessing appropriate responses to developments in the targeted monetary aggregates.

Given the uncertainties and complexities involved in setting monetary growth targets for 1983, the members anticipated the need for reviewing those targets during the spring and possibly altering them in light of the accumulated evidence available at that time regarding the behavior of the aggregates and their relationship to other economic variables. Policy implementation in 1983 would in fact require a continuing reassessment of the performance of the monetary and credit aggregates, particularly in the aftermath of the unusual behavior of income velocities in 1982. Such reassessment would involve taking account of patterns of saving behavior and cash management among businesses and households, and of indications of changing conditions in domestic and international credit markets and in foreign exchange markets.

At the conclusion of its discussion, the Committee adopted the following:

The information reviewed at this meeting indicates that real GNP declined in the fourth quarter because of a sharp reduction in business inventories. Final sales increased appreciably, and the rise in prices remained much less rapid than in 1981. Retail sales and housing activity have strengthened in recent months, but business fixed investment has weakened further. Nonfarm payroll employment rose in January, after an extended period of declines, and the civilian unemployment rate fell 0.4 percentage point to 10.4 percent. In recent months the advance in the index of average hourly earnings has slowed further.

The weighted average value of the dollar against major foreign currencies depreciated moderately further from mid-December to mid-January, but a subsequent appreciation has more than offset that decline. In the fourth quarter the U.S. merchandise trade deficit was close to the relatively high third-quarter rate.

Growth of M2 surged to an extraordinary pace in January, apparently reflecting shifts of funds into recently authorized money market deposit accounts. Growth of M3 accelerated, following very slow expansion in December. Growth of M1 remained rapid in January, although it was down appreciably from the average pace in other recent months. Market interest rates on U.S. Treasury obligations have risen somewhat since the latter part of December, while rates on most private market instruments are about unchanged to slightly higher. Mortgage rates have declined further.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In establishing growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives, the Committee recognized that

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the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the current impact of new deposit accounts on growth rates of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts has distorted growth in that aggregate during the current quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

With these understandings, the Committee established the following growth ranges: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3, which appears to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent has been established for M1, assuming that Super NOW accounts draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt has been estimated at 8½ to 11½ percent.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that current distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. 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.

Votes for this action: Messrs. Volcker, Solomon, Balles, Gramley, Martin, Partee, Rice, and Mrs. Teeters. Votes against this action: Messrs. Black, Ford, Mrs. Horn, and Mr. Wallich.

Mr. Black and Mrs. Horn dissented from this action because they preferred to give more weight to M1 as a policy objective. While recognizing the difficulties in interpreting M1 currently, they believed that over time M1 was more reliably related to the Committee's ultimate economic objectives than were the broader aggregates and that it constituted a better basis for setting appropriate paths for reserve growth. They also favored reemphasizing M1 because they viewed it as a more controllable aggregate. In addition, Mr. Black indicated that he saw a need for lower target ranges, but he wanted to reduce monetary expansion gradually to avert dislocative effects.

Mr. Ford dissented because he believed that policy should focus more firmly on implementing noninflationary growth via a smaller number of monetary targets. He also saw an urgent need to begin gradually reducing the rate of monetary growth in light of its inflationary potential, particularly when complemented by highly stimulative fiscal policy. He felt strongly that this combination of policies ran the risk of triggering

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another short-lived recovery that might be aborted in 1984 by a private credit shortage and the return of high inflation and interest rates.

Mr. Wallich favored somewhat lower monetary growth ranges for 1983, which in his view would be more consistent with the objectives of fostering economic recovery while minimizing the risks of stimulating inflation.

In their discussion of policy for the weeks immediately ahead, Committee members were generally in favor of maintaining the existing degree of restraint on reserve positions. Reference was made to an analysis that indicated that the current degree of restraint was likely to be associated with a slowing in the growth rates of the various monetary aggregates, although M2 would probably remain relatively rapid. The members agreed that the near-term outlook for growth in the monetary aggregates remained subject to unusual uncertainties, and an appropriate assessment of such growth would need to take account of distortions that might continue to be created by the introduction of new deposit accounts. If, after adjustment for such distortions, monetary growth were to slow appreciably over the weeks ahead and the monetary aggregates appeared to be growing at rates in line with or below the paths implied by the Committee's ranges for the year, most of the members indicated that they would find a reduced degree of reserve restraint acceptable. With regard to the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, the members favored retention of the current range of 6 to 10 percent.

At the conclusion of the Committee's discussion, the following short-run operational paragraph of the domestic policy directive was approved and issued to the Federal Reserve Bank of New York:

> For the more immediate future, the Committee seeks to maintain the existing degree of restraint on reserve positions. Lesser restraint would be acceptable in the context of appreciable slowing of growth in the monetary aggregates to or below the paths implied by the long-term ranges, taking account of the distortions relating to the introduction of new accounts. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Ford.

Mr. Ford dissented from this action because he believed that policy should be directed more firmly toward gradually reducing monetary growth in the period immediately ahead. He was concerned that continued monetary expansion at recent rapid rates would restimulate inflation and threaten the sustainability of the economic recovery, especially against the backdrop of a very expansionary fiscal policy.

Meeting Held on March 28–29, 1983

1. Domestic Policy Directive

Based on partial information available for the first quarter, it appeared that real GNP rose moderately in the first three months of the year, following a decline at an annual rate of about 1 percent in the fourth quarter of 1982. The turnaround in economic activity reflected a considerable slowing in the

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pace of inventory liquidation. Meanwhile, private final sales in real terms, which had risen in the fourth quarter, continued to increase. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, slowed further.

Final sales were sustained by a marked strengthening in housing activity in early 1983. Private housing starts rose to an average annual rate of 1.7 million units in January and February, up nearly 40 percent from the pace in the fourth quarter. Newly issued permits for residential construction also rose substantially over the two-month period. Sales of new homes increased in January, the latest month for which data were available; although sales of existing homes dipped in February, they were appreciably higher in the first two months combined than in the fourth quarter.

Other elements of final sales were not quite so strong on balance as in the fourth quarter of last year. Personal consumption expenditures continued to expand in early 1983, but at a slower rate than in the previous quarter. The nominal value of retail sales fell in January and February, primarily reflecting declines in sales at automotive outlets, gasoline stations, and furniture and appliance stores, although sales at general merchandise and apparel stores rose appreciably from their level in the fourth quarter. Sales of new domestic automobiles continued at an annual rate of about 6.1 million units, the same as in the fourth quarter.

Spending for business fixed investment has remained weak in recent months. Shipments of nondefense capital goods fell sharply in January and edged down further in February, and new orders dropped appreciably in February after firming for several months. Outlays for nonresidential construction increased in January, but high vacancy rates for office buildings and the reduced drilling activity associated with declining oil prices apparently have damped such expenditures recently. The Department of Commerce survey taken in late January and February indicated that in 1983 business outlays for plant and equipment would decline about 1¾ percent in nominal terms, about the same as in 1982.

Nonfarm payroll employment rose about 150,000 on balance over January and February, after an extended period of declines. The month-to-month employment figures, which showed a substantial rise in January and a decline in February, were distorted by unusual weather patterns. But employment in manufacturing—particularly in the auto and related metals industries—increased in both months. The civilian unemployment rate was unchanged in February at 10.4 percent. Industrial production has risen at an annual rate of about 7¼ percent since its trough in November, less than the average pace in the early stages of previous cyclical recoveries.

The producer price index for finished goods fell nearly 1 percent over the first two months of the year, reflecting sharp declines in prices of energy-related items. The consumer price index was virtually unchanged over the period, as a substantial drop in prices of gasoline and other petroleum products was about offset by moderate increases in prices of most other commodities and services. Food prices have changed little thus far in 1983 and in February were only 2 percent above their level a year earlier.

The advance in the index of average hourly earnings has slowed further in recent months. With productivity ap-

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parently continuing to improve in early 1983, cost pressures in the nonfarm business sector have abated further.

In foreign exchange markets the trade-weighted value of the dollar had risen about 2 percent on balance since the Committee's meeting in February. The U.S. merchandise trade deficit declined marginally in January. Exports rose somewhat and total imports continued at about the fourth-quarter rate, as oil imports dropped sharply while non-oil imports strengthened.

At its meeting on February 8-9, 1983, the Committee established the following ranges for growth of the monetary aggregates: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3, which appeared to be less distorted by shifts associated with new deposit accounts. For the same period, a tentative range of 4 to 8 percent was established for M1, assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and that the authority to pay interest on transaction accounts would not be extended beyond currently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8½ to 11½ percent.

At the February meeting, the Committee agreed that the near-term outlook for growth in the monetary aggregates remained subject to unusual uncertainties and that an appropriate assessment of such growth would need to take account of the distortions that might continue to be created by the introduction of new deposit accounts. Consequently, the Committee decided that open market operations in the period until this meeting should be directed toward maintaining the existing degree of restraint on reserve positions. It was agreed that lesser restraint would be acceptable in the context of appreciable slowing of growth in the monetary aggregates, to or below the paths implied by the long-term ranges.

M2 grew at an estimated annual rate of about 24 percent in February, only a little below the exceptional pace in January, as its growth continued to be greatly affected by shifts of funds from market instruments and other non-M2 sources into the new money market deposit accounts (MMDAs) included in M2. M3 grew at annual rates of about 12 and 13½ percent in January and February respectively. However, growth in both of the broader aggregates appeared to have decelerated substantially during March. The deceleration reflected in part a marked slowing in the volume of funds shifted into MMDAs from market instruments and apparently also a moderation in the underlying growth of the nontransaction component of these aggregates. Growth in M1 accelerated to an extraordinary annual rate of about 22 percent in February, and, on the basis of preliminary data, was estimated to have remained rapid in March, though probably slowing somewhat from the February rate. An acceleration in growth of NOW accounts and a large increase in holdings of currency contributed to the expansion in M1. The income velocity of M1 apparently declined sharply in the first quarter, continuing the trend that became evident in the course of 1982.

Total and nonborrowed reserves

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declined appreciably in February, but turned up in March. The behavior of reserves did not reflect the strength in the aggregates largely because required reserves at member banks were lowered by shifts out of personal savings and small time deposits into nonreservable MMDAs and there was an associated runoff of large-denomination CDs. The monetary base grew considerably more than the reserve measures, owing to the rapid expansion of currency in circulation. Adjustment borrowing (including seasonal borrowing) fluctuated between $140 million and $600 million over the intermeeting period. Excess reserves were also volatile and were somewhat higher than usual on average; strong demands for excess reserves at times appeared to be related to slow responses by banks to reductions in reserve requirements. Federal funds continued to trade near the 8½ percent discount rate over most of the intermeeting interval, though rising to around 8¾ percent in the week prior to this meeting.

Most short-term market interest rates rose about ⅜ percentage point over the intermeeting interval, while bond rates declined about ⅜ to ½ percentage point. The average rate on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations declined 20 basis points further. At the end of February, the prime rate charged by most commercial banks on short-term business loans was reduced by ½ percentage point to 10½ percent.

Total credit outstanding at U.S. commercial banks, which had grown at an annual rate of about 6 percent in the fourth quarter of 1982, expanded at an average annual rate of about 10 percent over the first two months of this year. Banks acquired a sizable volume of securities, particularly Treasury securities, and also expanded their loans somewhat. Very preliminary data suggested that the total debt of domestic nonfinancial sectors was increasing in early 1983 at a rate near the lower end of the Committee's estimated range for the year. There was a sharp increase in the share of debt financed through depository institutions, which had experienced massive inflows of funds as a result of aggressive marketing of the newly authorized MMDAs.

Staff projections presented at this meeting indicated that real GNP would probably grow at a moderate pace throughout 1983, with unemployment remaining high. Private final purchases were projected to pick up somewhat in the latter half of the year, partly in response to the third phase of the tax cut. It was anticipated that the liquidation of business inventories would end by midyear and that some restocking of depleted inventories would occur in the second half. The rise in the average level of prices was expected to remain moderate, even as economic recovery proceeded over the balance of 1983, given the favorable outlook for oil prices and the prospects for continued limited increases in unit labor costs.

In the Committee's discussion of the economic situation and outlook, the members agreed that a recovery in economic activity appeared to be under way, although several commented that the evidence available thus far was too fragmentary to permit a firm evaluation of the strength of the upturn. While the staff projection of moderate growth for 1983 as a whole was cited as a reasonable expectation, members commented on the many uncertainties surrounding the economic outlook and expressed differing views regarding the direc-

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tion of possible deviations from the staff projection.

Some members saw the staff projection as the middle of a plausible range of possible outcomes for 1983, given the outlook for fiscal and monetary policy. Several members believe, however, that the risks of a deviation were in the direction of a shortfall. These members stressed potential obstacles to a vigorous recovery. These included the possibility of further unsettlement in international and domestic financial markets, the outlook for poor export markets, and the prospects for continuing weakness in business investment, at least over the quarters immediately ahead, against the backdrop of low capacity utilization rates in industry and recent overbuilding of many types of commercial properties. Reference was also made to the retarding impact of relatively high real interest rates, and some members expressed the view that an appreciable rise in interest rates, if such a rise were to occur, could greatly inhibit the recovery in interest-sensitive sectors of the economy, such as housing and automobiles, which had tended to lead the recovery thus far.

A differing view was expressed, which stressed the possibility of a stronger recovery that, like many previous recoveries in the postwar period, would tend to gather momentum as it developed. In support of this view, it was noted that private final purchases had risen appreciably in the fourth and first quarters, and such purchases could strengthen markedly further in reaction to the federal tax cut at midyear and anticipated improvement in business spending. Moreover, cutbacks in inventories had been unusually pronounced during the recession, so that gains in consumer spending would tend to be translated directly into increased production.

Members referred to the favorable outlook for prices in 1983, partly associated with an improved trend in productivity and reduced wage-cost pressures, but some members also commented that the longer-run outlook for inflation and for a sustainable recovery would be influenced greatly by progress in holding down future federal deficits and by success in achieving the Committee's objectives for monetary growth. It was noted that the effects of an expansionary federal budget would be offset to some extent by efforts of state and local governments to curb expenditures and to raise taxes. On balance, however, it appeared that markets remained apprehensive about the outlook for the federal budget, and that concern was reflected in continued pressures on interest rates, especially in long-term debt markets.

In discussing a policy course for the weeks immediately ahead, Committee members recognized that substantial uncertainties affected both the economic outlook and the interpretation of the monetary aggregates. Concern was expressed about the implications of the rapid growth in the monetary aggregates, particularly if it should continue. However, it was also noted that the rapid expansion of recent months, given the distortions related to various institutional changes, probably did not have the significance for future economic and price developments that it might have had in the past. It was generally recognized that much of the recent growth in the broad aggregates, especially M2, reflected shifts of investment preferences by individuals away from market instruments toward the new MMDAs, given the very attractive rates being offered on the accounts by depository institutions in a highly competitive environment. Note was

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also taken of the marked slowing in monetary growth that appeared to be in train for March, and of a staff analysis suggesting that underlying growth of the broad aggregates—as well as growth in M1—might be moderate in the months ahead as the lagged effects of earlier declines in market interest rates dissipated. With respect to M1, most members felt that persistence of its unusually sharp decline in velocity early this year cast doubt on the aggregate as a principal guide for policy at this time; however, a view was also expressed in favor of giving M1 more weight in the formulation of the Committee's policy.

In evaluating the overall financial situation, it was also pointed out that the strength of the aggregates needed to be judged in the context of the apparently moderate expansion of domestic nonfinancial debt and of the relatively high level of real interest rates. With the economic recovery still in its early and fragile stages, the view was expressed that strong upward pressures on interest rates would involve an unacceptable risk of unduly retarding, and perhaps aborting, the recovery. The view was also expressed that a sustainable recovery might not develop at the present levels of nominal and real interest rates. On the other hand, no member expressed sentiment for a substantial easing in the existing degree of reserve restraint in the absence of clear evidence of a pronounced slowing in monetary growth or of indications that the economic recovery was faltering.

While a few members indicated a preference for leaning in the direction of slightly more, or slightly less, restraint on reserve positions in the period immediately ahead—depending on their assessment of the economic outlook, credit conditions, and the monetary aggregates—all of the members found acceptable a policy calling for maintaining generally the current degree of reserve restraint, pending the availability of further evidence on the behavior of the monetary aggregates and on the economic situation. The members anticipated that such a policy course would be consistent with substantial slowing in the growth of M2 and M3 to annual rates of about 9 percent and 8 percent respectively over the period from March to June; these growth rates assumed that shifts of funds into the new deposit accounts from market instruments would have only a relatively small further impact on the broad aggregates—perhaps no more than a percentage point or so in the case of M2. The Committee also expected that M1 growth at an annual rate of about 6 to 7 percent over the three-month period would be associated with its objectives for the broader aggregates, assuming basically no distortion in M1 on balance from the newly introduced accounts. Should these assumptions about distortions from the new accounts prove to be incorrect, it was understood that appropriate adjustments would have to be made in the monetary growth objectives.

The Committee members agreed that lesser restraint on reserve positions would be acceptable in the context of more pronounced slowing in the growth of the monetary aggregates, after taking account of any distortions relating to the introduction of new deposit accounts, or of evidence of a weakening in the pace of the economic recovery. If monetary expansion proved to be appreciably higher than expected, without being clearly explained by the effects of ongoing institutional changes, it was understood that the Committee would

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consult about the desirability under the prevailing circumstances of any substantial further restraint on bank reserve positions. It was further understood that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would be retained at 6 to 10 percent.

At the conclusion of its discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP rose moderately in the first quarter, after a decline in the fourth quarter; the turnaround reflects a considerable slowing in inventory liquidation. Private final sales apparently increased only slightly less than in the fourth quarter with housing activity strengthening further. Business fixed investment has remained weak. Nonfarm payroll employment rose on balance in January and February, after an extended period of declines; the civilian unemployment rate was unchanged in February at 10.4 percent. In early 1983 the rise in average prices and the advance in the index of average hourly earnings have slowed further.

The weighted average value of the dollar against major foreign currencies rose somewhat on balance between early February and late March. The U.S. merchandise trade deficit declined marginally in January.

M2 continued to grow at an exceptional rate in February and M3 also expanded at a rapid pace, but growth in both of the broader aggregates appears to be decelerating substantially in March. The deceleration reflects in part the marked slowing in growth of money market deposit accounts (MMDAs) in recent weeks and apparently also a moderation in the underlying growth of these aggregates, abstracting from shifts from market instruments. M1 has expanded rapidly since late January, largely reflecting accelerated growth in NOW accounts. Growth in debt of domestic nonfinancial sectors appears to have been moderate in the first quarter. Short-term interest rates have risen somewhat since early February while long-term rates, including mortgage rates, have declined.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in February the Committee established growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives. The Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the current impact of new deposit accounts on growth rates of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts, has distorted growth in that aggregate during the first quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

With these understandings, the Committee established the following growth ranges: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3, which appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1, assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances

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is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8½ to 11½ percent.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. 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.

For the short run, the Committee seeks to maintain generally the existing degree of restraint on reserve positions, anticipating that would be consistent with a slowing from March to June in growth of M2 and M3 to annual rates of about 9 and 8 percent, respectively. The Committee expects that M1 growth at an annual rate of about 6 to 7 percent would be consistent with its objectives for the broader aggregates. Lesser restraint would be acceptable in the context of more pronounced slowing of growth in the monetary aggregates relative to the paths implied by the long-term ranges (taking account of the distortions relating to the introduction of new accounts), or indications of a weakening in the pace of economic recovery. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Review of Continuing Authorizations

The Committee followed its customary practice of reviewing all of its continuing authorizations and directives at this first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1983. The Committee reaffirmed the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

3. Authorization for Domestic Open Market Operations

On the recommendation of the Manager for Domestic Operations, System Open Market Account, the Committee amended paragraph 1(a) of the authorization for domestic open market operations to raise from $3 billion to $4 billion the limit on intermeeting changes in System account holdings of U.S. government and federal agency securities. The Manager noted that in recent years the Committee had found it necessary to authorize temporary increases in the limit with greater frequency because of the longer intervals between Committee meetings and the increased size of the net variation in market factors affecting reserves. In 1981 and 1982, such temporary increases had been authorized in half of the intermeeting periods. A permanent increase in the limit to $4 billion would reduce the number of occasions requiring special Com-

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mittee action, while still calling to the Committee's attention needs for particularly large changes. The Committee concurred in the Manager's view that such an increase would be appropriate.

The Committee also approved the deletion of paragraph 2 of the authorization, which had authorized, under certain conditions, the direct lending of securities held in the System account to the U.S. Treasury and the purchase of special short-term certificates of indebtedness directly from the Treasury. Paragraph 2 had been in a state of de facto suspension since June 1981 when the statutory authority on which it was based expired. In the past, the Congress had enacted the legislation for limited periods and occasionally had allowed it to lapse prior to its renewal. Since no legislation to renew the authority was under consideration, the Committee concurred in a staff recommendation to delete paragraph 2 and renumber the remaining paragraphs in the authorization.[4]

Accordingly, effective March 28, 1983, the authorization for domestic open market operations was amended to read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $4.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York

4. The following conforming amendments to other Committee documents were also approved: deletion of section 270.4(d) of the Regulation Relating to Open Market Operations of Federal Reserve Banks and redesignation of the remaining paragraph as 270.4(d); and deletion of paragraph 2 of the Resolution of Federal Open Market Committee Authorizing Certain Actions by Federal Reserve Banks during an Emergency, and renumbering of remaining paragraphs.

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under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Votes for these actions: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

Subsequently, on May 9–10, 1983, members of the Committee voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective May 10 for the period ending with the close of business on May 24, 1983.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate for Mr. Solomon.)

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large net purchases of securities had been undertaken to meet reserve needs due to increases in currency in circulation and required reserves, reducing the leeway for further purchases over the intermeeting interval to slightly under $1 billion. It appeared likely that purchases in excess of that leeway would be required over the remainder of the intermeeting period.

4. Agreement with Treasury to Warehouse Foreign Currencies

At its meeting on January 17–18, 1977, the Committee had agreed to a suggestion by the Treasury that the

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Federal Reserve undertake to "warehouse" foreign currencies—that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund (ESF) and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

Meeting Held on May 24, 1983

Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real GNP would accelerate, perhaps rather substantially, in the current quarter, after an increase at an annual rate of about 2½ percent in the first quarter. To a considerable extent, the expected pickup in growth reflected an apparently marked further slowing in the rate of inventory liquidation, with an ending of liquidation possible during the quarter. At the same time final demands for goods and services, which had strengthened in late 1982, were being relatively well maintained. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be continuing at about the moderate pace recorded over the past year.

The index of industrial production rose 2.1 percent in April, the largest monthly increase since the summer of 1975, to a level about 6 percent above its recent trough in November. Gains in output were spread across a broad range of industries, and were particularly strong for consumer durable goods and durable goods materials. Production of business equipment, which had contracted sharply since late 1981, also rose substantially in April after turning up in March. Rates of capacity utilization in manufacturing and at materials producers increased from record lows late in 1982 to around 71 percent in April.

Nonfarm payroll employment increased more than 250,000 in April, after an increase of about 200,000 in March. Employment gains in manufacturing and service industries accounted for the bulk of the rise in both months. The civilian unemployment rate edged down further to 10.2 percent in April.

The dollar value of retail sales advanced 1.6 percent in April, about the same as in March. Outlays at apparel and furniture and appliance stores were brisk, but a major factor in the April gain was increased spending on new cars. Sales of new domestic automobiles, which had held at an annual rate of slightly over 6 million units since November, rose to a rate of 6.4 million units in April and strengthened somewhat further in early May.

Total private housing starts declined somewhat in both March and April, but at an annual rate of 1.5 million units in April, they were still about 40 percent above the depressed 1982 average. Newly issued permits for residential construction picked up in April, reflecting a marked increase in permits for multifamily units. Sales of new and existing homes increased

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substantially in the first quarter of 1983.

The producer price index for finished goods edged down in both March and April; prices of energy-related items, which are lagged one month in this index, declined considerably further while prices of consumer foods increased. The consumer price index rose 0.6 percent in April, after having edged up 0.1 percent in March; more than one-third of the April increase reflected the rise in gasoline prices associated with implementation of the higher federal excise tax. Thus far in 1983 the consumer price index has increased little, and the index of average hourly earnings has risen at a considerably slower pace than in 1982.

Since late March the trade-weighted value of the dollar in foreign exchange markets had remained in a narrow range near its recent high level. The U.S. foreign trade deficit in the first quarter was about one-third less than in the preceding quarter, as oil imports dropped sharply, reflecting a decline in price and a considerable reduction in volume.

At its meeting on March 28–29, 1983, the Committee had decided that open market operations in the period until this meeting should be directed at maintaining generally the existing degree of restraint on reserve positions, anticipating that such a policy would be consistent with a slowing from March to June in growth of M2 and M3 to annual rates of about 9 and 8 percent respectively. The Committee expected that growth in M1 at an annual rate of about 6 to 7 percent over the three-month period would be associated with its objectives for the broader aggregates. The Committee members agreed that lesser restraint on reserve positions would be acceptable in the context of more pronounced slowing in the growth of the monetary aggregates (after taking account of any distortions relating to the introduction of new deposit accounts) or of evidence of a weakening in the pace of economic recovery. If monetary expansion proved to be appreciably higher than expected, without being clearly explained by the effects of ongoing institutional changes, it was understood that the Committee would consult about the desirability under the prevailing circumstances of any substantial further restraint on bank reserve positions. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

Growth in M2, which had slowed to an annual rate of about 11 percent in March, decelerated further in April to an annual rate of about 3 percent. The deceleration reflected, in part, substantial shifts of funds into individual retirement and Keogh accounts before the April 15 tax date. Growth in M3 slowed to an annual rate of about 4½ percent, after expanding at an 8¼ percent pace in March. Partial data suggested that expansion in both M2 and M3 had picked up in early May, but growth to date still appeared to be below the annual rates of 9 and 8 percent respectively expected by the Committee for the period from March to June.

M1 declined at an annual rate of about 3 percent in April but, according to preliminary data, strengthened markedly in early May. Thus far in the second quarter, growth in M1 appeared to be running substantially above the annual rate of 6 to 7 percent deemed consistent with the Committee's expectations for the broader aggregates.

Growth in debt of domestic nonfinancial sectors appeared to have continued in April at about the same pace as in the first quarter. Over the

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first four months of the year, debt expansion was estimated at an annual rate of about 9½ percent, well within the Committee's range of 8½ to 11½ percent for the year. Funds raised by the U.S. Treasury grew at about twice the rate of total debt expansion, while private debt rose at a moderate pace. Growth in total credit outstanding at U.S. commercial banks slowed somewhat in April, as banks continued to acquire sizable amounts of Treasury securities but reduced substantially their holdings of business loans.

Growth in total and nonborrowed reserves slowed appreciably in April and early May, as weakness in transaction deposits over much of March and in April was reflected with a lag in reduced demand for required reserves. Apart from large borrowings around the end-of-quarter statement date early in the intermeeting period, adjustment borrowing from the Federal Reserve discount window, including seasonal borrowing, fluctuated within a range of about $200 million to $675 million. Special factors, such as relatively sizable weekend borrowing associated with wire transfer problems, contributed at times to increased demands for borrowing. Excess reserves also continued to be volatile and were relatively high on average. Federal funds generally traded in a range of 8½ to 8¾ percent during the intermeeting interval.

Market interest rates changed little on balance over the intermeeting interval. Short-term interest rates declined about ¼ percentage point while most long-term rates were slightly lower or up only marginally. Market rates had fallen considerably in the early part of the period but had risen again most recently, as growth in the monetary aggregates seemed to be strengthening, signs of economic recovery became more widespread, and prospects increased that private credit demands would strengthen while Treasury borrowing remained exceptionally large. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations fell about 30 basis points further.

The staff projections presented at this meeting indicated that growth in real GNP in the second half of the year would be a little higher than had been expected, though probably slowing somewhat from the second-quarter pace. Recent evidence, including increased spending for business equipment, strength in new orders at durable goods manufacturers, and survey reports of marked improvement in consumer attitudes, suggested somewhat stronger private final demands from businesses and consumers than had been anticipated previously. The unemployment rate was projected to decline only modestly from its recent high level, and the rise in the average level of prices was expected to remain moderate.

In the Committee's discussion of the economic situation and outlook, a number of members expressed general agreement with the staff projection, but several emphasized that economic activity might well prove to be stronger than projected, especially during the quarters immediately ahead. Members observed that consumer sentiment appeared to have improved considerably, and that retail sales should benefit from the increased market value of financial asset portfolios as well as from the federal tax cut at midyear. A turnaround from sharp inventory liquidation to little change, or possibly even some accumulation, was seen as likely and would have a pronounced positive impact on GNP and on income

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flows, at least for a quarter or two. Members also commented that an increasingly stimulative fiscal policy would add strength to the recovery over the period ahead, and an unduly large federal deficit was likely to create problems later as private credit demands expanded.

While all Committee members anticipated continuing and possibly substantial improvement in economic activity over the months ahead, a number also questioned the balance and sustainability of the recovery. They noted that, though business capital spending was showing signs of reviving, it would need to improve markedly further to foster an extended recovery. Such spending could be inhibited if a continuing need to finance large federal deficits engendered rising interest rates as the recovery proceeded. The outlook for exports was also thought to be relatively weak, although exports should eventually improve if the foreign exchange value of the dollar were to decline substantially and if major disturbances in international financial markets were averted. One member commented that housing activity could be less strong than was widely anticipated and another observed that consumer spending could prove to be disappointing, particularly if consumers did not react more positively to the approaching tax cut than they had to the 1982 reduction. Another member commented that recent indications of a more vigorous recovery might reflect mainly a short-lived inventory adjustment.

Other members expressed a differing view and emphasized that the prospects for an extended recovery were relatively favorable. In support of this view it was observed that substantial improvements in consumer spending and inventory investment were likely to be followed by increasing capital investment, in the pattern characteristic of earlier cyclical expansions. In this connection some members stressed that the expansion might well gather momentum and prove to be much stronger than the staff was projecting, partly because the recovery would follow a relatively long and severe recession.

At this meeting the Committee reviewed the monetary growth ranges that it had established in February for the year 1983. It decided not to change any of the ranges or the relative importance of the various aggregates for policy, pending a further review at the July meeting. Growth of the broader aggregates appeared to be within the Committee's ranges for the year. Earlier in the year, growth of M2 had been affected to a major extent by large shifts of funds associated with the introduction of money market deposit accounts; such shifts had slackened substantially, although MMDAs were still expanding at a somewhat faster rate than the staff had projected earlier. M1 had grown substantially in excess of the Committee's expectations in the latter part of 1982 and the first quarter of 1983. Staff analysis based on recent research suggested that this earlier growth reflected to a substantial extent lagged responses to the decline in interest rates that began during the summer of 1982. That decline had enhanced the attractiveness of NOW accounts, which serve as a vehicle for savings as well as for transactions. The performance of M1 would continue to be affected by substantial uncertainties relating to the interest and income sensitivity of fixed-ceiling NOW accounts and also by the growing importance in M1 of the more recently introduced Super NOW accounts, which bear a market-related

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rate of interest. While the effects of earlier declines in interest rates should now be diminishing, given the relative stability of rates over recent months, some time would be needed to evaluate the evolving role of M1 as a vehicle for savings.

Turning to policy for the short run, the members noted a staff analysis, which suggested that maintenance of the existing degree of restraint on reserve positions might be associated with second-quarter growth of M2 and M3 marginally below the rates established by the Committee at the previous meeting, but with expansion of M1 above the level anticipated by the Committee, given the surge in M1 growth during the first part of May. The staff analysis also indicated that, within limits, alternative policy courses would have relatively little impact on the second-quarter growth of the monetary aggregates in light of the limited time remaining in the quarter, but would affect their growth more substantially over the months ahead.

In the course of their discussion, Committee members expressed differing views with regard to the appropriate course for policy in the weeks immediately ahead. The members were narrowly divided between those who favored some increase in reserve restraint over the next few weeks and others who preferred to maintain the degree of reserve restraint contemplated at the March meeting. This divergence reflected varying assessments of the strength and sustainability of the economic recovery; differing views with regard to the interpretation of the monetary aggregates; and different opinions concerning the risks associated with the likely impact of alternative policy courses on domestic interest rates. Members also noted the potential sensitivity of international financial conditions and the foreign exchange value of the dollar to firmer credit conditions in the United States, suggesting for some a dilemma for monetary policy stemming in substantial part from the budgetary situation.

Members who supported retention of the current short-run policy emphasized that the growth of the broader monetary aggregates, on which the Committee had focused, was within the Committee's 1983 ranges for the year to date. Moreover, such growth seemed to be falling a bit short of the second-quarter targets that the Committee had set at the previous meeting. Expansion in total domestic nonfinancial debt also appeared to be within the range for 1983 that the Committee had established for monitoring purposes. M1 clearly was growing at a pace well above the Committee's expectations, but many members continued to view that aggregate as an unreliable guide for policy and they preferred to give little or no weight to its performance, at least for the present.

A number of members were also concerned that under current circumstances even a modest tightening of reserve conditions might have a disproportionate impact on sentiment in domestic and international financial markets and lead to sizable increases in domestic interest rates. In their view increases in interest rates would have adverse consequences for interest-sensitive sectors of the economy and possibly for the sustainability of the economic recovery. Indeed, one member believed that lower interest rates were likely to be needed to ensure continued economic expansion. Moreover, appreciably higher U.S. interest rates might have particularly damaging consequences internationally by raising the foreign exchange

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value of the dollar and intensifying the severe pressures on countries with serious external debt problems.

Other Committee members, however, weighed the risks associated with alternative policy courses differently. They felt that at least limited tightening of reserve conditions was desirable in light of the very rapid growth in M1 against the background of accumulating evidence. While, consistent with previous decisions, M1 was not given so much weight as a monetary policy target as it had had earlier, a number of members nonetheless saw a need to move toward restraining its growth, which clearly was running well above the pace for the second quarter that the Committee had expected would be consistent with the behavior of the broader aggregates.

Several members commented that slightly greater restraint on reserves would be desirable at this point to minimize the possible need for more substantial restraint later, reducing the interest rate impact on financial markets over time and helping to sustain the expansion. Reference was made to the favorable effect such a move might have on market perceptions about monetary policy and the outlook for containing inflation, with the consequence that prospects for stable or declining interest rates in long-term debt markets would be enhanced as the recovery proceeded. The view was also expressed that the external debt difficulties of a number of foriegn countries were continuing problems. The Federal Reserve could best contribute to the resolution of those problems by following policies that would foster sustained, noninflationary economic growth. Deferring any actions could well pose a greater dilemma at a later time.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored marginally more restraint on reserve positions for the near term. Although these members differed on the precise degree of additional restraint that they preferred, they indicated their acceptance of a directive calling for only slightly more restraint on reserve positions than had been approved at the previous meeting. It was understood that at this point M2 and M3 seemed to be on courses that would bring their growth to slightly below the rates of 9 and 8 percent respectively that had been set at the March meeting for the second quarter, but that M1 would probably expand at a rate well above the growth that had been anticipated for the quarter. The members agreed that lesser restraint would be appropriate in the context of more pronounced slowing in the growth of the broader monetary aggregates within their 1983 ranges and deceleration of M1 growth, or of indications that the pace of the economic recovery was weakening. It was understood that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

At the conclusion of its discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real GNP has accelerated in the current quarter following a moderate increase in the first quarter. Industrial production increased sharply in April after rising at a moderate pace in previous months; nonfarm payroll employment and retail sales rose considerably in March and April. Housing starts declined somewhat in both months but were still well above depressed 1982 levels. Data on new orders and shipments suggest that the demand for business equipment is

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reviving. The civilian unemployment rate edged down to 10.2 percent in April. Average prices have changed little and the index of average hourly earnings has risen at a much reduced pace in the early months of 1983.

The weighted average value of the dollar against major foreign currencies has remained in a narrow range near its recent high level since late March. The U.S. foreign trade deficit fell substantially in the first quarter, reflecting a sharp drop in the value of oil imports.

Growth in M2 and M3 decelerated further in April to relatively low rates but appears to have picked up recently. M1 declined in April but has strengthened markedly in early May. Growth in debt of domestic nonfinancial sectors appears to have been moderate over the first four months of the year. Interest rates have changed little on balance since late March.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in February the Committee established growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives. The Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the impact of new deposit accounts on growth ranges of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid buildup of money market deposit accounts, distorted growth in that aggregate during the first quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts had subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges were to be reviewed in the spring and altered, if appropriate, in the light of evidence at that time. The Committee reviewed the ranges at this meeting and decided not to change them at this time, pending further review at the July meeting. With these understandings, the Committee established the following growth ranges: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3, which appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1, assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances was not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8½ to 11½ percent.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on behavior of the broader monetary aggregates expecting that distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will continue to be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. 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.

The Committee seeks in the short run to increase only slightly the degree of reserve restraint. The action was taken against the background of M2 and M3 remaining slightly below the rates of growth of 9 and 8 percent, respectively, established earlier for the quarter and within their long-term ranges, M1 growing well above anticipated

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levels for some time, and evidence of some acceleration in the rate of business recovery. Lesser restraint would be appropriate in the context of more pronounced slowing of growth in the broader monetary aggregates relative to the paths implied by the long-term ranges and deceleration of M1, or indications of a weakening in the pace of economic recovery. 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 percent.

Votes for this action: Messrs. Volcker, Gramley, Keehn, Martin, Partee, Roberts, and Wallich. Votes against this action: Messrs. Solomon, Guffey, Morris, Rice, and Mrs. Teeters.

Messrs. Solomon, Guffey, Morris, Rice, and Mrs. Teeters dissented from this action because they wanted open market operations to continue being directed toward maintaining approximately the degree of reserve restraint approved at the previous meeting. In the view of these members, a firming of reserve conditions was not warranted by the performance of the monetary aggregates or by the current economic situation. M2 and M3 were expanding more slowly in the second quarter than the Committee had anticipated at its previous meeting and for the year to date these broader aggregates, along with total domestic nonfinancial credit, were growing at rates that were within the Committee's 1983 ranges. M1 had been expanding at a pace markedly in excess of the Committee's expectations in recent weeks and for the year to date, but this aggregate was not viewed as a sufficiently reliable guide for policy, at least for the present, since its performance was substantially distorted by various developments and it was not predictably related to nominal GNP.

Under current economic and financial circumstances, the implementation of firmer reserve conditions would also incur an undue risk of an exaggerated reaction in domestic and international financial markets. Substantially higher domestic interest rates would have damaging consequences for interest-sensitive industries and could limit the recovery in economic activity. These members agreed that current interest rate levels appeared to be more consistent with continuing economic expansion in the months immediately ahead, but Mrs. Teeters believed that lower interest rates might well be needed later to sustain the recovery.

These members also referred to the potentially disruptive international impact of rising U.S. interest rates. Messrs. Solomon, Guffey, and Morris in particular believed that the already strong dollar in foreign exchange markets, the tenuous situation of some of the developing countries, the still fragile economic recovery in other industrial countries, and the continuing weak outlook for U.S. exports counseled against an increase in reserve restraint.

On June 23 the Committee held a telephone conference to review recent developments in the domestic and international economy and financial markets since the May 24 meeting. Evidence suggested that economic activity was continuing to strengthen at a somewhat more rapid pace than had generally been anticipated earlier. Some interest rates had increased modestly in recent weeks. Growth in monetary aggregates, particularly M1, had been relatively rapid although growth in M2 and M3 remained close to the targets established for the quarter as a whole.

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Against that background, the consensus was that a modest increase in reserve restraint, within the framework of the directive adopted at the May 24 meeting and consistent with recent reserve conditions, remained appropriate.

Meeting Held on July 12–13, 1983

Domestic Policy Directive

The information reviewed at this meeting suggested that the economic recovery was proceeding at a strengthened pace. The latest data suggested that growth in real GNP may have been even more rapid in the second quarter than the 6½ percent preliminary estimate of the Commerce Department, and it appeared that relatively strong growth would be sustained into the current quarter. Expenditures for consumer goods were especially large, and a swing in business inventories from liquidation to accumulation seemed to be developing more rapidly than anticipated earlier.

The dollar value of retail sales advanced appreciably in May, marking the third consecutive monthly increase. Outlays at general merchandise outlets and at furniture and appliance stores were brisk, but sizable expenditures on autos and automotive products continued to be an important factor in the strength of retail sales. Sales of new domestic automobiles rose to a rate of 7.2 million units in June, the strongest monthly selling pace in nearly two years. Survey reports of marked improvement in consumer confidence accompanied the vigorous recent gains in consumer spending.

Total private housing starts increased considerably in May to an annual rate of nearly 1.8 million units, following small declines during the two preceding months. Starts in May were about 40 percent above their average level in the fourth quarter of 1982. Other indicators of housing activity also exhibited strength: newly issued permits for residential buildings rose further in May as did combined sales of new and existing homes. Both measures were more than 30 percent above the average levels in the fourth quarter of last year.

With inventories depleted and sales strong, businesses have been meeting demands out of current production and appear to have started rebuilding stocks in some lines. The index of industrial production rose 1.1 percent in May to a level 7 percent above its trough six months earlier, and available data, including the statistics on employment and hours worked in manufacturing, suggested another sizable gain in output in June. As in other recent months, gains in output and employment occurred across a broad range of industries. Nonfarm payroll employment rose nearly 350,000 in June, after an increase of about 300,000 in May. The civilian unemployment rate declined to 10.0 percent in June, down 0.8 percentage point from its peak in December.

Data on new orders and shipments continued to indicate improvement in the demand for business equipment. Production of business equipment, which had contracted sharply in 1982 and had continued to decline during the first quarter of this year, rose substantially in May for the second month in a row.

The producer price index for finished goods (PPI) and the consumer price index (CPI) increased 0.3 percent and 0.5 percent respectively in May, largely reflecting a sharp rise in energy prices at both the producer

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and the consumer levels. Exclusion of the volatile energy components would have resulted in no change in the PPI and nearly a halving of the increase in the CPI. During the first five months of 1983, the PPI declined at an annual rate of about 2¼ percent and the CPI increased at an annual rate of 3 percent. Over the same period, the index of average hourly earnings for private nonfarm production workers rose at an annual rate of 4½ percent, compared with an increase of 6 percent for the year 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose more than 2½ percent in late May and early June to a record level; subsequently it had fluctuated in a narrow range. Reflecting the strength of the economy and the persistently high level of the dollar, the U.S. foreign trade deficit increased sharply in the April–May period from its reduced first-quarter rate; exports declined and both oil and non-oil imports rose.

At its meeting on May 24, 1983, the Committee had decided that open market operations in the period until this meeting should be directed at increasing only slightly the degree of restraint on reserve positions. That action had been taken against the background of growth in M2 and M3 remaining within their long-term ranges and slightly below the annual rates of 9 and 8 percent respectively established earlier for the quarter, M1 growing substantially above anticipated levels for some time, and evidence of an acceleration in the rate of business recovery. The Committee had agreed that lesser restraint on reserve positions would be appropriate in the context of more pronounced slowing of growth in the broader monetary aggregates relative to the paths implied by the long-term ranges and deceleration of M1, or of indications of a weakening in the pace of economic recovery. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

Growth in M2 and M3 accelerated in May and continued relatively strong in June, with both aggregates expanding at an estimated annual rate of about 10 percent. For the March-to-June period both M2 and M3 grew at an annual rate of about 8½ percent, a bit below the quarterly objective established for M2 and a bit above that for M3. Relative to the longer-run ranges, M2 by June was somewhat above the midpoint of its range and M3 was around the upper limit of its range for the year.

M1, which had surged to an annual rate of growth of about 26 percent in May, expanded at a rate of around 10½ percent in June. From the fourth quarter of 1982 to June, M1 grew at an annual rate of about 13¾ percent, considerably above the Committee's tentative range of 4 to 8 percent for the year.

Though the pace of expansion in debt of domestic nonfinancial sectors over the first half of the year was estimated to have remained within the Committee's annual range of 8½ to 11½ percent, growth in debt appeared to have been more rapid in the second than in the first quarter. This development reflected an acceleration in borrowing by the U.S. Treasury as well as a pickup in private credit demand. Total credit outstanding at U.S. commercial banks expanded at an annual rate of nearly 10 percent in June and in the second quarter as a whole. Sizable acquisitions of Treasury securities continued to make the major contribution to the expansion in bank credit in June, but real estate lending strengthened further and

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business loans registered their first significant increase since January.

Strong demands for money were associated with relatively rapid expansion in total reserves in June, but growth in nonborrowed reserves (plus extended credit at the discount window) was considerably slower than the increase in total reserves. With open market operations holding back on the supply of reserves, depository institutions increased their short-term borrowing at the discount window and sought reserves more actively in the federal funds market. Adjustment borrowing from the Federal Reserve discount window (including seasonal borrowing) rose to about $680 million in June and rose further in the first part of July; borrowing temporarily bulged to over $1 billion in the reserve statement week that encompassed the midyear bank statement date and the July 4 holiday period. The federal funds rate traded in a range of 8¾ to 9 percent for most of the period, but most recently the rate had moved up into the 9 to 9⅛ percent range; somewhat higher rates were temporarily associated with the management of reserve positions over the midyear statement date and the holiday period.

Other short-term market rates rose about ¾ to 1 percentage point during the intermeeting period, reflecting in part responses to the modest tightening of reserve market conditions that was under way and apparently also some anticipatory reaction to the strength of incoming data on the monetary aggregates and economic activity. Most long-term interest rates on taxable securities increased about ¾ percentage point over the period, while yields on tax-exempt issues were little changed on balance. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations also rose about ¾ percentage point.

Given the momentum in economic activity that appeared to be in train, the staff projections presented at this meeting indicated that growth in real GNP in the second half of the year would be somewhat higher than had been anticipated earlier. Final purchases in private domestic sectors, buoyed by expenditures for consumer goods, were expected to be maintained at a relatively strong pace in the latter half of the year and businesses were expected to be adding appreciably to inventories. A gradual decline in the unemployment rate was anticipated over the balance of the year, and a further decline was expected in 1984 in association with continued, though more moderate, economic recovery. Upward price pressures were expected to be relatively modest over the projection horizon, assuming that inflationary expectations remained damped, with related restraint on wage and price policies of labor and business.

In their review of the economic situation and outlook, the members focused on evidence of the economy's strong forward momentum and the prospects for continuing sizable gains in real GNP during the months immediately ahead. Consumer spending, which along with housing has played a major role in fostering the recovery, was likely to be sustained by the further reduction in personal income taxes at midyear. Most of the members agreed, however, that economic activity would probably expand at a more moderate pace later in the year and in 1984. Spending for business inventories was expected to become a less expansive factor as the recovery proceeded, and the outlook for exports remained relatively weak. The members also referred to a number of

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potential threats to the recovery, including financial strains related to the debt problems of numerous developing countries and the adverse impact of continuing large federal deficits in the absence of measures to reduce them.

While the expansive fiscal policy added to purchasing power and supported consumption, members were concerned that the need to finance large Treasury borrowing in a period when private credit demands were accelerating would put increasing upward pressure on interest rates and curtail the availability of financing to private borrowers. Sectors heavily dependent on credit, such as housing and business investment, would be particularly affected, as would small businesses. The view was expressed that the restraining impact on private credit demands and economic activity of even current relatively high interest rates—which seemed especially high in real terms—could well be underestimated, and a view was expressed that a decline in interest rates from present levels would probably be needed to prolong the recovery during 1984.

Members generally continued to regard the near-term outlook for prices as favorable, and it was observed that wage increases remained quite moderate. However, several members saw acceleration in the rate of increase in prices as a likely prospect for 1984. Reference was made to a number of developments that were potentially unfavorable, including possible increases in prices of key farm products as a consequence of governmental policies to reduce farm supplies, and pressures stemming from rising prices of imports if the foreign exchange value of the dollar were to weaken, as many observers anticipated. It was also pointed out that actual price increases would be sensitive to expectations as conditioned by fiscal and monetary policy developments.

The individual members of the Committee had prepared specific projections of economic activity and prices for this meeting. With regard to growth in real GNP, the projections had as their central tendency a range of 5 to 5¾ percent for 1983 and 4 to 4½ percent for 1984, measured from fourth quarter to fourth quarter. Most of the members projected a rise in the implicit GNP deflator in a range of 4¼ to 4¾ percent during 1983 and 4¼ to 5 percent during 1984. The rate of unemployment was expected to decline gradually over the projection period, with most members anticipating an average rate of about 9½ percent in the fourth quarter of 1983 and 8¼ to 8¾ percent in the fourth quarter of 1984.

At its meeting on May 24, the Committee had reviewed the growth ranges for the monetary and credit aggregates that it had established in February for the year 1983 and had decided not to change those ranges but to review them further at this meeting. For the broader monetary aggregates, on which the Committee had agreed to place principal weight, the ranges included annual growth rates of 7 to 10 percent for M2, measured from February–March 1983 to the fourth quarter of 1983, and 6½ to 9½ percent for M3, measured from the fourth quarter of 1982 to the fourth quarter of 1983. The range for monitoring M1 was set at 4 to 8 percent and an associated range for total domestic nonfinancial debt was estimated at 8½ to 11½ percent, both for the period from the fourth quarter of 1982 to the fourth quarter of 1983.

At this meeting the Committee reviewed its target ranges for 1983 and

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established tentative ranges for 1984 in light of the basic objectives of encouraging sustained economic recovery while fostering continued progress toward price stability and promoting a sustainable pattern of international transactions. In setting these ranges, the Committee recognized that the relationships among the money and credit aggregates and nominal GNP in the period ahead were subject to considerable uncertainty. It was therefore understood that the significance to be attached to movements in the various aggregates in the implementation of policy would depend on continuing appraisal of evidence about the strength of the economic recovery, the performance of prices, and emerging conditions in domestic and international financial markets.

In the Committee's discussion, all of the members supported a proposal to retain the 1983 ranges for growth in M2 and M3 established in February. Recent experience suggested that actual growth of M2 and especially of M3 might be in the upper half of their respective ranges for the year rather than near the midpoints as anticipated earlier. The members noted that the massive shifts of funds into M2 stemming from the introduction of money market deposit accounts and the much more limited shifts relating to the new Super NOW accounts had abated about as anticipated; and they assumed that these accounts, along with the further deregulation of interest rates on time deposits scheduled for October 1, would have relatively little impact on growth of the broader aggregates over the balance of 1983 and in 1984.

The members differed only marginally with regard to the appropriate ranges that should be established for growth in M2 and M3 in 1984. Most favored a reduction of ½ percentage point from the 1983 ranges, but in the course of the discussion two members expressed a preference for retaining the 1983 ranges. One member believed that the prospective relationship between M2 and nominal GNP was subject to a very high degree of uncertainty and that therefore no specific target should be set for that aggregate at this time.

In the view of most members, the establishment of lower ranges for 1984 would be consistent with the Committee's objective of providing adequate monetary growth to support continued economic recovery while encouraging progress toward reasonable price stability. It was recognized, however, that attainment of these broad economic objectives would be greatly facilitated by complementary governmental policies, notably further actions to reduce future federal deficits. Members who preferred to retain the current M2 and M3 ranges for 1984 were concerned that lower ranges might prove to be more restrictive than was desirable and, given the uncertainties that were involved, they preferred not to reduce the ranges unless there were substantial evidence that inflationary pressures were reviving. In the view of most members, however, modest and timely action to curb monetary growth would enhance, rather than reduce, prospects for sustaining the economic recovery and for lower interest rates over time in the context of diminishing inflationary pressures.

A majority of the members also supported a proposal to retain for 1983 the associated range for total domestic nonfinancial debt that had been set earlier but to reduce that range by ½ percentage point for 1984. Some sentiment was expressed in favor of a reduction of 1 percentage point for 1984 on the ground that the

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range contemplated by the majority was a little high in relation to the central tendency of the members' projections of nominal GNP; in the past, growth in this aggregate had tended to approximate growth in nominal GNP. However, a majority of the members concluded that allowance should be made for expansion in total debt in 1984 in excess of nominal GNP growth. Such a development would be consistent with this year's experience and might be connected with the relatively rapid expansion in federal debt.

The members discussed at considerable length what longer-run ranges to establish for M1 and what weight the Committee should attach to that aggregate in the implementation of monetary policy. The income velocity of M1—the ratio of nominal GNP to M1—had deviated substantially from normal cyclical patterns since the beginning of 1982. It had declined more sharply and longer than usual during the recent recession and had failed to rebound as quickly as in the past with the onset of recovery. A number of factors apparently contributed to this unusual behavior, including for a time precautionary demands for highly liquid balances by the public in the face of various economic and financial uncertainties. Over the last several months, the behavior of M1 velocity seemed to reflect the greater sensitivity of this aggregate to declines in market interest rates probably resulting from the much increased share of interest-bearing NOW accounts in the total. NOW accounts, which may serve as a savings vehicle as well as fulfilling transactions needs, have been the most rapidly growing component of M1 since they were introduced on a nationwide basis at the beginning of 1981. Regular NOW accounts bear a ceiling rate of 5¼ percent. The sharp drop in market rates during the second half of 1982 made the opportunity cost of holding NOW accounts relatively small and, with a lag, increased the demand for them. It was noted, though, that the recent expansion in M1, with currency and demand deposits showing strength as well, probably also reflected growing transaction needs relating to the recovery in economic activity.

Against this background, a key uncertainty confronting the Committee was whether M1 velocity in the future would exhibit characteristics more in line with earlier postwar experience. Recent evidence seemed to suggest that the decline in M1 velocity was ending, as might be expected as the lagged upward effect on demand from earlier declines in interest rates wore off and as business and consumer attitudes became more optimistic.

While acknowledging the major uncertainties that existed, a majority of the members nonetheless believed that a monitoring range should be retained for M1. In this view M1 would continue to be given reduced weight in the formulation of monetary policy and primary emphasis would continue to be placed on the broader aggregates. A few members, however, preferred to suspend the targeting of M1 at this time because they viewed its prospective behavior as too uncertain to permit the establishment of a meaningful range. A subsidiary reason cited in support of this view was the difficulty of communicating a proper assessment of the reduced role of M1 to outside observers so long as the Committee continued to set a specific range. One result was a tendency for participants in financial markets to attach undue importance to weekly fluctuations in M1 data, with the consequence that on occasion published

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figures had a needlessly unsettling impact on financial markets.

In reviewing the M1 range for 1983, members discussed whether that range should continue to be based on the fourth quarter of 1982 or rebased on the second quarter of 1983 in view of the probability of a prospective change in the behavior of velocity. If the fourth quarter of 1982 were continued as a base, M1 growth would need to be sharply curtailed to the point of little or no growth for the rest of the year; alternatively, the M1 range for the year would need to be raised substantially from the current 4 to 8 percent, given the rapid expansion during the first half of the year, to allow for any significant further growth in the second half. If instead M1 were rebased on the second quarter, or perhaps on June, some members were concerned that this could be misconstrued as an indication that the Committee was now weighing M1 more heavily in the formulation of monetary policy. However, most members favored rebasing the M1 range for 1983 on the second quarter to help make it clear that the rapid growth in M1 over the past several quarters was related to special circumstances and that the Committee expected and wished to see slower growth in the future. Such an approach, it was stressed, did not in itself imply placing more weight on M1 relative to the other aggregates in policy implementation.

The members who preferred to continue setting a longer-run range for M1 generally also agreed that it should encompass growth rates close to, or below, the Committee members' outlook for expansion in nominal GNP. At one extreme the M1 range could allow for very little change, or perhaps only a minor increase, in M1 velocity to accommodate the possibility that the demand for M1 would remain stronger than it had been in the earlier postwar period, given income and interest rates. At the other extreme such a range could allow for a fairly sizable increase in M1 velocity; however, given the ongoing changes in the composition of M1, it was recognized that the increase could be somewhat less than experienced in previous cyclical expansions.

Discussion of specific ranges for M1 centered on 5 to 9 percent or 4 to 8 percent for the second half of 1983 and the year 1984, although one member preferred a lower range for 1984. Most of the members indicated that they could accept a proposal to establish a range for growth in M1 of 5 to 9 percent for the period from the second quarter of 1983 to the fourth quarter of 1983 and a tentative range of 4 to 8 percent for the period from the fourth quarter of 1983 to the fourth quarter of 1984. It was understood that growth within the lower portions of those ranges would be appropriate if the velocity of M1 tended toward a relatively normal cyclical increase as the recovery proceeded; growth in the upper portions of the ranges would be acceptable if the upturn in M1 velocity remained relatively weak. If there should occur an unexpectedly rapid increase or a decline in M1 velocity, the Committee would reassess the ranges; it would in any event review the tentative range for 1984 early in the year in the light of economic and financial conditions prevailing then.

In implementing policy, the Committee agreed that primary emphasis would continue to be placed on the broader aggregates. The behavior of M1 would be monitored, with any increase in the weight placed on that aggregate dependent on evidence that its

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velocity behavior was assuming a more predictable pattern. Expansion in total nonfinancial domestic debt would also be monitored in assessing the behavior of the monetary aggregates and the general stance of monetary policy.

At the conclusion of its discussion the Committee voted for the following longer-run policy:

> The Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.[5]

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Morris.

Mr. Morris dissented from this action because he did not believe that target ranges should be set for M1 and M2. Because of financial innovations, these aggregates in his view are no longer predictably related to nominal GNP—an essential characteristic of an intermediate target for monetary policy. Thus, the Committee should turn to broader financial aggregates, specifically M3, total liquid assets, and total domestic nonfinancial debt as targets for monetary policy.

In the Committee's discussion of a policy course for the short run, most of the members indicated that they could support a slight further increase in the degree of reserve restraint. In the context of an economy that was much stronger than expected, these members believed that such a policy would provide some insurance against the possible need for a considerably greater degree of restraint later to maintain control on inflation and growth in money and credit. For the third quarter, the members expected this policy to be associated with considerable moderation in the growth of the monetary aggregates, especially M1, although they recognized the substantial uncertainties that governed the short-run performance of the monetary aggregates, again especially that of M1.

One member expressed a preference for somewhat more tightening of reserve conditions over the weeks ahead, while another favored no change from the existing degree of restraint. In the view of several members, a slight further tightening by the Committee need not itself be reflected in sizable further changes in interest rates generally, given the increases that had already occurred. It was recognized, however, that actual movements in market rates would depend importantly on economic and financial developments in the weeks ahead, including the performance of the monetary aggregates, the outlook for the budget, and emerging private credit demands against the background of a rapidly expanding economy. It was also suggested that such an approach to short-run policy would improve prospects for the development of conditions that would

5. The Board's Midyear Monetary Policy Report pursuant to the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act) was transmitted to the Congress on July 20, 1983.

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permit some easing in the degree of reserve restraint later.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored a slight increase in the degree of reserve restraint for the near term. It was anticipated that such a policy course would be associated with growth of M2 and M3 at annual rates of about 8½ and 8 percent respectively for the period from June to September. Primary weight would be placed on the performance of these broader monetary aggregates in evaluating the conduct of open market operations. The members agreed that lesser restraint on reserve conditions would be acceptable in the event of a significant shortfall in the growth of the aggregates over the period ahead, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. It was understood that the need for greater or lesser reserve restraint would also be evaluated on the basis of available evidence about trends in economic activity and prices and conditions in domestic and international financial markets, including foreign exchange markets. The Committee anticipated that its third-quarter objectives for the broader aggregates would be consistent with a deceleration in M1 growth to an annual rate of around 7 percent from June to September, and that expansion in total domestic nonfinancial debt would remain within the range of 8½ to 11½ percent established for the year. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

At the conclusion of its discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The rapid growth in real GNP in the second quarter and other information reviewed at this meeting suggest that the economic recovery is proceeding at a strengthened pace. Expenditures on consumption and housing expanded substantially in the second quarter and businesses apparently began to add to inventories after a period of sharp liquidation. Nonfarm payroll employment rose considerably in May and June and the civilian unemployment rate declined to 10.0 percent in June. Industrial production continued to rise markedly in May and partial data suggest a sizable gain in June. Data on new orders and shipments continued to indicate improvement in the demand for business equipment. In May housing starts increased substantially following small declines earlier and retail sales rose appreciably further. Average prices and the index of average hourly earnings have risen at a reduced pace in the first five months of 1983.

The weighted average value of the dollar against major foreign currencies rose substantially in late May and the first half of June and subsequently has fluctuated in a narrow range. Reflecting the strength of the U.S. economy and the persistent high level of the dollar, the U.S. foreign trade deficit increased sharply in April–May from its reduced first-quarter rate; exports declined and both oil and nonoil imports rose.

Strong growth in the broader aggregates in May and June raised M2 to a level somewhat above the midpoint of the Committee's range for 1983 and M3 to around the upper limit of its range. M1 grew very rapidly over both months and was well above its range for the year. Growth in debt of domestic nonfinancial sectors appears to have picked up in the second quarter. Interest rates have risen appreciably since early May.

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. At its meeting in February the Committee established growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives. The Committee recognized that the relation-

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ships between such ranges and ultimate economic goals have been less predictable over the past year; that the impact of new deposit accounts on growth ranges of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity.

In establishing growth ranges last February for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts had subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. With these understandings, the Committee established the following growth ranges: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3, which appeared to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent was established for M1 assuming that Super NOW accounts would draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances was not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt was estimated at 8½ to 11½ percent. These ranges were reviewed at the May meeting and left unchanged, pending further review in July.

At this meeting, the Committee reaffirmed the longer-run ranges established earlier for growth in M2 and M3 for 1983. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.

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 will 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.

The Committee seeks in the short run to increase slightly further the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of about 8½ and 8 percent respectively from June to September, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Committee anticipates that a deceleration in M1 growth to an annual rate of around 7 percent from June to September will be consistent with its third-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, and

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Roberts. Votes against this action: Mrs. Teeters and Mr. Wallich.

Mrs. Teeters dissented from this action because she preferred to direct open market operations toward maintaining the existing degree of reserve restraint. In her view the additional upward pressure on interest rates from further restraint on reserve positions was unnecessary and would retard activity in interest-sensitive sectors of the economy and threaten the sustainability of the recovery.

Mr. Wallich dissented from this action because he favored a directive calling for somewhat greater reserve restraint. In his judgment, such a policy course would contribute to better control of the monetary aggregates and, given the strong momentum of the economy, would be more likely to prove consistent with the Committee's longer-run objectives of fostering sustained economic recovery while curbing inflation.

Meeting Held on August 23, 1983

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP, which had grown at an annual rate of about 9¼ percent in the second quarter, was continuing to expand quite rapidly in the current quarter, propelled to a large extent by the relatively sharp swing in business inventories from liquidation to accumulation that appeared to be in process. Available indicators of final purchases remained generally favorable, though suggestive of a slowing from the unusually strong rate of expansion in the second quarter.

Personal consumption expenditures in the second quarter had risen at an exceptional annual rate of nearly 10 percent in real terms. Much of the increased spending occurred in April and May, as sales in all major categories advanced sharply. In June and July the nominal value of retail sales showed little further change, but surveys indicated a continuing high level of consumer confidence. Sales of new domestic automobiles moved up in June to a relatively strong annual rate of 7¼ million units and continued at that pace in July. In early August auto sales rose somewhat further despite reductions in the availability and value of financing concessions and other purchase incentives.

Total private housing starts edged down in July, as they had in June, to an annual rate of 1¾ million units. Permits, however, rose over the June–July period—substantially for multifamily units and marginally on balance for single-family units. In the second quarter, combined sales of new and existing houses had risen to a rate more than 50 percent above the cyclical low in the third quarter of 1982, but there was evidence of some slowdown as the quarter progressed. Moreover, reports of an appreciable reduction in mortgage loan applications and an increase in cancellations of sales contracts suggested some weakening in home sales in July.

On the other hand, recent data continued on the average to indicate strengthening in business capital spending. The second quarter had marked a turnaround in that sector: new orders and shipments of nondefense capital goods were up 14 percent and 4¼ percent respectively from the previous quarter; and expenditures for equipment rose at an annual rate of 14 percent in real terms, the largest one-quarter advance in five years. This strengthening tendency appeared to be continuing. Production of business equipment remained strong in

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June and July, and shipments of nondefense capital goods rose in June to a level well above the average for the second quarter.

The index of industrial production rose 1.8 percent in July following large advances in the second quarter. As in other recent months, sizable gains in output occurred across a broad range of industries and were particularly large for consumer durable goods. By July the index had risen about 10¼ percent from its trough in November 1982, close to the average increase for comparable stages of economic recovery in the postwar period.

Nonfarm payroll employment, which had increased about 1 million in the second quarter, rose about ½ million further in July, and the civilian unemployment rate fell 0.5 percentage point to 9.5 percent. In manufacturing, employment advanced about 160,000, marking the fourth consecutive month of large gains, and the average workweek lengthened a bit further to 40.3 hours.

In July the producer price index for finished goods edged up 0.1 percent and the consumer price index rose 0.4 percent. Thus far in 1983, the producer price index has declined slightly, and the consumer price index and the index of average hourly earnings have risen at rates considerably below those in 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose about 4½ percent further in July and early August but subsequently depreciated about 3 percent. The fluctuation in the exchange rate was related in part to movements in U.S. interest rates over the period. The U.S. foreign trade deficit was smaller in June than in May, but the deficit was much larger in the second quarter than in the first, as imports rose while exports were essentially unchanged.

At its meeting on July 12–13, 1983, the Committee had decided that open market operations in the period until this meeting should be directed at increasing slightly further the existing degree of reserve restraint. That action was expected to be associated with growth of M2 and M3 at annual rates of about 8½ and 8 percent respectively from June to September, consistent with the Committee's longer-run ranges of 7 to 10 percent for M2 for the period from February–March of 1983 to the fourth quarter of 1983 and 6½ to 9½ percent for M3 for the period from the fourth quarter of 1982 to the fourth quarter of 1983. The Committee had anticipated that a deceleration in growth of M1 to an annual rate of around 7 percent from June to September would be consistent with its third-quarter objectives for the broader aggregates and that expansion in total domestic nonfinancial debt would remain within its associated range of 8½ to 11½ percent for the year. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

Growth in M2 and M3 slowed substantially in July to annual rates of about 6¼ percent and 5 percent respectively. By July M2 was at a level near the midpoint of the Committee's range for 1983 and M3 was somewhat below the upper limit of its range. Growth in M1 decelerated to an annual rate of about 9 percent in July, less than half the average pace in the May–June period, but the level of M1 remained above the Committee's monitoring range for the second half of the year.

Total borrowing by domestic nonfinancial sectors was estimated to have slowed somewhat in July from its average in the second quarter,

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largely because of reduced borrowing by the federal government, with growth in nonfinancial debt remaining within its longer-run range for 1983. Expansion of bank credit was at an annual rate of around 10 percent in July, about the same as in the second quarter. Its composition, however, changed substantially. Total loans expanded at a rate more than double the pace in the second quarter, while acquisitions of U.S. Treasury securities slowed appreciably. Outstanding business loans, which had declined slightly in the second quarter, grew at an annual rate of about 12 percent in July, and consumer loans expanded at an annual rate of more than 20 percent, nearly twice the pace recorded in the second quarter. The pickup in lending to businesses by banks in part reflected reduced issuance of bonds by corporations in reaction to increases in long-term market interest rates.

Growth in total reserves decelerated to an annual rate of about 6 percent in July, but nonborrowed reserves (including extended credit at the discount window) changed little as adjustment plus seasonal borrowing rose from about $680 million in June to around $875 million in July. Such borrowing increased further in the first half of August to about $1 billion.

With a little greater restraint on reserve availability relative to demands, the federal funds rate and other short-term interest rates rose about 20 to 40 basis points on balance over the intermeeting period. Atypically, long-term rates rose by more than short-term rates, increasing about 80 basis points. Market participants apparently reacted to indications of further strength in the economy, to concern about possible increases in inflationary pressure later during the economic recovery, and to the heavy borrowing by the U.S. Treasury, particularly in connection with the mid-August financing, as well as to the slightly firmer degree of restraint on bank reserve positions. After reaching an intermeeting peak in the second week of August, most interest rates retraced the greater part of their earlier increases, apparently reflecting responses to slower-than-expected growth in the money supply and incoming data—including the leveling off of retail sales in June and July—that suggested a more moderate pace of economic expansion. Most commercial banks raised the prime rate charged on short-term business loans by ½ percentage point to 11 percent in the early part of August. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations were up about 60 basis points over the period; the ceiling rate on FHA- and VA-underwritten mortgage loans, which had been raised 1 percentage point as of August 1, was reduced ½ percentage point to 13 percent, effective on the day of this meeting.

The staff projections presented at this meeting indicated that the economic recovery would continue in the latter part of 1983 and in 1984, though at a more moderate pace than in the second and third quarters of this year. Consumer spending, while continuing to grow, was expected to become a less expansive factor. Gains stemming from expenditures on housing and increased business inventories were also expected to provide less stimulus over the projection period. On the other hand, the staff expected business fixed investment to provide some additional impetus to overall economic growth. The staff continued to project a gradual decline in the

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unemployment rate over the balance of the year and a further decline in 1984. Upward pressures on prices and wages were expected to remain relatively moderate over the projection horizon, although the impact on food prices of adverse weather conditions might be expected to raise prices, overall, a little more than had been previously projected.

During the Committee's discussion of the economic situation and outlook, the members noted the tentative indications of some slowing in the pace of the recovery, but they agreed that continuing economic expansion was a likely prospect for the period through 1984. Views differed to some extent regarding the prospective strength of the ongoing recovery, although all the members expected the rate of growth to moderate considerably from its recent pace. Several agreed that growth at about the moderate pace projected by the staff was a reasonable expectation for the next several quarters. But some believed that the expansion could be on the faster side, whereas others thought that slower growth was more probable.

Factors that would tend to strengthen the expansion included, it was noted, the substantial momentum of the recovery and the favorable prospects in such circumstances that a substantial pickup in business fixed investment might develop as businesses became more optimistic about the outlook. Orders for business equipment had been running higher over the course of recent months, and many businesses were reporting expanding sales and rising profits. On the other hand, members who were less sanguine about the long-run strength of the recovery cautioned that housing and other interest-sensitive sectors of the economy might weaken appreciably over coming months, given the current relatively high level of real interest rates. Reports of a slowdown in new mortgage applications, increased cancellations of existing sales contracts, and high vacancy rates in rental units were cited as indications that the recovery in the housing sector might wane. A few members also expressed the view that automobile sales might slow somewhat more than generally expected as the pent-up demand for automobiles began to be satisfied. Another member suggested more generally that growth in consumer spending would probably be more moderate than anticipated as consumers attempted to save a higher, and more normal, proportion of their incomes than had been the case in recent quarters.

Members continued to express concern about the prospects for large federal deficits. Although a stimulative fiscal policy had contributed to the rebound in economic activity, continued large deficits as the recovery proceeded would tend to intensify credit market pressures and divert financial and real resources from needed private investment in plant and equipment and housing. The view was expressed that actions to reduce future deficits, if of sufficient magnitude, could work to ease pressures on interest rates in a period of rising private credit demands. Actual interest rates would of course be influenced by a broad range of developments, including the degree of strength in private credit demands, the outlook for inflation, and the volume of capital inflows from abroad.

A number of members commented that strong competition in many markets, including foreign competition, along with successful efforts by many businesses to cut costs, was having a restraining effect on prices

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and wages. Concern was expressed, however, that upward pressures on prices and wages could develop as levels of capacity utilization and employment continued to rise. Members also noted the possibility that the domestic price level would be adversely affected by higher import prices if the value of the dollar were to decline substantially on foreign exchange markets and by rising food prices that would result from the interaction of adverse weather conditions and governmental policies to reduce farm supplies.

Turning to policy for the near term, the Committee considered whether any further adjustment in the degree of restraint on bank reserve conditions would be desirable under current economic and financial circumstances, given the behavior of the monetary and credit aggregates. The members noted that growth in the broader aggregates, on which the Committee had been placing primary emphasis, had slowed substantially. Both M2 and M3 appeared to be expanding at rates that were somewhat below their June-to-September target paths and their recent levels were within the longer-run ranges that the Committee had established for the year. A staff analysis suggested that the slowdown in the growth of M2 and M3 might have resulted in part from special factors, including an unusually large buildup in July in the average level of Treasury balances, which probably led to reduced bank reliance on managed liabilities to finance credit expansion. An unwinding of these developments in the weeks ahead could be associated with some acceleration in the growth of M2 and M3 over the balance of the third quarter. Growth in M1 had moderated somewhat further in July, but it remained above the short-run, June-to-September path that the Committee had expected would be consistent with its third-quarter objectives for the broader aggregates and also above its longer-run monitoring range. Incoming data suggested, however, that M1 growth would probably continue to decelerate in August.

At the conclusion of the discussion the members agreed that no change needed to be made at this time in the degree of pressure on bank reserves. Accordingly, a consensus was expressed in favor of maintaining about the existing degree of reserve restraint for the period immediately ahead. The members anticipated that such a policy course would be associated with growth of both M2 and M3 at annual rates of around 8 percent for the period from June to September. The members also agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of available evidence about trends in economic activity and prices and conditions in domestic and international financial markets, including foreign exchange markets. Depending upon such developments, lesser restraint would be acceptable in the event of a significant shortfall in the growth of the aggregates over the period ahead, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. The Committee continued to anticipate that its third-quarter objectives for the broader aggregates would be consistent with a deceleration in M1 growth to an annual rate of around 7 percent from June to September, and that expansion in total nonfinancial debt would remain within the range of 8½ to 11½ percent established for the year. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for

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initiating consultation of the Committee, would remain at 6 to 10 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests continued rapid growth in real GNP in the current quarter. Industrial production increased sharply in July following large gains in the second quarter. Nonfarm payroll employment also rose substantially further in July and the civilian unemployment rate declined ½ percentage point to 9.5 percent. After rising sharply in the spring, retail sales have leveled off recently. Housing starts edged down over the past two months but permits continued to rise. Recent data on new orders and shipments on average continued to indicate strength in the demand for business equipment. In July, information on producer and consumer prices and the index of average hourly earnings was consistent with earlier indications of a considerable moderation in the rate of inflation.

Growth in the broader monetary aggregates slowed substantially in July, bringing M2 to a level near the midpoint of the Committee's range for 1983 and M3 to a level somewhat below the upper limit of its range. Growth in M1 decelerated considerably from its May–June pace, but its level remained above the Committee's monitoring range for the year. Interest rates rose appreciably through much of the intermeeting period but recently market rates have retraced most of their rise.

In part reflecting the course of U.S. interest rates, the weighted average value of the dollar against major foreign currencies rose substantially further in July and early August, but the rise was followed by a subsequent decline that reversed most of the earlier increase. The U.S. foreign trade deficit was smaller in June than in May, but the deficit in the second quarter was much larger than in the first as imports rose while exports were essentially unchanged.

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. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot 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.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.

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 will 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.

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The Committee seeks in the short run to maintain the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8 percent from June to September, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Committee anticipates that a deceleration in M1 growth to an annual rate of around 7 percent from June to September will be consistent with its third-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Authorization for Foreign Currency Operations

In August 1982 the Committee had authorized the temporary establishment of a special swap arrangement of $325 million with the Bank of Mexico, in addition to the regular swap arrangement of $700 million, effective for the period from August 28, 1982, through August 23, 1983. At this meeting the Committee was apprised that the Bank of Mexico was making the final repayment of dollars drawn under the special swap facility and that the facility would expire today as scheduled. It was also noted that drawings made on the $700 million regular swap arrangement had been repaid earlier and that as of this date there would be no outstanding drawings on the Federal Reserve System by the Bank of Mexico.

Meeting Held on October 4, 1983

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP had continued to grow rapidly in the third quarter, although the pace of expansion had moderated from the exceptionally strong annual rate of about 9¾ percent in the second quarter. A major factor in the third-quarter expansion was a sharp swing in business inventories from liquidation to accumulation.

The index of industrial production rose 0.9 percent in August, following sizable advances in previous months. As in other recent months, gains were widespread across industry groupings and were particularly strong for consumer durable goods. By August the index had risen about 11½ percent from its trough in November 1982 to a level 2¼ percent below the previous peak in July 1981.

Nonfarm payroll employment, adjusted for strike activity, rose about 300,000 in August, continuing the strong upward trend that had been evident since March. With growth in the civilian labor force roughly matching the rise in employment, the unemployment rate, which had declined 0.5 percentage point to 9.5 percent in July, was unchanged in August.

After rising sharply in the spring, consumer spending had moderated substantially in recent months. The

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nominal value of retail sales edged down in July and fell appreciably further in August as sales of durable goods, particularly in the automotive sector, declined. Sales of new domestic automobiles fell in August to an annual rate just above 6½ million units, compared with an average rate of 7¼ million units in the preceding two months. The slowdown in auto sales, which continued into early September, apparently reflected the elimination of interest subsidies and other incentives to buyers as well as the limited availability of some popular models. Auto sales picked up in mid-September with the introduction of 1984 models and the associated increase in dealer inventories. Although the growth in consumer spending had moderated recently, consumer financial positions appeared to be quite strong and surveys indicated a continuing high level of consumer confidence.

Total private housing starts rose to an annual rate of more than 1.9 million units in August, nearly 10 percent above the average rate over the previous three months. However, other indicators suggested some weakening in housing activity: newly issued permits for residential construction declined in August, and sales of both new and existing homes fell for the second month in a row.

Data on new orders and shipments generally continued to indicate strength in the demand for business equipment. Investment in nonresidential structures had stabilized in recent months, after declines earlier in the year. The Department of Commerce survey of business spending plans conducted in late July and August suggested that plant and equipment expenditures in 1983 as a whole would be about 3 percent lower, in nominal terms, than in 1982. Given the reduced level of spending reported for the first half of 1983, the survey results implied a substantial increase in investment outlays in the second half of the year.

The producer price index for finished goods and the consumer price index both rose 0.4 percent in August, somewhat more than the average increase in the previous few months. The summer drought appeared to have had little immediate impact on prices of foods at the wholesale and consumer levels, but at the farm level the producer price index for crude foods jumped nearly 4 percent in August after three months of decline. Over the first eight months of the year, the producer price index had shown virtually no change, while the consumer price index had increased at an annual rate a little over 3 percent. Along with the moderation in price pressures, nominal wage increases had generally been quite modest, with the index of average hourly earnings of production workers rising only about 3 percent at an annual rate since the beginning of the year.

The debt of domestic nonfinancial sectors expanded somewhat less rapidly in August and apparently in September than in July, as growth in funds raised by private sectors slowed. Governmental credit demands remained unusually strong, with U.S. government borrowings accounting for roughly half of the total funds raised in credit markets by domestic nonfinancial borrowers. Credit at U.S. commercial banks expanded at an annual rate of about 11¼ percent in August, somewhat above the average pace of other recent months, but data for early September suggested a slowing in the growth of bank credit, in part reflecting reduced demand for business loans. Issuance of commercial paper by nonfinancial businesses

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was maintained in September at about the relatively rapid pace recorded in August, while bond offerings remained at a reduced pace.

The foreign exchange value of the dollar, as measured by its trade-weighted average against major foreign currencies, had fluctuated within a relatively narrow range since mid-August. Fluctuations in the exchange rate over the period generally paralleled changes in the spread between U.S. interest rates and foreign rates. The U.S. foreign trade deficit rose substantially in July–August from the rate in the second quarter, as imports increased further in association with the pickup in U.S. economic activity.

At its meeting on August 23, 1983, the Committee had decided that open market operations in the period until this meeting should be directed at maintaining about the existing degree of reserve restraint. That action was expected to be associated with growth of M2 and M3 at annual rates of around 8 percent from June to September, consistent with the targets established for those aggregates for the year. The Committee had also agreed that, depending on evidence about the strength of the economic recovery and other factors bearing on the business and inflation outlook, lesser retraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly than expected. The Committee had anticipated that a reduction in growth of M1 to an annual rate of around 7 percent from June to September would be consistent with its third-quarter objectives for the broader aggregates and that expansion in total domestic nonfinancial debt would remain within its range for the year. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

In the latter part of the summer, growth in M2 remained at, or below, its reduced pace in July, and over the June-to-September period its growth was estimated to have been well below the annual rate of around 8 percent expected by the Committee. Growth in M3 strengthened somewhat in late summer and in the third quarter that aggregate expanded at a pace close to the expected rate. Meanwhile, expansion in M1 fell to an annual rate a little below 3 percent in August, and growth remained relatively low in September. By September all three monetary aggregates appeared to be within the longer-run ranges specified by the Committee, with M2 in the lower portion of its range, M3 in the upper portion of its range, and M1 somewhat above the midpoint of its monitoring range. Growth in total domestic nonfinancial debt also appeared to be well within its range for the year.

Consistent with the policy directive adopted at the August FOMC meeting, a slightly lesser degree of reserve restraint than that prevailing at the time of the meeting was sought as the intermeeting period progressed, in light of slower than anticipated money growth in the context of evidence of a moderation in the rate of economic expansion and continued restraint on inflationary pressures. Nonborrowed reserves of depository institutions, after declining in July and August, rose somewhat in September as institutions employed the increased availability of reserves in part to repay borrowings from the Federal Reserve. Adjustment plus seasonal borrowing, which had averaged somewhat over $1 billion in August, fell off in September. However, the

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average level for September was inflated in part by complications in reserve management related to the redistribution of reserves around the banking system in connection with a huge buildup in U.S. Treasury cash balances at depository institutions and also at Federal Reserve Banks following the mid-September tax date. Borrowings (excluding extended credit) surged to nearly $1.6 billion during the statement week ending September 21, but were in a range of about $650 million to $750 million during other weeks in September.

Interest rates in general fluctuated around a modest downward trend over the intermeeting interval, as the market responded to incoming data on the economy and the monetary aggregates, to some weakening in credit demands, and to varying expectations about implications for the stance of monetary policy. Short-term interest rates in general declined about ¼ to ½ percentage point on balance over the intermeeting interval. The federal funds rate averaged close to 9½ percent through most of the intermeeting period, down slightly from its average in the first half of August. The rate dropped to about 9 percent in the last full statement week of September, apparently in part because of reserve distribution effects stemming from the large buildup in Treasury deposits. However, the funds rate rose substantially in the days just before this meeting, reflecting usual pressures around the end-of-quarter statement date. Most long-term rates fell about 10 to 20 basis points over the period, and the average rate on new commitments for fixed-rate conventional mortgage loans at savings and loan associations declined about ¼ percentage point.

The staff projections presented at this meeting indicated that growth of real GNP would proceed at a less rapid pace in the fourth quarter and in 1984, partly reflecting lessened stimulus from inventory rebuilding and from expenditures on residential structures. Growth in consumer spending was projected to recover somewhat over the balance of the year from a reduced rate in the third quarter but to moderate again during 1984. A decline in the unemployment rate was anticipated over the projection period, and upward pressures on prices were expected to remain moderate.

In the Committee's discussion of the economic situation, the members were generally optimistic about the prospects for continued recovery in economic activity and containment of inflationary pressures. They agreed that the staff projection of moderate economic growth seemed to be the most likely outcome for the year ahead, and in this connection some members commented that a more moderate rate of economic growth than that experienced recently would be more consistent over time with sustaining the expansion and containing inflation. The view was expressed, however, that the rate of inflation could turn out to be somewhat higher than projected and the rate of expansion somewhat slower. Several members also emphasized that financial markets and the economy could be adversely affected by unpredictable developments, including possible disturbances originating abroad such as a major interruption in oil shipments due to hostilities in the Middle East or a debt-servicing crisis that led to a disruption of international credit flows. Concern was also expressed about the continued lag in demand in traditional heavy capital equipment industries and also about the restraint that would be exerted over time on capital

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investment and housing by the current high level of long-term interest rates.

In the latter context, the members again expressed a great deal of concern about the prospects for massive federal deficits. It was observed that the Treasury's large borrowing needs were already exerting upward pressure on interest rates, and that greater pressure could be expected if relatively large Treasury credit demands continued and were augmented by growing business demands for a substantial amount of external funds to finance their investments. To date, a relatively good rebound in corporate cash flow had combined with moderate investment demands to limit the net external financing needs of the business sector. Moreover, large net inflows of capital from abroad had been helping to finance the federal deficit, and the sustainability of such inflows was open to question, with possible implications for the exchange value of the dollar and for domestic interest rates.

The members commented at some length on the related rise in the foreign trade and current account deficits to historic and disturbing levels. A substantial decline in the foreign exchange value of the dollar, which many forecasters anticipated, would help to reduce the deficit over time, but it would probably also foster some inflationary pressures in the domestic economy. On balance, though, foreign trade developments were viewed as having a disproportionately adverse impact on some domestic industries and, more generally, appeared to be retarding the economic recovery.

Members referred to the substantial progress that had been made in curbing the rise of prices and wages and to the concessions that were still being made in some wage settlements. However, it was noted that a number of recent settlements, primarily in industries not subject to strong competitive or financial pressures, had called for wage increases substantially higher than the rate of inflation. There also appeared to be a "catch up" demand for higher wages from workers in previously troubled firms. Concern was expressed that, with continuing expansion in economic activity, an increasing number of firms would become less willing to resist inflationary wage demands and that progress in containing wage costs might be halted or reversed.

In the Committee's discussion of monetary policy for the weeks ahead, a consensus was expressed in favor of making no further adjustment in the degree of reserve restraint at this time beyond the slight easing that had been sought in recent weeks on the basis of the directive issued at the August meeting. A staff analysis suggested that such reserve restraint was likely to be associated with some increase in monetary growth from the reduced third-quarter pace, reflecting in part an abatement of the restraining effects of the rise in interest rates in late spring and summer. Growth of all the monetary aggregates was likely to remain within the Committee's longer-run ranges, however, given a projection of moderate expansion in nominal GNP in the fourth quarter. According to the staff analysis, the removal of most remaining controls on time deposits by the Depository Institutions Deregulation Committee, effective October 1, would under prevailing circumstances probably have only a minor, and possibly undetectable, near-term effect on the monetary aggregates—in the direction of restraining growth of M1 and increasing that of the broader aggregates.

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The Committee members recognized that the behavior of the monetary aggregates remained subject to a great deal of uncertainty, and they focused on the issue of how promptly and to what extent open market operations should respond to any deviations in monetary expansion from expected growth rates. The members agreed on the desirability of continuing to take account of emerging economic and financial developments, including the international financial situation, in policy implementation. In this connection, some members felt that the Committee should be prepared to respond a little more promptly and aggressively in an easing direction than in a tightening direction, should developments seem to warrant a change in the degree of reserve restraint. These members underscored the sensitivity of key sectors of the economy to interest rate developments and the impact of U.S. interest rates on the strained international debt situation. On the other hand, others called attention to the need for caution in light of the inflationary risks of being too accommodative in the provision of reserves, with even more adverse consequences over time both domestically and internationally.

At the conclusion of the discussion the members agreed that no change should be made at this time in the degree of pressure on reserve positions and that operations should be directed toward maintaining the slightly reduced reserve restraint that had been sought in recent weeks. The members anticipated that such a policy course would be associated with growth of both M2 and M3 at an annual rate of around 8½ percent for the period from September to December; this growth rate allowed for a minor impact from the October 1 deregulation of time deposits on the growth of the broader aggregates in the fourth quarter. The members also agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of developments relating to the strength of the economic recovery, the outlook for inflation, and conditions in domestic and international financial markets. Depending upon such developments, lesser restraint would be acceptable in the event of a significant shortfall in the growth of the aggregates over the weeks ahead, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. The Committee anticipated that its fourth-quarter objectives for the broader aggregates would be consistent with M1 growth at an annual rate of around 7 percent from September to December, and that expansion in total domestic nonfinancial debt would remain within the range of 8½ to 11½ percent established for the year. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

At the conclusion of the discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP continued to grow rapidly in the third quarter, although the rate of expansion moderated from that in the second quarter. Industrial production and employment increased appreciably further in August, following large gains in previous months, and the civilian unemployment rate remained at 9.5 percent. After rising sharply in the spring, growth in consumer spending has moderated substantially. Housing starts

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rose in August but permits turned down. Data on new orders and shipments generally continued to indicate strength in the demand for business equipment. Producer and consumer prices increased somewhat more in August than in other recent months, but over the first eight months of the year average prices and the index of average hourly earnings have risen more slowly than in 1982.

After slowing substantially in July, growth in M2 remained at a reduced pace over the August–September period, while expansion in M3 picked up. Through September M2 is estimated to be at a level in the lower portion of the Committee's range for 1983 and M3 in the upper portion of its range. Growth in M1 decelerated considerably further in August–September and moved within the Committee's monitoring range for the second half of the year. Interest rates have declined somewhat since mid-August.

The foreign exchange value of the dollar, as measured by its weighted average value against major foreign currencies, has fluctuated within a relatively narrow range since mid-August. The U.S. foreign trade deficit rose substantially in July–August from the second-quarter rate, reflecting a further increase in imports of a broad range of goods.

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. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot 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.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth in M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.

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 will 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.

The Committee seeks in the short run to maintain the slightly lesser degree of reserve restraint sought in recent weeks. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8½ percent from September to December, consistent with the targets established for these aggregates for the year. Depending on evidence about the strength of economic recovery and other factors bearing on the business and inflation outlook, lesser restraint would be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations, while somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Committee anticipates that M1 growth at an annual rate of around 7 percent from September to December will be consistent with its fourth-quarter objectives for the broader aggregates, and that expansion in

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total domestic nonfinancial debt would remain within the range established for the year. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

Meeting Held on November 14–15, 1983

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP was growing at a relatively rapid rate in the current quarter, although the pace of expansion appeared to have moderated from the annual rates of about 9¾ percent and nearly 8 percent reported by the Commerce Department for the second and third quarters respectively. Renewed strength in personal consumption expenditures and a substantial further increase in inventory accumulation were expected to contribute to the continued expansion in economic activity. Meanwhile, price and wage increases generally have remained moderate, although there has been some pickup in recent months in average wage costs and in nonfood consumer prices.

The index of industrial production, which had risen 1.3 percent in both August and September, increased 0.8 percent further in October. Output of business equipment rose sharply, while production of consumer durable goods and construction supplies edged up slightly further, following very large increases in the second and third quarters. By October the index had risen about 14¾ percent from its trough in November 1982 to a level slightly above the previous peak in July 1981.

Nonfarm payroll employment, adjusted for strike activity, rose about 330,000 in October, about the same as the average monthly increase in the preceding five months. Employment gains were particularly marked in manufacturing and service industries, and employment in retail trade and construction also continued to strengthen. The civilian unemployment rate fell 0.5 percentage point to 8.8 percent, two percentage points below its peak in December 1982.

The nominal value of retail sales, after changing little on balance during the summer months, rose about 1¼ percent in both September and October. Outlays at apparel stores and furniture and appliance outlets rose substantially in October, and sales at automotive outlets increased markedly in both months. Sales of new domestic automobiles picked up to an average annual rate of 7 million units in the two months, and sales of imported cars surged in October, apparently in response to the increased availability of popular Japanese models. Consumers remained optimistic about the near-term outlook, according to recent surveys of consumer confidence. Moreover, recent data indicated marked gains in consumers' real disposable incomes, reflecting substantial increases in nominal personal income augmented by the midyear tax cut and a continued moderate rate of increase in the average level of prices.

Following a surge in August, private housing starts fell to an annual rate of 1.65 million units in September, close to their average in the second quarter. Newly issued permits for residential construction also fell in

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September, marking the second consecutive monthly decline. Sales of existing homes remained at about the reduced July–August pace, while sales of new homes rose after three months of decline.

Business spending for capital goods has remained strong. Outlays for producers' durable equipment, which had increased at an annual rate of about 20 percent in real terms in the second quarter, rose at a rate of nearly 16 percent in the third quarter. Recent data on new orders and shipments indicated further strength in the demand for business equipment. Investment in nonresidential structures rose at an annual rate of about 12 percent in the third quarter, after declines earlier in the year.

The producer price index for finished goods rose 0.3 percent in October, about the same as in other recent months. Most of the October increase was attributable to higher prices for consumer foods; prices of energy-related items and of finished consumer goods other than foods were little changed. Thus far in 1983 the index had increased at an annual rate of less than 1 percent. The consumer price index rose 0.5 percent in September, following advances of 0.4 percent in the preceding two months. Consumer prices had changed little early in the year and over the first nine months of 1983 had increased at an annual rate of about 3¾ percent. The index of average hourly earnings rose somewhat more in September and October than in previous months, but the index has risen more slowly this year than in 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen a little more than 1 percent since early October. The eruption of political and military conflicts in a number of locations around the world was a factor in the dollar's strength, as some investors viewed the dollar as a "safe haven" during the period of heightened international tensions. The rise was also associated in part with some widening of the differential between U.S. and key foreign interest rates. The U.S. foreign trade deficit increased considerably in the third quarter as imports, especially of petroleum, rose faster than exports.

At its meeting on October 4, 1983, the Committee had decided that in the short run, open market operations should be directed toward maintaining the slightly reduced reserve restraint that had been sought in the weeks just prior to that meeting. This policy was expected to be associated with growth of both M2 and M3 at an annual rate of around 8½ percent for the period from September to December. The members had agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of developments relating to the strength of the economic recovery, the outlook for inflation, and conditions in domestic and international financial markets. Depending on such developments, lesser restraint would be acceptable in the event of a significant shortfall in the growth of the aggregates, while somewhat greater restraint would be acceptable in the context of more rapid growth in the aggregates. The Committee anticipated that M1 growth at an annual rate of around 7 percent from September to December would be consistent with its fourth-quarter objectives for the broader aggregates, and that expansion in total nonfinancial debt would remain within the range of 8½ to 11½ percent established for the year. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

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In October, both M2 and M3 grew at annual rates close to the 8½ percent pace sought by the Committee for the September-to-December period: growth in M2, after slowing substantially over the summer months, accelerated to an estimated annual rate of about 9 percent, while growth in M3 was at an estimated annual rate of about 8¼ percent. On the other hand, expansion in M1, at an annual rate of about 1½ percent, remained low. Through October, M2 was at a level in the lower portion of the Committee's range for 1983 and M3 was in the upper portion of its range. M1 was in the lower portion of the Committee's monitoring range for the second half of the year.

Growth in the debt of domestic nonfinancial sectors was estimated to have slowed somewhat in October, but it remained well within the Committee's monitoring range for the year. Growth in funds raised by private sectors apparently moderated, while funds raised by the federal government continued relatively large. Expansion in credit at U.S. commercial banks increased at an estimated annual rate of about 10 percent in October, considerably faster than in September and close to the average pace for the year to date. The acceleration in October reflected primarily a substantial increase in banks' acquisitions of U.S. Treasury securities but also strong growth in consumer loans. Borrowing by businesses remained moderate, as funds generated internally covered the bulk of financing needs; such borrowing continued to be concentrated in the short-term area.

Total reserves contracted somewhat in October, but growth of nonborrowed reserves (including extended credit at the discount window) picked up. Adjustment plus seasonal borrowing averaged $630 million during the five statement weeks ending November 9, somewhat below the level that had prevailed during most weeks in the previous intermeeting interval.

Interest rates generally fluctuated in a narrow range over the intermeeting period. Federal funds traded mainly around 9⅜ percent, down from earlier weeks. Other short-term rates were up marginally on balance over the intermeeting period. Most long-term rates rose somewhat, apparently in response to indications of continued strength in economic activity and to uncertainties about the prospective pattern of Treasury financing as passage of legislation to raise the debt ceiling was delayed. In contrast, average rates on new commitments for fixed-rate conventional home mortgage loans declined about 20 basis points and the ceiling rate on regular FHA/VA mortgage loans was reduced ½ percentage point to 12½ percent.

The staff projections presented at this meeting indicated that growth in real GNP would slow from the rapid rate of recent quarters to a more moderate pace during 1984. A key element in the expected slowdown was a projection of lessened stimulus from inventory rebuilding and housing activity; growth in consumer spending was also projected to slow somewhat. On the other hand, business fixed investment was expected to accelerate and the foreign sector was expected to be less of a damping factor over the course of 1984 than over 1983. A decline in the unemployment rate was anticipated over the projection period, and upward pressures on prices were expected to remain generally moderate.

In the Committee's discussion of the economic situation and outlook, members commented that the eco-

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nomic expansion had remained stronger than generally anticipated. Reports from around the country suggested increasingly widespread optimism about business conditions and a high degree of consumer confidence. While all the members expected the rate of economic growth to moderate over the year ahead, there were some differences of view with regard to the timing and likely extent of the slowdown. Some members anticipated that the slowdown might be appreciably less than projected by the staff, with unfavorable implications for inflationary pressures and the ultimate sustainability of the expansion. In support of this view, reference was made to the favorable conditions for a surge in business fixed investment created by the momentum of the expansion. In addition, it was pointed out that a highly stimulative fiscal policy remained in prospect for 1984. Thus, while the expansionary impact of housing and inventory accumulation could be expected to wane during the second year of the recovery, vigorous growth in fixed investment expenditures in conjunction with the prospective federal deficit might well sustain relatively rapid expansion in overall economic activity during the year ahead. It was also suggested that, at least for the near term, consumer spending and inventory accumulation might provide more stimulus to the economy than was generally anticipated.

Other members placed more emphasis on some elements of potential weakness in the economic outlook. It was pointed out that there was as yet no firm evidence that business fixed investment would prove to be exceptionally strong during 1984. Indeed, such investment might continue to be held down by the persistence of weak demand for the output of some traditional producers of capital equipment, and, more generally, by relatively high interest rates in the context of massive Treasury debt financings. International developments might also continue to exert a retarding impact on the domestic economy, especially if the dollar failed to depreciate as many observers expected and if the economies of foreign countries remained relatively sluggish, thereby limiting export markets for U.S. products while encouraging foreign firms to compete aggressively in U.S. markets. Reference was also made to the possibility that problems related to the international debt situation could have adverse consequences for U.S. financial markets and economic activity.

With regard to the prospects for prices, several members questioned whether further progress could be made in containing inflationary pressures if the rate of economic expansion did not slow to a more moderate pace over the year ahead. One member observed that by late 1984, capacity utilization rates could reach levels that would tend to generate inflationary cost pressures even if unemployment were still high relative to earlier expansion periods. On the other hand, some members felt that there was little current evidence that price and wage pressures or inflationary expectations were worsening. One member also noted that the economy was still operating well below capacity and that further significant improvements in productivity, along with competitive pressures from world markets, were likely to restrain inflation during 1984.

In the Committee's discussion of policy for the period immediately ahead, all of the members found acceptable a policy directed toward maintaining the existing degree of

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reserve restraint. In the view of some, however, an argument could be made in favor of a small, precautionary step in the direction of firming in light of the continuing strength of the economic expansion and the associated danger of a resurgence of inflationary pressures during the year ahead. While acknowledging the risks of inflation in a rapidly expanding economy combined with large budget deficits and the relatively rapid monetary growth earlier in the year, most members saw sufficient uncertainties in the outlook to counsel against any change in reserve pressures at this time. Some members were also concerned that under the prevailing circumstances even a modest increase in restraint on reserves might have a disproportionate impact on domestic and international financial markets. The result could be an increase in domestic interest rates large enough to have damaging consequences for housing and other interest-sensitive sectors of the economy and to intensify greatly the pressures on countries with severe external debt problems.

According to a staff analysis, a policy of maintaining the present degree of restraint on reserve conditions was likely to be associated with growth in M2 and M3 at rates that were consistent with the objectives that the Committee had set previously for the fourth quarter and for the year as a whole. Such a policy might also result in an acceleration in the growth of M1 over the last two months of the year, primarily in response to increasing needs for transaction balances in a rapidly expanding economy. Given the limited growth of M1 in October, however, its expansion for the entire fourth quarter was likely to be below the growth rate of around 7 percent anticipated earlier. The staff also indicated that the demand for transaction balances remained subject to a great deal of uncertainty, and that transaction needs related to strengthened business activity could continue to be met for a time, at least in part, out of balances that had been built up earlier, including NOW accounts.

One member indicated a preference for giving increased weight to M1 in the formulation of monetary policy and commented that its slow growth, should it persist, could threaten the sustainability of the economic expansion. Other members commented that the deceleration of M1 growth in recent months had to be evaluated against the background of unusually rapid expansion in the latter part of 1982 and the first half of 1983. It was also pointed out that the broader monetary aggregates emphasized by the Committee had been growing in line with the Committee's objectives.

All the members indicated that they could support a directive that called for maintaining the current degree of restraint on reserve positions over the near term, but they also agreed that the directive should continue to allow for some leeway to adjust the degree of reserve pressure during the intermeeting period. In this connection, a number of members were in favor of being particularly sensitive to evidence of continued unexpected strength in the economy and the related potential for greater price and wage pressures, should growth in the monetary aggregates appear to be exceeding expectations.

At the conclusion of the discussion the Committee decided that no change should be made at this time in the degree of restraint on reserve positions. The members anticipated that such a policy would continue to be associated with growth of both M2 and M3 at an annual rate of around

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8½ percent for the period from September to December. The members also agreed that the need for greater or lesser restraint on reserve conditions should be evaluated against the background of developments relating to the strength of the economic recovery, the outlook for inflation, and conditions in domestic and international financial markets. Depending upon such developments over the weeks ahead, greater restraint would be acceptable in the event of more rapid growth in the broader monetary aggregates, while lesser restraint would be acceptable in the context of a significant shortfall in such growth. The Committee anticipated that, given the relatively slow growth of M1 in October, its expansion at an annual rate of around 5 to 6 percent from September to December would be consistent with the fourth-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range of 8½ to 11½ percent established for the year. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

At the conclusion of the discussion, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP is growing at a relatively rapid pace in the current quarter, although the rate of expansion appears to have moderated since the spring and summer. In October, industrial production increased appreciably, following large gains in previous months. Nonfarm payroll employment rose substantially further, and the civilian unemployment rate declined ½ percentage point to 8.8 percent. After changing little on balance during the summer months, retail sales strengthened in September and October. Housing starts and permits declined in September while home sales rose somewhat. Recent data on new orders and shipments indicate further strength in the demand for business equipment. Producer and consumer prices have continued to increase at about the same pace as in other recent months. The index of average hourly earnings rose somewhat more in September and October than in previous months, but over the first ten months of the year the index has risen more slowly than in 1982.

The foreign exchange value of the dollar has risen since early October against a trade-weighted average of major foreign currencies. The U.S. foreign trade deficit increased considerably in the third quarter, with imports, especially of petroleum, rising faster than exports.

After slowing substantially over the summer months, growth in M2 accelerated in October, while M3 continued to expand at a moderate rate. Through October, M2 was at a level in the lower portion of the Committee's range for 1983 and M3 in the upper portion of its range. M1 continued to grow at a sluggish pace in October and was in the lower portion of the Committee's monitoring range for the second half of the year. Longer-term market rates have risen somewhat on balance since early October, and short-term rates generally have fluctuated in a narrow range.

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. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of the monetary aggregates cannot 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.

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Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth of M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.

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 will 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.

The Committee seeks in the short run to maintain the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8½ percent from September to December, consistent with the targets established for these aggregates 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; lesser restraint might be acceptable in the context of a significant shortfall in growth of the aggregates from current expectations. Given the relatively slow growth in October, the Committee anticipates that M1 growth at an annual rate of around 5 to 6 percent from September to December will be consistent with its fourth-quarter objectives for the broader aggregates, and that expansion in total domestic nonfinancial debt would remain within the range established for the year. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, for the intermeeting period ending with the close of business on December 20, 1983.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that projections for the upcoming intermeeting period indicated a substantial need for additions to reserves relating to a seasonal increase in currency in circulation. Accordingly, the need for net purchases of U.S.

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government and federal agency securities during the intermeeting interval was considered likely to exceed the standard $4 billion limit on intermeeting changes in holdings of such securities.

Meeting Held on December 19-20, 1983

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP was growing at a relatively rapid pace in the current quarter, although the rate of expansion appeared to have moderated from the third-quarter pace. Strength in personal consumption expenditures and in business spending—particularly for inventories and equipment—is apparently contributing to the continued expansion in economic activity. Price and wage increases generally have remained moderate, though advances in some indexes have been somewhat larger than in the spring and summer.

The index of industrial production increased 0.8 percent in November, the same as in October. Output of business equipment continued to rise briskly, registering average increases of nearly 1½ percent in each of the two months. Output of materials also continued to increase rapidly, but production of consumer goods and construction supplies rose only slightly. The rate of capacity utilization in manufacturing increased 0.5 percentage point further in November to 79.4 percent, well above its recession low of 68.8 percent a year earlier.

Nonfarm payroll employment, adjusted for strike activity, advanced about 345,000 further in November; the rise was larger than in October but about the same as the average monthly increase in the second and third quarters. Employment gains were widespread, and were particularly marked in manufacturing and service industries. The civilian unemployment rate fell 0.4 percentage point further to 8.4 percent, nearly 2½ percentage points below its peak in December 1982.

The nominal value of retail sales rose 1.9 percent in November, after increases of 1.4 percent in each of the preceding two months. Sales increased at most major categories of stores in November, including a substantial rise in purchases of discretionary items, as indicated by strong outlays at general merchandise and apparel stores. Sales at automotive outlets also rose markedly. While sales of new domestic automobiles, at an annual rate of about 7 million units in both October and November, were up only slightly from the average selling pace in the third quarter, the annual rate of imported car sales averaged about 350,000 units higher in those months than in the third quarter.

Private housing starts rose about 6½ percent in November, to an annual rate of about 1¾ million units, and newly issued permits for residential construction increased marginally. For both series, the levels in November were close to the averages in the third quarter. In October, sales of existing homes fell about 5½ percent below their average in the third quarter, while sales of new homes rose for the second consecutive months.

Indicators of business capital spending have moved somewhat erratically in recent months, but generally suggest continued relatively strong expansion in that sector. Shipments of nondefense capital goods surged in September but fell somewhat in October. New orders, however, recorded strong gains in September and October, and

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the backlog of unfilled orders rose sharply in both months.

The producer price index for finished goods had changed little on average over the previous two months, rising 0.3 percent in October and falling 0.2 percent in November. Thus far in 1983 the index had increased at an annual rate of less than ½ percent. The consumer price index rose 0.4 percent in October, about the same as in the preceding three months; over the first ten months of the year, consumer prices had increased at an annual rate of about 4 percent. The index of average hourly earnings was little changed in November, after rising somewhat faster in September and October than in previous months. Thus far in 1983 the index had increased at an annual rate of about 3½ percent, compared with a rise of 6 percent in 1982.

In foreign exchange markets the trade-weighted value of the dollar had risen more than 3 percent since the FOMC meeting in mid-November, surpassing the peak recorded in August. Increasing international tensions apparently contributed to the dollar's strength, as investors viewed dollar assets as a "safe haven" in the face of concerns about the security of financial assets in some other parts of the world. Evidence of continued strong expansion in U.S. economic activity also fueled the dollar's rise. News of a record trade deficit for October, at a rate markedly higher than that in the third quarter, slowed the appreciation of the dollar only temporarily. The rise in the deficit reflected a sharp increase in imports, as exports were about unchanged.

At its meeting on November 14–15, 1983, the Committee had decided that in the short run, open market operations should be directed toward maintaining the existing degree of reserve restraint. The members anticipated that such a policy would continue to be associated with growth of M2 and M3 at an annual rate of around 8½ percent for the period from September to December, consistent with the growth ranges established for those aggregates for the year. Those ranges were 7 to 10 percent at an annual rate for M2 for the period from February–March of 1983 to the fourth quarter of 1983; and 6½ to 9½ percent for M3 for the period from the fourth quarter of 1982 to the fourth quarter of 1983. It was agreed that over the coming intermeeting period the need for greater or lesser restraint on reserve conditions should be evaluated on the basis of evidence about the continuing strength of the economic recovery and other factors bearing on the business and inflation outlook. Depending on such evidence, 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.

Growth in M2 and M3, after slowing substantially over the summer months, strengthened in October and November. M2 was growing at a pace close to the annual rate of 8½ percent specified by the Committee for the September-to-December period; M3 grew at an annual rate of 8½ percent in October but increased at a faster pace in November, as banks relied more on managed liabilities, partly to offset a massive runoff of U.S. Treasury balances associated with the temporary delay in raising the federal debt limit. M1 continued to expand at a sluggish pace in November but increased substantially in early December. Through November, M2 was in the lower portion of the Committee's

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longer-run range for the year 1983, M3 was close to the upper limit of its range, and M1 was near the lower end of the Committee's monitoring range of 5 to 9 percent for the period from the second quarter of 1983 to the fourth quarter of 1983.

The debt of domestic nonfinancial sectors was estimated to have continued expanding at a moderate pace in November, and its level remained well within the Committee's monitoring range of 8½ percent to 11½ percent for the year. Growth in credit at U.S. commercial banks rose to an estimated annual rate of about 14 percent in November, reflecting an acceleration in growth of total loans and continued heavy acquisitions of Treasury securities. Real estate and consumer lending, while moderating somewhat in November, remained strong. Borrowing by businesses picked up, as issuance of commercial paper slowed considerably from the brisk pace of previous months and financing in long-term debt markets remained light.

Total reserves contracted in November, as required reserves declined in association with a drop in demand deposits. Nonborrowed reserves fell by more, as the average level of adjustment borrowing rose in that month. Demands for borrowing eased off in the first half of December, however. Over the intermeeting interval as a whole, adjustment plus seasonal borrowing ranged from about $440 million to $865 million, averaging about $685 million during the four statement weeks ending December 14, only slightly above the average during the previous intermeeting period.

Federal funds continued to trade in a range of about 9¼ to 9½ percent over the period, with recent trading generally near the upper end of that range. Other short-term interest rates rose about ¼ to ¾ percentage point over the intermeeting period, while most long-term rates increased about ¼ percentage point. Rates on municipal bonds rose somewhat more, as issuers marketed large volumes of such securities in advance of deadlines on some types of issuance or in anticipation of legislation in 1984 imposing restrictions on the issuance of certain tax-exempt bonds. Average rates on new commitments for fixed-rate conventional home mortgage loans changed little over the period and have fluctuated in a narrow range near 13.40 percent since late October.

The staff projections presented at this meeting continued to indicate that growth of real GNP would slow from the rapid rate of recent quarters to a more moderate pace in 1984. Consumption expenditures and housing outlays were projected to moderate after growing rapidly in 1983, and the stimulus to economic growth from inventory accumulation was likely to diminish. However, business fixed investment was expected to show continued strength, and the deterioration in net exports of goods and services was expected to slow over the course of 1984. A decline in the unemployment rate was anticipated over the projection period, and upward pressures on prices were expected to remain generally moderate.

In the Committee's discussion of the economic situation and outlook, the members commented that further expansion in economic activity remained a likely prospect for 1984 but that the rate of growth would probably slow considerably from the pace in recent quarters. At the same time, members referred to the many uncertainties that clouded the outlook, and several expressed concern that inflationary pressures might worsen during the year. Reports from around

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the country indicated widespread improvement in business conditions and the development of considerable optimism in the business community, although it was also noted that some industries were still operating well below capacity.

In the view of some Committee members, the expansion in economic activity during 1984 might well exceed the staff projection, given the momentum of the recovery and a stimulative fiscal policy. In particular, it was suggested that the currently high level of confidence among businessmen and large cash flows to business firms favored relatively rapid expansion in business fixed investment. Some members also referred to the possibility of a buildup in inventories by firms that had been experiencing strong sales and increasing delays in obtaining new supplies of many products.

Other members were somewhat less sanguine about the prospective strength of the ongoing expansion. Some emphasized the vulnerability of the economy to a substantial rise in interest rates, should one occur, from levels that were already high in real terms. In this connection, members referred to the desirability of prompt action to reduce the federal deficit, whose size, both current and prospective, was a major factor maintaining upward pressure on interest rates. High interest rates, apart from their adverse impact on interest-sensitive sectors of the domestic economy such as housing, also would tend to exert upward pressure on the value of the dollar in foreign exchange markets, with further unfavorable consequences for U.S. exports, and would add to difficulties inherent in the current international debt situation.

Other comments about the economic outlook included the view of one member that, if very sluggish growth in M1 over the course of recent months were to continue, it could lead to a downturn in economic activity by the second or third quarter of 1984. Another member raised the possibility that sales might prove to be disappointing over the months ahead in relation to the apparently exuberant expectations of many business leaders, and such a development would tend to restrain spending on both fixed investment and inventories. One member also commented that the backlog in demand for housing appeared to have been used up, and further demand was likely to be weak under foreseeable financial conditions.

Partly because of these differences about the outlook for economic activity, the members expressed somewhat divergent views with regard to prospects for inflation over the year ahead. A number of members, while acknowledging the possibility of some rise in the rate of inflation during the second year of a recovery, believed that any such rise was likely to be moderated by sizable margins of unused capacity in many industries, by continuing strong competition from foreign suppliers, and by a still relatively high, if declining, rate of unemployment. Some of these members also observed that recent statistics on commodity and other prices did not suggest that the rate of inflation was accelerating.

Other members were less optimistic about the prospects for inflation. Several commented on indications of a strengthening in inflationary expectations among participants in financial markets and among businessmen, many of whom were reportedly looking for opportunities to raise prices. Underlying wage pressures, which had been held down by depressed

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conditions in many industries, were also seen by many members as likely to increase as profits continued to improve. Reference was also made to the adverse implications for costs and for inflationary pressures of a projected decline in productivity growth. One member expressed the view that large increases in M1 during the latter part of 1982 and the first part of 1983 would probably be reflected, after an expected lag, in accelerating inflation by the latter part of 1984. It was also noted that a significant decline in the foreign exchange value of the dollar, if it should occur as many observers expected, would contribute to domestic inflation. In this connection concern was expressed that, as the foreign exchange value of the dollar rose to a relatively high level, the dollar would be exposed increasingly to a precipitate drop, and if such a drop came when the economy was operating closer to full capacity, it would tend to have a much more substantial inflationary impact than otherwise.

At its meeting in July, the Committee had agreed on tentative growth ranges of 6½ to 9½ percent for M2 and 6 to 9 percent for M3 during the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee believed that growth of M1 in a range of 4 to 8 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 provisionally set at 8 to 11 percent for 1984. At this meeting the Committee began a review of the ranges for 1984 in the expectation that at its next meeting it would complete the review and establish ranges for the year within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act).

In the Committee's discussion of policy for the near term, most of the members agreed that the continued strength of the economic expansion and the spreading optimism, with the attendant risk that inflationary sentiment would intensify, argued against any easing of reserve conditions and in favor of maintaining at least the existing degree of reserve restraint. Such a policy would contemplate a slight move toward greater restraint if economic and monetary developments appeared to warrant such a course. According to an analysis presented at this meeting, the existing restraint on reserve conditions was likely to be associated with growth in M2 and M3 during the period from November to March at rates that were well within the ranges that the Committee had tentatively set previously for 1984. Such a policy was also likely to result in a considerable acceleration in the growth of M1 over the four-month period, given the anticipation that demands for transaction balances would be more in line with spending than they had been in recent months.

While nearly all the members could accept a policy of maintaining at least the existing degree of reserve restraint, some expressed a preference for some slight firming immediately in light of their assessment of the economic situation and concerns about the potential for a reemergence of inflationary pressures. Other members preferred to make no change in the existing degree of restraint for now, pending a further evaluation of economic developments and monetary growth. In the view of some of these members, even a slight firming of reserve conditions at this time would incur the risk of a relatively pronounced reaction in financial markets, with damaging consequences for

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housing and other interest-sensitive sectors of the economy. Some members also emphasized that higher domestic interest rates could have a very undesirable impact on the value of the dollar in foreign exchange markets and on the international debt situation. A number of members were also influenced by the relatively sluggish growth of M1 over the course of recent months, although such growth appeared to be accelerating in December. Some urged that greater weight be placed on M1 in the formulation and implementation of policy; and in the view of one member, reserve conditions should be eased promptly if it became clear that growth in M1 was remaining sluggish.

At the conclusion of the discussion, most of the members indicated their acceptance of a short-run policy that called for maintaining at least the existing degree of restraint on reserve positions, subject to the possibility of a slight increase in such restraint depending on developments relating to the outlook for economic activity and price pressures and on evidence that monetary growth appeared to be exceeding the Committee's expectations. The members anticipated that such a policy would be associated with growth of both M2 and M3 at an annual rate of around 8 percent for the period from November 1983 to March 1984. The Committee believed that an acceleration in the growth of M1 to an annual rate of around 6 percent for the four-month period was likely to be consistent with its objectives for the broader aggregates and that expansion in total domestic nonfinancial debt over this period would be within the tentative range of 8 to 11 percent established for the year 1984. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent. It was also understood that the Committee would consult should the aggregates and the economy turn out to be significantly weaker than expected.

At the conclusion of the meeting, the Committee issued the following domestic policy directive to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP has grown at a relatively rapid pace in the current quarter, although the rate of expansion appears to have moderated since the spring and summer. In November, industrial production and nonfarm payroll employment increased appreciably further and the civilian unemployment rate declined 0.4 percentage point to 8.4 percent. Retail sales rose substantially in November following sizable gains in September and October. Housing starts increased in November to a level close to their third-quarter average. Recent data indicate continuing expansion in business capital spending. Producer prices were little changed on average in October and November, and consumer prices continued to increase in October at about the same pace as in other recent months. The index of average hourly earnings changed little in November after rising somewhat faster in September and October than in previous months; over the first eleven months of the year the index has risen more slowly than in 1982.

The foreign exchange value of the dollar has risen considerably further since mid-November against a trade-weighted average of major foreign currencies. In October the U.S. foreign trade deficit was markedly higher than in the third quarter, reflecting a sharp rise in imports.

After slowing substantially over the summer months, growth in M2 and M3 strengthened in October and November. M1 continued to grow at a sluggish pace in November but increased substantially in early December. Through November, M2 was at a level in the lower portion of the Committee's range for 1983, M3 was close to the upper limit of its range, and M1 was near the lower end of the Committee's monitoring range for the second

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half of the year. Most interest rates have risen somewhat since mid-November.

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. At its meeting in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of monetary aggregates cannot 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.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February–March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6½ to 9½ percent for M3. The committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6½ to 9½ percent for M2 and 6 to 9 percent for M3. The Committee considered that growth of M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 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 reaffirmed at 8½ to 11½ percent for 1983 and tentatively set at 8 to 11 percent for 1984.

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 will 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.

The Committee seeks in the short run to maintain at least the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8 percent 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 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. 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 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Martin.

Mr. Martin dissented from this action because of his concern that any tightening of reserve conditions and the associated increase in interest rates would present a threat to the sustainability of the economic expansion: needed business investment would be more expensive, international debt servicing more burdensome, and interest-sensitive housing more vulnerable.

2. Authorization for Domestic Open Market Operations

At its previous meeting the Commit-

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tee had voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph l(a) of the authorization for domestic open market operations, for the intermeeting period ending with the close of business on December 20, 1983. At this meeting the Committee voted to retain the $5 billion limit for the upcoming intermeeting interval beginning on December 21, 1983.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net sales of securities were likely to be required during the weeks ahead in order to absorb reserves that had been provided recently to meet seasonal needs for currency in circulation.

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Consumer and Community Affairs

In 1983, the Board of Governors of the Federal Reserve System sought to reduce the costs of compliance with its consumer regulations while maintaining the protections for consumers that the underlying statutes provide.[1] As discussed further in this report, the Board monitored the effects of the simplification of Regulation Z (Truth in Lending), and sent to the Congress proposed legislation for simplifying the Consumer Leasing Act by reducing the complexity and number of lease disclosures and bringing under the act's coverage rental-purchase agreements, such as those for television sets and other home appliances. The Board also undertook a review of Regulation B (Equal Credit Opportunity) to evaluate ways to clarify its guidance to creditors, to identify more effectively and prohibit any illegal discriminatory practices, and to address other concerns. The review was initiated under the Board's Regulatory Improvement Project, which requires periodic efforts to update and simplify all Board regulations. This report also summarizes the Board's 1983 regulatory actions, which affect rules on truth in lending, home mortgage disclosures, electronic fund transfers, and consumer leasing.

The Board also sought to strengthen the System's enforcement of consumer regulations by improving consumer examination reports, expanding the program for educating consumer compliance examiners, and producing pamphlets and videotapes to help state member banks comply with consumer-related regulations.

This report offers a statistical summary of consumer complaints handled by the Board, and describes the way the Board monitors acts or practices by banks that may be unfair or deceptive. Also discussed are the extent of compliance by institutions with Regulation Z, Regulation B, and Regulation E (Electronic Fund Transfers); the economic impact of Regulation E; implementation of the Community Reinvestment Act; the activities of the Consumer Advisory Council; and legislative recommendations from the agencies with enforcement responsibilities under the Truth in Lending, Equal Credit Opportunity, and Electronic Fund Transfer Acts.

In 1983, the Board and the Reserve Banks continued distribution of a wide variety of consumer education pamphlets and teaching packages and held further workshops for teachers on the consumer credit education laws. Two popular consumer credit films, "To Your Credit" and "EFT: At Your Service," were put on videotape for national distribution for classroom use. In May, the Board was host for a systemwide meeting on consumer and economic education to consolidate ongoing activities and to plan programs for 1984.

Simplification of Regulation Z

In 1983, the Board monitored the effects of the restructured, shortened,

1. These statutes, on which the Board is required to report annually to the Congress, are the Truth in Lending Act, the Equal Credit Opportunity Act, the Electronic Fund Transfer Act, the Community Reinvestment Act, and the Federal Trade Commission Improvement Act.

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and simplified version of Regulation Z. After the first full year of mandatory compliance, which began in October 1982, the Board found significant improvements in compliance, litigation, and interpretation.

In 1983, the number of institutions with no violations of Regulation Z jumped by nearly 9 percent, to 42 percent of all institutions examined. Over half of the institutions with some violations of the regulation had only a few (one to five). Moreover, virtually no litigation has arisen under the revised regulation. This is an especially significant result, because the hope of reducing litigation was a driving force in the Board's simplification efforts.

The official staff commentary on Regulation Z, which interprets the Board's truth in lending rules, has proved to be an effective regulatory tool. Before it was developed, the Board issued many individual letters of interpretation, including official and unofficial staff opinions, as well as formal Board interpretations. Creditors were required to search for, collect, and sort through these interpretations for guidance on many specific issues, an inconvenient and costly process. Because the commentary brings together all interpretations into a single document, is updated regularly, and is arranged for quick reference, it eases many tasks for creditors. The commentary has apparently succeeded in making the interpretations more manageable for creditors and in reducing the related costs of compliance.

Simplification of the Consumer Leasing Act

In early 1983, the Board sent to the Congress proposed legislation for simplifying the Consumer Leasing Act. The act, passed in 1976 to assure that lessees of personal property are given meaningful disclosures of lease terms, applies to personal property leased for more than four months for personal, family, or household use. The simplified version was introduced in the U.S. Senate in late April (as S. 1152), and was later incorporated into an omnibus bill introduced in November.

The draft is written in plain language with short, concise sentences that eliminate redundancy and unnecessary "legalese." Emphasizing straightforward disclosures of essential cost information, it simplifies the leasing rules by applying many of the concepts and principles used in the 1980 simplification of the Truth in Lending Act. As a result, this version substantially reduces both the number and the complexity of the required disclosures and concentrates on the information most likely to be used in shopping and decisionmaking. It also requires that all disclosures be presented to the consumer separately from other information so as to emphasize their importance.

The draft legislation adds coverage of rental-purchase agreements, which are covered neither by the Consumer Leasing Act nor by the Truth in Lending Act. Under a rental-purchase agreement, the consumer rents the property (typically a television set or other home appliance) for a week or a month. The rental is automatically renewed with each subsequent payment, and after a specified number of payments, the consumer owns the property.

Some consumer groups have expressed concern that consumers enter these agreements without adequate cost disclosures. They say that the industry emphasizes the option to own the property without specifying the

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dollar amount necessary to acquire ownership—an amount that may be several times the retail price of the goods. They believe that many consumers enter these agreements without knowing the ultimate cost of the item and without understanding that they have no equity in the item if they stop making payments. Consumer groups also contend that much of the industry's advertising is aimed at low-income people and that it fosters the belief that leasing is the only way low-income people can acquire certain high-priced items.

Representatives of the appliance rental-purchase industry contend that this type of transaction fills a legitimate need in the marketplace. They point out that the agreements offer advantages over purchasing on credit, such as comprehensive maintenance of the property, the right to terminate without penalty, and the absence of a credit check. Now, however, these representatives favor coverage under the Consumer Leasing Act, largely as a result of a number of court cases and at least one new state law that classifies rental-purchase agreements as credit sales for some purposes. They are concerned about such treatment on the state level and would prefer coverage by federal law.

Review of Regulation B

In June 1983, the Board announced its review of Regulation B, explaining that the purpose of any revisions would be to update the regulation rather than to make broad and extensive changes, because the Equal Credit Opportunity Act, under which it issued the regulation, had not been amended. The Board asked for comment generally on ways to simplify the regulation's guidance to creditors and to reduce compliance burdens without removing the protections against discrimination. The Board also asked whether the regulation should be modified so as more effectively to identify and prohibit discriminatory practices. Finally, the Board specified several technical issues on which public comment would be helpful: the need for improving the sample notice of reasons for adverse action, the adequacy of the regulation's provisions on credit history, the circumstances under which a creditor may consider an application withdrawn, and the need for new rules related to reapplications on open-end credit accounts.

The Board of Governors expects to issue for public comment the proposed changes to the regulation, as well as a staff commentary, in the first quarter of 1984.

Regulatory Actions

In 1983, the Board amended Regulation Z (Truth in Lending) to reflect statutory changes and published changes to the regulation's official staff commentary. In addition, the Board issued final determinations that the Truth in Lending Act preempts certain provisions of the laws of several states. The Board also granted applications from four states for the renewal of exemptions from the disclosure requirements of Regulation C (Home Mortgage Disclosure).

Amendments

In April, the Board amended Regulation Z, effective October 1, 1982, to reflect amendments to the Truth in Lending Act that were contained in the Garn-St Germain Depository Institutions Act of 1982. The 1982 amendment revised the Truth in Lending Act by deleting "arrangers of credit" from the definition of

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creditor, thereby excluding all such arrangers from the act's coverage. The amendments also prospectively and retroactively exempt from coverage loans that are made, insured, or guaranteed pursuant to a program authorized by title IV of the Higher Education Act of 1965. These loans include the Guaranteed Student Loans, the Auxiliary Loans to Assist Students, and National Direct Student Loans. These programs provide the majority of federal student loans covered by the regulation.

The Board also amended Regulation Z to provide that an error in the disclosure of the annual percentage rate or finance charge is not considered a violation of the regulation if the error results from a corresponding error in a calculation tool that the creditor used in good faith, and if the creditor discontinues use of the tool and notifies the Board in writing of the error in the tool.

In December 1983, the Board announced two technical amendments to Regulation C. The first implements changes in terminology related to the definition of metropolitan areas that were adopted by the U.S. Office of Management and Budget (OMB). The second reflects the shift in the authority to define standard metropolitan statistical areas from the Department of Commerce to the OMB. These amendments are effective January 1, 1984.

Interpretations

At the same time that the Board issued the amendments to Regulation Z, the staff published changes to the official staff commentary for the regulation. Some changes correspond to the regulatory amendments implementing the 1982 legislative amendments, while others update the document. Because the commentary is the sole vehicle for interpreting Regulation Z, the staff plans to update the commentary at least annually. Proposed revisions generally will be published in November of each year for a 60-day comment period. Final changes will be issued by March 31 of the following year; compliance will be optional until October 1 of that year, when compliance will become mandatory. In accordance with this plan, the staff issued proposed amendments to the commentary in late November 1983.

Determinations of Preemptions and Exemptions

To eliminate burdensome inconsistencies between state and federal laws, the Board issued final determinations in 1983 that, for certain transactions, selected parts of the laws of Arizona, Florida, Missouri, South Carolina, and Mississippi are preempted by the Truth in Lending Act and Regulation Z.

Determinations of truth-in-lending preemptions are based on whether the state law is inconsistent with the federal law and regulation. An inconsistent state law is one that requires disclosures or actions by creditors that significantly impede the operation of the federal law, interfere with its purpose, or contradict it. Such inconsistencies include requiring use of the same term to describe a different amount or meaning than the federal law does, defining a term differently from the way the federal law does, and requiring the use of a term different from the federal term to describe the same item.

In 1983, the Board developed three principles for determining whether a state law is inconsistent with the Truth in Lending Act:

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- State law is viewed as requiring the use of specific terms if it uses those terms in its provisions on disclosures, even if it does not impose penalties for non-usage.
- A state disclosure that has no functional federal equivalent does not pose any question of inconsistency.
- A state law is preempted only when inconsistency exists and not when there is merely a potential for it.

In addition, the Board decided that a preemption determination about a particular state's law will not affect similar provisions in the laws of states that do not request preemption. Finally, the Board delegated the authority for preemption determinations under Regulation Z, Regulation E, and Regulation M (Consumer Leasing) to the Director of the Board's Division of Consumer and Community Affairs.

The Board also proposed preemption of certain provisions in the Massachusetts law on electronic transfers because they were inconsistent with the federal Electronic Fund Transfer Act and Regulation E and because, according to a preliminary review, they did not afford the consumer greater protection than did the federal law. The Massachusetts Division of Banks and Loan Agencies then revised those provisions to eliminate the grounds for preemption. Therefore, in September the Board issued a final determination that the federal law did not preempt the Massachusetts law.

Enforcement of Consumer Protection Laws

In 1983, the Board strove to improve the enforcement of consumer protection regulations and to strengthen institutional compliance with those regulations. These efforts resulted in revisions of the Board's examination report to make it more comprehensible, an expansion of the System's program for educating examiners, and the production and distribution of pamphlets and videotapes on compliance issues. At year-end, the Board was also considering improvements to the System's implementation of the Community Reinvestment Act that are based on proposals of the Consumer Advisory Council.[2]

In January 1983, the Federal Reserve Banks implemented new standards for the format and content of bank examination reports. The revised report emphasizes a bank's substantive compliance problems and their causes. When possible, the reports also make specific suggestions about corrective action that the bank should take. During the compliance examination, examiners note minor violations which may not be indicative of the bank's general practices; such violations are not presented formally in the report unless they indicate a more systematic problem. The Board believes that this new approach will better communicate with bank management and help them both to correct specific violations and to change operational procedures and other factors that may contribute to violations.

During the year, the Federal Reserve System further strengthened its consumer compliance program with new centralized training for senior examiners. The one-week Advanced Consumer Compliance School, which is designed for examiners with 18 to 24 months of field experience, focuses on effectiveness in compliance examinations and on new regulatory

2. See the discussion of the work of the Consumer Advisory Council below.

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issues. Two sessions were offered in 1983. The new school supplements the basic school for new examiners, topical seminars for experienced examiners, and a variety of informal training programs at the regional level.

In 1983, the Board produced videotapes and pamphlets to help examiners, other regulatory personnel, and financial institutions better understand the requirements of the consumer regulations. One of the videotapes was "How to Edit HMDA Data," which the Federal Financial Institutions Examination Council distributed to each office of the regulatory agencies that are responsible for collecting from financial institutions the data required under the Home Mortgage Disclosure Act. This 17-minute videotape proved effective in improving the quality of the HMDA data that the Council aggregates each year.

A second videotape, "Truth in Lending Disclosures for Alternative Mortgages," was aimed at helping examiners and others understand how the disclosure requirements of Regulation Z apply to mortgage financing that involves graduated payments, variable rates, growing equity, and seller or consumer buydowns. The videotape was distributed with booklets to the Federal Reserve Banks, which in turn have offered the program to interested groups.

The Board distributed three pamphlets to help state member banks meet the requirements of the consumer regulations: "The Board of Directors' Opportunities in Community Reinvestment," "How to Determine the Credit Needs of Your Community," and "The Board of Directors' Role in Consumer Law Compliance." Examiners will distribute the appropriate pamphlets to banks during compliance examinations.

Responsibilities under the Federal Trade Commission Act

The Board has three major responsibilities under the Federal Trade Commission Act: first, to receive complaints against state member banks and to take appropriate action to remedy them; second, to identify unfair or deceptive banking practices and to adopt regulations that prohibit them; and third, within 60 days of the effective date of rules adopted by the Federal Trade Commission (FTC) that prohibit unfair or deceptive practices, to promulgate substantially similar regulations that are applicable to banks unless certain exceptions apply.

State Member Banks

The Board and the Federal Reserve Banks investigate and act to resolve complaints against state member banks and forward to appropriate enforcement agencies any complaints received that involve other businesses or creditors. In 1983, the Federal Reserve System received 2,487 complaints: 1,725 by mail, 724 by telephone, and 28 in person (see the accompanying table). Of these complaints, 1,030 involved state member banks. The Board also received 279 written inquiries concerning consumer credit laws, regulations, and banking policies and practices in 1983. In responding to both the complaints and the inquiries, members of the Board's staff provided consumers with specific explanations of laws, regulations, and banking practices, and with helpful printed material.

Staff members of the Board's Division of Consumer and Community Affairs continue regularly to review a

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Consumer Complaints Received by the Federal Reserve System, by Subject, 1983

Subject	Number
Regulation B (Equal Credit Opportunity)	266
Regulation C (Home Mortgage Disclosure)	2
Regulation E (Electronic Fund Transfers)	71
Regulation M (Consumer Leasing)	5
Regulation Q (Interest on Deposits)	155
Regulation X (Securities Credit)	0
Regulation Z (Truth in Lending)	492
Regulation BB (Community Reinvestment)	3
Fair Credit Reporting Act	66
Fair Debt Collection Practices Act	22
Fair Housing Act	1
Holder in due course	4
Transfer agents	2
Municipal securities dealer regulation	21
Unregulated bank practices	1,340
Other [1]	37
Total	**2,487**

1. "Other" refers primarily to miscellaneous complaints against business entities.

sample of the correspondence that involves complaints processed by the Reserve Banks and to evaluate the actions of the Banks for adherence to System procedures and guidelines. The results of the review are then discussed with the pertinent Reserve Bank. This procedure provides the Board with the information necessary to strengthen the System's handling of complaints.

To assess the attitudes of complainants concerning the handling of their complaints, the Board sent follow-up questionnaires to consumers whose complaints against state member banks were handled by the System. In 1983, consumers returned 45 percent of these questionnaires; in 1982, the return rate was 60 percent. Approximately 70 percent of the respondents reported that the explanations they received were clear and understandable; 80 percent, that they were satisfied with the promptness in handling their complaints; 98 percent, that they were treated courteously by Federal Reserve staff; 88 percent, that they would contact the Federal Reserve again if they had other problems with banks; and 57 percent that the resolutions of their complaints were acceptable. The proportion of those satisfied with the outcome is relatively lower than the proportion of those satisfied with the System's handling of the complaints because a number of the complaints involved practices that, although of concern to consumers, are permissible banking practices.

The following table summarizes the nature and resolution of the complaints against state member banks in 1983. The complaints are classified according to bank functions: loans, deposits, electronic fund transfers, trust services, and other. About 55 percent of the complaints against state member banks concerned lending functions: 30 percent alleged discrimination on a prohibited basis; and 25 percent dealt with credit denial on a nonprohibited basis (such as length of residency), disclosures of credit costs, and other general lending functions. Approximately 28 percent involved interest on deposits and general practices concerning deposit accounts.

Unregulated Practices

The Board continued to monitor complaints about unregulated practices to identify those that might require special attention.

As in the past, the Board identified the unregulated practices that were the subject of 15 or more complaints per quarter or 50 for the year as a whole. Of the 1,340 complaints, 357 fell into one or the other of these categories. They were of five types: complaints about credit denial based

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Consumer Complaints Received by the Federal Reserve System, by Function and Resolution, 1983

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit function	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	**2,487**	**272**	**1,015**	**738**	**71**	**17**	**374**
Total concerning state member banks	1,030	169	399	293	36	9	124
Insufficient information[1]	30	3	10	8	1	0	8
Information furnished[2]	180	25	92	45	2	0	16
Bank legally correct							
No accommodation	373	83	136	94	14	6	40
Accommodation made[3]	131	15	59	36	4	0	17
Clerical error, corrected	115	13	34	49	4	1	14
Factual dispute[4]	33	2	7	16	2	0	6
Bank violation, resolved[5]	18	2	10	4	2	0	0
Possible bank violation, unresolved[6]	10	0	3	4	1	0	2
Customer error	13	1	3	4	3	0	2
Pending, December 31	127	25	45	33	3	2	19

1. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.
2. When it appears that the complainant does not understand the law and that there has been no violation on the part of the bank, the Federal Reserve System explains the law in question and provides the complainant with other pertinent information.
3. In these cases the bank appears to be legally correct but chooses to make an accommodation.
4. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers wishing to pursue the matter may be advised to seek legal counsel or legal aid, or to use small claims courts.
5. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as requested by the Federal Reserve System.
6. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

on credit history (91, or 7 percent of the total complaints about unregulated practices); disputed deposits (73, or 5 percent); excessive time to clear checks, including delayed availability of funds (65, or 5 percent); discrepancies in accounts (64, or 5 percent); and charges and procedures related to insufficient funds (64, or 5 percent).

The two largest categories of complaints received involved credit denial because of credit history and disputed deposits. In the first category, the complaints did not clearly involve practices that are unfair or deceptive. Many of the complaints indicated that the applicant for credit did not realize the implications of a poor credit history or the lack of borrowing experience for a lender's decision about the applicant's creditworthiness. The second category involves factual disputes between the consumer and the bank; in these disputes, no single policy or procedure engendered enough complaints to constitute a trend of unfair practices. Each of these categories accounts for only a small fraction (3 percent or less) of all consumer complaints received.

In March 1983, the Board initiated research to heighten its understanding of the difficulties consumers have with availability of funds. As part of the Survey on Consumer Attitudes conducted by the Survey Research

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Center of the University of Michigan, the Board asked consumers about their experiences with delayed availability of funds deposited into checking, savings, and money market deposit accounts. The large majority of deposit account holders did not have problems of delayed availability in the past few years. Of the respondents who had problems, few reported that the problems occurred frequently.[3]

In September, the Board's Vice Chairman, Preston Martin, testified before the Subcommittee on Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs on legislation that had been proposed to address the issue of delayed availability. Although acknowledging that the practice causes problems for some consumers, the Vice Chairman testified that the steps the industry has voluntarily taken should be given a chance to resolve the issue before legislation is enacted. Throughout 1983, the Board continued to encourage such steps by, among other things, meetings with industry representatives.

In early 1984, the Board proposed to the other federal financial agencies that they all issue a joint policy statement on the practice of delayed availability of funds. The Board suggested that the policy statement call on financial institutions that delay availability to review and disclose their policies; take into account individual factors that may indicate whether a risk of loss exists; provide a means for depositors to request an exception from the standard delay policies; and refrain from imposing holds on social security and other federal government checks.

3. "Frequently" was defined as at least once a month.

FTC Rules

In 1983, the Board continued to monitor the status of three rules proposed by the FTC to determine the need for substantially similar rules applicable to banks. These rules are the Credit Practices Rule, an amendment to the Holder-in-Due-Course Rule, and the "Used Car Rule."

The proposed Credit Practices Rule would prohibit certain contractual terms that creditors have used when collecting unpaid debts and would require creditors to make certain disclosures. The proposal, which was first issued for comment by the FTC in 1975, has been modified to meet some of the technical objections that were raised during hearings held by the Commission in 1977 and 1978. The Board presented testimony to the Commission concerning the proposal in June 1983. On July 20, 1983, the FTC gave conditional approval to the rule by unanimously adopting six of the ten provisions, some of which had been modified since they were originally proposed. The approval of the rule depends on the preparation by FTC staff of two documents, a regulatory analysis and a statement of basis and purpose, for consideration by the Commission. If the FTC accepts the documents, the effective date of the rule will be one year from the date of promulgation.

The proposed amendment to the Holder-in-Due-Course Rule is pending at the FTC. The purpose of the rule, according to the FTC, is to ensure that no legal device interferes with a seller's duty to perform its responsibilities when a consumer has agreed to pay for goods. The seller portion of the rule has been in effect since May 14, 1976; the amendment would extend the requirements of the rule to creditors besides sellers.

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In August 1981, the FTC adopted in final form the "Used Car Rule," which requires certain disclosures by sellers of used motor vehicles. In September 1981, the Commission submitted the rule to the Congress for review pursuant to the legislative-veto provisions of the act, and the rule was vetoed in May 1982. Although the Supreme Court found that veto unconstitutional, subsequent lower court action has further delayed the effective date of the rule.

Compliance with Consumer Regulations

The five federal agencies that supervise financial institutions reported that overall compliance with the consumer regulations improved in 1983. The other agencies that enforce these laws also reported high levels of compliance. This section summarizes these reports on compliance with regulations under the Truth in Lending Act, the Equal Credit Opportunity Act, and the Electronic Fund Transfer Act. The reports cover the period July 1, 1982, to June 30, 1983.[4]

Truth in Lending (Regulation Z)

Four of the five federal agencies that regulate financial institutions reported that compliance with Regulation Z continued to improve in 1983. The Board, the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Federal Home Loan Bank Board (FHLBB) reported that 42 percent of all institutions examined were found to have no violations at all, compared with 33 percent in 1982. The three agencies that were able to provide ranges of violations (the Board, the OCC, and the NCUA) reported that 58 percent of the institutions they examined were in full compliance, 25 percent had committed no more than five violations, and only 17 percent had committed more than five violations. The Federal Deposit Insurance Corporation (FDIC) reported a slight decrease (3 percent) in the number of institutions in full compliance.

Summaries of examination findings compiled by the Board of Governors, the OCC, the FDIC, the FHLBB, and the NCUA indicate that the most frequent violations of Regulation Z are the following:

- Failure to disclose the number, amount, or timing of payments scheduled to repay the indebtedness.
- Failure to disclose correctly the annual percentage rate.
- Failure to disclose with sufficient precision the finance charge and the total of payments.
- Failure to make written disclosures, properly grouped and segregated in a form that the customer may retain.
- Failure to disclose properly and to itemize the amount financed on closed-end credit.

The FDIC issued one cease-and-desist order for violations of Regulation Z. The Board entered into three formal administrative enforcement actions, and the OCC into one, that included provisions requiring compliance with Regulation Z. Approximately 618 institutions supervised by the Board, the OCC, the FDIC, and the FHLBB reimbursed more than $2 million on 38,821 accounts under the Regulation Z enforcement policy; the 1981 figure was $5.5 million. The

4. Although the federal agencies that regulate financial institutions do not all use the same method to summarize compliance data, the data they provide support the general conclusions presented here.

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marked decline in both the number and total dollar amount of restitutions indicates continued improvement in disclosing annual percentage rates and finance charges properly.

The Federal Trade Commission (FTC) initiated a pilot program to increase voluntary compliance with the provisions of the Truth in Lending Act regarding credit advertising. The FTC monitored real estate advertisements in newspapers in 16 major cities and notified advertisers of any violation observed. As a result, compliance with these provisions rose from an average of 13 percent in January 1983 to more than 84 percent in June; nearly 1,300 advertisers were brought into compliance without formal enforcement actions. Since June, the FTC has expanded monitoring to additional major cities. It also has entered into three consent agreements that require the creditors involved to correct violations of advertising requirements of the Truth in Lending Act and the error-resolution requirements of the Fair Credit Billing Act. In addition, the FTC sought civil penalties against a creditor that failed to comply with an earlier order that cited advertising violations.

The other agencies with enforcement responsibilities—the Packers and Stockyards Administration of the U.S. Department of Agriculture, the Farm Credit Administration, and the Civil Aeronautics Board—reported generally high levels of compliance. The Farm Credit Administration reported that the investigation of a formal complaint against a federal land bank association led to the discovery of a pattern of miscalculated annual percentage rates. The land bank reimbursed about $35,000 to 1,300 customers. The Civil Aeronautics Board issued a cease-and-desist order to one air carrier for failure to credit refunds promptly to consumers as required by the Truth in Lending Act.

Maine, Connecticut, Massachusetts, Oklahoma, and Wyoming, which are exempt from certain parts of the Truth in Lending Act, reported satisfactory compliance in 1983 with truth-in-lending rules.

Equal Credit Opportunity (Regulation B)

Each of the agencies that regulate financial institutions reported continued improvement of compliance with the Equal Credit Opportunity Act (ECOA) and Regulation B. Approximately 76 percent of the institutions examined had no violations, up from 67 percent in 1982. The Board instituted three formal administrative actions that addressed noncompliance with Regulation B, and the OCC instituted one. The most frequent violations of Regulation B were the following:

- Failing to provide adequate and timely notice of action taken on a credit application.
- Failing to use the appropriate form and provide specific reasons for adverse action when credit is denied.
- Requesting prohibited information (such as the race, color, religion, or national origin of an applicant, except as required for monitoring purposes) or requests for information about "other income" without the required disclosure that it is optional.
- Requiring the signature of an applicant's spouse or other person, other than a joint applicant, when the applicant qualifies under the creditor's standards of creditworthiness.

The Federal Trade Commission took four formal enforcement actions against creditors: three of the creditors were charged with discrimination prohibited by the act, and a depart-

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ment store chain was charged with failing to tell applicants the specific reason for credit denial and failing to provide disclosures required by the Fair Credit Reporting Act.

Although most creditors seem to be complying, the FTC staff is pursuing several investigations. These investigations involve issues such as discouraging applications from the elderly because of age or lack of full-time employment, restrictions on the repayment periods of loans to the elderly, failure to retain applications, and failure to provide notices of adverse action.

The Small Business Administration (SBA) reported one violation related to age. The ECOA prohibits consideration of an applicant's age except in an appropriate credit-scoring system to determine a pertinent element of creditworthiness, such as whether the amount of employment or retirement income will support the debt until maturity. The SBA's standard operating procedure states merely that the age and health of an applicant are valid concerns when looking at the ability to repay a loan. The procedure is now being amended to give more specific guidance for weighting an applicant's circumstances in keeping with the ECOA and Regulation B.

The other federal agencies responsible for enforcing the act reported satisfactory compliance.

Electronic Fund Transfer Act (Regulation E)

The financial regulatory agencies reported substantial improvement in compliance with the Electronic Fund Transfer Act. Of the institutions examined, 84 percent were in compliance, up from 74 percent in 1982.

The following were the most frequent violations of Regulation E in 1983:

- Failure to provide initial disclosures, or correct ones, when a customer contracts for EFT service or before the first transfer on the account.
- Failure to provide a notice of error-resolution procedure at least once each calendar year.
- Failure to provide adequate information on the periodic statement.

The FTC, which also has responsibilities for enforcement of this act, reported satisfactory compliance. According to the Securities and Exchange Commission, a few broker-dealers are beginning activities that may be subject to the provisions of the act. The Commission will monitor those parties' activities closely to ensure compliance.

The Economic Impact of Regulation E

As the Electronic Fund Transfer Act requires, the Board monitors the effects of the act on the costs and benefits to financial institutions and consumers. The application of the act broadened during 1983 as more financial institutions offered electronic fund transfers (EFTs) and more consumers used them. A growing number of institutions made preauthorized transfers through automated clearinghouses (ACHs), provided automated teller machines (ATMs), or engaged in other forms of EFT. Although larger institutions are more likely to offer a full range of consumer EFT services than smaller ones, shared networks and joint ventures continue to make more EFT services available to smaller institutions and their customers. As the automation of operations spreads among financial institutions of all sizes, the

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cost of providing EFTs to consumers will continue to fall. Because of declining cost and growing consumer demand for the benefits from EFT services, consumer use of EFT is likely to grow.

More consumers than in the previous year had accounts at institutions that offered EFT services. Furthermore, they made greater use of such features. A Board-sponsored survey conducted in April 1983 found that of households with a checking, savings, negotiable order of withdrawal (NOW), or share draft account, more than 68 percent had an account with an EFT feature and used it at least occasionally; the proportion in March 1981 was 54 percent. ATMs are currently the most widely used of the five principal forms of EFT (the others are telephone bill payment, home banking, point-of-sale payments, and transfers through ACHs).

The benefits to consumers from the Electronic Fund Transfer Act are difficult to measure because they cannot be isolated from consumer protections that would have been provided otherwise. Compliance statistics from examination reports do not suggest any widespread compliance problem or violations of the consumer rights established by the act. All five federal agencies that regulate financial institutions reported decreases from the previous year in the percentage of institutions not in full compliance. The most frequent violations involved failure to provide one or more information disclosures to consumers. Moreover, the majority of institutions cited for noncompliance had only one to five violations, a good record in light of the volume of consumer EFT transactions.

Further evidence that consumers have no serious problems with EFT lies in data from the Board's Consumer Complaint Control System. Only 71 of the 2,487 complaints processed in 1983 involved EFTs. The Federal Reserve System forwarded 27 of these complaints to other agencies for resolution; of the remaining 44, only 4 involved a possible violation of the regulation.

Costs associated with the act are also difficult to quantify because the costs of industry practices that would have evolved in the absence of statutory requirements are unknown. Research by the Board staff has found that, on average, data processing changes, labor, and administration were the most costly elements in compliance. The compliance cost of an EFT transaction is probably not high enough to compromise the cost advantage EFT transactions may otherwise have over check-based transactions. As EFT systems mature, as transaction volume builds, and as start-up costs for compliance are amortized, compliance costs for each EFT transaction are likely to fall. The cost burden of the act is therefore likely to decline.

Community Reinvestment Act

The Board of Governors is required by the Community Reinvestment Act (CRA) to encourage institutions under its jurisdiction to help meet the credit needs in their communities—including low- and moderate-income neighborhoods—consistent with the safety and soundness of the institutions. The CRA requires the Board to assess the record of an institution in meeting such needs and to take that record into account in deciding certain applications that the institution files.

During the 1983 reporting period (July 1, 1982 through June 30, 1983), Federal Reserve System personnel ex-

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amined 785 state member banks for CRA compliance. These institutions are ranked for compliance on a scale of 1 through 5, with 5 representing the lowest level of performance and 3, less than satisfactory performance. No bank fell into the lowest category, and less than 4 percent failed to achieve at least a satisfactory performance.

To assure a balanced perspective on whether a bank is responding to the needs of its community, Federal Reserve examiners often interview community representatives. In the 1983 reporting period, 1,036 such interviews were conducted with government officials, community-based organizations, community development corporations, and civil rights and consumer advocates.

In the 1983 reporting period, three applications that the Federal Reserve System processed were protested under the CRA. The first application was protested by a community organization which alleged that the applicant had failed to meet the credit needs of the low- and moderate-income population in the community. In a private meeting between the applicant and the community organization, the organization agreed to withdraw its protest. Following the protest, numerous lenders in the area expressed an interest in working with community groups to establish a local neighborhood housing services program. The protest appeared to open new channels of communication between the community and its lenders. The second application was also approved following the withdrawal of the protest, again as a result of private meetings between the applicant and the protestant. The third was approved by the System following a finding that the protest was nonsubstantive.

In 1983, the Community Affairs Officers at the Reserve Banks sponsored numerous programs to foster constructive dialogue between financial institutions and their communities. These officers also assisted lenders in fulfilling their obligations under the CRA and in promoting revitalization through initiatives of the private sector.

Consumer Advisory Council

The Consumer Advisory Council met in March, July, and October 1983 to advise the Board with regard to its rulewriting and enforcement responsibilities and to discuss other issues relating to consumer financial services. The council has 30 members, who represent a wide spectrum of the interests of both consumers and financial institutions. The council's meetings are open to the public.

In 1983, the council considered the following issues:

- The merits of state or federal rules that would govern disclosures for time deposits and savings accounts.
- The Board's proposed revision of the Consumer Leasing Act.
- The way limitations on creditor remedies may affect the availability of consumer credit and the number of consumer bankruptcies.
- The relationship between commercial and consumer interest rates.
- Bank policies on dormant accounts.
- Legislative and operational developments relating to delayed availability of funds.
- The Board's plan for reviewing Regulation B.
- The effectiveness of the Federal Reserve System's implementation of the Communty Reinvestment Act.
- The economic effects of credit card use on consumers, merchants, and card issuers.

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• Credit card fraud and proposed legislation to expand existing law.

• Bankruptcy reform.

In 1983, the council forwarded to the Board "The Federal Reserve System's Implementation of the Community Reinvestment Act of 1977," a report requested by Chairman Volcker. The review committee of 11 council members focused on four areas: bank examinations, the training of consumer compliance personnel, applications and protests, and community affairs.

The council's report commends many of the System's efforts to implement CRA, especially the appointment of a community affairs officer at the Board and at each of the Federal Reserve Banks; the System's community outreach program; and the CRA training for consumer compliance examiners. In addition, the report offers recommendations to strengthen implementation of the act, within a framework of general beliefs:

• The Board should assign a higher, more clearly defined priority to enforcement and other efforts necessary to implement the CRA. Specifically, the council recommends that System examiners use more effective methods to detect bank practices that discourage minorities and other protected classes from applying for loans, and that the System produce additional educational materials to inform consumers of the Federal Reserve's willingness to respond to CRA complaints against state member banks.

• The System should strive for better coordination in various CRA-related activities. For example, the community affairs officers, who are expected to have the most well-rounded view of CRA issues, should be directly involved in training new examiners and should work closely with them in interviews with local community groups and agencies in maintaining CRA-related information. Also, the Board should offer specialized education for examiners and monitor the performance of the officers. The council also recommends increased coordination of the enforcement effort of the federal supervisory agencies, especially in developing and maintaining CRA-related information, such as community profiles.

• The Federal Reserve System should exercise leadership in fostering constructive dialogue between bankers and their communities. Specifically, the System should encourage community affairs officers to use community resources, especially experienced community specialists, more fully; to urge examiners to interview a broad range of community representatives; and to seek better written communications with the public. The report suggests that Reserve Banks improve their special mailings to community groups and that newspaper notices of applications by banks and bank holding companies be written in plain English and state that the Federal Reserve will consider, in deciding on the application, a bank's performance in helping to meet the credit needs of the community. The council also recommends that the CRA statement be changed to make it a more useful instrument of public disclosure.

The Board is currently studying the council's recommendations to determine how the System's implementation of CRA may be enhanced.

Legislative Recommendations

Each year the Board asks the agencies with enforcement responsibilities with regard to Regulations B, E, and

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Z for any legislative recommendations concerning the underlying acts. Although the Board has no legislative recommendations beyond those regarding the Consumer Leasing Act (summarized earlier in this section), other agencies have made suggestions.

The Interstate Commerce Commission has requested consideration of an amendment to the Equal Credit Opportunity Act that would eliminate it as an agency responsible for enforcing the act. In support of its request, the commission notes that most customers of the carriers that it regulates are business firms rather than individuals. Moreover, the commission notes that although the carriers of household goods, which serve individuals, may appear to have opportunities to discriminate in ways prohibited by the act, those carriers tend to restrict credit to corporations and relocation companies. "Should the extension of credit to individuals become more prevalent," the commission advises, "the commission staff will regard the household goods sector as a potential problem area warranting scrutiny, but we are unaware of any movement in that direction."

The Office of the Comptroller of the Currency believes that provisions in the Electronic Fund Transfer Act governing consumer liability for unauthorized electronic transfer of funds should be re-evaluated. The act establishes a three-tiered structure for determining consumer liability that, according to the OCC, is complex and confusing for consumers and financial institutions alike. Moreover, the OCC believes that financial institutions face difficulties in establishing consumer liability, because they must prove when the consumer learned of the loss or theft and, in some instances, must also prove that the losses would not have occurred if the consumer had notified the institution.

The OCC also believes that clarification of congressional intent is needed with regard to section 909 of the Electronic Fund Transfer Act. The OCC points out that, in a dispute about unauthorized transfers, the act puts the burden of proof upon the financial institution, and that the Board's Regulation E requires merely a "good faith investigation" of the institution's records in resolving a dispute. As a result, the act's requirement about burden of proof is weakened. The OCC also suggests clarification as to whether this requirement applies only in a judicial procedure or also in pretrial stages of a consumer complaint.

The Federal Deposit Insurance Corporation reiterates its recommendation that the Congress review and overhaul the Truth in Lending Act, which the FDIC finds complex and unmanageable. The agency suggests that the Congress reexamine the scope of the act and the nature and extent of the abuses that gave rise to the statute. It observes that a broad category of simple-interest loans could well be exempted from the cost disclosures of the law as long as any associated credit insurance was in fact voluntary.

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Legislative Recommendations

The Board of Governors has made the following recommendations for legislation to the Congress of the United States.

Bank Holding Company Legislation

Legislation is under consideration in the Congress to expand banking powers and revise the banking laws to be responsive to technological and market changes, competitive forces, and customer needs.

The Federal Reserve believes that reform of the existing statutory framework is urgent to accommodate the constructive evolution of the banking system and to channel the forces of change in a manner consistent with continuing public policy objectives.

The Federal Reserve has recommended that the framework for legislative action should include the following essential elements:

- New statutory definitions to clarify what is a bank, what is a thrift institution, and what is the proper scope of powers for state-chartered banks.
- Expansion of the powers of bank holding companies.
- Streamlining of the procedures of the Bank Holding Company Act.

Definitions

New definitions of the terms "bank" and "thrift institution" are urgent to assure an orderly framework for the development of the financial system, to promote competitive equity, and to establish clearly the competitive rules for the various segments of the financial service industry. The Board takes as its point of departure the basic proposition that banks, and depository institutions generally, continue to perform a unique and critical role in the financial system and the economy—as operators of the payments system, as custodians of the bulk of liquid savings, as key and impartial suppliers of short-term credit, and as the link between monetary policy and the economy.

The Board believes that all institutions having the unique character of banks should be subject to the rules applicable to banking institutions—that is, the limitations on the range of activities and ownership, as well as the protections against conflict of interest, concentration of resources, and excessive risk. To achieve that end and to close the so-called "nonbank bank" loophole, the Board has recommended clarifying the definition of "bank" in the Bank Holding Company Act by, among other changes, extending the definition to cover all institutions that are insured by the Federal Deposit Insurance Corporation.

The Board has also recommended that thrift institutions meet a minimum residential mortgage test to remain eligible for the special benefits provided by law for such institutions. The holding companies of thrift institutions not meeting the test would be limited so that the scope of their permissible nonbanking activities would be similar to those of bank holding companies.

The Board has also recommended that the Congress establish limits with

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respect to the ability of states to authorize state-chartered institutions to engage in activities that are beyond the powers permitted under federal law to depository institutions and their holding companies. Otherwise, to the extent that the Congress, in the national interest, finds it necessary to circumscribe the activities of depository institutions and their holding companies, such limitations could be rendered null and void over time by unrestrained state action.

Powers

The Board has recommended permitting bank holding companies to engage in a broader range of activities including the following:

- The expansion of securities powers, specifically revenue bond underwriting and mutual investment fund powers.
- Insurance brokerage and underwriting activities with some constraints on the size combinations of banks and insurance firms.
- Real estate brokerage and the exercise of real estate investment and development powers with certain prudential limitations.
- The operation of a thrift institution insured by the Federal Savings and Loan Insurance Corporation.
- Any activity determined by the Board to be of a financial nature or closely related to banking.

Procedures

The Board favors streamlining the procedures for dealing with bank holding company applications. By recent changes in the regulation governing holding company activities, the Board has gone as far as it believes it can, consistent with present law, to speed up procedures and lessen regulatory burdens. The Board has recommended legislation eliminating the "benefits and burdens" test of present law, limiting bank holding company examinations and reports, providing for expedited notice procedures for approval of new activities, and setting out new and simplified criteria for determining the permissibility of new activities generally.

Increasing the Number of Class C Directors

The Board has recommended that the Federal Reserve Act be amended to increase the number of Class C directors at each Federal Reserve Bank from three to five. The proposal aims to diversify further the backgrounds and interests represented on the boards of directors of the Reserve Banks as a way of accomplishing one of the objectives of the Federal Reserve Reform Act of 1977. That act provides for the representation of the interests of consumers, labor, and services, in addition to agriculture, commerce, and industry, on the boards of the Reserve Banks.

The Board also has recommended that thrift institutions be added to the groups that should be considered in selecting Class C directors in view of the changes made by the Monetary Control Act of 1980. That act applied reserve requirements to such institutions and made Federal Reserve credit and services available to them.

Amendments to the Consumer Leasing Act

The Board has submitted to the Congress draft legislation to simplify and improve the Consumer Leasing Act. The Board suggested that the law, which requires disclosure of the terms and cost of leasing personal property

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by consumers, could benefit from the kind of streamlining that characterized the simplification of the Truth in Lending Act in 1980. The Board's proposal would accomplish the following:

• Emphasize disclosure of the essential cost information in a straightforward manner.

• Reduce both the number and the complexity of the required disclosures and concentrate on information most likely to be used in shopping and decisionmaking.

• Require disclosures to be presented separately from other information so as to highlight them for the consumer.

One major change recommended by the Board is to expand the coverage of the act to include "rental-purchase agreements." These are short-term (usually week-to-week or month-to-month) rentals of television sets or other goods; the agreement may be canceled by the consumer at any time, but provides that the consumer will own the goods after a certain number of payments. Because of the need for cost information for these increasingly popular transactions and because of the similarity of rental-purchase agreements to longer-term leases, the Board has recommended that they be covered by the act.[1]

Federal Reserve Bank Branches

The Board has recommended that the Federal Reserve Act be amended with respect to the limit on the cumulative dollar amount that may be spent on construction of Federal Reserve Bank branch buildings. The System incurs expenses for branch construction principally for additions to, or replacements for, existing branch facilities. The current limitation, set in 1974, will be exhausted by projects that are under way or that are currently at an advanced planning stage. Branches of Federal Reserve Banks provide important services to the financial system and the public, including the distribution of coin and currency, the clearing of checks, and the processing of electronic payments. The current statutory limitation will prevent needed renovation and new construction at branch buildings.

Amendments to the International Banking Act

The International Banking Act of 1978 (IBA) provided a federal regulatory framework governing the operations of foreign banks within the United States and also contained provisions relating to the organization and operations of Edge corporations. As required by the IBA, the Board in 1980 submitted to the Congress a report containing its recommendations to improve the implementation of the IBA. The Board's current recommendations include the following elements:

• Authorize access for Edge corporations to the Federal Reserve discount window without requiring them to become members of the Federal Reserve System.

• Authorize the Board to permit majority ownership of an Edge corporation by a U.S. bank that is controlled by foreign individuals.

• Eliminate the statutory limitation on investments by a member bank in Edge corporations and authorize the Board to determine

1. See the section "Consumer and Community Affairs" in this Report for a further discussion of the Board's suggestions for amending the Consumer Leasing Act.

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amounts of aggregate and individual investments in Edge corporations.

• Clarify the Board's authority to require prior approval or notice of a change in ownership or control of an Edge corporation, and revise the Edge act to provide rules applicable to ownership of Edge corporations that are comparable to those applicable to owners of other U.S. banking institutions.

• Eliminate the statutory requirement that Edge corporations be examined at least annually.

• Authorize the Board to impose reserve requirements on all foreign banking institutions in the United States, including commercial lending companies and agencies of foreign banks with consolidated worldwide assets of less than $1 billion.

• Amend the Bank Holding Company Act so as effectively to prohibit bank holding companies from acquiring by merger banks outside their principal state of bank operations, and clarify the intent of the Congress under section 5 of the IBA with respect to a change in home state.

• Provide specifically by statute that the banking agencies may exempt from disclosure information obtained from foreign banking organizations that is not disclosed, either by law or by custom, in their home countries.

• Authorize the banking agencies to exchange examination and other supervisory information with foreign banking authorities about banks and bank holding companies under suitable agreements to maintain confidentiality of that information.

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Litigation

During 1983, the Board of Governors was named in thirty-two pending lawsuits, compared with thirty-four in 1982. Of the new lawsuits filed in 1983, five raised questions under the Bank Holding Company Act, compared with six such actions filed in 1982. As of December 31, 1983, nineteen cases were pending, seven of which involve questions under the Bank Holding Company Act. A brief description of each of these cases and of those disposed of in 1983 follows.

Bank Holding Companies—Antitrust Action

In 1983, the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to bank holding company acquisitions or mergers that had been approved previously by the Board, and no such cases were pending from previous years.

Bank Holding Company Act—Review of Board Actions

In *Gustafson* v. *Board of Governors,* nos. 82-4113 and 82-4213 (5th Circuit, filed March 24, and June 4, 1982), petitioner sought judicial review of an order of the Federal Reserve Bank of Dallas approving the application of Raymondville State Bancshares, Inc., Raymondville, Texas, to acquire Raymondville State Bank, Raymondville, Texas, pursuant to authority delegated by the Board of Governors (*Federal Reserve Bulletin,* volume 68, April 1982, page 260). The petition was denied and the Board's order was upheld in an opinion dated October 17, 1983 (717 F.2d 242). On November 17, 1983, a petition for rehearing and a suggestion for rehearing en banc were denied.

In *First Bancorporation* v. *Board of Governors,* no. 82-1401 (10th Circuit, filed April 9, 1982), petitioner seeks judicial review of a Board order approving petitioner's application to acquire an industrial loan company, subject to the conditions that that company not both offer negotiable order of withdrawal accounts and engage in the business of commercial lending, and that NOW accounts offered be subject to federal limitations on interest rates and reserve requirements (*Federal Reserve Bulletin,* volume 68, April 1982, page 253). Oral argument was held on November 14, 1983. The case is awaiting the court's decision.

In *Wyoming Bancorporation* v. *Board of Governors,* no. 82-1634 (10th Circuit, filed May 20, 1982), petitioner seeks judicial review of the Board's order dated April 27, 1982 (*Federal Reserve Bulletin,* volume 68, May 1982, page 313), disapproving petitioner's application to acquire the American State Bank of Powell, Powell, Wyoming. Petitioner challenges the Board's definition of the relevant geographic market for assessing the competitive impact of the proposal. Oral argument was held on November 14, 1983. The case is awaiting the court's decision.

In *Association of Data Processing Service Organizations, Inc., et al.* v. *Board of Governors,* nos. 82-1910 and

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82-2108 (D.C. Circuit, filed August 6, and September 20, 1982), petitioners seek judicial review of Board orders approving an application by Citicorp, New York, New York, to engage, through a subsidiary, in certain data processing activities (*Federal Reserve Bulletin,* volume 68, August 1982, page 505), and amending the Board's Regulation Y to designate those activities as closely related to banking and thus permissible for bank holding companies generally (*Federal Reserve Bulletin,* volume 68, September 1982, page 552). The cases are awaiting the court's decision.

In *Securities Industry Association* v. *Board of Governors,* no. 83-614 (Supreme Court, filed February 3, 1983), plaintiff seeks judicial review of the Board's order, dated January 7, 1983, approving an application by Bankamerica Corporation, San Francisco, California, to acquire The Charles Schwab Corporation, San Francisco, California, which owns a discount securities brokerage firm, Charles Schwab & Co., Inc. (*Federal Reserve Bulletin,* volume 69, February 1983, page 105). The court issued an opinion on July 15, 1983, upholding the Board's order (716 F.2d 92). A petition for certiorari is pending, 52 U.S.L.W. 3324 (U.S., October 12, 1983) (no. 83-614).

In *Dakota Bankshares, Inc.* v. *Board of Governors,* no. 83-1697 (8th Circuit, filed May 26, 1983), petitioner sought judicial review of a Board order, dated May 3, 1983, disapproving petitioner's application to acquire 80 percent of the outstanding voting shares of Dakota Bank of Wahpeton, Wahpeton, North Dakota, based on the financial resources and future prospects of petitioner (*Federal Reserve Bulletin,* volume 69, June 1983, page 442). Petitioner's motion to dismiss was granted on September 28, 1983.

In *Independent Insurance Agents of America, Inc., et al.* v. *Board of Governors,* nos. 83-1818 and 83-1819 (8th Circuit, filed June 21, 1983), petitioners seek judicial review of the Board's orders dated May 31, 1983, approving applications by Commerce Bancshares, Inc., Kansas City, Missouri, and St. Louis, Missouri, and Mercantile Bancorporation, Inc., St. Louis, Missouri, to engage in the sale of property and casualty insurance directly related to financial services provided by the applicants' subsidiaries (*Federal Reserve Bulletin,* volume 69, June 1983, page 447). The cases have been fully briefed and are awaiting oral argument.

In *Oklahoma Bankers Association* v. *Federal Reserve Board,* no. 83-2591 (10th Circuit, filed December 13, 1983), plaintiff seeks judicial review of a Board order dated November 17, 1983, approving the application of Citicorp, New York, New York, to acquire de novo Citicorp Savings and Trust Company, Tulsa and Oklahoma City, Oklahoma, a limited-purpose trust company that will engage in industrial bank activities. The case is pending.

In *Dimension Financial Corporation et al.* v. *Board of Governors,* nos. 83-2604 and 83-2605 (10th Circuit, filed December 14, 1983), and no. 83-2647 (10th Circuit, filed December 23, 1983), petitioners challenge the definition of "commercial loan" and "demand deposit" in an amendment to the Board's Regulation Y that was approved by the Board on December 14, 1983. The case is pending.

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Other Litigation Involving Challenges to Board Procedures and Regulations

The Monetary Control Act of 1980

In *First Bank & Trust Co.* v. *Board of Governors,* no. 81-38 (E.D. Ky., filed February 24, 1981), plaintiff seeks declaratory and injunctive relief from a Board determination that plaintiff is ineligible under the provisions of the Monetary Control Act of 1980 regarding the phase-in of reserve requirements for nonmember banks. A status hearing was held on November 21, 1983, with respect to the parties' cross-motions for summary judgment or dismissal.

In *Bank Stationers Association et al.* v. *Board of Governors,* no. C81-1417A (N.D. Ga., filed July 27, 1981), plaintiff sought declaratory and injunctive relief from the fee schedule for automated clearinghouse services adopted by the Board pursuant to the Monetary Control Act of 1980. By order dated December 22, 1981, the district court dismissed plaintiff's complaint for lack of standing (no. 82-8058). On May 12, 1983, the court of appeals affirmed the district court's dismissal for lack of standing (704 F.2d 1233).

In *Jet Courier Services, Inc., et al.* v. *Federal Reserve Bank of Atlanta et al.,* no. 83-3128 (6th Circuit, filed February 17, 1983), petitioners appealed the district court's dismissal of their action challenging new check-collection fees and presentment deadlines. On July 29, 1983, the court affirmed the dismissal (713 F.2d 1221).

Financial Institutions Supervisory Act of 1966

In *Wolfson* v. *Board of Governors,* no. 81-913 CWTK (M.D. Fla., filed September 28, 1981), plaintiff sought declaratory and injunctive relief and compensatory damages in connection with the Board's issuance of an order pursuant to the Financial Institutions Supervisory Act of 1966. By order dated July 13, 1983, the district court granted the Board's motion for summary judgment. An appeal is pending.

In a case filed with the U.S. District Court for the District of Columbia, no. 83-3593 (filed December 1, 1983), and placed under seal by court order, plaintiff sought preliminary relief to restrain enforcement of a temporary cease and desist order issued by the Board. Petitioner claimed that the Board acted in an arbitrary and capricious manner and with an abuse of discretion in issuing the cease and desist order. In a decision issued December 21, 1983, the court denied the petitioner's request for a preliminary injunction.

The Glass-Steagall Act

In *A.G. Becker Inc.* v. *Board of Governors et al.,* no. 80-2614 (D.D.C., filed October 14, 1980), and *Securities Industry Association* v. *Board of Governors et al.,* no. 80-2730 (D.D.C., filed October 24, 1980), plaintiffs sought review of a Board statement, dated September 26, 1980, denying in part plaintiffs' petition that the Board prohibit Bankers Trust Company, a state member bank, from selling third-party commercial paper as an agent of the issuer. Plaintiffs also filed petitions for review of the Board's statement in the U.S. Court of Appeals for the District of Columbia Circuit (no. 80-2258, filed October 14, 1980, and no. 80-2314, filed October 24, 1980). In an opinion and order dated July 28, 1981 (519 F. Supp. 602), the district court declined

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to order the Board to initiate enforcement proceedings against Bankers Trust, but invalidated the legal conclusions contained in the Board's statement. The Board and A.G. Becker appealed the district court's judgment (nos. 81-2070, 81-2058, and 81-2096).

In an opinion and order dated November 2, 1982, the U.S. Court of Appeals for the District of Columbia Circuit reversed the action of the district court and upheld the Board's statement under the Glass-Steagall Act (693 F.2d 136). On October 3, 1983, a joint petition for certiorari (no. 82-1766) was granted (104 S. Ct. 65).

Freedom of Information Act

In *9 to 5 Organization for Women Office Workers* v. *Board of Governors,* no. 80-2905-C (D. Mass., filed December 30, 1980), plaintiff seeks disclosure under the Freedom of Information Act of records regarding a wage survey conducted by a consortium of employers in Massachusetts and used by the Board in approving salaries of the Federal Reserve Bank of Boston. By orders dated December 21, 1981, and June 17, September 30, and December 2, 1982, the district court partially granted and partially denied each of the parties' cross-motions for summary judgment. The Board appealed the district court's decision that data from salary surveys were not protected from disclosure under exemption (b)(4) of the act (no. 83-1171). On November 2, 1983, the U.S. Court of Appeals for the First Circuit vacated the decision of the district court and remanded the case to the district court. On November 16, 1983, plaintiffs filed a motion with the court of appeals for rehearing or rehearing en banc.

In *Flagship Banks, Inc.* v. *Board of Governors,* no. 82-2920 (D.D.C., filed October 12, 1982), plaintiff seeks disclosure of Board records pertaining to a notice filed pursuant to the Change in Bank Control Act. The case has been suspended pending approval of a proposed acquisition of plaintiff.

Administrative Procedure Act

In *Philadelphia Clearing House Association et al.* v. *Board of Governors,* no. 82-3245 (E.D. Pa., filed July 27, 1982), plaintiffs sought injunctive and other relief under the Administrative Procedure Act with respect to a determination to set a uniform deadline of 12 noon for presentment of "city items" by Federal Reserve Banks to depository institutions for clearing and settlement. By stipulation of the parties, the action was dismissed on April 28, 1983.

In *Sundorph Aeronautical Corp.* v. *Federal Reserve Bank of Chicago,* no. C83-4723 (N.D. Ohio, filed November 18, 1983), petitioner, an unsuccessful bidder for a private transportation contract with the Federal Reserve Bank of Chicago, alleges that the Reserve Bank and the Board violated the Administrative Procedure Act and the federal procurement law in the solicitation process for service contracts with the Reserve Bank. The Board's motion to dismiss is pending.

Other Actions

In *Berkovitz et al.* v. *Government of Iran,* no. C80-0097-WWS (N.D. Cal., filed June 13, 1980), plaintiffs sought to impose a trust on assets of

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the Government of Iran, and to recover damages in connection with the death of Martin Berkovitz, a U.S. citizen. By stipulation of the parties, the action was dismissed on May 9, 1983.

In *Gordon* v. *Heimann et al.*, nos. C80-1265A (N.D. Ga., filed July 25, 1980) and 81-288A (N.D. Ga., filed February 15, 1981), plaintiff sought damages from 44 defendants in connection with alleged violations of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Racketeer Influenced and Corrupt Organizations Act (RICO). Both actions were dismissed by the district court by orders dated December 2, 1980, and May 28, 1981, respectively. By orders dated September 25, 1981, the district court awarded attorneys' fees to certain defendants in both cases and denied attorneys' fees to certain other defendants in no. C80-1265A. Plaintiff's appeals from the district court's orders of September 25, 1981 (nos. 81-8017 and 81-8018) were consolidated before the U.S. Court of Appeals for the Eleventh Circuit with cross-appeals from the denial of attorneys' fees to certain defendants in no. C80-1265A. On September 19, 1983, the court of appeals affirmed the district court's order awarding attorneys' fees and remanded with directions for reconsideration of previous denials of attorneys' fees. The case is pending.

In *Public Interest Bounty Hunters* v. *Board of Governors,* no. C81-1184A (N.D. Ga., filed June 25, 1981), plaintiff alleges that various Board actions violate the Bank Holding Company Act and the Glass-Steagall Act. On November 29, 1982, plaintiff appealed the district court's orders dated June 23, 1982, dismissing the action, and dated September 30, 1982, awarding attorneys' fees to defendant (no. 82-8743). On December 1, 1983, the court of appeals affirmed the district court's decision.

In *Vick* v. *Volcker,* no. 82-0592 (D.D.C., filed March 2, 1982), plaintiff sought damages and other relief in connection with the alleged unconstitutionality of the Federal Reserve Act. The district court dismissed the complaint for lack of standing. Plaintiff filed notices of appeal (D.C. Circuit, nos. 82-1504, 82-1505, 82-1506, 82-1510). On March 18, 1983, the court dismissed plaintiff's appeals and motion to proceed in forma pauperis.

In *Richter* v. *Board of Governors et al.,* no. 82-C-3150 (N.D. Ill., filed May 21, 1982), plaintiff sought injunctive relief in connection with the Board's conduct of national monetary policy. The Board's motion to dismiss was granted by court order on October 3, 1983.

In *Bowler* v. *Treasurer of the United States et al.,* no. 82-0151-B (D. Me., filed July 15, 1982), plaintiff sought relief in connection with the alleged unconstitutionality of issuance of Federal Reserve notes as legal tender in the United States. The district court granted the Board's motion to dismiss by order dated November 17, 1982. Plaintiff appealed the district court's order in the Court of Appeals for the First Circuit (no. 82-1879). The district court's order was affirmed on January 26, 1983.

In *Hayton* v. *State of Utah et al.,* no. C82-6595 (D. Utah, filed September 10, 1982), plaintiff sought various relief in connection with the alleged unconstitutionality of issuance of Federal Reserve notes as legal tender in the United States. The

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Board's motion to dismiss was granted on February 25, 1983.

In *Taxpayers of the U.S.A. et al.* v. *Board of Governors et al.*, no. 82-183 (E.D. Ky., filed on November 27, 1982), plaintiffs alleged, among other claims, that the Federal Reserve System is involved in a conspiracy to overthrow the U.S. government. On January 24, 1983, the court dismissed the case for lack of subject matter jurisdiction.

In *Flagship Banks, Inc.* v. *Board of Governors,* no. 83-0200 (D.D.C., filed January 25, 1983) and no. 83-1199 (D.D.C., filed February 22, 1983), petitioner seeks injunctive and other relief from the Board's decision not to object to a notice filed by Juan Vicente Perez Sandoval and Inversiones Credival, C.A., Caracas, Venezuela, under the Change in Bank Control Act to acquire up to 24.99 percent of its outstanding voting shares. The case was suspended pending approval of a proposed acquisition of petitioner.

In *The Committee for Monetary Reform et al.* v. *Board of Governors,* no. 83-1730 (D.D.C., filed June 16, 1983), plaintiff challenged the constitutionality of the Federal Open Market Committee and the Board's regulation of the nation's money supply. The court granted the defendant's motion to dismiss on October 26, 1983. Plaintiffs' motion to reconsider or amend the judgment was denied on December 1, 1983.

In *Wendell L. White* v. *Commissioner of Internal Revenue et al.*, no. 83-5148 IH (C.D. Cal., filed August 9, 1983), plaintiff challenges the valuation of Federal Reserve notes for tax purposes. The case is pending.

In a case filed in the U.S. District Court for the District of Minnesota, no. 4-83-995 (filed November 16, 1983), and placed under seal by court order, plaintiff alleges that the Board reviewed and copied his financial records at a national bank in violation of the Right to Financial Privacy Act. The case is pending.

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Legislation Enacted

Bretton Woods Agreement

Title VIII of Public Law 98–181, approved November 30, 1983, authorizes the U.S. Governor of the International Monetary Fund to consent to an increase in the U.S. quota in the Fund. The authority to extend loans to the Fund under the General Agreements to Borrow is also increased, subject to certification by the Secretary of the Treasury that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and that the Fund has fully explored other means of funding. Title VIII also requires congressional consultation before future increases in the quota are negotiated or agreed to, and consultation by the Secretary of the Treasury with relevant congressional committees at least 90 days before any vote to allocate Special Drawing Rights.

Title VIII also includes provisions instructing the U.S. Executive Director of the Fund to do the following, among other things:

• Work for adoption of Fund policies that promote conditions contributing to the stability of exchange rates and that avoid the manipulation of exchange rates among major currencies.

• Propose and vote for adoption of Fund procedures to collect and disseminate information, on a quarterly basis, from and to Fund members, and to disseminate publicly information that the Fund determines will enhance the informational base upon which international borrowing and lending decisions are taken.

• Actively oppose any facility involving the use of Fund credit by any Communist dictatorship or by any country that practices apartheid, unless the Secretary of the Treasury notifies the Congress and makes certain findings, including the finding that the drawing is in the best economic interest of the majority of the people in that country.

• Recommend and work for changes in Fund policies that would, among other things, (1) convert short-term bank debt into long-term debt at significantly narrower interest rate spreads, where such action is consistent with a country's need to obtain adequate external private financing; and (2) assure that annual external debt service is manageable.

• Oppose and vote against any Fund drawing where, in the judgment of the U.S. Executive Director, Fund resources would be drawn principally to repay loans imprudently made by banking institutions.

• Work to insure that the Fund encourage borrowing countries and banks to negotiate, where appropriate, a rescheduling of debt that is consistent with safe and sound banking practices and with the country's ability to repay.

• Propose policies requiring the Fund (1) to intensify examination of the trend and volume of external indebtedness in a country seeking assistance and to consider the extent to which this information could be made public; (2) to consider placing limits on external short- and long-term borrowing in the public sector as part of any stabilization program; and (3) to

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publish the Fund's evaluation of the trend and volume of international lending.

• Propose and work for adoption of Fund policies to bring the rate of charges on Fund drawings in line with market rates.

• Work for Fund policies that reduce obstacles to, and restrictions upon, international trade and investment, that eliminate unfair trade and investment practices, and that promote mutually advantageous economic relations.

International Lending Supervision

Title IX of Public Law 98-181, the International Lending Supervision Act of 1983, approved November 30, 1983, among other things, does the following:

1. Directs the federal banking agencies to consult with supervisory authorities of other countries to reach understandings aimed at achieving the adoption of effective and consistent supervisory policies and practices concerning international lending.

2. Directs the federal banking agencies to evaluate foreign country exposure and transfer risk, and to establish procedures to assure that these factors are taken into account in evaluating the capital adequacy of banks.

3. Provides for the maintenance of special reserves whenever the quality of an institution's assets has been impaired by a protracted inability of public or private borrowers in a foreign country to make payments on their external indebtedness, or where no definite prospects exist for the orderly restoration of debt service. Such special reserves must be charged against current income and will not be regarded as capital and surplus or as allowances for loan losses for regulatory, supervisory, or disclosure purposes.

4. Provides that, in the restructuring of an international loan, no fee may be charged that exceeds the administrative cost of the restructuring unless the fee is amortized over the life of the loan.

5. Directs the federal banking agencies to collect information on foreign country exposure from banks at least four times a year and to require banks to disclose publicly information regarding material foreign country exposure in relation to assets and capital.

6. Directs the federal banking agencies to establish minimum levels of capital for banking institutions. Provisions are included regarding the agencies' authority to enforce the minimum capital levels, and new procedures are specified for issuing orders to increase capital levels.

7. Requires a bank that makes a loan exceeding $20 million to finance foreign mining projects to prepare a written evaluation of economic feasibility. The evaluation must include, among other things, a review of the profit potential of the project, its impact on world markets, and its effect on long-term economic development of the host country, and an assessment of whether the loan can be repaid from project revenues.

8. Directs the federal banking agencies to establish uniform systems of implementation, and provides civil penalties for violations.

9. Authorizes the General Accounting Office to review and evaluate the international regulation, supervision, and examination activities of the federal banking agencies.

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Banking Supervision and Regulation

One of the Federal Reserve's principal responsibilities is the supervision and regulation of commercial banking organizations. In carrying out its duties, the Federal Reserve supervises and regulates state member banks; bank holding companies and their nonbank subsidiaries; the international activities of banks and bank holding companies; and the U.S. banking and nonbanking operations of foreign banks. Many of these supervisory activities are coordinated with other federal and state regulatory agencies. A description of how the System fulfilled these responsibilities during 1983 follows.

Supervision for Safety and Soundness

The Federal Reserve conducts three main activities to ensure the safety and soundness of financial institutions: on-site examinations and inspections, surveillance and monitoring, and enforcement and other supervisory actions.

Examinations and Inspections

The on-site review of operations is the primary means for ensuring the safety and soundness of financial institutions. Examinations or inspections of these operations entail (1) an appraisal of the quality of the institution's assets; (2) an evaluation of management, along with internal policies, operations, and procedures; (3) an assessment of the key financial factors of capital, earnings, asset and liability management, and liquidity; and (4) a review for compliance with applicable laws and regulations.[1]

State Member Banks

The Federal Reserve is the primary federal supervisor and regulator of state-chartered commercial banks that are members of the System. At the end of 1983, there were 1,089 state member banks, accounting for about 8 percent of all insured commercial banks. Because these banks typically were larger than the average, they held about 18 percent of total assets of insured commercial banks.

State member banks are examined every 18 months, except when significant weaknesses or other conditions call for more frequent examination. In 1983, System personnel conducted 736 examinations, many jointly or concurrently with examiners from state regulatory agencies.

Bank Holding Companies

During 1983, the number of bank holding companies increased by 814 to a total of 5,371. These organizations control commercial banks that hold about 87 percent of the total

1. The Board's Division of Consumer and Community Affairs is responsible for reviewing compliance with consumer and civil rights laws. This responsibility is accomplished mainly through examinations by specially trained Reserve Bank examiners. These regulatory responsibilities are described in the "Consumer and Community Affairs" section of this REPORT. Compliance with other statutes and regulations, which is treated in this section, is the responsibility of the Board's Division of Banking Supervision and Regulation and of the Reserve Bank examiners, who check for safety and soundness.

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assets of insured commercial banks in the United States.

Most large bank holding companies, as well as small companies with significant nonbank assets, are inspected at least every 18 months, others at least every three years. The inspection focuses on the operations of the parent holding company and its nonbank subsidiaries; the subsidiary banks are examined by the appropriate federal banking regulatory agency. During the year, System examiners conducted 1,398 inspections of bank holding companies.

International Activities

The Federal Reserve oversees a number of international banking activities.

Edge and Agreement corporations. Edge corporations are chartered by the Board to conduct an international banking business to provide all segments of the U.S. economy with a means of financing international trade, exports in particular. An Agreement corporation is a company that enters into an agreement with the Board not to exercise any power that is impermissible for an Edge corporation. During 1983, the Federal Reserve conducted 124 examinations of Edge and Agreement corporations and their branches.

Overseas operations of U.S. banking organizations. Examinations of the international operations of state member banks, Edge corporations, and bank holding companies are conducted principally at the banking organization's head office in the United States, where the ultimate responsibility for overseas facilities lies. To verify and supplement the results of the head-office examinations, on-site reviews of important overseas facilities are performed at least every three years. In 1983, the Federal Reserve examined 14 foreign branches of state member banks and 25 foreign subsidiaries of Edge corporations and bank holding companies.

U.S. activities of foreign banks. In recent years, foreign entities have rapidly expanded their operations in the United States and have become a significant element in the U.S. banking system. As of December 31, 1983, 225 foreign banks operated 355 state-licensed uninsured branches and agencies, 31 state-licensed branches insured by the Federal Deposit Insurance Corporation (FDIC), and 64 branches and agencies licensed by the Office of the Comptroller of the Currency (of which 3 have FDIC insurance). Foreign banks also owned a controlling interest in 67 U.S. banks. Together, these foreign banks controlled 13.6 percent of U.S. banking assets as of June 30, 1983.

The Federal Reserve has broad residual and oversight authority for the supervision and regulation of foreign banks that engage in banking in the United States through branches, agencies, commercial lending companies, and banks. In exercising this authority, the Federal Reserve relies on examinations conducted by the appropriate federal regulatory agency for insured branches and for federally licensed branches and agencies, or commercial bank subsidiaries, and on examinations by the appropriate state authority for state-licensed branches and agencies. Although the states have primary authority for examining state-licensed uninsured branches and agencies, the Federal Reserve participated in the examination of 128 such offices in 1983.

Specialized Examinations

The Federal Reserve conducts special-

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ized examinations in the following areas of bank activity.

Electronic Data Processing
The Federal Reserve examines the electronic data processing (EDP) activities of state member banks, Edge and Agreement corporations, and independent centers that provide EDP services to these institutions. During the year, System examiners conducted 323 on-site EDP reviews. In addition, the Federal Reserve reviews EDP examination reports of independent centers that provide EDP services to state member banks. These centers are examined by the other federal agencies under the Interagency EDP Examination Program.

Trust Activities
The Federal Reserve examines trust departments of state member banks, trust companies that are members of the Federal Reserve System, and certain trust-company subsidiaries of bank holding companies. These examinations review the trust functions to ensure that they are conducted in accordance with applicable fiduciary principles and with the laws and regulations. During the year, the Board examined 285 such institutions.

Municipal Securities Dealers and Clearing Agents
Under the Securities Acts Amendments of 1975, the Board is responsible for supervising state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies. In 1983, the Board examined 38 of the 54 state member banks registered with the Board that deal in municipal securities for their trading accounts.

A clearing agency acts as a custodian of securities for the settlement of securities transactions by bookkeeping entries. The three agencies registered with the Board were examined in 1983.

Transfer Agents
System examiners conduct separate reviews of state member banks and bank holding companies that act as transfer agents. Transfer agents countersign and monitor the issuance of securities, register the transfer of securities, and exchange or convert securities. During 1983, the Board examined 119 such banks and bank holding companies.

Improvements to Examinations and Inspections

During the year, the Federal Reserve took a number of steps to enhance its examination and inspection programs.

New Examination Report for Commercial Banks
Nineteen-eighty-three was the first year in which the Federal Reserve's new format for the examination report for commercial banks was used. The new format reflects changing banking practices particularly with respect to funding and the management of assets and liabilities; it also stresses the evaluation of management policies, procedures, and internal systems and controls.

Each examination report makes extensive use of data from reports of condition and income filed by state member banks and from the uniform bank performance report, as well as information obtained directly from the bank under examination. The report balances the presentation of these data with written analyses of important aspects of the bank's management, loan quality, and financial condition. Besides asset quality, capital, and liquidity, the report emphasizes the analysis of interest rate sensi-

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tivity and off-balance-sheet items of banks. Because the report makes extensive use of readily available data, it has permitted more efficient examinations and has given examiners more time to review problem areas requiring supervisory attention. Experience indicates that the new format has strengthened the examiner's evaluation of the bank's financial condition and has improved the presentation of findings to bank management and supervisory officials.

Supervisory Reporting Requirements

Under the auspices of the Federal Financial Institutions Examination Council (FFIEC), the Federal Reserve continued to participate with the other banking agencies in revising the commercial bank reports of condition and income.[2] Such reports are filed quarterly and are available to bank depositors, customers, and the general public. The revisions yield information necessary for supervisory and regulatory purposes, improve the information available to the public, and update the reports to reflect changing bank and accounting practices and new deposit instruments.

In 1983, for the first time, banks filed certain quarterly schedules developed by the FFIEC to complement and strengthen the supervisory process. One such schedule, Repricing Opportunities for Selected Balance Sheet Categories, assists examiners in analyzing the interest rate sensitivity of banks' earning assets and interest-bearing liabilities, and in assessing the effect of interest rate changes on a bank's condition. Another schedule, Commitments and Contingencies, helps examiners weigh the impact that off-balance-sheet items—such as loan commitments, foreign exchange contracts, interest rate futures contracts, and letters of credit—may have on a bank's financial condition.

During 1983, banks also began to file a quarterly report on past-due, nonaccrual, and renegotiated "troubled" loans and leases. This schedule reveals the quality of a bank's loan portfolio and, together with other data collected though the examination process, helps supervisors monitor the condition of commercial banks. In addition, revisions to the report of condition implemented in 1983 require banks to report quarterly the amount of deposits they have acquired through money brokers.

In developing reporting requirements, the banking agencies have attempted to minimize the disruption and burden that such requirements can impose on banking organizations. For example, in 1983, the agencies took steps to alleviate the burden on small banks in particular by permitting them to report certain information in a way that is consistent with their own bookkeeping systems, rather than in a set format that might be more costly. Public availability of reports of condition and income has helped to make bank customers and investors more knowledgeable about a bank's financial condition and, in so doing, has served to reinforce the self-discipline of the marketplace.

Amendments to Capital-Adequacy Guidelines

In June 1983, the Federal Reserve, in conjunction with the Office of the Comptroller of the Currency (OCC),

2. The Federal Financial Institutions Examination Council comprises the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the National Credit Union Administration, and the Board of Governors of the Federal Reserve System.

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made two amendments to the capital-adequacy guidelines, which were originally implemented in December 1981. These guidelines are used in examining and supervising well-managed national banks and state banks that are members of the Federal Reserve System, and bank holding companies.[3] The first amendment established explicit guidelines on capital ratios for 17 large multinational organizations for the first time.[4] The most important effect of the action was to require multinationals to have a ratio of primary capital to total assets of at least 5 percent. At year-end 1983, the primary-capital ratios of almost all of the multinationals were above the minimum.

The second amendment expanded the definition of secondary capital used in evaluating the capital adequacy of consolidated bank holding companies to include unsecured, long-term debt issued by the parent company and its nonbank affiliates. Before, the only form of long-term debt counted as secondary capital was qualifying subordinated notes and debentures issued by bank affiliates of the holding company.

Coordination of Examinations of Large Banks and Their Parent Holding Companies

Beginning in 1983, the Federal Deposit Insurance Corporation joined the Federal Reserve and the OCC in a program that calls for coordinated examination of bank holding companies and their lead-bank subsidiaries. Under the program, bank holding companies with more than $1 billion in consolidated assets and their lead national or state nonmember bank subsidiaries are examined every year concurrently by the Federal Reserve and the OCC when a lead national bank is involved, and by the Federal Reserve and the FDIC when the lead bank is a state nonmember bank. The program has helped to strengthen cooperation among the federal banking agencies, eliminate duplication, and reduce the burden of multiple examinations on commercial banks and their parent companies.

Funds Transfer Activities

In light of the substantial growth in terms of transaction volume, dollar volume, and number of participants, the FFIEC's Task Force on Supervision adopted the *Funds Transfer Activities Uniform Examination Procedures Manual.* The manual strengthens and standardizes objectives for examinations and the procedures for reviewing the transfer activity of the five major wholesale payments sys-

3. Institutions that are under special supervision and those that have been in operation for less than two years are not included in the program.

4. The 17 multinational organizations, with lead banks in parentheses, are the following: BankAmerica Corporation (Bank of America, NT&SA); Bank of Boston Corporation (The First National Bank of Boston); Bankers Trust New York Corporation (Bankers Trust Company); Chase Manhattan Corporation (Chase Manhattan Bank, N.A.); Chemical New York Corporation (Chemical Bank); Citicorp (Citibank, N.A.); Continental Illinois Corporation (Continental Illinois National Bank and Trust Company of Chicago); Crocker National Corporation (Crocker National Bank); First Chicago Corporation (The First National Bank of Chicago); First Interstate Bancorp (First Interstate Bank of California); Irving Bank Corporation (Irving Trust Company); Manufacturers Hanover Corporation (Manufacturers Hanover Trust Company); Marine Midland Banks, Inc. (Marine Midland Bank, N.A.); Mellon National Corporation (Mellon Bank, N.A.); J.P. Morgan & Co., Incorporated (Morgan Guaranty Trust Company of New York); Security Pacific Corporation (Security Pacific National Bank); and Wells Fargo & Company (Wells Fargo Bank, N.A.).

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tems used by depository institutions. The examination procedures have two sections: the first covers operations and internal controls; the second addresses controls related to overdrafts, advances against uncollected deposits, and settlement risk. Examiners of the agencies responsible for supervising participating depository institutions use uniform procedures.

Supervision of International Lending

In 1983, major efforts were made to deal with the problems of international debt, which had begun to worsen in the second half of 1982. During the year, a number of countries instituted economic adjustment measures, generally as part of programs designed by the International Monetary Fund to restore their international creditworthiness and improve their debt-service capability. Where borrowing countries adopted suitable adjustment programs, banks cooperated in the adjustment process by renegotiating existing loans and in many cases by providing new money. The progress of these efforts was monitored by the Federal Reserve through its supervisory and reporting procedures. In cooperation with the other federal bank regulatory agencies, the Federal Reserve also conducted a major review of these procedures to improve supervisory policies. This included development of new examination categories to better identify the element of country risk in international lending.

In November, the Congress passed the International Lending Supervision Act of 1983, which contained several measures designed to enhance supervision in this area. Most of these measures were based on proposals sent to the Congress in April by the Federal Reserve and the other federal bank regulatory agencies. Under the act banks must (1) establish specific reserves against loans to countries with protracted debt-service problems; (2) amortize most fees on international loans over the life of the loan instead of taking them into income immediately; (3) report more frequently on country exposure and disclose to the public large exposures to individual countries; and (4) meet minimum capital standards. Furthermore, the agencies must take country exposure into consideration in assessing the adequacy of a bank's capital and reserves. Final regulations implementing the laws will be adopted in the first half of 1984. Although the draft regulations were issued for comment in 1983 and had not become final, the Federal Reserve advised banks that reserves against loans to countries with longstanding debt-service problems should be established for financial statements for year-end 1983.

Surveillance and Monitoring Program

The Federal Reserve System monitors the financial condition of member banks quarterly and that of large bank holding companies semiannually. This computerized function aids the examination process by identifying changes in the financial condition of banking organizations between examinations. If major deterioration seems to have occurred, the examination schedule is accelerated. Conversely, if the bank has had a good examination rating and surveillance confirms that it has remained sound, the examination schedule may be lengthened and thus resources may be allocated to organizations warranting closer supervision.

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During 1983, the Reserve Banks were given a means to retrieve from the Federal Reserve Board's computer a display of the Uniform Bank and Bank Holding Company Performance Reports, which are used extensively in the supervisory and examination functions. This capability affords easier and broader access to these reports and greatly reduces the paper flow among the bank regulatory agencies and the Reserve Banks. Also, bank surveillance was extended from two screening periods to four because data from quarterly income statements became available for the spring and fall quarters for small banks that previously filed only semiannual data as of June 30 and December 31. The availability of new data reported in 1983 has yielded several refinements to the surveillance screens and performance reports.

Enforcement Actions and Civil Money Penalties

Under the Financial Institutions Supervisory Act of 1966, the Board of Governors has the authority to enter into written agreements with, or issue cease-and-desist orders against, state member banks, bank holding companies, and persons associated with such organizations that engage in unsafe or unsound practices or that violate applicable laws or regulations. The Board may also assess civil money penalties for violations of a cease-and-desist order, of the Bank Holding Company Act, or of certain provisions of the Federal Reserve Act.

In 1983, the Reserve Banks recommended and the Board's staff initiated 83 enforcement actions, most dealing with unsafe or unsound banking practices; 50 were completed by year-end. The Board issued 36 cease-and-desist orders and entered into 33 written agreements: 15 involved banks; 36, bank holding companies or their subsidiaries; 11, individuals participating in the affairs of the financial institutions; 1, an Edge act corporation; 1, an Agreement corporation; and 5, bank management or consulting firms. The Board also issued 4 temporary cease-and-desist orders against 3 banks and 1 bank holding company.

Also, the Board assessed and collected five civil money penalties totaling $60,000 and collected the remaining $242,000 of a civil money penalty assessed in 1981. Of these six penalties, two were paid by bank holding companies, two by individuals, and one each by a foreign bank and one of its subsidiaries.

The Board made available to the public a description of all formal supervisory actions completed during the year and the reasons for them. This action was taken to achieve the fullest public disclosure of information consistent with confidentiality.

Staff Training

System training continued to emphasize analytical and supervisory themes common to the four areas of supervision and regulation—examinations, inspections, applications, and surveillance—and to stress the interdependence among these areas. During 1983, the Federal Reserve conducted nineteen schools, ten of which offered core banking courses—three introductory, four intermediate, and three advanced. Other programs included two schools dealing with credit analysis, one with bank holding company applications, four with consumer compliance examinations (two introductory and two advanced), one with

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financial analysis for senior examiners, and one with trust activities. In addition to the two sessions of the credit analysis school held in Washington, regional sessions were conducted at seven Reserve Banks for 178 students.

Courses in specialized areas, including trust, international banking, electronic data processing, activities of municipal securities dealers, management, and instructor training were conducted by the FFIEC.

In 1983, 514 Federal Reserve employees completed System training programs and 267 completed FFIEC courses. As in previous years, staff members from state banking departments and several foreign central banks attended the System schools.

Regulation of the U.S. Banking Structure

The Board of Governors administers the Bank Holding Company Act, the Bank Merger Act, and the Change in Bank Control Act for state member banks and bank holding companies. In doing so, the Federal Reserve acts on a variety of proposals that directly or indirectly affect U.S. banking structure at the local, regional, and national levels. The Board also has primary responsibility for regulating the international operations of domestic banking organizations and the U.S. operations of foreign banks that engage in banking in the United States, either directly through a branch or agency or indirectly through a subsidiary commercial lending company. In addition, the Board has established regulations for the interstate banking activities of these foreign banks and for foreign banks that control a U.S. subsidiary commercial bank.

Bank Holding Company Act

By law, a company must obtain the Board's approval to form a bank holding company by securing control of one or more banks. Moreover, once formed, a bank holding company must receive the Board's approval before acquiring additional banks or nonbanking companies.

In reviewing an application filed by a bank holding company, the Board considers the convenience and needs of the community, the applicant's financial and managerial resources, the prospects of both the applicant and the firm to be acquired, and the competitive effects of the proposal.

In 1983, the Board—and, under delegated authority, the Federal Reserve Banks, the Director of the Board's Division of Banking Supervision and Regulation, and the Board's Office of the Secretary—acted on 2,542 bank holding company applications. The System approved 992 proposals to organize holding companies and denied 6; approved 442 bank acquisitions by existing bank holding companies and denied 14; and approved 1,019 requests to acquire nonbank companies that are closely related to banking. Data on holding company decisions are shown in the accompanying table.

Bank Merger Act

The Bank Merger Act requires that all proposed bank mergers receive the prior approval of the appropriate federal bank regulatory agency. If the bank surviving the merger is a state member bank, the Federal Reserve has primary jurisdiction.

Before approving a bank merger, the Federal Reserve considers the community's convenience and needs,

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Bank Holding Company Decisions by the Federal Reserve, Domestic Applications, 1983

Proposal	Direct action by the Board of Governors		Delegated authority					Total
			Division Director[1]		Office of the Secretary	Federal Reserve Banks		
	Approved	Denied	Approved	Denied	Approved	Approved	Permitted	
Formation of holding company	69	6	....	....	4	919	....	998
Retention of bank	....	....	....	....	....	4	....	4
Acquisition								
Bank	90	14	....	....	44	308	....	456
Nonbank	123	....	....	....	4	89	803	1,019
Merger of holding company	15	1	....	....	4	19	....	39
Acquisition of bank service corporation	3	....	....	....	....	....	....	3
Other	....	....	13	5	....	5	....	23
Total	**300**	**21**	**13**	**5**	**56**	**1,344**	**803**	**2,542**

1. This heading refers to the Director of the Division of Banking Supervision and Regulation.

the financial and managerial resources and prospects of the existing and proposed institutions, and the competitive effects of the proposal. The Board must also consider the views of certain other agencies on the competitive factors involved in the transaction.

During 1983, the Federal Reserve approved 69 merger applications: 8 were approved by the Board, 5 by the Secretary of the Board under delegated authority, and 56 by the Reserve Banks under delegated authority. As required by law, each merger is described in table 17 in the Statistical Tables section of this REPORT.

When the Comptroller of the Currency (OCC) or the Federal Deposit Insurance Corporation (FDIC) has jurisdiction over a merger, the Board is asked to comment on the competitive factors to assure comparable enforcement of the antimonopoly provisions of the act. On behalf of the Board, the Reserve Banks submitted 777 reports on competitive factors to the OCC and the FDIC in 1983. The Board and those agencies have adopted standard terminology for assessing competitive factors in bank merger cases to assure consistency in administering the Bank Merger Act.

Change in Bank Control Act

The Change in Bank Control Act of 1978 gave the federal banking agencies the authority to disapprove changes in the control of banks and bank holding companies. The Federal Reserve is the agency responsible for changes in the control of state member banks and bank holding companies. Factors to be considered in determining whether a transfer of control should be denied include the financial condition, competence, experience, and integrity of the acquiring person, and the effect on competition.

In 1983, 161 changes in ownership of the stock of state member banks and holding companies were reported; all but 4 were processed by the Reserve Banks. There was only 1 denial.

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International Activities of U.S. Banking Organizations

The Board has three principal statutory responsibilities in supervising the international operations of U.S. banking organizations: to approve the establishment of foreign branches of member banks and regulate the scope of their activities; to charter and regulate Edge corporations and their investments; and to authorize and regulate overseas investments by member banks, Edge corporations, and bank holding companies.

Foreign Branches of Member Banks

Under provisions of the Federal Reserve Act and Regulation K, member banks may establish branches in foreign countries subject, in most cases, to the Board's prior approval. In reviewing proposed foreign branches, the Board considers the requirements of the governing statute, the condition of the bank, and the bank's experience in international business. In 1983, the Board approved the opening of 13 foreign branches.

By the end of 1983, 163 member banks were operating 890 branches in foreign countries and overseas areas of the United States. One hundred thirty-one national banks were operating 759 of these branches, while 32 state member banks were operating the remaining 131 branches.

International Banking Facilities

Effective December 3, 1981, the Board amended its Regulations D and Q to permit the establishment of international banking facilities (IBFs) in the United States. Subject to conditions specified by the Board, IBFs may be established by U.S. depository institutions, by Edge and Agreement corporations, and by U.S. branches and agencies of foreign banks.

An IBF is essentially a set of asset and liability accounts that is segregated from other accounts of the establishing office. In general, deposits from and credit extended to foreign residents or other IBFs can be booked at these facilities free from domestic reserve requirements and interest rate limitations. By the end of 1983, 496 IBFs had been established.

Edge and Agreement Corporations

Under sections 25 and 25(a) of the Federal Reserve Act, Edge and Agreement corporations may engage in international banking and foreign financial transactions. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with additional powers in two areas: (1) they may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions; and (2) they have broader powers to make foreign investments than member banks do because they can invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks. In 1983, the Board approved the establishment of seven Edge corporations. The Board requires each Edge corporation that is engaged in banking to maintain a ratio of equity to risk assets of at least 7 percent. At midyear, half of the banking corporations had ratios that were more than twice this minimum.

Foreign Investments

Under authority of the Federal Reserve Act and the Bank Holding Company Act, in 1983 the Board authorized 86 foreign investments by member banks, Edge and Agreement

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corporations, and bank holding companies. In most cases, the applicant requested permission to increase an existing investment.

Export Trading Companies
In 1982, the Bank Export Services Act amended section 4 of the Bank Holding Company Act to permit bank holding companies, their subsidiary Edge or Agreement corporations, and bankers' banks to invest in export trading companies subject to certain limitations and after Board review. The purpose was to allow effective participation by bank holding companies in the financing and development of export trading companies. On June 2, 1983, the Board adopted regulations to achieve the objectives set forth in the law: to facilitate the export of goods and services produced in the United States and to minimize potential adverse effects on the subsidiary banks of the bank holding companies involved. In 1983, the Board acted affirmatively on the 18 notifications received for the establishment of export trading companies.

Delegation of Applications

In exercising its responsibility to formulate policies and procedures in the applications area, the Board has delegated certain regulatory functions—including the authority to approve, but not to deny, certain types of applications—to the Reserve Banks, to the Board's Division of Banking Supervision and Regulation, and to the Board's Office of the Secretary.

In September 1979, the Board issued revised rules that delegated additional authority to the Reserve Banks to approve applications for bank holding companies and bank mergers. In 1978, the last full year before expanded delegation, only 78 percent of applications were processed by the Reserve Banks; during 1980, the first full year under expanded delegation, the ratio rose to 89 percent. This percentage was maintained in 1983. In 1982, the Board delegated to the Reserve Banks authority to approve domestic branches of Edge corporations and foreign "shell" branches of member banks. In addition, the Board reduced from 60 to 45 days the notification period for foreign investments by U.S. banking organizations. On December 20, 1983, the Board delegated authority to the Reserve Banks to expedite the processing of those notifications to establish export trading companies that appeared to raise no major policy issue. The benefits that were expected from broadened delegation continue to be achieved: routine cases have been removed from the Board's agenda to allow more efficient use of staff of both the Board and the Reserve Banks.

Timely Processing of Applications

The number of applications by holding companies increased by 6 percent in 1983 from 1982, up from 2,401 to 2,542. The System acted on 94 percent of the applications in 1983 within 90 days after the filing of a complete application.

In 1983, 68 of the 69 applications for bank mergers were processed within 90 days; the application that took longer involved a competitive issue. The System also prepared 777 reports on the competitive factors of proposed mergers for the other two banking agencies; all but a few were completed within 30 days. Of the 161

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change-of-control notices, 137 were handled within 60 days.

The System also measures its performance in processing international applications against a 90-day standard. During 1983, the Federal Reserve acted on 179 international applications, 94 percent of which were decided in 90 days or less.

During 1983, the System made several changes to the applications process that will reduce significantly the burden on applicants and make more efficient use of the staff at the Board and Reserve Banks. Regulation Y was revised to shorten the time that the System will take to process bank holding company applications.[5] The processing time has been reduced from 90 to 60 days for applications acted on by the Board and from 45 to 30 days for applications acted on under delegated authority by the Reserve Banks, the Director of the Division of Banking Supervision and Regulation, or the Secretary of the Board. The System revised the procedures for applications and implemented the revised processing schedule on January 1, 1984.

In conjunction with the shortened processing schedules, the System revised the application forms for bank acquisitions by bank holding companies to cut approximately in half the amount of information required. Forms for nonbank proposals of holding companies are now being similarly revised to reduce the burden on applicants and to conform with the revised Regulation Y.

5. See the section "Regulatory Simplification" in this REPORT for a further discussion of the comprehensive revision of Regulation Y and other comments on the topic.

Board Policy Decisions and Developments in Bank-Related Activities

During 1983, the Board added retail discount brokerage to the list in Regulation Y of activities permissible for bank holding companies. The Board also approved by order the expansion of two activities previously approved for holding companies: acting as a futures commission merchant for nonaffiliated persons in the execution and clearance of options on financial futures and the underlying financial instruments, and the sale of general insurance by a bank holding company with consolidated assets of $50 million or less.

The Board approved, by order for banks, the establishment of two bank service corporations which, pursuant to the Bank Service Corporation Act, are allowed to engage in any activity that the Board has determined, by regulation, to be permissible for a bank holding company. The activities approved by the Board for the bank service corporations were giving real estate investment advice, and underwriting credit life, accident, and health insurance. Certain restrictions apply to these activities and are outlined either in Regulation Y or in the related Board order. These restrictions are intended to ensure that such activities are conducted in a manner consistent with the public interest.

During 1983, the Board adopted a comprehensive revision to Regulation Y, which was to take effect on February 6, 1984. Under certain conditions bank holding companies will be allowed to acquire small companies that are engaged in a number of nonbanking activities simply by filing a notice at least 15 days in advance. They may now also file a one-time notice to engage on a nationwide basis in non-

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banking activities listed in Regulation Y. These changes will significantly reduce the burden on both applicants and the Federal Reserve without materially affecting the public interest. Activities in addition to retail discount brokerage added to the approved list in Regulation Y included: issuing money orders, real estate equity financing, underwriting and dealing in government obligations and certain money market obligations, providing foreign exchange advisory and transactional services, and acting as a futures commission merchant. These activities were previously permitted only by Board order.

The Board also expanded its definition of a bank and clarified and included in the regulation its definition of demand deposits and commercial loans.

Public Notice of Board Decisions

Each action by the Board on a case involving a bank holding company, bank merger, change in control, or international banking proposal is effected by an order or announcement. Orders set forth the essential facts of the application, the basis for the decision, and the decision. Announcements state merely the action taken by the Federal Reserve. All orders and announcements are released immediately to the public and are reported in the Board's weekly H.2 statistical release, "Actions of the Board; applications and reports," and in the monthly *Federal Reserve Bulletin.* Actions taken by the Reserve Banks are also reported in the H.2 statistical release and in the *Bulletin.* Announcements of applications and notices received by the System but not yet acted on are also made in the H.2 release.

Enforcement of Other Laws and Regulations

The preceding sections discussed the Board's activities in carrying out its statutory responsibilities for the supervision of bank safety and soundness and the regulation of banking structure. This section describes the enforcement of other laws, rules, and regulations.

Financial Disclosure by State Member Banks

The Board's Regulation F deals with the disclosure requirements for state member banks that have securities registered under the Securities Exchange Act of 1934. Fifty-four state member banks, most of which are of small or medium size, were registered with the Board under this regulation. These institutions must file certain materials, such as financial reports and proxy statements, that are of interest to investors. The Board's staff reviews these filings for compliance with the regulation.

The disclosure rules under Regulation F are substantially similar to those issued by the Securities and Exchange Commission (SEC).

Loans to Executive Officers

Under section 22(g) of the Federal Reserve Act, each state member bank must include with each quarterly report of condition a report of all extensions of credit made by the bank to its executive officers since the date of the bank's previous report of condition. The accompanying table summarizes these data for the last quarter of 1982 and the first three quarters of 1983.

In 1982, the Garn–St Germain Depository Institutions Act (Garn–St Germain act) authorized the Board to revise reporting and disclosure re-

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Period	Total loans to executive officers		Range of interest rates charged (percent)
	Number	Amount (dollars)	
October 1-December 31, 1982	697	4,466,043	6-21
January 1-March 31, 1983	748	5,454,385	6-21
April 1-June 30, 1983	1,051	7,502,565	7-23
July 1-September 30, 1983	977	9,629,452	6-21

quirements concerning loans to executive officers and principal shareholders of a state member bank and the related interests of such persons from the state member bank and its correspondent banks. In 1983, the Board amended Regulation O in accordance with the recommendations and action of the Federal Financial Institutions Examination Council. The major effects of the revised requirements were to reduce the regulatory burden on banks and to provide more meaningful information on "insider" loans to both the Federal Reserve System and the public. Also during 1983, as authorized by the Garn-St Germain act, the Board further amended Regulation O. These amendments relate to the limitations on loans by a member bank to its insiders, and the dollar amount above which such loans must be approved in advance by the bank's board of directors.[6]

Applications by State Member Banks

The Board's authority over state member banks covers permission to open new domestic branches, to make investments in bank premises that exceed 100 percent of capital stock, and to add to the capital base from sales of subordinated debt; it also covers the waiver of the six months' notice of intention to withdraw from membership in the System. The Federal Reserve employs the application or notification process to administer these statutory provisions.

With few exceptions, these matters are handled under delegated authority by the Federal Reserve Banks or, in the case of proposed sales of subordinated debt, by the Director of the Board's Division of Banking Supervision and Regulation.

Stock Repurchases by Bank Holding Companies

A bank holding company sometimes purchases its own shares from its shareholders. Often such stock repurchases are financed through borrowings, so that the net effect of the transaction is to increase the debt of the bank holding company at the very time that its equity decreases. Because relatively large repurchases may adversely affect the financial condition of a bank holding company and its bank subsidiary, the Board, by regulation, requires holding companies to give advance notice of repurchases that retire 10 percent or more of their consolidated equity capital. Revisions to Regulation Y, adopted by the Board during 1983, will allow the Board to object to stock repurchases if the holding company that files the notice fails to meet the standards that the Board applies in the application process, including the Board's capital guidelines.

6. See the section "Record of Policy Actions of the Board of Governors" in this REPORT for a further discussion of amendments to Regulation O.

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The Federal Reserve reviewed 148 such notifications during 1983, all but 1 of which were acted on by the Reserve Banks on the Board's behalf.

Securities Regulation

Under the Securities Exchange Act of 1934, the Board is responsible for regulating credit used to purchase or carry securities. In fulfilling its responsibility under the act, the Board limits the amount of credit that may be provided by securities brokers and dealers (Regulation T), by banks (Regulation U), and by other lenders (Regulation G). Regulation X extends these credit limitations, or margin requirements, to certain borrowers and certain credit extensions, such as credit obtained from foreign lenders by U.S. citizens.

The SEC, the National Association of Securities Dealers, and the national securities exchanges examine brokers and dealers for compliance with Regulation T. The three bank supervisory agencies examine banks for compliance with Regulation U, with the Board being responsible for state member banks that extend margin stock-secured credit.

The Board, the National Credit Union Administration, and the Farm Credit Administration examine other lenders under their respective jurisdictions for compliance with Regulation G. At the end of 1983, there were 530 such lenders, 302 of which were subject to the Board's supervision. During the year, Federal Reserve examiners inspected 121 lenders that were subject to Regulation G for compliance with the Federal Reserve's margin requirements (these lenders are inspected on a biennial basis).

Regulations U and G, in general, impose credit limitations on banks and other lenders only for loans whose purpose is purchasing or carrying publicly held equity securities and that are secured by such securities. Regulation T limits the amount of credit that brokers and dealers may extend when securities serve as collateral. This collateral must consist of stocks and bonds traded on national securities exchanges or certain over-the-counter stocks that the Board designates as having characteristics similar to those of stocks listed on national exchanges and of bonds meeting certain requirements. Such stocks appear on the Board's "List of OTC Margin Stocks."

The Board published revised lists of OTC stocks subject to its margin regulations on February 22, June 20, and October 17, 1983. The current list consists of 1,742 stocks. The Board's Division of Banking Supervision and Regulation monitors the market activity of all OTC stocks to determine what stocks to place on this list.

In 1983, all four of the margin regulations were completely revised and simplified as part of the Board's Regulatory Improvement Project. Under this program, the Board reviewed those regulations to update them, simplify their language, eliminate obsolete or unneeded language or provisions, and lighten the burden of compliance.

Regulation T was shortened by approximately a third. The new regulation, as adopted after consideration of comments received, included the following significant revisions:

- Consolidation along functional lines into seven accounts of the eleven types brokers and dealers had to maintain under the old regulation. The three customer margin accounts were consolidated into a single general margin account.

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- Authorization for a clearing broker to maintain separate margin accounts for a single person who is introduced by different brokers. Introducing brokers may maintain separate accounts for the same person if the accounts are cleared by different clearing brokers. In addition, separate accounts may also be established for the same person by a broker and dealer when the broker, dealer, or a third-party investment advisor has investment discretion.
- Provisions that permit a clearing agency to accept as the required deposit any margin securities underlying options issued by the clearing agency.
- Revision of rules for extending credit to option specialists, to permit a "good faith" margin instead of the 25 percent margin on long and short positions.
- Expansion of the class of brokers and dealers who may make loans to other brokers and dealers, as well as authorization for that class to finance positions with other brokers and dealers.
- Authorization of margin credit on over-the-counter corporate debt securities with at least $25 million outstanding at the time of original issue, rather than at the time of the extension of the credit.
- Permission to use convertible or exchangeable securities as a proxy for the related security when call options are written in a cash account.
- Special provision for new instruments—options on foreign currency that are traded on securities exchanges, and options on certificates of deposit and on stock indexes—which recent legislation has brought within the Board's authority to set margins.
- Establishment of the margin level of these new instruments as the amount specified by the rules of the national securities exchange on which the option is traded, provided that all such rules have been approved by the Securities and Exchange Commission.
- Changes in terminology, throughout the regulation, from "maximum loan value/adjusted debit balance" to "equity/margin requirement."

Brokers and dealers were permitted to comply with the new Regulation T as early as June 20, 1983, but the official effective date was to be March 31, 1984, to give brokers and dealers ample time to program their computer systems for the changes.

The revised Regulation U became effective on August 31, 1983. These significant changes were made:

- Exemption from the requirements of the regulation of bank credit to a trust for an employee stock ownership plan qualified under section 401 of the Internal Revenue Code.
- Consolidation of all provisions dealing with special-purpose loans to brokers and dealers into one section and permission for such credit to be extended without restriction on the type or valuation of collateral.
- Elimination of certain filing requirements with respect to loans to OTC and third market makers and block positioners.
- Elimination of section 221.3(q), which regulated loans to certain lenders registered under Regulation G.

The complete revision of Regulation G, which became effective August 31, 1983, includes the following significant changes:

- A rise in the registration threshold for lenders subject to the regulation to $200,000, and elimination of registration requirements for those who arrange but do not extend credit secured by margin securities.

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• Deletion of a provision prohibiting unsecured loans to a broker or dealer by a lender subject to the regulation. The prohibition in section 8 of the Securities Exchange Act of 1934, which prevents anyone except a bank from lending to a broker or dealer on the collateral of registered securities, was retained.

• Liberalization of the "plan-lender" provision, which covers extensions of credit under employee stock-option and stock-purchase plans. The revision will permit companies and their affiliates to finance employee purchases of company stock without a specific scheduled paydown of the loan or a three-year lockup of the stock, as was formerly required. The regulation will continue to permit a company to extend credit to plan participants in excess of the current maximum loan value of the securities.

The completely revised Regulation X has an effective date of January 23, 1984. The major substantive changes to the regulation are (1) the exclusion, with one exception, of purely domestic borrowings, which are already regulated by margin rules applicable to lenders; and (2) an increase in the exemption for margin credit obtained by U.S. persons residing abroad from $5,000 to $100,000. Domestic borrowers who willfully cause credit to be extended in contravention of the margin rules are not excluded from the scope of the regulation.

Under section 8 of the Securities Exchange Act, a broker or dealer may not borrow from a bank on the collateral of registered securities unless the bank is either a member of the Federal Reserve System or one that files an agreement with the Board undertaking to comply with all statutes, rules, and regulations applicable to member banks with respect to credit on securities. Domestic and foreign nonmember banks must file these agreements, designated T-1 and T-2 respectively, before they can lend to brokers and dealers on the collateral of registered securities. During the year, the Board processed eight T-1 and T-2 agreements.

In 1983, the Securities Regulation Section of the Board's Division of Banking Supervision and Regulation issued numerous interpretations of the margin regulations. Those that presented sufficiently important or novel issues were published in the *Securities Credit Transactions Handbook*, which is part of the Federal Reserve Regulatory Service. These interpretations, published monthly, serve as a guide to compliance with the margin regulations. Also, members of the staff served on nationwide panels explaining the newly revised Regulation T to brokers and dealers.

Federal Reserve Membership

At the end of 1983, 5,807 banks were members of the Federal Reserve System, a net increase of 188 from the previous year. Member banks operated 26,726 branches on December 31, 1983, a net decrease of 227 for the year.[7]

Member banks accounted for 38 percent of all commercial banks in the United States, and for 64 percent of commercial banking offices. Complete figures on changes in the number of banks and banking offices by charter classes will be presented in the April 1984 issue of the *Federal Reserve Bulletin*.

7. The 1982 figure of 26,953 branches included 1,818 automatic teller machine (ATM) branches, which are no longer included in branch counts.

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Regulatory Simplification

Action that the Board of Governors took in 1983 to comply with the Financial Regulation Simplification Act of 1980 is reported here, as required by section 805 of that act. This report also discusses the Board's efforts under the Regulatory Flexibility Act and the Board's Statement of Policy Regarding Expanded Rulemaking Procedures. These acts and the Board's policy statement are intended to improve the regulatory process.

Under the Financial Regulation Simplification Act, each federal financial regulatory agency must assure that its regulations impose no more burdens than are necessary, that they are adopted only after interested persons are heard, and that they are written simply and clearly. The act also requires each agency periodically to review how well its regulations meet these objectives.

Monetary Policy and Payments System

Reserve Requirements of Depository Institutions (Regulation D) and Interest on Deposits (Regulation Q)

The Board amended Regulations D and Q to reduce the minimum maturity of all time deposits to 7 days. This step was taken in light of actions by the Depository Institutions Deregulation Committee authorizing money market deposit accounts and removing the interest rate ceilings on time deposits of $2,500 or more with maturities of 7 to 31 days. The change enables institutions to offer certificates of deposit with maturities of 7 to 13 days, and one beneficial effect is to give small institutions, which do not normally trade in the secondary market, an additional tool in competing with larger institutions for short-term, large-denomination deposits.

As part of its efforts to reduce unnecessary burdens in implementing the Monetary Control Act of 1980, the Board adopted an amendment that reduces the reporting burden for small institutions with total reserve liabilities of $2.1 million or less. Last year's REPORT noted that the Congress had adopted the Board's recommendation that the first $2 million of a depository institution's reserve liabilities be free of reserve requirements, thereby exempting almost 25,000 institutions.

Securities Credit and Securities Activities

Margin Credit (Regulations G, T, U, and X)

Last year's REPORT noted some of the substantive changes that the Board had made in the first phase of its comprehensive review of the regulations on margin credit—Regulations G, T, U, and X. These regulations govern loans to purchase stocks made by banks, brokers and dealers, and other lenders, such as insurance companies, savings and loan associations, and corporate plan lenders. It was noted that public comment had been

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received on a completely rewritten Regulation T, and that work was progressing on the redrafting of Regulations G, U, and X.

In 1983, the Board completed the revision and simplification of all four margin regulations as part of its Regulatory Improvement Project. The review was designed to update the regulations, simplify their language, eliminate obsolete or unnecessary language or provisions, and ease the burden of compliance. The specific changes made are discussed in the section of the REPORT, "Banking Supervision and Regulation."

The changes made in the margin credit regulations will promote competition between banks and brokers, afford consumers greater flexibility in investment decisions, and promote efficiency in securities markets by modernizing a regulatory framework that dates back half a century.

Banking Structure and Supervision

International Banking Operations (Regulation K)

In 1983, the Board adopted regulations implementing the Bank Export Services Act, which permits bank holding companies, Edge act and Agreement corporations, and bankers' banks to invest in export trading companies. Small business entities will benefit from the simplicity and brevity of the proposed regulations, as well as from the liberal definition of an export trading company. In adopting the underlying statute, the Congress estimated that the law would create between 320,000 and 640,000 jobs over the next three to four years.

After gaining experience with several export trading proposals under the new regulation, the Board simplified its procedures by eliminating the requirement for certain notifications and by delegating authority to the Reserve Banks to act on notices of intended investments in export trading companies.

The Board also liberalized Regulation K by adding the operation of travel agencies abroad as a permissible activity for U.S. banking organizations. Moreover, the Board plans to undertake in 1984 a broad review to determine whether, after five years of operations under the revised regulation, additional changes are necessary or desirable to enable U.S. international banking firms to compete effectively with similar foreign-owned institutions, to foster the participation of regional and smaller banks in providing international banking services, and to stimulate U.S. exports to achieve a sound trade position.

Management Official Interlocks (Regulation L)

As noted in last year's REPORT, the Board in 1982 issued for public comment proposed amendments to Regulation L, which governs management interlocks among depository institutions. These proposals were designed to update and clarify the regulation, and make technical changes in the light of the Board's experience with the regulation. The revisions relax certain prohibitions on interlocks that the Board has found to be unnecessary; the changes will especially aid small institutions facing a disruptive loss of management due to statutory provisions. The Board adopted these proposals in 1983.

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Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks (Regulation O)

The Board adopted several amendments to Regulation O, which governs loans to executive officers, directors, and principal shareholders of member banks. Some of the changes ease the burden of reporting and disclosing these "insider" loans. The effect of other changes is to increase substantially the size of general-purpose loans available to such individuals. In 1982, the Board had already eliminated, through congressional authorization, the ceiling on loans to officers and directors for home mortgages or to an executive officer for the education of his or her children.

Bank Holding Companies and Change in Bank Control (Regulation Y)

Last year's REPORT noted that staff work was continuing on a complete revision of Regulation Y, which governs acquisitions and activities by bank holding companies and changes in bank control. This year, the Board proposed a revision for comment and subsequently adopted it. The primary purposes of the revision are (1) to reduce the number of required applications, (2) to simplify the procedures for filing applications, and (3) to expedite the processing of all applications. These changes should reduce regulatory burdens significantly, while reducing the administrative costs of the statute. One provision, for example, is expected to eliminate the more than 500 applications per year for new offices. Moreover, the substantial reduction of processing time for required applications will prevent costly delays for regulated companies and will create new business opportunities for them in dealing with nonregulated entities that are unwilling to delay. Revisions of the forms will reduce costs for the industry by eliminating requests for information that is available to the Board through other sources. Finally, the Board will propose a list of new activities for public comment in early 1984, which would permit bank holding companies to engage in a wide variety of additional businesses. This comprehensive review of Regulation Y, the first such study in 12 years, has given the public an opportunity to comment on all aspects of the Board's administration of the regulation, including the definition of "bank," which is especially important in the light of rapid changes in the financial marketplace.

As a related matter, the Board delegated expanded authority to the Reserve Banks to act on applications for bank mergers, an action that should expedite such applications.

Consumer and Community Affairs

Equal Credit Opportunity (Regulation B)

The Board announced that it intends to review Regulation B to update its substance and simplify its language, and asked for preliminary comments on the issues to be addressed. The Board has also been conducting cost-benefit studies that involve Regulation B. After consideration of the preliminary comments and the staff's analysis, proposed changes in the regulation will be published for comment.

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Consumer Leasing (Regulation M)

In April 1983, the Board sent recommendations to the Congress for a simplified version of the Consumer Leasing Act, which the Board administers through Regulation M. The Board's proposals would reduce the number and complexity of the disclosures required, thereby lessening the burden of compliance on creditors and highlighting important information for consumers. Congressional hearings have been held, and the Board has been accepting public comment on its proposals.

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Federal Reserve Banks

Developments in the Payments Mechanism and in the Pricing of Federal Reserve Services

During 1983, the Federal Reserve essentially completed the pricing of services provided by the Federal Reserve Banks to depository institutions, as required by the Monetary Control Act of 1980. The Board had determined in 1980 that a transition period would help both the Banks and depository institutions make the change from free to priced services. With the exception of float, all services covered by the act were priced by the end of 1982. The Board adopted methods to eliminate or price major components of Federal Reserve float by mid-1983, and requested comment on proposals to deal with the remaining float. Final action on the proposals is expected early in 1984.

Both the private sector and the Reserve Banks have accommodated to the change to priced Federal Reserve services. As the accompanying chart shows, the volume of wire transfers of funds, a principal payment service, has trended upward, but at a slower pace in each year since the introduction of fees in January 1981. In 1983, average daily volume rose less than one-half the trend growth rate in evidence before pricing, partly because alternatives for the service became more attractive.

When fees for the check service were first imposed in August 1981, the average daily number of checks collected declined significantly at first, as local clearing arrangements expanded to provide more efficient alternatives and private firms sought to offer more cost-effective services. Check volume at Reserve Banks began to grow again in 1982, though at a rate much slower than the trend rate before pricing, and it has begun to approach the levels experienced in mid-1981 (see the chart).

Throughout the transition period, the System took steps to improve the efficiency of the nation's payments mechanism while working toward recovering costs, two objectives of the act. In 1983, the Federal Reserve Banks introduced further operational improvements, cost control measures, and adjustments to the services offered. These are all discussed below.

Commercial Check Collection

The total number of commercial checks cleared by Federal Reserve Banks increased 2 percent in 1983. The moderate increase reflects on balance the economic recovery, the continued adjustment of depository institutions to the pricing of this Federal Reserve service, and their response to a new program to accelerate the collection of checks. Starting in February 1983, depository institutions have been able to deposit checks at Federal Reserve offices later in the day, and Reserve Banks have provided later presentment of checks to payor institutions located in Federal Reserve cities. The later deposit deadlines and presentment times expedite the collection of checks, and thus improve

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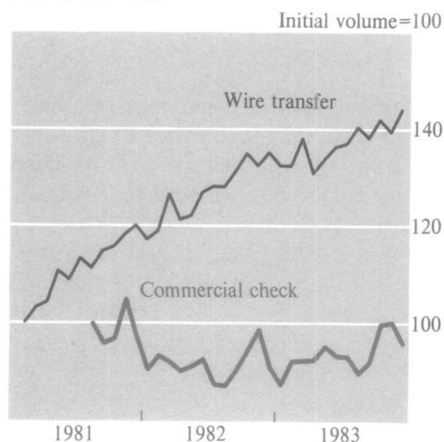
Index of Volume for Selected Priced Services



funds availability to depositors. The program has achieved its objective of accelerating collection: city items, totaling approximately $2 billion, are now collected one day faster than they formerly were.

Along with the program to accelerate check collection, the Reserve Banks revised fee schedules for check services in February 1983. In mid-1983, depository institutions began absorbing the cost of some types of check float through changes in crediting procedures for deposits. Further adjustments to fees were made in December 1983 to recover the remaining value of check float that had been included in the costs of the check collection service since October 1, 1983. Including the value of float and the private sector adjustment (discussed below), total costs for the check service in 1983 were $438.1 million, and total revenues were $436.7 million.

In 1983, the Federal Reserve pursued other measures to improve the check collection system. In May, the Board published for comment a proposal to accelerate the collection of checks drawn on certain non-city payor institutions. The Board will consider comments early in 1984.

Wire Transfer of Funds and Net Settlement

The number of wire transfers of funds grew 7 percent in 1983, and averaged 3.2 million per month. Expansion of electronic access through the deployment of terminals at smaller depository institutions continued during the year. By year-end, more than 4,000 institutions could enjoy lower service fees through on-line access to the funds transfer service and other services.

After review of projected costs, volumes, and revenues for 1983, the Board determined that fees for the wire transfer and net settlement services that were established in the last revision, in April 1982, should be retained. Total costs for the year, including the private sector adjustment, amounted to $65.3 million, and revenues were $67.2 million.

Automated Clearinghouse Service

The volume of transactions processed by the Federal Reserve's automated clearinghouse (ACH) grew 26 percent during 1983. Commercial transactions grew 48 percent, substantially faster than government transactions, which rose 15 percent. This trend seems likely to continue, especially in light of the success of the expanded night cycle service and enhancements proposed for the ACH service for 1984.

The schedules of funds availability, deposit options, and the flexibility of the existing ACH service were reviewed in 1983. In each area, the re-

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view identified potential improvements in service that might benefit depository institutions. In September, the Board requested public comment on a number of service enhancements and on a proposed restructuring of ACH fees. In accordance with the Board's incentive pricing policy for the ACH service, the proposed schedule is designed to recover 60 percent of commercial ACH costs, including the private sector adjustment, plus the value of projected ACH float due to delayed interregional transmission. The Board will consider comments on the fee schedule early in 1984.

Total costs for the commercial ACH service, including the private sector adjustment, were $15.2 million in 1983; total revenues were $7.7 million. After an adjustment to costs for the Board's incentive pricing policy, revenues exceeded costs by $0.6 million.

Coin and Currency Services

When the cash transportation service was initially priced in 1982, a temporary support program was adopted to ease the burden of adjustment to full-cost pricing for institutions in remote areas. The level of support was reduced for 1983, and it was eliminated on December 31, 1983, except for locations outside the contiguous 48 states. During 1983, two Reserve Districts and one office in a third District ceased contracting directly for transportation of currency and coin and instead assisted depository institutions in making arrangements at lower cost. At least one other Reserve office is expected to adopt such a role during 1984.

Total costs for the cash transportation service, including the private sector adjustment, were $28.5 million in 1983, and total revenues were $27.1 million. After an adjustment to costs for the Board's interim support program, revenues exceeded costs by $0.2 million.

The coin wrapping service was offered by five Reserve Districts in 1983, three more than in 1982. In addition, special cash packaging and acceptance of late orders for cash were provided on a trial basis. These services will be reviewed in 1984. In 1983, revenues for the coin wrapping service equaled full costs of $1.6 million, including the private sector adjustment.

Securities Services

The revised fee schedule for book-entry securities services became effective April 28, 1983. A per issue fee for account maintenance was added, and other fees were raised.

During 1983, the volume in the safekeeping service for definitive securities continued to decline, but the volume in the noncash collection service increased. Costs of both services continued to exceed revenue. The fee schedules for these services were revised, effective October 27, 1983. In September, three Federal Reserve Districts introduced a mixed deposit and fine-sort program on a trial basis. The pilot program was expanded subsequently to five Districts.

Total costs for the book-entry securities service, including the private sector adjustment, were $20.5 million in 1983, and total revenues were $21.8 million. For the definitive safekeeping and noncash collection services, total costs were $23.5 million, and total revenues were $19.1 million.

For the full year 1984, the System will include the value of float in the costs of the book-entry service. The value of float will be included in the

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costs of the noncash collection service beginning May 1, 1984.

Float

During 1983, the Federal Reserve took a number of steps to deal with float. In July, the System changed the crediting procedures for deposits of interterritory checks. Under the new program, institutions can choose between two crediting options and among several methods for paying for float associated with interterritory checks. The Board also decided to incorporate the value of holdover check float into the cost base for the check service in several stages, and full recovery of all such float began on October 1, 1983. On May 4, the Board instituted a program for reducing return-item float, and announced that the value of other check float would be incorporated into check service costs on October 1. In September, the Board requested comment on a proposal to deal with midweek closing and nonstandard holiday float; it will consider comments early in 1984.

The System developed cost-effective methods to reduce or price float in services other than check collection, as discussed above for the ACH and securities services. The Board expects to announce in 1984 plans to eliminate or price all Federal Reserve float.

Administrative Matters

On October 13, 1983, the Board published for comment proposed changes to the procedure for calculating the private sector adjustment factor (PSAF) for 1984. The PSAF is used to impute the "taxes that would have been paid and a return on capital that would have been provided had the [Federal Reserve's priced] services been furnished by a private business firm." The proposal includes direct determination of assets allocated to priced services and expansion from 12 to 25 of the sample of large bank holding companies used in determining the PSAF. The Board also requested comment on an alternative method for setting the income tax rate used in calculating the PSAF.

Finally, the Board requested comment on an adjusted rate applied to clearing balances that reflects the net value of the balances to depository institutions. Aggregate excess clearing balances are expected to decline in 1984 because Reserve Banks are developing a new service that will allow depository institutions to invest their excess balances more readily.

Financial Performance

The Monetary Control Act directs the Federal Reserve, over the long run, to set fees that are based on (1) all direct and indirect costs of providing services, and (2) an imputed cost (represented by the PSAF) that accounts for the taxes paid and the return on capital earned by a private firm.

For 1983, total revenue at Reserve Banks from all services was $581.1 million, and total cost was $592.7 million. These figures include the income and expenses related to clearing balances, the private sector adjustment, and the value of priced float. With allowances for temporary support programs for the ACH and cash transportation services, the Banks had a net revenue of −$1.9 million.

Enhancements to the services offered, improved operations, and better cost control resulted in marked gains for the System's performance in 1983. For the year, the Reserve Banks received 99.7 percent of costs in reve-

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nues for priced services, compared with 84.3 percent in 1982. As the accompanying chart shows, revenue as a percent of cost increased for every service offered, and the commercial ACH and book-entry securities services showed dramatic improvement. Table 9, in the statistical tables section of this REPORT, presents revenues and expenses by major category of service.

Examination

The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks and their 25 branches during 1983, as required by section 21 of the Federal Reserve Act.

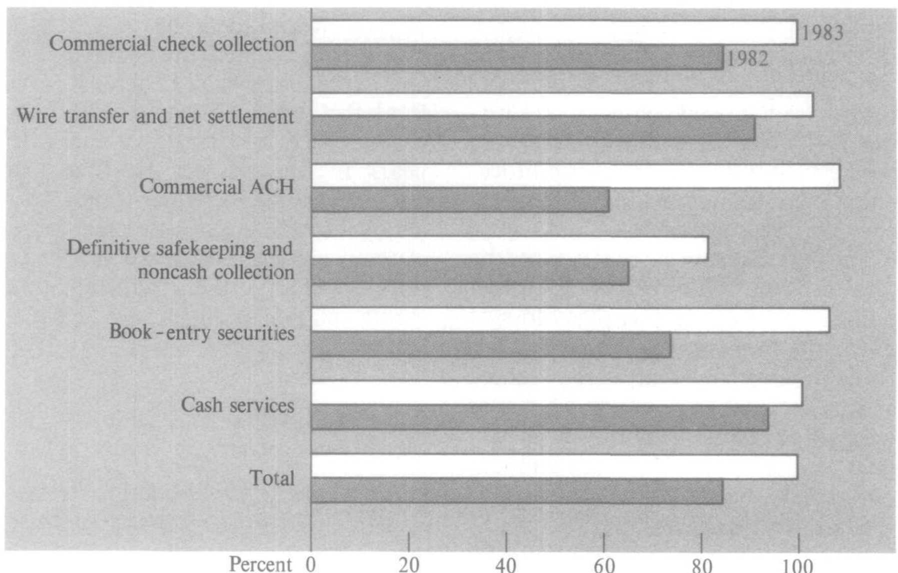
In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners audited the accounts and holdings related to the Federal Reserve System Open Market Account and the foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee; the Committee received copies of these reports. The procedures that the Board's examiners followed were appraised by a private firm of certified public accountants, pursuant to the policy of annual reviews.

Income and Expenses

The accompanying table summarizes the income, expenses, and distribution of net earnings of the Federal Reserve Banks for 1983 and 1982.

Current income, at $16,068 million, was $449 million lower in 1983 than in 1982. Income from the System's holdings of U.S. government obliga-

Recovery of Costs for Priced Services of Federal Reserve Banks



In accordance with System policy, revenue is shown as a percent of part of full automated clearinghouse costs; the portion was 40 percent in 1983 and 20 percent in 1982. The cost of cash services is adjusted for a temporary support program that subsidized remotely located depository institutions in 1983 and 1982.

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Income, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1983 and 1982[1]

Thousands of dollars

Item	1983	1982
Current income	16,068,362	16,517,385
Current expenses	1,023,678	926,034
Operating expenses[2]	951,919	897,773
Earning credits granted	71,759	28,261
Current net income	15,044,684	15,591,351
Net deduction from current net income	400,366	68,833
Assessments by the Board of Governors	223,686	160,254
For expenditures of Board	71,551	61,813
For cost of Federal Reserve currency[2]	152,135	98,441
Net income before payments to U.S. Treasury	14,420,631	15,362,264
Dividends paid	85,152	79,352
Payments to U.S. Treasury (interest on Federal Reserve notes)	14,228,816	15,204,591
Transferred to surplus	106,663	78,320

1. Details may not add to totals because of rounding.

2. Assessments by the Board for the cost of Federal Reserve currency, heretofore included in operating expenses, are now identified as a separate item. Accordingly, the operating expenses item for 1982 and for earlier years, shown in table 8, has been restated.

tions and of assets denominated in foreign currencies was lower, by $343 million and $159 million respectively. The decline in income was due to the lower rates of interest paid on those holdings. Fee income from priced services amounted to $496 million, $109 million more than in 1982.

Operating expenses totaled $1,024 million in 1983, including $72 million of earnings credits granted to depository institutions that use these credits to pay for priced services. Assessments by the Board of Governors were $72 million for its expenditures and $152 million for the cost of Federal Reserve currency.

Deductions from current net income totaled $400 million in 1983, principally because of an unrealized loss of $456 million on assets denominated in foreign currencies that were revalued at market exchange rates. That loss was offset partially by a $21 million gain on sales of U.S. government obligations.

Statutory dividends paid to member banks totaled $85 million, $6 million more than in 1982. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Reserve Banks.

Payments to the U.S. Treasury as interest on Federal Reserve notes totaled $14,229 million for the year, compared with $15,205 million in 1982. This sum consists of all net income after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of the income and expenses of each Federal Reserve Bank for 1983 is shown in table 7 and a condensed historical statement appears in table 8, in the Statistical Tables section of this REPORT. A detailed statement of assessments and expenditures of the Board of Governors appears in the Financial Statements section of the REPORT, which follows.

Federal Reserve Bank Premises

During 1983, the Federal Reserve Bank of San Francisco moved to its new quarters and sold the vacated buildings and properties; and the Board of Governors authorized construction of a new building for the

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Jacksonville Branch of the Federal Reserve Bank of Atlanta.

Table 6, in the Statistical Tables section of this REPORT, shows the cost and book values of premises owned or occupied by the Federal Reserve Banks and branches, and of real estate acquired for future banking-house purposes.

Holdings of Securities and Loans

The accompanying table presents holdings, earnings, and average interest rates on securities and loans of the Federal Reserve Banks during the past three years.

Average daily holdings of securities and loans during 1983 amounted to $152,526 million, an increase of $11,558 million over 1982. Holdings of U.S. government securities increased $11,657 million, loans decreased $9 million, and acceptances decreased $90 million.

From 1982 to 1983, the average rate of interest on all types of holdings declined: on U.S. government securities, from 11.08 to 10.00 percent; on loans, from 11.49 to 9.05 percent; and on acceptances, from 12.08 to 10.17 percent.

Volume of Operations

Table 10, in the Statistical Tables section of this REPORT, shows the volume of operations in the principal departments of the Federal Reserve Banks for the years 1980–83.

Securities and Loans of Federal Reserve Banks, 1981–83

Millions of dollars except as noted

Item and year	Total	U.S. government securities[1]	Loans	Acceptances
Average daily holdings[2]				
1981	132,238	130,754	1,363	121
1982	140,968	139,772	1,047	149
1983	152,526	151,429	1,038	59
Earnings				
1981	14,757r	14,551	187r	19
1982	15,631r	15,493r	120r	18
1983	15,250	15,150	94	6
Average interest rate (percent)				
1981	11.16r	11.13	13.72r	15.70
1982	11.09r	11.08r	11.49r	12.08
1983	10.00	10.00	9.05	10.17

1. Includes federal agency obligations.

2. Based on holdings at opening of business.

r Revised.

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Board of Governors

Financial Statements

The financial statements of the Board for the year 1983 were examined by Price Waterhouse, independent public accountants.

Report of Independent Accountants

To the Board of Governors of the
Federal Reserve System

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1983, and the related statements of revenues and expenses and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Board of Governors of the Federal Reserve System for the year ended December 31, 1982, were examined by other independent accountants, whose report dated February 18, 1983, expressed an unqualified opinion on those statements.

In our opinion, the financial statements examined by us present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Washington, D.C.,
February 22, 1984

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

	As of December 31	
ASSETS	1983	1982
OPERATING FUND		
Cash	$ 5,842,333	$ 4,613,805
Receivables and advances (Note 1)	1,124,235	582,012
Stockroom and cafeteria inventories at lower of cost (first-in, first-out) or market	266,428	257,495
Noncurrent assets	167,695	22,592
Total operating fund	7,400,691	5,475,904
PROPERTY FUND, at cost (Note 1)		
Land and improvements	1,301,314	1,301,314
Buildings	61,212,084	61,056,512
Furniture and equipment	9,083,750	8,636,512
Computer equipment	6,845,572	6,845,572
Total property fund	78,442,720	77,839,910
Total assets	$85,843,411	$83,315,814
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
Liabilities		
Accounts payable	$ 3,182,826	$ 3,353,351
Accrued payroll and related taxes	1,586,436	1,466,018
Accrued annual leave	3,358,022	3,074,671
Other liabilities	304,811	1,025,000
	8,432,095	8,919,040
Commitments and contingencies (Notes 2 and 3)		
Fund balance (Note 1)		
Balance, beginning of year	(3,443,136)	821,816
Revenues over (under) expenses	2,411,732	(4,264,952)
Balance, end of year	(1,031,404)	(3,443,136)
Total operating fund	7,400,691	5,475,904
PROPERTY FUND (Note 1)		
Fund balance		
Balance, beginning of year	77,839,910	76,067,343
Additions—at cost	732,392	1,808,096
Disposals—at cost	(129,582)	(35,529)
Total property fund	78,442,720	77,839,910
Total liabilities and fund balances	$85,843,411	$83,315,814

The accompanying notes are an integral part of these statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES

	For the years ended December 31	
	1983	1982
BOARD OPERATING REVENUES (Note 1)		
Assessments levied on Federal Reserve Banks for Board operating expenses	$ 71,551,000	$61,813,400
Other		
Sale of publications	1,110,591	1,103,340
Miscellaneous	454,383	409,930
Total other revenues	1,564,974	1,513,270
Total operating revenues	73,115,974	63,326,670
FUNDED BOARD OPERATING EXPENSES (Note 1)		
Salaries	47,069,895	44,110,097
Retirement and insurance contributions (Note 2)	7,662,084	7,613,490
Travel	1,900,557	1,765,093
Contractual services	2,022,552	1,625,785
Printing and binding	1,576,019	1,556,785
Heat, light and power	1,289,483	1,268,450
Equipment, office space and other rentals (Note 3)	1,554,318	1,327,555
Telephone and telegraph	1,266,092	1,038,630
Repairs and maintenance	1,169,404	982,601
Postage	856,768	920,350
Stationery, office and other supplies	715,588	696,557
Cafeteria operations, net	520,812	476,168
Professional fees	296,192	397,948
Books and subscriptions	278,526	248,943
Subsidies and contributions (Note 4)	702,823	489,807
Tuition, registration and membership fees	408,991	335,717
Other (Note 5)	398,395	555,610
Property additions (Note 1)	732,392	1,802,331
Total funded operating expenses	70,420,891	67,211,917
BOARD OPERATING REVENUES OVER (UNDER) FUNDED OPERATING EXPENSES	2,695,083	(3,885,247)
Unfunded Accrued Annual Leave	283,351	379,705
BOARD OPERATING REVENUES OVER (UNDER) TOTAL OPERATING EXPENSES	2,411,732	(4,264,952)
ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES ON BEHALF OF FEDERAL RESERVE BANKS (Note 6)		
Expenditures for issuance and redemption of Federal Reserve notes	128,215,054	85,766,269
Less assessments levied on Federal Reserve Banks for currency issuance and redemption	128,215,054	85,766,269
	0	0
REVENUES OVER (UNDER) EXPENSES	$ 2,411,732	$ (4,264,952)

The accompanying notes are an integral part of these statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the years ended December 31	
	1983	1982
SOURCES OF CASH		
Board operating revenues	$ 73,115,974	$ 63,326,670
Assessments levied on Federal Reserve Banks for currency issuance and redemption	128,215,054	85,766,269
Decrease in deferred publication costs		334,562
Increase in accrued payroll and related taxes	120,418	93,552
Increase in accrued annual leave liability	283,351	379,705
Total sources	201,734,797	149,900,758
USES OF CASH		
Funded Board operating expenses	70,420,891	67,211,917
Unfunded accrued annual leave expense	283,351	379,705
Expenditures for issuance and redemption of Federal Reserve notes	128,215,054	85,766,269
Increase (decrease) in receivables	542,223	(52,520)
Increase in inventories	8,933	17,455
Increase in noncurrent assets	145,103	22,592
Decrease (increase) in accounts payable	170,525	(868,504)
Decrease (increase) in other liabilities	720,189	(1,025,000)
Total uses	200,506,269	151,451,914
INCREASE (DECREASE) IN CASH	1,228,528	(1,551,156)
CASH BALANCE, beginning of year	4,613,805	6,164,961
CASH BALANCE, end of year	$ 5,842,333	$ 4,613,805

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1983 AND 1982

(1) SIGNIFICANT ACCOUNTING POLICIES

In preparing its financial statements, the Board of Governors of the Federal Reserve System (the Board) has applied accounting principles which, in management's opinion, best reflect its financial position and results of operations. These accounting principles include certain principles which are generally accepted for organizations in the private sector and also certain principles which are generally accepted for federal government agencies. A summary of significant accounting policies is shown below.

Board Operating Revenues and Expenses—Assessments made on the Federal Reserve Banks for Board operating expenses are calculated based upon expected cash needs. These assessments, other operating revenues, and operating expenses are recorded on the accrual basis of accounting.

Receivables and Advances—The Board coordinates various special projects on behalf of the Federal Reserve System. Costs incurred by the Board are reimbursed upon completion of the project or as provided under the terms of related agreements.

Property—The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction of expense in the Operating Fund in the year of disposition. When property is acquired or sold, the property asset accounts and the fund balance in the Property Fund are increased or decreased at cost.

(2) RETIREMENT PLANS

There are two major retirement plans for employees of the Board. Approximately 84 percent of the employees are covered by the Federal Reserve Board Plan. Substantially all new members of the staff who do not come directly from a position in the federal government are covered by the Board Plan. The second plan, the Civil Service Retirement Plan, covers all new employees who come directly from the federal government service. Employee contributions are the same percentage of salary under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, the Board's contributions directly match employee payroll deductions. Under the Board Plan, the Board's contributions for active employees are actuarially determined and are funded in the current period. Costs associated with annual cost-of-living adjustments (COLA) for retirees are actuarially determined. One-half of the cost of the COLA supplement is funded by a lump sum payment at the time the supplement is granted. The remaining one-half of the cost of each supplement is funded over fifteen years and is reflected in the normal contributions to the Board Plan. The lump sum payments for the 1983 and 1982 amendments to retirees' benefits amounted to $875,000 and $1,850,000, respectively.

Additionally, employees of the Board may participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, members may contribute up to a fixed percentage of their salary. Board contributions are based upon a fixed percentage of each member's basic contribution. Effective January 1, 1983, the Thrift Plan was expanded to include a Deferred Compensation Account. This new account did not have a significant impact on the Board's 1983 Thrift Plan contributions.

Board contributions to the retirement plans and the Thrift Plan totaled approximately $5,517,000 in 1983 and $6,384,000 in 1982.

As of January 1, 1983 and 1982 (the dates of the most recent actuarial reviews), the accumulated plan benefits for the Federal Reserve Board Plan, including those arising from COLA supplements, were as follows:

	As of January 1	
	1983	1982
Actuarial present value of accumulated plan benefits		
Vested	$51,237,000	$44,679,000
Nonvested	3,118,000	2,550,000
	$54,355,000	$47,229,000

The assumed rate of return used in determining the present value of accumulated plan benefits was 9.5 percent in 1983 and 10 percent in 1982.

As of January 1, 1983 and 1982, net assets available for plan benefits exceeded the actuarial present value of accumulated plan benefits.

(3) COMMITMENTS AND CONTINGENCIES

The Board leases office and computer equipment and office and storage space under leases which may generally be terminated within one year. At December 31, 1983, fixed future rental commitments were approximately $1,350,000 for 1984.

The Board has been named as a defendant in various litigation involving challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory requirement or authorization. Such lawsuits generally seek injunctive or declaratory relief against the Board rather than monetary awards. It is the opinion of Board counsel that lawsuits involving monetary awards do not represent a material liability to the Board.

The Board is self-insured with regard to (1) a group term life and accident insurance plan for Board officers and (2) losses of its building and equipment from fire or other casualties. Coverage for other customarily insured risks, such as workers' compensation and comprehensive general liability, is carried by the Board.

(4) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Federal Financial Institutions Examination Council (the Council). During 1983 and 1982, the Board paid $87,600 and $175,000, respectively, in assessments for

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operating expenses of the Council. These amounts are included in subsidies and contributions for 1983 and 1982.

The Board serves as custodian for the Council's cash account. (This cash is not reflected in the accompanying financial statements.) It also processes accounting transactions, including payroll for most of the Council employees, and performs other administrative services for which the Board is reimbursed by the Council.

The Board is not reimbursed for the costs of personnel who serve on the Council and on the various task forces and committees of the Council. The costs associated with these contributed services are included in the accompanying financial statements.

(5) FEDERAL RESERVE REGULATORY SERVICE

The Board began the publication and sale of the *Federal Reserve Regulatory Service* in 1981. This monthly looseleaf service contains Board regulations, interpretations, staff rulings and other regulatory materials. The development costs incurred during 1979 and 1980 were fully amortized against subscription revenues realized in 1981 and 1982. Included in other expenses for 1982 is $334,562 in amortization of deferred publication costs from prior years.

(6) ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES ON BEHALF OF FEDERAL RESERVE BANKS

The Board records assessments and expenditures for the issuance and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks. These assessments and expenditures are separately reported in the Statements of Revenues and Expenses because they are not Board operating transactions.

In 1983 the Board changed from the cash basis of accounting to the accrual basis of accounting for these assessments and expenditures. The accrual methodology produced results which were not materially different from those produced using the cash basis of accounting in 1982 and had no effect on revenues over expenses in 1983.

(7) RECLASSIFICATIONS

Certain 1982 amounts have been reclassified to conform with presentations in the 1983 financial statements. These reclassifications have no effect on previously reported 1982 revenues under expenses.

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Statistical Tables

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Federal Reserve Bank of St. Louis

1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1983

Thousands of dollars

Assets

Item				
Gold certificate account				**11,121,029**
Special drawing rights certificate account				**4,618,000**
Coin				**416,055**
Loans and securities				
Loans to depository institutions			**917,588**	
Acceptances held under repurchase agreement			**418,160**	
Federal agency obligations				
Bought outright			**8,645,048**	
Held under repurchase agreement			**207,700**	
U.S. government securities				
Bought outright				
Bills	**65,810,550**			
Notes	**63,933,846**			
Bonds	**20,813,727**			
Total bought outright		**150,558,123**		
Held under repurchase agreement		**1,384,200**		
Total U.S. government securities			**151,942,323**	
Total loans and securities				**162,130,819**
Cash items in process of collection				
Transit items			10,099,574	
Other cash items			1,464,758	
Total cash items in process of collection				**11,564,333**
Bank premises				
Land			90,077	
Buildings (including vaults)		348,755		
Building machinery and equipment		132,954		
Construction account		131,209		
Total bank premises		612,958		
Less depreciation allowance		152,984	459,934	
Bank premises, net				**550,011**
Other assets				
Furniture and equipment		342,656		
Less depreciation		125,143		
Total furniture and equipment, net			217,514	
Denominated in foreign currencies[1]			3,688,213	
Interest accrued			2,554,425	
Premium on securities			438,624	
Due from Federal Deposit Insurance Corporation			806,667	
Overdrafts			194,778	
Prepaid expenses			35,108	
Suspense account			62,743	
Real estate acquired for banking-house purposes			15,186	
All other			161,608	
Total other assets				**8,174,867**
Total assets				**198,575,114**

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1.—Continued

LIABILITIES		
Federal Reserve notes		
Outstanding (issued to Federal Reserve Banks)	178,874,587	
Less held by Federal Reserve Banks	21,776,037	
Total Federal Reserve notes, net		**157,098,550**
Deposits		
Depository institutions		**21,445,601**
U.S. Treasury—general account		**3,660,843**
Foreign-official accounts		**190,816**
Other deposits		
Collected funds due to other Federal Reserve Banks	0	
Officers' and certified checks	32,000	
International organizations	319,759	
All other[2]	477,100	
Total other deposits		**828,860**
Deferred availability cash items		**9,958,175**
Other liabilities		
Exchange-translation account	0	
Unearned discount	474	
Discount on securities	2,392,596	
Sundry items payable	31,721	
Suspense account	26,165	
All other	13,089	
Total other liabilities		**2,464,045**
Total liabilities		**195,646,889**
CAPITAL ACCOUNTS		
Capital paid in		**1,464,112**
Surplus		**1,464,112**
Other capital accounts[3]		**0**
Total liabilities and capital accounts		**198,575,114**

1. Of this amount, $1,543.4 million was invested in securities issued by foreign governments, and the balance was invested with foreign central banks and the Bank for International Settlements.

2. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury are included in this account pending payment.

3. During the year, this item includes undistributed net income, which is closed out on Dec. 31; see table 7 in the Statistical Tables section of this REPORT.

NOTE. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.

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Federal Reserve Bank of St. Louis

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1983 and 1982

Millions of dollars

Item	Total		Boston	
	1983	1982	1983	1982
ASSETS				
Gold certificate account	11,121	11,148	927	570
Special drawing rights certificate account	4,618	4,618	241	241
Coin	415	438	20	26
Loans				
To depository institutions	918	717	14	15
Other	0	0	0	0
Acceptances held under repurchase agreements	418	1,480	0	0
Federal agency obligations				
Bought outright	8,645	8,937	406	413
Held under repurchase agreements	208	588	0	0
U.S. government securities				
Bought outright[1]	150,558	135,607	7,062	6,265
Held under repurchase agreements	1,384	3,705	0	0
Total loans and securities	**162,131**	**151,034**	**7,482**	**6,693**
Cash items in process of collection	11,562	13,000	405	345
Bank premises	547	549	96	97
Other assets				
Denominated in foreign currencies[2]	3,687	5,764	95	150
All other	4,494	3,577	153	144
Interdistrict Settlement Account	0	0	+702	+101
Total assets	**198,575**	**190,128**	**10,121**	**8,367**
LIABILITIES				
Federal Reserve notes	157,097	141,990	8,961	7,191
Deposits				
Depository institutions	21,446	26,489	614	676
U.S. Treasury—General account	3,661	5,033	0	0
Foreign—Official accounts	191	328	4	5
Other	831	2,484	19	25
Total deposits	**26,129**	**34,334**	**637**	**706**
Deferred-availability cash items	9,957	8,814	333	306
Other liabilities and accrued dividends[3]	2,462	2,272	110	94
Total liabilities	**195,645**	**187,410**	**10,041**	**8,297**
CAPITAL ACCOUNTS				
Capital paid in	1,465	1,359	40	35
Surplus	1,465	1,359	40	35
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**198,575**	**190,128**	**10,121**	**8,367**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	178,875	159,979	10,082	8,050
LESS: Held by Bank[4]	21,778	17,989	1,121	859
Federal Reserve notes, net[5]	157,097	141,990	8,961	7,191
Collateral for Federal Reserve notes[6]				
Gold certificate account	11,121	11,148	....	....
Special drawing rights certificate account	4,618	4,618	....	....
Other eligible assets	0	107	....	....
U.S. government and agency securities	141,358	126,717	....	....
Total collateral	**157,097**	**141,990**	....	....

For notes see end of table.

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2.—Continued

New York 1983	New York 1982	Philadelphia 1983	Philadelphia 1982	Cleveland 1983	Cleveland 1982	Richmond 1983	Richmond 1982
3,058	3,212	541	554	659	744	913	967
1,335	1,335	225	225	302	302	408	408
24	32	18	13	37	48	53	51
124	90	158	101	29	19	200	108
0	0	0	0	0	0	0	0
418	1,480	0	0	0	0	0	0
2,831	2,811	288	298	512	590	718	758
208	588	0	0	0	0	0	0
49,294	42,656	5,023	4,519	8,920	8,950	12,502	11,506
1,384	3,705	0	0	0	0	0	0
54,259	**51,330**	**5,469**	**4,918**	**9,461**	**9,559**	**13,420**	**12,372**
1,362	1,630	374	299	314	497	1,806	1,723
25	25	50	51	27	27	105	110
900	1,436	162	236	269	432	195	300
1,329	1,358	113	107	203	191	270	259
+448	+871	+146	+364	−694	−1,322	−72	−307
62,740	**61,229**	**7,098**	**6,767**	**10,578**	**10,478**	**17,098**	**15,883**
49,474	44,812	5,856	5,560	8,831	8,823	13,762	12,411
6,228	8,882	732	816	1,094	1,051	1,214	1,322
3,661	5,033	0	0	0	0	0	0
77	170	7	9	11	16	8	11
513	587	13	21	23	41	40	65
10,479	**14,672**	**752**	**846**	**1,128**	**1,108**	**1,262**	**1,398**
1,215	485	268	173	275	215	1,730	1,478
858	596	80	68	142	134	196	452
62,026	**60,565**	**6,956**	**6,647**	**10,376**	**10,280**	**16,950**	**15,739**
357	332	71	60	101	99	74	72
357	332	71	60	101	99	74	72
0	0	0	0	0	0	0	0
62,740	**61,229**	**7,098**	**6,767**	**10,578**	**10,478**	**17,098**	**15,883**
52,817	47,896	8,163	7,546	9,721	9,463	15,565	13,708
3,343	3,084	2,307	1,986	890	640	1,803	1,297
49,474	44,812	5,856	5,560	8,831	8,823	13,762	12,411
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

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2. Statement of Condition of Each Federal Reserve Bank, December 31, 1983 and 1982—Continued

Millions of dollars

Item	Atlanta		Chicago	
	1983	1982	1983	1982
ASSETS				
Gold certificate account	371	402	1,504	1,476
Special drawing rights certificate account	161	161	646	646
Coin	42	44	24	26
Loans				
To depository institutions	10	8	95	83
Other	0	0	0	0
Acceptances held under repurchase agreements	0	0	0	0
Federal agency obligations				
Bought outright	210	227	1,191	1,268
Held under repurchase agreements	0	0	0	0
U.S. government securities				
Bought outright[1]	3,651	3,452	20,748	19,246
Held under repurchase agreements	0	0	0	0
Total loans and securities	**3,871**	**3,687**	**22,034**	**20,597**
Cash items in process of collection	1,210	1,664	1,054	923
Bank premises	34	34	20	19
Other assets				
Denominated in foreign currencies[2]	295	438	502	813
All other	100	117	544	434[7]
Interdistrict Settlement Account	+35	−278	+91	−158
Total assets	**6,119**	**6,269**	**26,419**	**24,776**
LIABILITIES				
Federal Reserve notes	3,156	3,295	22,425	20,612
Deposits				
Depository institutions	1,559	1,647	2,341	2,854
U.S. Treasury—General account	0	0	0	0
Foreign—Official accounts	12	16	21	30
Other	7	31	97	114
Total deposits	**1,578**	**1,694**	**2,459**	**2,998**
Deferred-availability cash items	1,074	1,007	822	508
Other liabilities and accrued dividends[3]	67	55	329	288
Total liabilities	**5,875**	**6,051**	**26,035**	**24,406**
CAPITAL ACCOUNTS				
Capital paid in	122	109	192	185
Surplus	122	109	192	185
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**6,119**	**6,269**	**26,419**	**24,776**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	5,746	5,522	24,572	22,048
LESS: Held by Bank[4]	2,590	2,227	2,147	1,436
Federal Reserve notes, net[5]	3,156	3,295	22,425	20,612

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Includes U.S. government securities held under repurchase agreement against receipt of foreign currencies and foreign currencies warehoused for the U.S. Treasury. Assets shown in this line are revalued monthly at market exchange rates.

3. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

4. Beginning September 1980, Federal Reserve

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2.—Continued

St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
468	418	143	154	605	675	750	743	1,182	1,233
170	170	61	61	241	241	310	310	518	518
22	25	20	19	46	44	28	32	81	78
93	88	49	9	53	33	70	160	23	3
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
245	301	106	113	444	422	598	606	1,096	1,130
0	0	0	0	0	0	0	0	0	0
4,267	4,565	1,843	1,709	7,739	6,406	10,417	9,192	19,092	17,141
0	0	0	0	0	0	0	0	0	0
4,605	**4,954**	**1,998**	**1,831**	**8,236**	**6,861**	**11,085**	**9,958**	**20,211**	**18,274**
678	677	469	688	1,310	1,366	1,101	1,404	1,479	1,784
16	15	25	27	25	24	18	16	106	104
103	167	133	213	170	259	254	375	609	945
125	99	84	62	172	165	933	203	468	438
−97	+742	+329	−275	−915	+873	−1,247	+91	+1,274	−702
6,090	**7,267**	**3,262**	**2,780**	**9,890**	**10,580**	**13,232**	**13,132**	**25,928**	**22,672**
4,873	4,630	2,296	1,758	7,589	7,851	9,944	9,317	19,930	15,730
475	477	394	414	801	1,224	1,985	2,408	4,009	4,718
0	0	0	0	0	0	0	0	0	0
4	6	5	8	7	9	10	14	25	34
15	1,408	3	22	20	36	29	46	52	88
494	**1,891**	**402**	**444**	**828**	**1,269**	**2,024**	**2,468**	**4,086**	**4,840**
579	603	431	452	1,214	1,168	885	1,024	1,131	1,395
64	67	31	28	123	96	163	135	299	259
6,010	**7,191**	**3,160**	**2,682**	**9,754**	**10,384**	**13,016**	**12,944**	**25,426**	**22,224**
40	38	51	49	68	62	108	94	241	224
40	38	51	49	68	62	108	94	241	224
0	0	0	0	0	0	0	0	0	0
6,090	**7,267**	**3,262**	**2,780**	**9,890**	**10,508**	**13,232**	**13,132**	**25,928**	**22,672**
5,787	5,440	2,800	2,206	9,810	8,974	11,763	11,047	22,049	18,079
914	810	504	448	2,221	1,123	1,819	1,730	2,119	2,349
4,873	4,630	2,296	1,758	7,589	7,851	9,944	9,317	19,930	15,730

notes held by the Reserve Banks are exempt from the collateral requirements.

5. Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve Banks other than the issuing Bank.

6. Effective Oct. 12, 1983, Federal Reserve notes are collateralized in the aggregate rather than by Banks.

7. Includes special investment account at Chicago of Treasury bills maturing within 90 days.

NOTE. Data for 1983 in tables 1 and 2 may differ because of rounding or closing adjustments, which are not included in table 2.

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3. Federal Reserve Open Market Transactions, 1983

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. GOVERNMENT SECURITIES				
Outright transactions (excluding matched transactions)				
Treasury bills				
Gross purchases	0	1,456	1,259	2,880
Gross sales	1,983	934	0	0
Exchange	0	0	0	0
Redemptions	900	300	0	0
Others within 1 year				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	558	4,564	1,198	826
Exchange	−544	−2,688	−900	0
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	−553	−4,564	−1,198	−684
Exchange	544	1,599	900	0
5 to 10 years				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	−5	229	0	−142
Exchange	0	650	0	0
Over 10 years				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	0	−229	0	0
Exchange	0	439	0	0
All maturities				
Gross purchases	0	1,456	1,259	2,880
Gross sales	1,983	934	0	0
Redemptions	900	300	0	0
Matched transactions				
Gross sales	59,398	35,234	47,892	37,873
Gross purchases	59,043	38,204	47,724	36,205
Repurchase agreements				
Gross purchases	6,747	6,697	3,526	7,671
Gross sales	10,451	6,697	3,526	3,984
Net change in U.S. government securities	−6,943	3,192	1,090	4,899
FEDERAL AGENCY OBLIGATIONS				
Outright Transactions				
Gross purchases	0	0	0	0
Gross Sales	0	0	0	0
Redemptions	9	5	8	7
Repurchase agreements				
Gross purchases	452	276	379	340
Gross sales	1,040	276	379	92
Net change in federal agency obligations	−596	−5	−8	241
BANKERS ACCEPTANCES				
Repurchase agreements, net	−1,480	0	0	704
Total net change in System Open Market Account	**−9,019**	**3,187**	**1,082**	**5,844**

*Less than $500,000.

NOTE. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

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3.—Continued

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
516	1,721	666	1,768	3,184	309	1,435	3,695	18,888
0	0	0	289	214	0	0	0	3,420
0	0	0	0	0	0	0	0	0
0	0	0	0	500	0	700	0	2,400
173	0	156	0	0	0	155	0	484
0	0	0	0	0	0	0	0	0
1,795	1,398	1,162	2,212	902	529	2,828	915	18,887
−1,842	−916	0	−5,344	−753	−636	−2,930	0	−16,553
0	87	0	0	0	0	0	0	87
595	0	481	0	0	0	820	0	1,896
0	0	0	0	0	0	0	0	0
−41	−1,398	−1,121	−2,212	−902	−256	−1,689	−915	−15,533
1,367	916	0	3,130	753	636	1,796	0	11,641
326	0	215	0	0	0	349	0	890
0	0	0	0	0	0	0	0	0
−1,754	0	−41	516	0	−273	−980	0	−2,450
300	0	0	1,300	0	0	700	0	2,950
108	0	124	0	0	0	151	0	383
0	0	0	0	0	0	0	0	0
0	0	0	−516	0	0	−159	0	−904
175	0	0	914	0	0	434	0	1,962
1,719	1,721	1,642	1,768	3,184	309	2,909	3,695	22,540
0	0	0	289	214	0	0	0	3,420
0	87	0	0	500	0	700	0	2,487
43,404	50,086	40,934	45,989	48,193	53,751	56,858	58,979	578,591
45,001	47,783	43,037	44,480	47,667	53,367	57,991	56,404	576,908
0	7,891	7,816	2,263	37,211	19,247	3,257	3,644	105,971
3,687	6,730	8,978	0	30,223	28,499	3,257	2,260	108,291
−371	493	2,583	2,234	8,933	−9,326	3,342	2,504	12,631
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
*	17	10	138	5	6	84	2	292
0	678	558	189	2,871	1,960	497	634	8,833
248	463	773	0	2,510	2,510	497	426	9,213
−248	198	−225	51	356	−557	−84	206	−672
−704	203	−203	209	913	−1,122	0	418	−1,062
−1,322	**893**	**2,155**	**2,493**	**10,203**	**−11,005**	**3,258**	**3,128**	**10,897**

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4. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1981-83

Millions of dollars

Description	December 31			Increase or decrease (−)	
	1983	1982	1981	1983	1982
U.S. government securities—Total	**151,942**	**139,312**	**130,954**	**12,630**	**8,358**
1-15 days[1]	2,700	4,396	3,935	−1,696	461
16-90 days	38,248	31,088	25,190	7,160	5,898
91 days to 1 year	45,475	40,057	37,417	5,418	2,640
1-5 years	34,021	35,102	36,025	−1,081	−923
5-10 years	13,485	12,095	11,752	1,390	343
Over 10 years	18,014	16,574	16,634	1,440	−60
Held outright[2]					
Treasury bills	65,811	54,426	49,359	11,385	5,067
Treasury notes	63,934	62,626	59,978	1,308	2,648
Treasury bonds	20,814	18,556	18,401	2,258	155
Held under RPs	1,384	3,704	3,216	−2,320	488
Federal agency obligations—Total	**8,853**	**9,525**	**9,394**	**−672**	**131**
1-15 days	386	730	530	−344	200
16-90 days	597	564	631	33	−67
91 days to 1 year	1,937	1,954	1,443	−17	511
1-5 years	4,196	4,780	5,256	−584	−476
5-10 years	1,333	979	962	354	17
Over 10 years	403	518	573	−115	−55
Held outright					
Banks for Cooperatives	21	21	21	0	0
Export-Import Bank	0	0	16	0	−16
Federal Farm Credit Banks	2,420	2,174	1,960	246	214
Federal Home Loan Banks	2,272	2,494	2,500	−222	−6
Federal Home Loan Mortgage Corporation	5	5	5	0	0
Federal Intermediate Credit Banks	50	50	59	0	−9
Federal Land Banks	350	613	840	−263	−227
Farmers Home Administration	147	147	163	0	−16
Federal National Mortgage Association	3,144	3,198	3,312	−54	−114
Government National Mortgage Association—PCs	67	67	83	0	−16
U.S. Postal Service	37	37	37	0	0
Washington Metropolitan Area Transit Authority	117	117	117	0	0
General Services Administration	14	14	14	0	0
Held under RPs	208	588	269	−380	319

1. Includes securities held under repurchase agreements.
2. Excludes securities sold under matched agreements, and securities held under repurchase agreements.

NOTE. Details may not add to totals because of rounding.

5. Number and Salaries of Officers and Employees of Federal Reserve Banks, December 31, 1983

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number: Full-time	Number: Part-time	Annual salaries (dollars)	Number	Annual salaries (dollars)
Boston	126,000	49	2,690,200	1,222	189	27,710,080	1,461	30,526,280
New York	164,600	155	9,944,900	3,920	76	89,653,242	4,152	99,762,742
Philadelphia	102,200	43	2,281,600	1,032	69	20,980,805	1,145	23,364,605
Cleveland	104,100	52	2,483,500	1,231	57	23,981,985	1,341	26,569,585
Richmond	110,100	71	3,553,700	1,770	128	31,365,680	1,970	35,029,480
Atlanta	108,000	62	3,217,150	1,950	48	36,060,303	2,061	39,385,453
Chicago	132,800	81	4,181,800	2,883	144	56,819,219	3,109	61,133,819
St. Louis	108,000	44	2,265,380	1,162	99	22,086,288	1,306	24,459,668
Minneapolis	108,000	37	1,852,800	1,049	3	20,325,245	1,090	22,286,045
Kansas City	103,100	54	2,764,100	1,514	42	28,496,511	1,611	31,363,711
Dallas	101,700	49	2,442,000	1,352	24	26,350,178	1,426	28,893,878
San Francisco	138,500	89	4,717,329	2,089	74	45,278,902	2,253	50,134,731
Total	**1,407,100**	**786**	**42,394,459**	**21,174**	**953**	**429,108,438**	**22,925**	**472,909,997**

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6. Bank Premises of Federal Reserve Banks and Branches, December 31, 1983

Dollars

Federal Reserve Bank or branch	Costs				Net book value	Other real estate [3]
	Land	Buildings (including vaults) [1]	Building machinery and equipment	Total [2]		
BOSTON	21,984,026	79,883,850	5,425,128	107,293,005	95,903,202	....
Annex	27,840	89,202	44,538	161,580	141,284	....
NEW YORK	3,436,277	11,866,934	21,427,695	36,730,906	21,422,003	....
Annex	477,863	1,136,219	745,855	2,359,936	908,097	....
Buffalo	887,844	2,714,938	1,955,684	5,558,466	3,062,621	....
PHILADELPHIA	1,876,601	52,376,087	5,331,020	59,583,708	49,971,600	....
CLEVELAND	1,074,281	6,182,682	4,669,862	11,926,825	4,268,592	1,224,363
Cincinnati	2,003,999	13,537,723	7,521,727	23,063,449	15,567,437	....
Pittsburgh	1,658,376	5,186,135	3,067,600	9,912,111	7,586,991	....
RICHMOND	3,912,575	55,692,101	14,314,313	73,918,988	63,989,256	....
Annex	522,733	3,725,466	3,616,991	7,865,190	4,239,263	....
Baltimore	3,880,302	32,901,277	....	36,781,579	35,901,664	....
Charlotte	347,071	1,116,899	946,943	2,410,914	1,212,390	1,675,944
ATLANTA	1,202,255	7,093,025	3,558,580	11,853,861	6,663,964	....
Birmingham	2,361,070	1,905,770	1,046,244	5,313,084	3,612,914	166,845
Jacksonville	164,004	1,706,794	778,381	2,649,179	839,902	951,793
Annex	107,925	76,236	15,843	200,003	154,302	....
Miami	3,607,531	11,853,644	2,134,409	17,595,584	16,411,138	....
Nashville	592,342	1,474,678	1,175,891	3,242,912	1,510,254	....
New Orleans	3,087,693	2,754,272	1,476,257	7,318,222	4,993,768	283,753
CHICAGO	4,511,942	15,364,652	12,068,149	31,944,743	16,217,244	....
Annex	53,066	302,249	136,878	492,193	443,273	....
Detroit	797,734	3,429,670	2,004,896	6,232,301	3,411,722	....
ST. LOUIS	700,378	6,161,656	3,870,028	10,732,062	4,815,069	....
Little Rock	1,148,492	2,067,898	1,023,475	4,239,865	2,904,397	....
Louisville	700,075	2,945,455	1,131,238	4,776,768	2,480,281	....
Memphis	1,135,623	4,216,382	2,126,755	7,478,760	5,355,294	....
MINNEAPOLIS	1,394,384	26,664,805	7,692,189	35,751,378	25,963,650	....
Helena	289,619	104,184	61,906	455,709	336,861	....
KANSAS CITY	1,338,737	10,557,450	7,544,533	19,440,719	13,835,183	5,555,451
Denver	2,997,746	3,453,303	2,457,850	8,908,898	6,075,513	....
Oklahoma City	646,386	2,395,121	1,717,342	4,758,848	3,374,796	....
Omaha	1,030,226	1,550,902	817,215	3,398,342	1,814,471	479,076
DALLAS	3,729,268	5,095,599	3,737,706	12,562,573	9,217,317	....
El Paso	262,477	1,131,610	393,301	1,787,388	1,528,026	....
Houston	2,049,064	2,582,938	791,229	5,423,231	4,699,387	....
San Antonio	448,596	2,226,761	570,846	3,246,204	2,753,233	....
SAN FRANCISCO	12,024,102	86,465,796	....	98,489,898	95,954,885	....
Los Angeles	644,238	4,429,418	2,468,917	7,542,573	4,170,931	4,848,691
Portland	207,381	1,681,372	649,432	2,538,184	1,865,994	....
Salt Lake City	480,222	1,972,068	1,048,304	3,500,594	2,433,513	....
Seattle	274,772	1,890,966	1,388,582	3,554,319	1,996,657	....
Total	**90,077,134**	**479,964,186**	**132,953,731**	**702,995,051**	**550,008,341**	**15,185,914**

1. Includes expenditures for construction at some offices pending allocation to appropriate accounts.
2. Excludes charge-offs of $17,698,968 before 1952.
3. Includes acquisitions for banking-house purposes, and Bank premises formerly occupied and being held pending sale.

NOTE. Details may not add to totals due to rounding.

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7. Income and Expenses of Federal Reserve Banks, 1983

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
CURRENT INCOME					
Loans	132,865,618	1,536,753	35,493,027	4,912,031	2,378,047
Acceptances	6,002,058	0	6,002,058	0	0
U.S. government securities	15,150,174,988	703,948,643	4,949,240,503	502,849,580	924,706,072
Foreign currencies	273,795,191	7,118,674	66,806,027	12,046,989	19,987,049
Priced services	496,248,128	27,183,964	80,390,885	17,332,387	30,342,356
All other	9,276,134	316,890	3,408,563	242,571	286,732
Total	**16,068,362,117**	**740,104,924**	**5,141,341,063**	**537,383,558**	**977,700,256**
CURRENT EXPENSES					
Salaries and other personnel expenses	499,601,810	30,903,530	107,308,332	24,637,342	27,530,530
Retirement and other benefits	141,205,741	8,933,801	27,851,445	7,329,265	8,470,436
Fees	12,111,411	832,422	1,170,056	504,349	657,350
Travel	16,407,036	790,390	2,179,756	729,994	1,194,279
Postage and other shipping costs	97,068,920	4,257,487	12,817,701	4,231,943	6,770,402
Communications	20,980,191	1,361,774	4,426,817	1,126,418	1,512,074
Materials and supplies	38,833,832	1,950,987	7,511,411	2,029,739	2,056,739
Building expenses					
Taxes on real estate	19,431,519	3,224,276	2,998,552	1,424,521	979,638
Property depreciation	18,938,040	2,370,078	1,800,952	1,514,777	1,044,304
Utilities	21,553,559	1,965,115	4,195,366	1,843,426	1,439,614
Rent	11,501,300	505,036	7,209,322	40,989	199,299
Other	10,954,042	517,171	2,286,769	885,449	513,535
Equipment					
Rentals	50,254,222	1,893,580	11,348,573	1,411,586	4,121,712
Depreciation	39,710,008	1,716,841	7,331,591	1,777,658	1,612,358
Repairs and maintenance	24,738,993	1,201,338	4,725,936	1,542,680	826,155
Cost of earnings credits	71,759,091	4,414,448	6,144,555	4,059,103	6,514,992
All other	28,336,513	2,211,079	4,130,407	1,151,701	2,019,137
Shared costs, net [1]	0	820,444	1,491,075	1,278,289	−335,588
Recoveries	−14,643,515	−3,632,591	−1,549,820	−1,340,366	−762,771
Expenses capitalized [2]	−2,601,833	−107,646	−4,369	−3,024	−163,047
Total [3]	**1,100,235,074**	**66,129,558**	**215,374,427**	**56,175,838**	**66,201,147**
Reimbursements	−76,556,600	−3,715,636	−18,588,582	−4,790,044	−5,407,502
Net expenses	1,023,678,474	62,413,922	196,785,845	51,385,794	60,793,645

For notes see end of table.

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7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
6,448,728	2,877,162	6,615,850	3,044,091	3,037,194	7,060,631	50,351,114	9,110,990
0	0	0	0	0	0	0	0
1,260,483,680	371,200,019	2,096,979,158	452,105,131	186,219,854	755,652,637	1,036,724,272	1,910,065,439
14,511,145	21,903,615	37,236,146	7,666,265	9,856,627	12,594,579	18,891,868	45,176,207
39,056,539	53,407,686	72,017,605	24,693,958	28,590,949	35,813,697	35,139,599	52,278,503
502,296	733,097	1,098,497	326,068	185,342	108,909	624,058	1,443,111
1,321,002,388	**450,121,579**	**2,213,947,256**	**487,835,513**	**227,889,966**	**811,230,453**	**1,141,730,911**	**2,018,074,250**
37,091,518	41,646,375	64,524,454	25,436,242	23,642,133	32,990,583	30,217,808	53,672,963
10,946,323	11,633,939	18,485,203	7,647,576	6,155,213	9,334,220	8,445,620	15,972,700
501,525	4,482,379	1,243,514	538,939	511,391	523,462	383,440	762,584
1,325,130	1,409,851	2,320,397	730,228	894,106	1,373,518	1,276,888	2,182,499
8,724,376	9,374,192	12,249,253	6,185,105	5,119,439	7,992,043	7,305,459	12,041,520
1,689,102	2,110,192	2,268,948	811,831	992,639	1,428,822	1,245,370	2,006,204
3,654,209	3,809,246	4,886,229	2,446,694	1,625,048	2,998,155	2,430,214	3,435,161
1,642,856	1,074,265	2,466,379	402,701	2,158,213	616,043	699,335	1,744,740
3,603,387	988,938	807,063	561,887	1,004,955	1,042,065	791,214	3,408,420
1,975,577	1,874,560	2,217,534	1,144,244	841,779	1,126,324	1,301,628	1,628,392
359,758	111,942	1,830,862	306,748	77,870	61,902	738,506	59,066
1,127,544	612,938	1,729,671	530,781	594,114	628,325	561,905	965,840
4,426,664	6,280,908	7,104,648	1,574,016	2,264,308	1,884,147	3,112,469	4,831,611
4,433,750	2,449,702	4,977,365	2,151,038	1,896,474	3,090,392	3,450,760	4,822,079
2,767,553	2,038,594	3,351,289	1,155,240	934,802	1,869,074	1,648,894	2,677,438
5,638,623	8,175,346	19,049,569	3,063,683	4,049,236	3,346,181	2,579,199	4,724,156
1,683,929	2,481,548	4,486,156	1,516,799	1,541,510	1,492,778	2,108,515	3,512,954
1,007,004	-2,017,646	-3,298,031	1,375,023	1,154,088	-639,675	-2,410,705	1,575,722
-3,011,091	-684,284	-1,250,412	-593,280	-176,856	-639,156	-191,689	-811,199
-243,776	-179,467	-616,918	-115,773	-63,619	-558,895	-439,743	-105,556
83,438,165’	**97,673,518**	**148,833,173**	**56,869,722**	**55,216,843**	**69,960,307**	**65,255,083**	**119,107,293**
-5,125,512	-5,822,014	-9,566,570	-4,042,018	-2,522,503	-4,791,960	-3,699,235	-8,485,024
78,312,653	91,851,504	139,266,603	52,827,704	52,694,340	65,168,347	61,555,848	110,622,269

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7. Income and Expenses of Federal Reserve Banks, 1983—Continued

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net income	15,044,683,644	677,691,002	4,944,555,217	485,997,765	916,906,611
Additions to current net income					
Profits on sales of U.S. government securities	20,985,052	974,625	6,693,696	699,610	1,336,302
All other	35,829,894	1,485	20,850	2,179	14,243
Total additions	56,814,946	976,110	6,714,546	701,788	1,350,545
Deductions from current net income					
Losses on foreign currency transactions[4]	456,297,385	11,863,733	111,336,562	20,077,085	33,309,709
All other	883,484	4,838	116,615	12,783	45,472
Total deductions	457,180,869	11,868,571	111,453,177	20,089,868	33,355,181
Net additions to or deductions (–) from current net income	–400,365,922	–10,892,461	–104,738,631	–19,388,080	–32,004,636
Assessments by Board					
Board expenditures[5]	71,551,000	1,861,700	17,513,200	3,214,900	5,187,600
Cost of Federal Reserve currency	152,135,488	8,203,654	41,636,586	8,308,678	8,472,971
Net income before payments to U.S. Treasury	14,420,631,234	656,733,187	4,780,666,800	455,086,107	871,241,404
Dividends paid	85,151,835	2,284,502	20,884,084	4,024,901	6,018,003
Payments to U.S. Treasury (interest on Federal Reserve notes)	14,228,816,297	649,638,935	4,733,958,866	439,879,006	863,002,352
Transferred to surplus	106,663,100	4,809,750	25,823,850	11,182,200	2,221,050
Surplus, January 1	1,357,449,200	34,953,200	331,612,700	59,790,650	99,146,300
Surplus, December 31	1,464,112,300	39,762,950	357,436,550	70,972,850	101,367,350

1. Includes distribution of costs for projects performed by one Bank for the benefit of one or more other Banks.
2. This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.
3. The total expense for Richmond has been adjusted to exclude $5,905,795, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System.
4. This item consists of unrealized net losses related to revaluation of assets denominated in foreign currencies to market exchange rates.
5. For additional details, see the last three pages of the section "Board of Governors, Financial Statements" in this REPORT.

NOTE. Details may not add to totals because of rounding.

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7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1,242,689,736	358,270,074	2,074,680,653	435,007,810	175,195,626	746,062,106	1,080,175,063	1,907,451,981
1,767,545	525,429	2,948,568	668,104	261,812	1,021,335	1,432,608	2,655,418
16,030	4,204	0	26,283	1,858	55,362	11,138	35,676,261
1,783,575	529,633	2,948,568	694,387	263,671	1,076,697	1,443,746	38,331,680
24,183,761	36,503,791	62,056,444	12,776,327	16,426,706	20,989,680	31,484,519	75,289,068
61,785	101,695	102,895	56,609	2,271	110,767	136,790	130,965
24,245,546	36,605,485	62,159,339	12,832,936	16,428,977	21,100,446	31,621,309	75,420,033
−22,461,971	−36,075,852	−59,210,771	−12,138,548	−16,165,306	−20,023,749	−30,177,563	−37,088,354
3,728,000	5,772,600	9,692,700	1,996,900	2,560,200	3,264,500	5,024,200	11,734,500
11,850,262	6,037,702	21,140,229	5,514,625	3,125,473	9,875,675	11,827,012	16,142,621
1,204,649,503	310,383,920	1,984,636,953	415,357,737	153,344,646	712,898,182	1,033,146,288	1,842,486,506
4,336,297	6,865,126	11,399,351	2,344,760	2,983,463	3,901,708	6,160,847	13,948,793
1,197,695,756	290,842,695	1,966,025,853	410,970,627	148,823,984	703,007,024	1,013,593,438	1,811,377,762
2,617,450	12,676,100	7,211,750	2,042,350	1,537,200	5,989,450	13,392,000	17,159,950
71,546,600	108,864,850	184,673,250	38,079,650	48,984,200	61,908,450	94,257,600	223,631,750
74,164,050	121,540,950	191,885,000	40,122,000	50,521,400	67,897,900	107,649,600	240,791,700

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8. Income and Expenses of Federal Reserve Banks, 1914–83

Dollars

Period, or Federal Reserve Bank	Current income	Operating expenses[1]	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Federal Reserve currency costs[1]
All Banks					
1914–15	2,173,252	2,018,282	5,875	302,304	...
1916	5,217,998	2,081,722	−193,001	192,277	...
1917	16,128,339	4,921,932	−1,386,545	237,795	...
1918	67,584,417	10,576,892	−3,908,574	382,641	...
1919	102,380,583	18,744,815	−4,673,446	594,818	...
1920	181,296,711	27,548,505	−3,743,907	709,525	...
1921	122,865,866	33,722,409	−6,314,796	741,436	...
1922	50,498,699	28,836,504	−4,441,914	722,545	...
1923	50,708,566	29,061,539	−8,233,107	702,634	...
1924	38,340,449	27,767,886	−6,191,143	663,240	...
1925	41,800,706	26,818,664	−4,823,477	709,499	...
1926	47,599,595	24,914,037	−3,637,668	721,724	1,714,421
1927	43,024,484	24,894,487	−2,457,792	779,116	1,844,840
1928	64,052,860	25,401,233	−5,026,029	697,677	805,900
1929	70,955,496	25,810,067	−4,861,642	781,644	3,099,402
1930	36,424,044	25,357,611	−93,136	809,585	2,175,530
1931	29,701,279	24,842,964	311,451	718,554	1,479,146
1932	50,018,817	24,456,755	−1,413,192	728,810	1,105,816
1933	49,487,318	25,917,847	−12,307,074	800,160	2,504,830
1934	48,902,813	26,843,653	−4,430,008	1,372,022	1,025,721
1935	42,751,959	28,694,965	−1,736,758	1,405,898	1,476,580
1936	37,900,639	26,016,338	485,817	1,679,566	2,178,119
1937	41,233,135	25,294,835	−1,631,274	1,748,380	1,757,399
1938	36,261,428	25,556,949	2,232,134	1,724,924	1,629,735
1939	38,500,665	25,668,907	2,389,555	1,621,464	1,356,484
1940	43,537,805	25,950,946	11,487,697	1,704,011	1,510,520
1941	41,380,095	28,535,547	720,636	1,839,541	2,588,062
1942	52,662,704	32,051,226	−1,568,208	1,746,326	4,826,492
1943	69,305,715	35,793,816	23,768,282	2,415,630	5,336,118
1944	104,391,829	39,659,496	3,221,880	2,296,357	7,220,068
1945	142,209,546	41,666,453	−830,007	2,340,509	4,710,309
1946	150,385,033	50,493,246	−625,991	2,259,784	4,482,077
1947	158,655,566	58,191,428	1,973,001	2,639,667	4,561,880
1948	304,160,818	64,280,271	−34,317,947	3,243,670	5,186,247
1949	316,536,930	67,930,860	−12,122,274	3,242,500	6,304,316
1950	275,838,994	69,822,227	36,294,117	3,433,700	7,315,844
1951	394,656,072	83,792,676	−2,127,889	4,095,497	7,580,913
1952	456,060,260	92,051,063	1,583,988	4,121,602	8,521,426
1953	513,037,237	98,493,153	−1,058,993	4,099,800	10,922,067
1954	438,486,040	99,068,436	−133,641	4,174,600	6,489,895
1955	412,487,931	101,158,921	−265,456	4,194,100	4,707,002
1956	595,649,092	110,239,520	−23,436	5,339,800	5,603,176
1957	763,347,530	117,931,908	−7,140,914	7,507,900	6,374,195
1958	742,068,150	125,831,215	124,175	5,917,200	5,973,240
1959	886,226,116	131,848,023	98,247,253	6,470,600	6,384,083
1960	1,103,385,257	139,893,564	13,874,702	6,533,700	7,455,011
1961	941,648,170	148,253,719	3,481,628	6,265,100	6,755,756
1962	1,048,508,335	161,451,206	−55,779	6,654,900	8,030,028
1963	1,151,120,060	169,637,656	614,835	7,572,800	10,062,901
1964	1,343,747,303	171,511,018	725,948	8,655,200	17,229,671
1965	1,559,484,027	172,110,934	1,021,614	8,576,396	23,602,856
1966	1,908,499,896	178,212,045	996,230	9,021,600	20,167,481
1967	2,190,403,752	190,561,166	2,093,876	10,769,596	18,790,084
1968	2,764,445,943	207,677,768	8,519,996	14,198,198	20,474,404
1969	3,373,360,559	237,827,579	−557,553	15,020,084	22,125,657

For notes see end of table.

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8.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
217,463	....	....	....	....	....
1,742,775	....	....	....	....	....
6,804,186	1,134,234	....	....	....	1,134,234
5,540,684	....	....	....	....	48,334,341
5,011,832	2,703,894	....	....	....	70,651,778
5,654,018	60,724,742	....	....	....	82,916,014
6,119,673	59,974,466	....	....	....	15,993,086
6,307,035	10,850,605	....	....	....	−659,904
6,552,717	3,613,056	....	....	....	2,545,513
6,682,496	113,646	....	....	....	−3,077,962
6,915,958	59,300	....	....	....	2,473,808
7,329,169	818,150	....	....	....	8,464,426
7,754,539	249,591	....	....	....	5,044,119
8,458,463	2,584,659	....	....	....	21,078,899
9,583,911	4,283,231	....	....	....	22,535,597
10,268,598	17,308	....	....	....	−2,297,724
10,029,760	....	....	....	....	−7,057,694
9,282,244	2,011,418	....	....	....	11,020,582
8,874,262	....	....	....	....	−916,855
8,781,661	....	....	....	−60,323	6,510,071
8,504,974	....	297,667	....	27,695	607,422
7,829,581	....	227,448	....	102,880	352,524
7,940,966	....	176,625	....	67,304	2,616,352
8,019,137	....	119,524	....	−419,140	1,862,433
8,110,462	....	24,579	....	−425,653	4,533,977
8,214,971	....	82,152	....	−54,456	17,617,358
8,429,936	....	141,465	....	−4,333	570,513
8,669,076	....	197,672	....	49,602	3,554,101
8,911,342	....	244,726	....	135,003	40,237,362
9,500,126	....	326,717	....	201,150	48,409,795
10,182,851	....	247,659	....	262,133	81,969,625
10,962,160	....	67,054	....	27,708	81,467,013
11,523,047	....	35,605	75,233,818	86,772	8,366,350
11,919,809	....	....	166,690,356	....	18,522,518
12,329,373	....	....	193,145,837	....	21,461,770
13,082,992	....	....	196,628,858	....	21,849,490
13,864,750	....	....	254,873,588	....	28,320,759
14,681,788	....	....	291,934,634	....	46,333,735
15,558,377	....	....	342,567,985	....	40,336,862
16,442,236	....	....	276,289,457	....	35,887,775
17,711,937	....	....	251,740,721	....	32,709,794
18,904,897	....	....	401,555,581	....	53,982,682
20,080,527	....	....	542,708,405	....	61,603,682
21,197,452	....	....	524,058,650	....	59,214,569
22,721,687	....	....	910,649,768	....	−93,600,791
23,948,225	....	....	896,816,359	....	42,613,100
25,569,541	....	....	687,393,382	....	70,892,300
27,412,241	....	....	799,365,981	....	45,538,200
28,912,019	....	....	879,685,219	....	55,864,300
30,781,548	....	....	1,582,118,614	....	−465,822,800
32,351,602	....	....	1,296,810,053	....	27,053,800
33,696,336	....	....	1,649,455,164	....	18,943,500
35,027,312	....	....	1,907,498,270	....	29,851,200
36,959,336	....	....	2,463,628,983	....	30,027,250
39,236,599	....	....	3,019,160,638	....	39,432,450

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8. Income and Expenses of Federal Reserve Banks, 1914–83—Continued

Dollars

Period, or Federal Reserve Bank	Current income	Operating expenses[1]	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Federal Reserve currency costs[1]
1970	3,877,218,444	276,571,876	11,441,829	21,227,800	23,573,710
1971	3,723,369,921	319,608,270	94,266,075	32,634,002	24,942,528
1972	3,792,334,523	347,917,112	−49,615,790	35,234,499	31,454,740
1973	5,016,769,328	416,879,377	−80,653,488	44,411,700	33,826,299
1974	6,280,090,965	476,234,586	−78,487,237	41,116,600	30,190,288
1975	6,257,936,784	514,358,633	−202,369,615	33,577,201	37,130,081
1976	6,623,220,383	558,128,811	7,310,500	41,827,700	48,819,453
1977	6,891,317,498	568,851,419	−177,033,463	47,366,100	55,008,163
1978	8,455,390,401	592,557,841	−633,123,486	53,321,700	60,059,365
1979	10,310,148,406	625,168,261	−151,148,220	50,529,700	68,391,270
1980	12,802,319,335	718,032,836	−115,385,855	62,230,800	73,124,423
1981	15,508,349,653	814,190,392	−372,879,185	63,162,700	82,924,013
1982	16,517,385,129	926,033,957	−68,833,150	61,813,400	98,441,027
1983	16,068,362,117	1,023,678,474	−400,365,922	71,551,000	152,135,488
Total, 1914–83	**147,685,709,771**	**12,001,908,729**	**−2,145,034,886**	**847,903,508**	**1,115,466,550**
Aggregate for each Bank, 1914–83					
Boston	6,959,299,512	812,716,592	−76,058,745	32,954,686	63,679,783
New York	40,182,917,501	2,505,494,145	−500,655,778	222,523,986	226,982,118
Philadelphia	6,923,765,117	636,733,549	−94,309,948	42,058,918	63,557,812
Cleveland	11,125,309,061	845,045,162	−182,513,817	72,273,990	72,496,580
Richmond	11,361,899,515	934,179,581	−126,027,983	44,021,476	110,583,452
Atlanta	6,420,773,185	974,718,339	−158,983,028	58,736,660	91,296,529
Chicago	22,748,603,310	1,583,429,222	−345,458,455	124,048,072	156,784,773
St. Louis	5,549,361,124	667,293,830	−75,776,994	27,412,772	48,472,913
Minneapolis	2,897,711,721	512,698,153	−64,649,400	23,980,815	22,587,213
Kansas City	6,417,145,196	742,577,670	−95,232,227	35,687,009	57,562,838
Dallas	7,898,839,932	641,819,838	−134,857,672	48,240,273	64,785,541
San Francisco	19,200,084,599	1,145,202,646	−290,510,840	115,964,851	136,676,998
Total	**147,685,709,771**	**12,001,908,729**	**−2,145,034,886**	**847,903,508**	**1,115,466,550**

1. Assessments by the Board for the cost of Federal Reserve currency, heretofore included in operating expenses, is now identified as a separate item. Accordingly, the operating expenses item for 1982 and for earlier years has been restated.

2. The $1,592,784,499 transferred to surplus was reduced by direct charges of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of sec. 13b surplus (1958); and was increased by $11,131,013 transferred from reserves for contingencies (1945), leaving a balance of $1,464,112,298 on Dec. 31, 1983.

NOTE. Details may not add to totals because of rounding.

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8.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
41,136,551	....	....	3,493,570,636	....	32,579,700
43,488,074	....	....	3,356,559,873	....	40,403,250
46,183,719	....	....	3,231,267,663	....	50,661,000
49,139,682	....	....	4,340,680,482	....	51,178,300
52,579,643	....	....	5,549,999,411	....	51,483,200
54,609,555	....	....	5,382,064,098	....	33,827,600
57,351,487	....	....	5,870,463,382	....	53,940,050
60,182,278	....	....	5,937,148,425	....	45,727,650
63,280,312	....	....	7,005,779,497	....	47,268,200
67,193,615	....	....	9,278,576,140	....	69,141,200
70,354,516	....	....	11,706,369,955	....	56,820,950
74,573,806	....	....	14,023,722,907	....	76,896,650
79,352,304	....	....	15,204,590,947	....	78,320,350
85,151,835	....	....	14,228,816,297	....	106,633,100
1,611,678,033	**149,138,300**	**2,188,893**	**128,219,610,033**	**−3,657**	**1,592,784,499**[2]
71,918,981	7,111,395	280,843	5,844,585,300	135,411	49,857,775
446,830,155	68,006,262	369,116	35,817,796,232	−433,412	394,693,121
90,880,855	5,558,901	722,406	5,904,348,996	290,661	85,303,072
143,128,592	4,842,447	82,930	9,690,334,307	−9,906	114,601,143
79,858,764	6,200,189	172,493	9,980,883,235	−71,517	80,043,858
100,087,946	8,950,561	79,264	4,901,107,877	5,491	126,807,490
225,701,798	25,313,526	151,045	20,080,490,983	11,682	207,213,754
52,941,901	2,755,629	7,464	4,629,484,510	−26,515	45,241,628
42,987,872	5,202,900	55,615	2,171,086,268	64,874	54,398,613
66,179,796	6,939,100	64,213	5,340,873,166	−8,674	72,037,850
86,901,684	560,049	102,083	6,809,590,374	55,337	111,927,078
204,259,689	7,697,341	101,421	17,049,028,786	−17,089	250,659,117
1,611,678,033	**149,138,300**	**2,188,893**	**128,219,610,033**	**−3,657**	**1,592,784,499**[2]

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9. Revenue and Expense of Priced Services at Federal Reserve Banks, 1983 and 1982

Millions of dollars

Item	Total		Service			
			Commercial check collection		Wire transfer and net settlement	
	1983	1982	1983	1982	1983	1982
Revenue[3]	581.1	421.6	436.7	308.5	67.2	53.7
Expense[3]	533.6	456.8	393.6	324.7	57.1	51.4
Net revenue	47.5	−35.3	43.1	−16.2	10.1	2.3
Private sector adjustment[4]	59.1	55.7	44.5	40.7	8.2	7.7
Net revenue after private sector adjustment	−11.6	−90.9	−1.4	−56.9	1.9	−5.4
MEMO: Net revenue after private sector adjustment, with allowance for ACH and cash transportation programs[1,2]	−1.9	−78.8	....	....	....	....

1. The Board established an incentive pricing program for the commercial automated clearinghouse service that provides for fee structures designed to recover an increasing share of expenses over a period of several years. Revenue for the commercial ACH service was expected to represent approximately 40 percent and 20 percent of expenses plus the private sector adjustment for 1983 and 1982 respectively.

2. The Board adopted a transitional support program, which was concluded at the end of 1983, for the cash transportation service, and anticipated that expenses plus the private sector adjustment would exceed revenue during the program.

3. Total System revenue for 1983 and 1982 respectively comprises $496.2 million and $386.7 million of income from fees for services, and $84.9 million and $34.8 million of income related to clearing balances established by depository institutions. Total System expenses include $71.8 million and $28.3 million of earnings credits granted to depository institutions on clearing balances. Data for 1982 have been restated to distribute the income and cost of clearing balances

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9.—Continued

Service									
Commercial ACH[1]		Definitive safekeeping and noncash collection		Book-entry securities		Cash transportation[2]		Coin wrapping	
1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
7.7	1.4	19.1	15.8	21.8	14.5	27.1	26.4	1.6	1.3
14.5	9.7	20.8	21.4	18.0	17.1	28.3	31.3	1.4	1.2
−6.8	−8.3	−1.7	−5.6	3.8	−2.6	−1.2	−4.9	.2	.1
.7	1.5	2.7	2.9	2.5	2.6	.2	.2	.2	.1
−7.5	−9.8	−4.4	−8.5	1.3	−5.2	−1.4	−5.1	.0	.0
.6	− .9	....	....	....	....	.2	−1.9	....	....

across services to present data consistent with those for 1983.

Check collection expense includes float costs. Expenses attributable to check collection include the value of holdover check float (1) in excess of 1 percent of the total dollar value of checks processed during the period from Feb. 24 to June 30, 1983, (2) in excess of one-half of 1 percent of the total value of checks processed and of interterritory check float billed directly to institutions for July 1 to Sept. 30, 1983, and (3) all check float since Oct. 1, 1983.

4. This adjustment is an imputed cost intended to reflect the taxes that would have been paid and the return on capital that would have been provided had a private firm furnished the services.

NOTE. Revenue and expenses of priced services offered by the Federal Reserve Banks are derived from the income and expense data shown in table 7. Expenses for priced services are based primarily on the Federal Reserve Planning and Control System, which provides for the allocation of expenses to the principal areas of operation of the Banks.

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10. Volume of Operations in Principal Departments of Federal Reserve Banks, 1980–83

Operation	1983	1982	1981	1980
	Millions of pieces			
Loans	([1])	([1])	([1])	([1])
Currency received and counted	11,464	10,679	10,277	9,432
Currency verified and destroyed	4,403	4,147	3,510	3,197
Coin received and counted	17,712	16,859	17,023	17,700
Checks handled				
U.S. government checks	612	655	683	705
Postal money orders	115	126	126	117
All other [2]	15,900	15,178r	15,880	15,721
Issues, redemptions, and exchanges of U.S. government securities	168	156	188	301
Transfers of funds [3]	62	58	54	43
Food stamps redeemed	2,684	2,565	2,625	2,541
	Amounts (millions of dollars)			
Loans	214,190	184,997	236,532	267,957
Currency received and counted	141,684	128,803r	117,901	104,333
Currency verified and destroyed	36,224	31,258	24,912	20,183
Coin received and counted	2,795	2,714	3,184	2,703
Checks handled				
U.S. government checks	552,493	628,639	611,403	598,569
Postal money orders	7,854	6,645	6,030	6,164
All other	10,694,906	8,722,369	9,454,638	9,365,649
Issues, redemptions, and exchanges of U.S. government securities	51,352,275	26,550,780	12,728,458	10,326,013
Transfers of funds	143,177,719	121,239,371	93,968,246	78,594,862
Food stamps redeemed	10,861	9,869	9,547	9,268

1. Number handled (in thousands): 1983, 22; 1982, 24; 1981, 36; and 1980, 25.
2. The 1982 and 1983 volumes reflect the number of other checks handled, whether individually or in pre-sorted bundles. Before 1982, however, the number of items in pre-sorted bundles was not reported; therefore, the 1980 and 1981 volumes include pre-sorted bundles counted as one item. The 1983 and 1982 figures include 1.25 million and 0.9 million checks respectively that were handled by more than one Reserve Bank. Comparable data are not available for years before 1982.
3. Includes the volume processed at both sending and receiving offices of Federal Reserve Banks. The number of priced wire transfers in 1983 was 38 million.
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11. Federal Reserve Bank Interest Rates, December 31, 1983

Percent per annum

Federal Reserve Bank	Loans to depository institutions			
	Short-term adjustment credit and seasonal credit[1]	Extended credit[2]		
		First 60 days of borrowing	Next 90 days of borrowing	After 150 days
Boston	8½	8½	9½	10½
New York	↑	↑	↑	↑
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas	↓	↓	↓	↓
San Francisco	8½	8½	9½	10½

1. Rates applied to short-term advances for the purpose of meeting temporary funding requirements and to longer-term advances made to smaller institutions for the purpose of meeting seasonally recurring needs for funds. See sections 201.3(a) and 201.3(b)(1) of Regulation A.

2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. See section 201.3(b)(2) of Regulation A.

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12. Reserve Requirements of Depository Institutions

Percent of deposits

Through July 13, 1966

Effective date[1]	Net demand deposits[2]			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21	13	10	7	3
1936—Aug. 16	19½	15	10½	4½
1937—Mar. 1	22¾	17½	12¼	5¼
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24	....	....	....
Sept. 14	22	....	....	....
Oct. 3	20	....	....	....
1948—Feb. 27	22	....	....	....
June 11	24	....	....	....
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1	....	20	14	6
Aug. 1	....	....	13	....
11, 16	23½	19½	12	5
18	23	19	....	....
25	22½	18½	....	....
Sept. 1	22	18	....	....
1951—Jan. 11, 16	23	19	13	6
25, Feb. 1	24	20	14	....
1953—July 9, 1	22	19	13	....
1954—June 24, 16	21	....	....	5
July 29, Aug. 1	20	18	12	....
1958—Feb. 27, Mar. 1	19½	17½	11½	....
Mar. 20, Apr. 1	19	17	11	....
Apr. 17	18½	....	....	....
24	18	16½	....	....
1960—Sept. 1	17½	....	....	....
Nov. 24	....	....	12	....
Dec. 1	1½	....	....	....
1962—July 28	([3])	....	....	....
Oct. 25, Nov. 1	....	....	....	4

July 14, 1966, through Nov. 8, 1972 (deposit intervals in millions of dollars)

Effective date[1]	Net demand deposits[2]				Time deposits[4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	0–5	Over 5	0–5	Over 5		0–5	Over 5
1966–July 14, 21	16½[5]		12[5]		4[5]	4[5]	5
Sept. 8, 11	.....	.....	.....	.....	.....	.....	6
1967–Mar. 2	.....	.....	.....	.....	3½	3½	.....
16	.....	.....	.....	.....	3	3	.....
1968–Jan. 11, 18	16½	17	12	12½	.....	.....	.....
1969–Apr. 17	17	17½	12½	13	.....	.....	.....
1970–Oct. 1	.....	.....	.....	.....	.....	.....	5

1. Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages.

When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

2. Demand deposits subject to reserve requirements, beginning Aug. 23, 1935, were total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943—June 30, 1947).

All required reserves were held on deposit with Federal Reserve Banks from June 21, 1917, until late 1959. Since then, member banks were allowed to count vault cash as reserves, as follows: country banks —in excess of 4 and 2½ percent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks —in excess of 2 and 1 percent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. All institutions were allowed to count all vault cash as reserves effective Nov. 24, 1960.

In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

Beginning Oct. 16, 1969, Regulation M required

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12.—Continued

Nov. 9, 1972, through Nov. 12, 1980 (deposit intervals in millions of dollars)

Effective date	Net demand deposits[2,6]						Time and savings deposits[4]					
							Time[7]					
							0–5, by maturity			Over 5, by maturity		
	0–2	2–10	10–100	100–400	Over 400	Savings	30–179 days	180 days to 4 yrs.	4 yrs. or more	30–179 days	180 days to 4 yrs.	4 yrs. or more
1972–Nov. 9	8	10	12	16½[8]	17½	3[5]		3[5]			5[5]	
16	....	....	....	13	....	....	....	....	....	....	....	....
1973–July 19	....	10½	12½	13½	18	....	....	....	....	....	....	....
1974–Dec. 12	....	....	....	....	17½	....	....	....	....	6		3
1975–Feb. 13	7½	10	12	13	16½	....	....	....	....	....	....	....
Oct. 30	....	....	....	....	....	....	....	3	1[9]	....	3	1[9]
1976–Jan. 8	....	....	....	....	....	....	3	2½[9]	....	....	2½[9]	....
Dec. 30	7	9½	11¾	12¾	16¼	....	....	....	....	....	....	....

Beginning Nov. 13, 1980

Type of deposit, and deposit interval[10]	Depository institution requirements after implementation of the Monetary Control Act[11]	
	Percent	Effective date
Net-transaction accounts[12,13]		
$0–$28.9 million	3	12/29/83
Over $28.9 million	12	12/29/83
Nonpersonal time deposits[14]		
By original maturity		
Less than 1½	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

reserves against (a) net balances due from domestic offices to their foreign branches and (b) foreign-branch loans to U.S. residents; Regulation D imposed a similar requirement against (c) borrowings from foreign banks by domestic offices of a member bank. Limited reserve-free base amounts were originally permitted under Regulation M but were eliminated for (b) effective June 21, 1973, and were lowered in steps for (a) and (c) until eliminated effective Mar. 4, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident were excluded from computations, as were total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, which was originally 10 percent, was increased to 20 percent on Jan. 7, 1971; reduced to 8 percent on June 21, 1973, to 4 percent on May 22, 1975, and to zero on Aug. 24, 1978. Effective Dec. 1, 1977, the reserve required against deposits that foreign branches of U.S. banks use for lending to U.S. residents was reduced to 1 percent, and on Aug. 24, 1978, it was reduced to zero. For details see Regulation D and M as described in "Record of Policy Actions of the Board of Governors," in previous Annual Reports.

3. Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

4. Time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits, effective Jan. 5, 1967. Negotiable order of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974. Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

5. This rate had been established in the earlier structure. It remained the same in the new structure established this date.

6. Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank maintain reserves related to the size of its net demand deposits. The new reserve city designations were as follows: A bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any bank, wherever located, having net demand deposits of $400 million or less was considered to have the character of business of banks outside of reserve cities and was permitted to maintain reserves at ratios set for banks not in reserve cities.

7. Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was added to the existing requirements for time deposits of $100,000 or more and for certain other liabilities. This supplementary re-

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12. Reserve Requirements of Depository Institutions—Continued

Percent of deposits

quirement was eliminated with the maintenance period beginning July 24, 1980.

From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than $10 million. Including the basic requirement (5 percent during the entire period), requirements were as follows: 8 percent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 percent from Oct. 4 through Dec. 26, 1973; and 8 percent from Dec. 27, 1973 through Sept. 18, 1974. Beginning Sept. 19, the 8 percent requirement applied only to those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve was removed on this type of obligation issued to mature in less than 4 months. For details, see "Record of Policy Actions of the Board of Governors" in 1973 and 1974 ANNUAL REPORTS.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13-26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14-21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

8. The 16½ percent requirement applied only for one week and solely to former reserve city banks. For other banks, the 13 percent requirement was continued in this deposit interval.

9. The average of reserves on savings and other time deposits had to be at least 3 percent, the legal minimum at that time.

10. The Garn-St Germain Depository Institutions Act of 1982 (Public Law 97-320) provides that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the next succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease.

Effective Dec. 9, 1982, the amount of the exemption was established at $2.1 million.

Beginning Dec. 15, 1983, for quarterly reporters and Dec. 29, for weekly reporters, the amount of the exemption was $2.2 million. In determining the reserve requirements of a depository institution, the exemption shall apply in the following order: (1) nonpersonal money market deposit accounts (MMDAs) authorized under 12 CFR section 1204.122; (2) net negotiable order of withdrawal (NOW) accounts (that is, NOW accounts less allowable deductions); (3) net other transaction accounts; and (4) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

11. For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends Sept. 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by Public Law 97-320 ends on Oct. 24, 1985. For existing member banks the phase-in period is about three years, depending on whether their new reserve requirements are greater or less than the old requirements. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of $50 million or more.

12. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules of the Depository Institutions Deregulation Committee (DIDC) that permit no more than six preauthorized, automatic, or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements).

13. The Monetary Control Act of 1980 requires that the initial amount of $25 million of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage increase in transaction accounts held by all depository institutions determined as of June 30 each year. Effective on the following dates, the amount was increased accordingly from $25 million: Dec. 31, 1981, to $26 million; Dec. 30, 1982, to $26.3 million; and Dec. 29, 1983, to $28.9 million.

14. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

NOTE. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions.

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13. Maximum Interest Rates Payable on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type and maturity of deposit	Commercial banks		Savings and loan associations and mutual savings banks (thrift institutions)[1]	
	In effect Dec. 31, 1983		In effect Dec. 31, 1983	
	Percent	Effective date	Percent	Effective date
Savings	5¼	7/1/79	5½	7/1/79
Negotiable order of withdrawal accounts	5¼	12/31/80	5¼	12/31/80
Negotiable order of withdrawal accounts of $2,500 or more[2]	....	1/5/83	....	1/5/83
Money market deposit account[3]	(3)	12/14/82	(3)	12/14/82
Time accounts by maturity				
7-31 days of less than $2,500[4]	5¼	9/1/82	5½	9/1/82
7-31 days of $2,500 or more[2]	....	1/5/83	....	1/5/83
More than 31 days	....	10/1/83	....	10/1/83

1. Effective Oct. 1, 1983, restrictions on the maximum rates of interest payable by commercial banks and thrift institutions on various categories of deposits were removed. For information regarding previous interest rate ceilings on all categories of accounts, see earlier issues of the *Federal Reserve Bulletin,* the *Federal Home Loan Bank Board Journal,* the *Annual Report of the Federal Deposit Insurance Corporation,* and the ANNUAL REPORT of the Board of Governors of the Federal Reserve System.

2. Effective Dec. 1, 1983, IRA/Keogh (H.R. 10) Plan accounts are not subject to minimum deposit requirements.

3. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of $2,500 and an average maintenance balance of $2,500 not subject to interest rate restrictions. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days notice before withdrawals. When the average balance is less than $2,500, the account is subject to the maximum ceiling rate of interest for negotiable order of withdrawal accounts; compliance with the average balance requirement may be determined over a period of one month. Depository institutions may not guarantee a rate of interest for this account for a period longer than one month or condition the payment of a rate on a requirement that the funds remain on deposit for longer than one month.

4. Deposits of less than $2,500 issued to governmental units continue to be subject to an interest rate ceiling of 8 percent.

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14. Margin Requirements[1]

Percent of market value

Effective date	For credit extended under Regulation T (brokers and dealers), U (banks), G (others than brokers, dealers, or banks), and X (borrowers)			
	Margin stocks	Convertible bonds	Short sales, T only	Writing options, T only[2]
1934—Oct. 1	25–45	....	([3])	....
1936—Feb. 1	25–55	....	([3])	....
Apr. 1	55	....	([3])	....
1937—Nov. 1	40	....	50	....
1945—Feb. 5	50	....	50	....
July 5	75	....	75	....
1946—Jan. 21	100	....	100	....
1947—Feb. 21	75	....	75	....
1949—Mar. 3	50	....	50	....
1951—Jan. 17	75	....	75	....
1953—Feb. 20	50	....	50	....
1955—Jan. 4	60	....	60	....
Apr. 23	70	....	70	....
1958—Jan. 16	50	....	50	....
Aug. 5	70	....	70	....
Oct. 16	90	....	90	....
1960—July 28	70	....	70	....
1962—July 10	50	....	50	....
1963—Nov. 6	70	....	70	....
1968—Mar. 11	70	50	70	....
June 8	80	60	80	....
1970—May 6	65	50	65	....
1971—Dec. 6	55	50	55	....
1972—Nov. 24	65	50	65	....
1974—Jan. 3	50	50	50	....
1977—Jan. 1	50	50	50	30

1. Regulations T, U, G, and X, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" and "margin stock" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

2. The margin is expressed as a percent of the current market value of the stock underlying the option.

3. The requirement was the margin "customarily required" by the brokers and dealers.

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15. Principal Assets and Liabilities, and Number of Insured Commercial Banks, by Class of Bank, June 30, 1983 and 1982[1]

Asset and liability items shown in millions of dollars

Item	Insured commercial banks				Insured nonmember banks
	Total	Member banks			
		Total	National	State	
	June 30, 1983				
Loans and investments, total	1,535,523	1,116,225	868,227	247,998	419,298
Loans					
Gross	1,146,275	864,826	671,375	193,451	281,449
Net	1,114,967	842,177	653,912	188,263	272,793
Investments	389,247	251,397	196,851	54,546	137,849
U.S. Treasury securities	149,214	95,404	73,825	21,579	53,810
Other[2]	240,033	155,993	123,026	32,967	84,039
Cash assets, total	207,225	163,449	121,948	41,501	43,777
Deposits, total	1,439,210	1,021,684	805,103	216,581	417,526
Interbank	61,480	57,493	38,051	19,442	3,986
Other demand	327,463	245,413	185,860	59,553	82,049
Other time	1,050,268	718,777	581,192	137,585	331,491
Total equity capital	134,522	97,200	75,029	22,171	37,323
Number of banks	14,497	5,758	4,714	1,044	8,739
	June 30, 1982				
Loans and investments, total	1,395,835	1,008,940	780,647	228,293	386,894
Loans					
Gross	1,063,385	795,927	613,941	181,986	267,458
Net	1,031,985	773,816	596,948	176,868	258,169
Investments	332,449	213,014	166,706	46,308	119,436
U.S. Treasury securities	102,446	62,795	48,582	14,213	39,651
Other[2]	230,004	150,219	118,124	32,095	79,785
Cash assets, total	188,056	149,218	111,774	37,444	38,838
Deposits, total	1,291,822	916,016	720,651	195,365	375,805
Interbank	60,564	57,201	37,910	19,291	3,363
Other demand	307,095	226,010	172,171	53,839	81,085
Other time	924,163	632,805	510,570	122,235	291,357
Total equity capital	123,089	88,495	68,614	19,881	34,594
Number of banks	14,413	5,538	4,507	1,031	8,875

1. All insured commercial banks in the United States.
2. Includes trading accounts for banks with assets of less than $100 million.

NOTE. Details may not add to totals because of rounding.

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16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–83, and Month-End 1983

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[6]	Special drawing rights certificate account	Treasury currency outstanding[7]
	U.S. government securities[1]			Loans	Float[3]	All other[4]	Other Federal Reserve assets[5]	Total			
	Total	Bought outright[2]	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	0	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	0	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	0	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	0	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	0	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	0	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	0	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	0	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	0	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	0	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	0	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	0	2,022
1930	739	686	43	251	21	372	0	1,373	4,306	0	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	0	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	0	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	0	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	0	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	0	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	0	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	0	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	0	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	0	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	0	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	0	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	0	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	0	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	0	4,131
1945	24,252	24,262	0	249	578	2	0	15,091	20,065	0	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	0	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	0	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	0	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	0	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	0	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	0	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	0	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	0	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	0	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	0	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	0	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	0	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	0	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	0	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	0	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	0	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	0	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	0	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	0	5,405

For notes see last two pages of table.

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16.—Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings[8]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[5]	Required clearing balances	Other Federal Reserve liabilities and capital[5]	Member bank reserves[9]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[10]	Required[11]	Excess[11,12]
4,951	288	51	96	25	118	0	0	1,636	0	1,585	51
5,091	385	31	73	28	208	0	0	1,890	0	1,822	68
5,325	218	57	5	18	298	0	0	1,781	0	0	0
4,403	214	96	12	15	285	0	0	1,753	0	1,654	99
4,530	225	11	3	26	276	0	0	1,934	0	0	0
4,757	213	38	4	19	275	0	0	1,898	0	1,884	14
4,760	211	51	19	20	258	0	0	2,220	0	2,161	59
4,817	203	16	8	21	272	0	0	2,212	0	2,256	−44
4,808	201	17	46	19	293	0	0	2,194	0	2,250	−56
4,716	208	18	5	21	301	0	0	2,487	0	2,424	63
4,686	202	23	6	21	348	0	0	2,389	0	2,430	−41
4,578	216	29	6	24	393	0	0	2,355	0	2,428	−73
4,603	211	19	6	22	375	0	0	2,471	0	2,375	96
5,360	222	54	79	31	354	0	0	1,961	0	1,994	−33
5,388	272	8	19	24	355	0	0	2,509	0	1,933	576
5,519	284	3	4	128	360	0	0	2,729	0	1,870	859
5,536	3,029	121	20	169	241	0	0	4,096	0	2,282	1,814
5,882	2,566	544	29	226	253	0	0	5,587	0	2,743	2,844
6,543	2,376	244	99	160	261	0	0	6,606	0	4,622	1,984
6,550	3,619	142	172	235	263	0	0	7,027	0	5,815	1,212
6,856	2,706	923	199	242	260	0	0	8,724	0	5,519	3,205
7,598	2,409	634	397	256	251	0	0	11,653	0	6,444	5,209
8,732	2,213	368	1,133	599	284	0	0	14,026	0	7,411	6,615
11,160	2,215	867	774	586	291	0	0	12,450	0	9,365	3,085
15,410	2,193	799	793	485	256	0	0	13,117	0	11,129	1,988
20,499	2,303	579	1,360	356	339	0	0	12,886	0	11,650	1,236
25,307	2,375	440	1,204	394	402	0	0	14,373	0	12,748	1,625
28,515	2,287	977	862	446	495	0	0	15,915	0	14,457	1,458
28,952	2,272	393	508	314	607	0	0	16,139	0	15,577	562
28,868	1,336	870	392	569	563	0	0	17,899	0	16,400	1,499
28,224	1,325	1,123	642	547	590	0	0	20,479	0	19,277	1,202
27,600	1,312	821	767	750	106	0	0	16,568	0	15,550	1,018
27,741	1,293	668	895	565	714	0	0	17,681	0	16,509	1,172
29,206	1,270	247	526	363	746	0	0	20,056	0	19,667	389
30,433	1,270	389	550	455	777	0	0	19,950	0	20,520	−570
30,781	761	346	423	493	839	0	0	20,160	0	19,397	763
30,509	796	563	490	441	907	0	0	18,876	0	18,618	258
31,158	767	394	402	554	925	0	0	19,005	0	18,903	102
31,790	775	441	322	426	901	0	0	19,059	0	19,089	−30
31,834	761	481	356	246	998	0	0	19,034	0	19,091	−57
32,193	683	358	272	391	1,122	0	0	18,504	0	18,574	−70
32,591	391	504	345	694	841	0	0	18,174	310	18,619	−135
32,869	377	485	217	533	941	0	0	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	0	0	17,387	2,544	18,988	96
35,338	380	597	247	393	1,007	0	0	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	0	0	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	0	0	18,086	4,151	21,663	574

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16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–83, and Month-End 1983—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[6]	Special drawing rights certificate account	Treasury currency outstanding[7]
	U.S. government securities[1]			Loans	Float[3]	All other[4]	Other Federal Reserve assets[5]	Total			
	Total	Bought outright[2]	Held under repurchase agreement								
1965	40,768	40,478	290	137	2,248	187	0	43,340	13,733	0	5,575
1966	44,316	43,655	661	173	2,495	193	0	47,177	13,159	0	6,317
1967	49,150	48,980	170	141	2,576	164	0	52,031	11,982	0	6,784
1968	52,937	52,937	0	186	3,443	58	0	56,624	10,367	0	6,795
1969	57,154	57,154[2]	0	183	3,440	64	2,743	64,584	10,367	0	6,852
1970	62,142	62,142	0	335	4,261	57	1,123	67,918	10,732	400	7,147
1971	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313
1973	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716
1974	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253
1975	94,124	92,789	1,335	211	3,688	1,126	3,312	102,461	11,599	500	10,218
1976	104,093	100,062	4,031	25	2,601	991	3,182	110,892	11,598	1,200	10,810
1977	111,274	108,922	2,352	265	3,810	954	2,442	118,745	11,718	1,250	11,331
1978	118,591	117,374	1,217	1,174	6,432	587	4,543	131,327	11,671	1,300	11,831
1979	126,167	124,507	1,660	1,454	6,767	704	5,613	140,705	11,172	1,800	13,083
1980	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427
1981	140,348	136,863	3,485	1,601	1,762	195	9,230	153,136	11,151	3,318	13,687
1982	148,837	144,544	4,293	717	2,735	1,480	9,890	63,659	11,148	4,618	13,786
1983	160,795	159,203	1,592	918	1,563	418	8,766	172,460	11,121	4,618	13,786
1983											
Jan.	141,296	141,296	0	354	1,006	0	9,881	152,537	11,144	4,618	13,786
Feb.	144,484	144,484	0	1,155	−2,664	0	10,961	153,936	11,139	4,618	13,786
Mar.	145,566	145,566	0	2,808	486	0	9,187	158,047	11,138	4,618	13,786
Apr.	150,706	146,772	3,934	848	−1,124	704	10,732	161,866	11,135	4,618	13,786
May	150,088	150,088	0	1,260	850	0	8,630	160,828	11,132	4,618	13,786
June	150,778	149,401	1,377	3,610	1,020	203	8,426	164,037	11,131	4,618	13,786
July	153,135	153,135	0	1,113	1,066	0	8,579	163,893	11,131	4,618	13,786
Aug.	155,421	152,968	2,453	3,633	979	209	7,536	167,778	11,128	4,618	13,786
Sept.	164,711	155,908	9,803	1,625	−60	1,122	8,357	175,755	11,128	4,618	13,786
Oct.	154,827	154,827	0	387	750	0	9,303	165,267	11,126	4,618	13,786
Nov.	158,086	158,086	0	1,059	898	0	8,438	168,481	11,123	4,618	13,786
Dec.	160,795	159,203	1,592	918	1,563	418	8,766	172,460	11,121	4,618	13,786

1. Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase agreements and beginning Sept. 29, 1971, federal agency issues bought outright.

2. *Includes,* beginning 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

3. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin,* vol. 47 (February 1961), p. 164.

4. Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

5. Before Apr. 16, 1969, this category includes the total of Federal Reserve capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.

6. Before Jan. 30, 1934, data include gold held in Federal Reserve Banks in circulation.

7. These figures include currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see the regular table, "Currency and Coin in Circulation," in the *Treasury Bulletin.*

8. This category consists of the coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.

9. Beginning November 1979, includes reserves or member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks. Beginning Nov. 13, 1980, includes reserves of all depository institutions.

10. Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.

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16.—Continued

Factors absorbing reserve funds													
Currency in circulation	Treasury cash holdings[8]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[5]	Required clearing balances	Other Federal Reserve liabilities and capital[5]	Member bank reserves[9]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[10]	Required[11]	Excess[11,12]
42,056	760	668	150	355	211	0	0	18,447	4,163	22,848	-238
44,663	1,176	416	174	588	-147	0	0	19,779	4,310	24,321	-232
47,226	1,344	1,123	135	563	-773	0	0	21,092	4,631	25,905	-182
50,961	695	703	216	747	-1,353	0	0	21,818	4,921	27,439	-700
53,950	596	1,312	134	807	0	0	0	22,085	5,187	28,173	-901
57,903	431	1,156	148	1,233	0	0	1,986	24,150	5,423	30,033	-460
61,068	460	2,020	294	999	0	0	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	0	0	2,143	25,647	6,216	32,044	98[12]
72,497	317	2,542	251	1,419[13]	0	0	2,669	27,060	6,781	35,268	-1,360
79,743	185	2,113	418	1,275[13]	0	0	2,935	25,843	7,370	37,011	-3,798
86,547	483	7,285	353	1,090	0	0	2,968	26,052	8,036	35,197	-1,103[14]
93,717	460	10,393	352	1,357	0	0	3,063	25,158	8,628	35,461	-1,535
103,811	392	7,114	379	1,187	0	0	3,292	26,870	9,421	37,615	-1,265
114,645	240	4,196	368	1,256	0	0	4,275	31,152	10,538	42,694	-893
125,600	494	4,075	429	1,412	0	0	4,957	29,792	11,429	44,217	-2,835
136,829	441	3,062	411	617	0	0	4,671	27,456	13,654	40,558	675
144,774	443	4,301	505	781	0	117	5,261	25,111	15,576	42,145	-1,442
154,908	429	5,033	328	1,033	0	436	4,990	26,053	16,666	41,391	1,328
170,005	463	3,661	191	845	0	1,013	5,394	20,413	17,821	39,179	-945
150,511	448	2,627	366	603	0	478	4,850	22,201	17,195	40,484	-1,088
151,872	465	2,856	352	486	0	535	4,988	21,924	16,064	39,308	-1,320
154,307	498	3,572	425	535	0	601	4,834	22,816	16,148	37,296	1,668
155,307	524	6,015	322	796	0	641	5,253	22,547	16,686	38,935	298
158,634	532	4,372	445	679	0	711	5,144	19,847	16,455	37,743	-1,441
160,419	533	8,764	279	470	0	775	5,111	17,220	16,799	38,069	-4,050
159,973	495	3,815	369	566	0	830	5,178	22,201	17,040	38,454	787
161,122	490	4,189	248	465	0	845	5,112	24,839	16,880	38,353	3,366
161,046	468	16,557	297	438	0	911	5,800	19,769	17,482	37,534	-283
162,515	478	4,841	339	749	0	956	5,691	19,227	17,512	37,827	-1,088
166,682	475	2,896	360	610	0	983	5,432	20,569	17,707	38,198	78
170,005	463	3,661	191	845	0	1,013	5,394	20,413	17,821	39,179	-945

11. These figures are estimated through 1958. Before 1929, they were available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period 2 weeks previous to the report date.

12. Beginning with the week ending Nov. 15, 1972, figures include $450 million of reserve deficiencies on which Federal Reserve Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, $279; Q2, $172; Q3, $112; Q4, $84; and 1974—Q1, $67, and Q2, $58. The transition period ended after the second quarter of 1974.

13. Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with Federal Reserve Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at Federal Reserve Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Eurodollar liabilities.

14. Beginning with the week ending Nov. 19, 1975, figures are adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

NOTE. For a description of figures and discussion of their significance, see "Member Bank Reserves and Related Items." Section 10 of *Banking and Monetary Statistics, 1941-1970* (Board of Governors of the Federal Reserve System, Sept. 1, 1976), pp. 507-23.

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17. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1983

United Counties Trust Company, Elizabeth, New Jersey, *to merge with* Kenilworth State Bank, Kenilworth, New Jersey

Summary Report by the Attorney General (12/30/82)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (1/18/83)
United Counties Trust Company (Applicant), with assets of $738 million, proposes to merge Kenilworth State Bank (Bank), with assets of $57 million.

The relevant market in the proposal is the Greater Newark market, in which Applicant ranks sixth among thirty-seven commercial banking organizations, with 5.1 percent of market deposits. The proposed merger would not alter Applicant's rank in the market; however, the continuing bank would hold 5.7 percent of market deposits. The merger would not have a significant effect on competition.

Both Applicant and Bank are in satisfactory condition, and the condition of the resulting bank would be satisfactory. Convenience and needs considerations are consistent with approval.

1st Source Bank, South Bend, Indiana, *to merge with* The First National Bank of Mishawaka, Mishawaka, Indiana

Summary Report by the Attorney General (2/4/83)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Board of Governors (3/25/83)
1st Source Bank (Applicant), with assets of $520 million, proposes to merge The First National Bank of Mishawaka (Bank), with assets of $143 million. Applicant has concurrently applied for membership in the Federal Reserve System.

Applicant and Bank compete in the Elkhart-Niles-South Bend banking market, in which Applicant ranks first among twenty-one commercial banking organizations and controls 15.5 percent of market deposits. Upon consummation of the proposed merger, Applicant would control 20.3 percent of total deposits in this market, which has a relatively low level of concentration. The Board concludes that the proposed merger would not have a significant effect on existing or potential competition.

With respect to convenience and needs factors, Applicant plans to provide at the offices now operated by Bank several new or enhanced services such as credit cards, cash management, and a wide array of trust services, as well as expansion of Bank's lending activities.

The financial and managerial resources of Applicant, its parent, and Bank are regarded as generally satisfactory and their prospects appear favorable. As a result, the banking factors are consistent with approval.

First Virginia Bank, Falls Church, Virginia, *to merge with* Farmers and Merchants State Bank, Fredericksburg, Virginia

Summary Report by the Attorney General (2/18/83)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (3/30/83)
First Virginia Bank (Applicant), with assets of $869 million, proposes to merge Farmers and Merchants State Bank (Bank), with assets of $82 million. Applicant is a subsidiary of First Virginia Bank, Inc., Falls Church (FVB), which is the sixth largest commercial banking organization in Virginia, holding 7.4 percent of the deposits in the state.

The relevant market in the proposal is the Fredericksburg area market, in which FVB ranks sixth among eleven commercial banking organizations, with 5.1 percent of deposits in the market. If the proposed merger is consummated, FVB would rank first, with 29.4 percent of market deposits. If the deposits of thrift institutions were added to those of commercial banks, FVB would rank second following the merger, with 17.4 percent of the area's combined deposits. The proposed transaction would eliminate some competition between Bank and FVB, however, because several large banking organizations are represented in the Fredericksburg market and because thrift institutions provide a noticeable amount of competition to commercial banks, overall the merger would not have substantially adverse effects on competition.

With respect to convenience and needs, Applicant would offer customers of Bank lower interest rates on several kinds of loans and higher interest rates on some deposit accounts.

The financial condition of Applicant, its parent, and Bank is generally satisfactory,

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and the condition of the resulting bank would be satisfactory.

The Bank of West Point, West Point, Virginia, *to merge with* First Settlers Bank, Hayes, Virginia

SUMMARY REPORT BY THE ATTORNEY GENERAL (4/8/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (4/29/83)
The Bank of West Point (Applicant), with assets of $62 million, proposes to merge First Settlers Bank (Bank), with assets of $13 million.

The relevant market in this proposal is the Newport News-Hampton banking market, in which Bank holds the smallest share of deposits held by fourteen banks and Applicant is not represented. The proposal would not have a significant effect on competition.

With respect to convenience and needs, Applicant plans to provide extended-term auto loans at the offices now operated by Bank and to replace the trailer branch at Gloucester with a building.

The financial condition of Applicant and Bank is generally satisfactory, and the condition of the resulting bank would be satisfactory.

Hempstead Bank, Hempstead, New York, *to merge with* Nassau Trust Company, Glen Cove, New York

SUMMARY REPORT BY THE ATTORNEY GENERAL (4/29/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE SECRETARY OF THE BOARD OF GOVERNORS (6/1/83)
Hempstead Bank (Applicant), with assets of $324 million, proposes to merge Nassau Trust Company (Bank), with assets of $190 million. Applicant is a subsidiary of Norstar Bancorp, Inc. (Norstar), Albany, New York.

The relevant market in the proposal is the Metropolitan New York area, in which Norstar holds 0.4 percent of market deposits. After the merger, Norstar would still hold less than 1 percent. Clearly, the merger would not have a significant effect on competition.

Both Applicant and Bank are in generally satisfactory condition, and the condition of the resulting bank would be satisfactory. Convenience and needs considerations are also consistent with approval.

Western Bank, Sioux Falls, South Dakota, *to acquire certain assets and assume substantially all of the liabilities* of Community Bank, Hartford, South Dakota

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Reserve Bank to act immediately to safeguard depositors of Community Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (6/18/83)
Western Bank (Applicant), with assets of $115 million, proposes to acquire Community Bank (Bank), with assets of $32 million.

In view of the financial condition of Bank, the Acting Director of the Division of Banking and Finance for the State of South Dakota has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Bank One of Mansfield, Mansfield, Ohio, *to merge with* The Peoples Bank, Mount Gilead, Ohio

SUMMARY REPORT BY THE ATTORNEY GENERAL (6/10/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (7/8/83)
Bank One of Mansfield (Applicant), with assets of $187 million, proposes to merge The Peoples Bank (Bank), with assets of $58 million. Applicant is a subsidiary of Banc One Corporation, Columbus, which is the third largest commercial banking organization in Ohio, holding 11.4 percent of deposits in the state.

Applicant is not represented in the Mount Gilead banking market, but of the two banks operating offices there, Bank holds the larger share (78.4 percent) of market deposits. The proposal would have no significant effect on competition.

Both Applicant and Bank are in satisfactory condition, and the condition of the resulting bank would be satisfactory. Applicant plans to expand banking hours at the offices now oper-

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ated by Bank and to install automatic teller machines at some of them. The proposal would have a positive effect on the convenience and needs of the Mount Gilead banking market.

United Virginia Bank, Richmond, Virginia, ***to merge with*** **Bankers Trust Company, Rocky Mount, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (6/3/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE SECRETARY OF THE BOARD OF GOVERNORS (7/12/83)
United Virginia Bank (Applicant), with assets of $5 billion, proposes to merge Bankers Trust Company (Bank), with assets of $60 million. Applicant is a subsidiary of United Virginia Bankshares Incorporated, Richmond (UVB), which ranks first among banking organizations in Virginia, with about 14.4 percent of deposits in the state.

The relevant market in this proposal is the Roanoke Ranally Metro Area, as defined by Rand McNally Commercial Atlas, in which Applicant ranks sixth among fourteen commercial banks, with 4.7 percent of market deposits. If the proposed merger took place, Applicant would continue to rank sixth in the market and would increase its share of market deposits to 8.4 percent. The proposal would have no significant effect on competition.

Applicant plans to improve the services at Bank's current offices by substantially increasing the lending limit at these offices and by offering new or enhanced services such as investment advisory services; more mortgage and construction lending; leasing; automated clearinghouse services; and automatic teller machines. The proposal would have a positive effect on the convenience and needs of customers of Bank.

The financial and managerial resources of Applicant are satisfactory, and the banking factors are consistent with approval.

United Virginia Bank, Richmond, Virginia, ***to merge with*** **State Bank of Keysville, Keysville, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (7/15/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE SECRETARY OF THE BOARD OF GOVERNORS (8/11/83)
United Virginia Bank (Applicant), with assets of $5 billion, proposes to merge State Bank of Keysville (Bank), with assets of $23 million. Applicant is a subsidiary of United Virginia Bankshares, Incorporated, Richmond (UVB), which ranks first among banking organizations in Virginia, with about 14.4 percent of deposits in the state.

The closest offices of the participating banks are 45 miles apart, and there is no meaningful competition between them. Bank ranks fourth among six banks in the market, which is approximated by the counties of Charlotte, Lunenberg, and Prince Edward, and Bank holds 8.8 percent of market deposits. The proposed merger would not have a significant effect on competition.

With respect to convenience and needs, following the proposed merger Applicant would substantially raise the lending limit at the office currently operated by Bank. Other new or enhanced services to be offered include investment advisory services and more lending for mortgages, construction, and leasing.

Applicant and its parent company are considered to be in satisfactory financial condition, and the proposed merger would not alter that condition.

Valley Bank and Trust Company, Salt Lake City, Utah, ***to acquire the assets and assume the liabilities*** **of the Brigham City Branch of Bank of Utah, Ogden, Utah**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/9/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/3/83)
Valley Bank and Trust Company (Applicant), with assets of $469 million, proposes to acquire the Brigham City Branch (Branch) of Bank of Utah (Bank). Branch has $3 million in deposits.

The relevant market in this proposal is the Box Elder County market, in which Bank ranks fifth among six competitors, with 2.3 percent of market deposits. Because Applicant is not now represented in this market, the proposal would have no significant effect on competition.

The proposal would not alter the generally satisfactory condition of Applicant, and it

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would allow continued operation of an office that Bank intended to close if a buyer could not be found. Thus the proposal would have a positive effect on the convenience and needs of the area immediately surrounding Branch.

First Virginia Bank-Colonial, Richmond, Virginia, ***to acquire the assets and assume the deposit liabilities*** **of the Azalea Mall Branch of Virginia National Bank, Norfolk, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/16/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/12/83)
First Virginia Bank-Colonial (Applicant), with assets of $102 million, proposes to acquire the Azalea Mall Branch of Virginia National Bank (Branch). Branch has $8 million in deposits.

Applicant ranks eighth among fifteen banks in the Richmond Metro Area market, with 2.0 percent of market deposits. If the proposed acquisition is consummated, the continuing bank would not alter its market rank; however, its share of market deposits would rise to 2.2 percent. The proposal would have no significant competitive effects.

The proposal would not alter the satisfactory condition of Applicant. With respect to convenience and needs, Applicant plans to extend banking hours at Branch on Saturday mornings.

The Schenectady Trust Company, Schenectady, New York, ***to acquire certain assets and assume certain liabilities*** **of seven branches of The Bank of New York, New York, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/30/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/18/83)
The Schenectady Trust Company (Applicant), with assets of $342 million, proposes to acquire seven branches of The Bank of New York (Bank). The branches have $95 million in deposits.

Applicant ranks fourth among twenty commercial banking organizations in the Albany market, with 8.8 percent of market deposits. Because five of Bank's branches are in this market, following the proposed acquisition, the continuing bank would rank third, with 11.6 percent of market deposits.

Two branches of Bank are in the Greene County market, in which Applicant is not represented. These branches together rank first among six commercial banking organizations, with 26.7 percent of market deposits. The proposed acquisition would have no significant effect on competition.

Consummation of the proposal would not alter the satisfactory condition of Applicant. With respect to convenience and needs, Applicant plans to reduce rates for consumer installment loans, as well as to lower service charges on transaction accounts at the seven branches following effectuation of the instant proposal.

Central Fidelity Bank, Norfolk, Virginia, ***to merge with*** **Rappahannock Bank, Fredericksburg, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/23/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/25/83)
Central Fidelity Bank (Applicant), with assets of $497 million, proposes to merge with Rappahannock Bank, which will be the successor to Rappahannock Savings and Loan Association (Bank), with deposits of $33 million. Applicant is a subsidiary of Central Fidelity Banks, Inc., Richmond, which ranks seventh among banking organizations in Virginia, with about 7.8 percent of deposits in the state.

The closest offices of a banking subsidiary of Applicant to Fredericksburg are 35 miles distant. Applicant is not represented in the Fredericksburg market, where Bank ranks fifth among banks and thrift institutions, with 4.9 percent of market deposits. The proposed transaction would have no significant effect on competition.

The proposal would improve services at Bank's two offices. One new service Applicant will offer is transaction deposit accounts. Convenience and needs factors lend weight to approval.

The banking factors are consistent with approval.

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The Peoples Bank and Trust Company, Selma, Alabama, *to merge with* The Bank of Greenville, Greenville, Alabama

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/6/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/26/83)
The Peoples Bank and Trust Company (Applicant), with assets of $123 million, proposes to merge The Bank of Greenville (Bank), with assets of $55 million.

The relevant market in this proposal is the Greenville market, in which Bank ranks second among three banks, with 35.2 percent of the area's commercial bank deposits. Applicant is not represented in the Greenville market. The proposal would not have a significant effect on competition.

With respect to convenience and needs, following the proposed merger a higher lending limit would be available to customers of the offices now operated by Bank.

The financial condition of Applicant is generally satisfactory, and banking factors are consistent with approval.

Bank of Virginia, Richmond, Virginia, *to acquire the assets and assume the liabilities* of the Beaufont Mall Branch, Chesterfield County, of Virginia National Bank, Norfolk, Virginia

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/14/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/7/83)
Bank of Virginia (Applicant), with assets of $3 billion, proposes to acquire the Beaufont Mall Branch (Branch) of Virginia National Bank. Branch has $5 million in deposits.

The relevant market in this proposal is the Richmond market, in which Applicant ranks third among fifteen banks, with 18.8 percent of market deposits. Acquisition of Branch by Applicant would add 0.2 percent to its share of market deposits and would not have a significant effect on competition.

With respect to convenience and needs, Applicant proposes to offer two new services to customers of Branch. One is regularly scheduled group travel, social activities, and a variety of seminars for persons aged 60 or older. The other helps individuals organize their financial affairs at difficult times such as divorce, death, or retirement. Convenience and needs factors are consistent with approval.

The financial and managerial resources of Applicant and its parent are regarded as generally satisfactory and their prospects appear favorable. As a result, the banking factors are consistent with approval.

Bank of Virginia, Richmond, Virginia, *to acquire the assets and assume the liability to pay deposits* in the Court House Branch, Virginia Beach, and the Great Bridge Branch, Chesapeake, of First & Merchants National Bank, Richmond, Virginia

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/14/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/7/83)
Bank of Virginia (Applicant), with assets of $3 billion, proposes to acquire the Court House Branch and Great Bridge Branch of First & Merchants National Bank.[1] Together the branches have deposits of $37 million.

The relevant market in the proposal is the Norfolk market, in which Applicant ranks fourth among seventeen banks, with 8.2 percent of market deposits. The proposed acquisitions would not alter Applicant's rank in the market; however, the continuing bank would hold 9.8 percent of market deposits. The acquisitions would not have a significant effect on competition.

With respect to convenience and needs, Applicant proposes to offer two new services to customers of the branches to be acquired. One is regularly scheduled group travel, social activities, and a variety of seminars for persons aged 60 or older. The other helps individuals organize their financial affairs at difficult times such as divorce, death, or retirement. Convenience and needs factors are consistent with approval.

1. On January 3, 1984, First & Merchants National Bank and Virginia National Bank merged to form Sovran Bank, National Association.

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Flagship Bank of Tampa, Tampa, Florida, ***to acquire certain assets and assume certain deposit liabilities*** **of Sun Bank/Hillsborough, Tampa, Florida**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/14/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/16/83)
Flagship Bank of Tampa (Applicant), with assets of $363 million, proposes to acquire Sun Bank/Hillsborough (Bank), with assets of $184 million; three offices of Bank will be sold to another institution. Also, Sun City Center Bank, with assets of $64 million, will be merged into Bank before Applicant acquires Bank.

The relevant market in the proposal is the Tampa market, where following consummation the continuing bank would rank third among commercial banking organizations, with 13 percent of market deposits. Sixteen savings and loan associations hold market deposits of $1.3 billion. There would be no significant effect on competition as a result of these proposals.

The financial condition of Applicant and Bank is generally satisfactory, and the condition of the resulting bank would be satisfactory. Further, the convenience and needs factors are consistent with approval.

Everly State Bank, Everly, Iowa, ***to merge with*** **Peterson State Bank, Peterson, Iowa**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/21/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/21/83)
Everly State Bank (Applicant), a proposed state member bank, with assets of $17 million, proposes to merge Peterson State Bank, with assets of $10 million.

In the relevant market in the proposal, Applicant ranks fourth among ten commercial banks, with 6.9 percent of the area's commercial bank deposits. The proposed merger would not alter Applicant's rank in the market; however, the continuing bank would hold 10.9 percent of market deposits. The proposed merger would not have a significant effect on competition.

Both Applicant and Bank are in satisfactory condition, and the condition of the resulting bank would be satisfactory. Convenience and needs considerations are consistent with approval.

Northwestern Bank of Commerce, Duluth, Minnesota, ***to merge with*** **North Shore State Bank, Duluth, Minnesota**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/14/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/29/83)
Northwestern Bank of Commerce (Applicant), with assets of $37 million, proposes to merge with North Shore State Bank (Bank), with assets of $17 million.

The relevant market is approximated by the Minnesota counties of Carlton and Lake and the southern one-third of St. Louis County, as well as the Wisconsin County of Douglas. Applicant ranks fifth among seventeen banking organizations, with 3.7 percent of market deposits. If the proposed merger is consummated, Applicant would not alter its rank in the market but would then control 5.5 percent of market deposits. The proposal would have no significant effect on competition.

The banking factors and convenience and needs considerations are consistent with approval.

First Georgia Bank, Atlanta, Georgia, ***to acquire the assets and assume the liabilities*** **of Capital City Bank, Hapeville, Georgia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/14/83)
The proposed transaction would not have a significantly adverse effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/29/83)
First Georgia Bank (Applicant), with assets of $282 million, proposes to acquire the assets and assume the liabilities of Capital City Bank, with assets of $28 million. Applicant is a subsidiary of First Railroad & Banking Company of Georgia, Augusta, Georgia (First Railroad).

The relevant market in this proposal is the Atlanta Metro area, in which First Railroad

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ranks sixth among twenty-seven banking organizations, with 2.7 percent of the area's commercial bank deposits. The proposed transaction would not alter First Railroad's rank in the market and would not substantially increase its share of market deposits. The proposal would have no significant effect on competition.

The financial condition of First Railroad, Applicant, and Bank is generally satisfactory, and the condition of the resulting bank would be satisfactory.

The Merrill Trust Company, Bangor, Maine, ***to acquire the assets and assume the deposit liabilities*** **of the Boothbay Harbor Branch of Canal Bank and Trust Company, Portland, Maine**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11/18/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/29/83)
The Merrill Trust Company (Applicant), with assets of $411 million, proposes to acquire the Boothbay Harbor Branch of Canal Bank and Trust Company (Branch). Branch has $6 million in deposits.

Branch is in the Boothbay Harbor banking market, where it ranks second among three commercial banking organizations, with 23.4 percent of market deposits. Because Applicant is not now represented in this market, the proposal would have no significant effect on competition.

Applicant proposes to expand commercial, real estate, consumer, and municipal lending at Branch. Convenience and needs factors and financial factors are consistent with approval.

First Virginia Bank of the Peninsula, Grafton, Virginia, ***to acquire the assets and assume the deposit liabilities*** **of the Williamsburg Branch of Virginia National Bank, Norfolk, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/29/83)
First Virginia Bank of the Peninsula (Applicant), a newly organized bank, proposes to acquire the Williamsburg office (Branch) of Virginia National Bank. Deposits at Branch amount to $3 million.

Applicant is a subsidiary of First Virginia Banks, Inc., Falls Church (FVB), which is the sixth largest commercial banking organization in Virginia, with 7.9 percent of deposits at banking offices in the state. FVB controls the smallest share (1.6 percent) of deposits held by six banking organizations in the Williamsburg market. If the proposed acquisition is consummated, FVB would not alter its market rank; however, its share of market deposits would rise to 3.7 percent. The proposal would have no significant competitive effects.

The satisfactory condition of FVB would not be altered by the acquisition. Convenience and needs factors are consistent with approval.

The Merchants Bank, Kansas City, Missouri, ***to merge with*** **Broadway National Bank, Kansas City, Missouri; The Metropolitan Bank, Kansas City, Missouri; and The University Bank, Kansas City, Missouri**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11/4/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12/1/83)
The Merchants Bank (Applicant), with assets of $94 million, proposes to merge Broadway National Bank (Broadway Bank), with assets of $69 million; The Metropolitan Bank, with assets of $62 million; and The University Bank, with assets of $57 million.

The condition of the banks participating in this proposal is generally satisfactory. Financial factors and convenience and needs factors are consistent with approval.

All of the banks involved are members of a chain of affiliated organizations, and they are situated in the Kansas City Ranally Metro Area, as defined by the Rand McNally Commercial Atlas. Consummation of the mergers would have no significant effect on competition.

First Virginia Bank-Eastern Shore, Onancock, Virginia, ***to merge with*** **The Peoples Trust Bank, Exmore, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11/4/83)
The proposed transaction would not be significantly adverse to competition.

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BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12/6/83)
First Virginia Bank-Eastern Shore (Applicant), with assets of $32 million, proposes to merge The Peoples Trust Bank (Bank), with assets of $26 million.

The relevant market in the proposal includes Accomack and Northampton Counties in Virginia, as well as the southern portion of Worcester County, Maryland, in which Applicant ranks fourth among thirteen banks, with 8.4 percent of market deposits. Following the proposed merger, the continuing bank would rank third in the market, with 15.1 percent of market deposits. The proposed merger would have no significant effect on competition.

Applicant and its parent are considered to be in satisfactory financial condition, and the proposed merger would not alter that condition. Applicant plans to pay higher interest rates on certain time deposits at Bank's office and to provide a wider variety of loan services. This proposal would have a positive effect on the convenience and needs of the area immediately surrounding Bank.

Davenport Bank and Trust Company, Davenport, Iowa, *to acquire the assets and assume the liabilities* of Security State Trust and Savings Bank, Bettendorf, Iowa

SUMMARY REPORT BY THE ATTORNEY GENERAL (12/12/83)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12/9/83)
Davenport Bank and Trust Company (Applicant), with assets of $685 million, proposes to merge Security State Trust and Savings Bank (Bank), with assets of $28 million.

In view of the financial condition of Bank, the Iowa Superintendent of Banking has recommended expeditious action by the Federal Reserve System to prevent the failure of Bank. Thus the Chicago Federal Reserve Bank requested that reports about competitive factors be furnished within ten days. The convenience and needs factors, as well as the competitive factors, are consistent with approval.

Farmers State Bank of Irene, Irene, South Dakota, *to acquire the assets and assume the deposit liabilities* of the Viborg Branch of United National Bank, Sioux Falls, South Dakota

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12/9/83)
Farmers State Bank of Irene (Applicant), a proposed state member bank, with assets of $15 million, proposes to acquire the Viborg Branch of United National Bank, Sioux Falls, South Dakota (Branch). Branch has $12 million in deposits.

Applicant and Branch are situated about ten miles apart in the Sioux Falls market, where Applicant ranks seventeenth among thirty banking organizations, with 0.4 percent of market deposits. If the proposed acquisition is consummated, the continuing bank would rank ninth in the market, with 0.8 percent of market deposits. Principals of Applicant also own control of one other bank in the relevant market. The continuing bank would hold about 1 percent of market deposits. The proposed acquisition would have no significant effect on competition.

The financial condition of Applicant is generally satisfactory, and the condition of the resulting bank would be consistent with approval. Convenience and needs considerations are also consistent with approval.

SouthTrust Bank of Marion County, Hamilton, Alabama *to acquire certain assets and assume substantially all of the liabilities* of Bank of Hackleburg, Hackleburg, Alabama

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Reserve Bank to act immediately to safeguard depositors of Bank of Hackleburg.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12/13/83)
SouthTrust Bank of Marion County (Applicant), with assets of $58 million, proposes to acquire certain assets and assume substantially all of the liabilities of Bank of Hackleburg (Bank), with assets of $7 million.

In view of the financial condition of Bank, the Alabama Superintendent of Banks has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

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Bank has experienced financial problems that have reduced its competitiveness. The financial and managerial resources and prospects of the proposed organization would benefit the operations at the office now occupied by Bank without diminishing Applicant's prospects, and Bank's customers would be served by a stronger organization.

Mergers Approved Involving Wholly Owned Subsidiaries of the Same Bank Holding Company

The following transactions involve banks that are subsidiaries of the same bank holding company. In each case, the Summary Report by the Attorney General indicates that the transaction would not have a significantly adverse effect on competition because the proposed merger is essentially a corporate reorganization. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the competitive effects of the proposed transaction, the financial and managerial resources, and the prospects of the banks concerned, as well as the convenience and needs of the community to be served, were consistent with approval.

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
United Jersey Bank, Hackensack, New Jersey	2,186	1–18–83
Merger		
United Jersey Bank/North, Montvale, New Jersey	114	
The Wakeman Bank Company, Wakeman, Ohio	21	1–18–83
Merger		
The Erie County Bank, Vermilion, Ohio	75	
Bank of Virginia, Richmond, Virginia	3,474	3–10–83
Merger		
The Bank of Vienna, Vienna, Virginia	25	
Citizens Bank, Sheboygan, Wisconsin	293	4–11–83
Merger		
Citizens Bank of Manitowoc, Manitowoc, Wisconsin	7	
Citizens Bank, Sheboygan, Wisconsin	293	4–11–83
Merger		
Citizens South Side Bank, Sheboygan, Wisconsin	18	
Valley Bank and Trust Company, Salt Lake City, Utah	469	4–18–83
Merger		
Utah Valley Bank, Orem, Utah	10	
Citizens Bank, Sheboygan, Wisconsin	293	4–27–83
Merger		
Citizens North Side Bank, Sheboygan, Wisconsin	35	
Hempstead Bank, Hempstead, New York	324	5–13–83
Merger		
Island State Bank, Patchogue, New York	108	
Peninsula National Bank, Cedarhurst, New York	111	
Security Bank of Monroe, Monroe, Michigan	178	8–8–83
Merger		
Security Bank-Monroe County, Newport, Michigan	26	

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Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Central Fidelity Bank, Norfolk, Virginia	497	10-7-83
Merger		
Central Fidelity Bank, National Association, Richmond, Virginia	1,075	
Trust Company Bank, Atlanta, Georgia	2,811	10-20-83
Merger		
Bank of Woodstock, Woodstock, Georgia	14	
Peachtree Bank and Trust Company, Chamblee, Georgia	212	
Central Fidelity Bank, Norfolk, Virginia	497	11-10-83
Merger		
Central Fidelity Bank, National Association, Lynchburg, Virginia	1,006	
First Virginia Bank of the Peninsula, Grafton, Virginia	(2)	11-29-83
Merger		
Four offices of First Virginia Bank of Tidewater, Norfolk, Virginia	14	
First Virginia Bank-Central, Charlottesville, Virginia	28	11-29-83
Merger		
First Virginia Bank of Orange, Orange, Virginia	12	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.

2. This is a newly organized bank, not in operation.

Mergers Approved Involving a Nonoperating Institution with an Existing Bank

The following transactions have no significant effect on competition; they merely facilitate the acquisition of the voting shares of a bank (or banks) by a holding company. In such cases, the Summary Report by the Attorney General indicates that the transaction will merely combine an existing bank with a nonoperating institution; in consequence, and without regard to the acquisition of the surviving bank by the holding company, the merger would have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the proposal would, in itself, have no adverse competitive effects, and that the financial and convenience and needs factors were consistent with approval.

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Am-Ba-Co, Inc., Lake Wales, Florida	(2)	1-14-83
Merger		
American Bank of Lake Wales, Lake Wales, Florida	27	
The Allegheny Bank, Lewisburg, West Virginia	(2)	1-17-83
Merger		
Greenbrier Valley Bank, Lewisburg, West Virginia	39	

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Federal Reserve Bank of St. Louis

17. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1983

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
C.C. State Bank, Celina, Ohio	(2)	3-28-83
Merger		
The Citizens Commercial Bank & Trust Company, Celina, Ohio	107	
The Bristol Bank, Bristol, New Hampshire	18	4-15-83
Merger		
First BNH Acquisition Bank, Manchester, New Hampshire	(2)	
New Peoples Bank of Greensburg, Greensburg, Kentucky	(2)	5-2-83
Merger		
The Peoples Bank & Trust Company, Greensburg, Kentucky	37	
Planters Bank & Trust Company, Hopkinsville, Kentucky	153	5-20-83
Merger		
The Big Friendly Bank Corporation, Hopkinsville, Kentucky	(2)	
Heritage Interim Bank, Norfolk, Virginia	(2)	5-31-83
Merger		
Heritage Bank & Trust, Norfolk, Virginia	26	
Ottawa County Banking Company, Genoa, Ohio	(2)	6-23-83
Merger		
The Genoa Banking Company, Genoa, Ohio	29	
WB Financial Corp., Wayne, Michigan	(2)	7-12-83
Merger		
Wayne Bank, Wayne, Michigan	64	
The State Bank and Trust Company, Defiance, Ohio	93	8-10-83
Merger		
Defiance Interim Bank, Defiance, Ohio	(2)	
Forest Bank, Forest, Virginia	(2)	8-11-83
Merger		
The Community Bank of Forest, Forest, Virginia	7	
Comerica Bank-Detroit, Detroit, Michigan	5,452	9-7-83
Merger		
Commonwealth State Bank, Detroit, Michigan	(2)	
Bank of the Commonwealth, Detroit, Michigan	880	9-7-83
Merger		
BOC State Bank, Detroit Michigan	(2)	
Commonwealth State Bank, Detroit, Michigan	(2)	9-7-83
Merger		
Bank of the Commonwealth, Detroit, Michigan	880	
PBS State Bank, Port Byron, Illinois	(2)	9-15-83
Merger		
Port Byron State Bank, Port Byron, Illinois	23	

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17.—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Farmers Interim Bank, Lancaster, Pennsylvania	(2)	10-31-83
Merger		
The Farmers Trust Company of Lebanon, Lebanon, Pennsylvania	56	
American Bank of Bloomington, Bloomington, Illinois	(2)	11-3-83
Merger		
American State Bank, Bloomington, Illinois	90	
First Citizens Interim Bank, Oneonta, Alabama	(2)	11-10-83
Merger		
The Citizens Bank, Oneonta, Alabama	40	
1700 Bank, Jenkintown, Pennsylvania	(2)	11-14-83
Merger		
Industrial Valley Bank and Trust Company, Philadelphia, Pennsylvania	1,823	
Northwest Interim Bank, Tallahassee, Florida	(2)	11-30-83
Merger		
Citizens Commercial Bank of Tallahassee, Tallahassee, Florida	12	
Marine Interim Bank, Antigo, Wisconsin	(2)	11-30-83
Merger		
The Fidelity Savings Bank of Antigo, Wisconsin, Antigo, Wisconsin	51	
The Bank of St. Albans, St. Albans, West Virginia	102	12-12-83
Merger		
Kanalban Bank Co., St. Albans, West Virginia	(2)	
Oberlin Interim Bank, Oberlin, Ohio	(2)	12-14-83
Merger		
The Oberlin Savings Bank Company, Oberlin, Ohio	58	
Valley Community Bank, McMinnville, Oregon	8	12-17-83
Merger		
Valley Community Interim Bank, McMinnville, Oregon	(2)	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.

2. This is a newly organized bank, not in operation.

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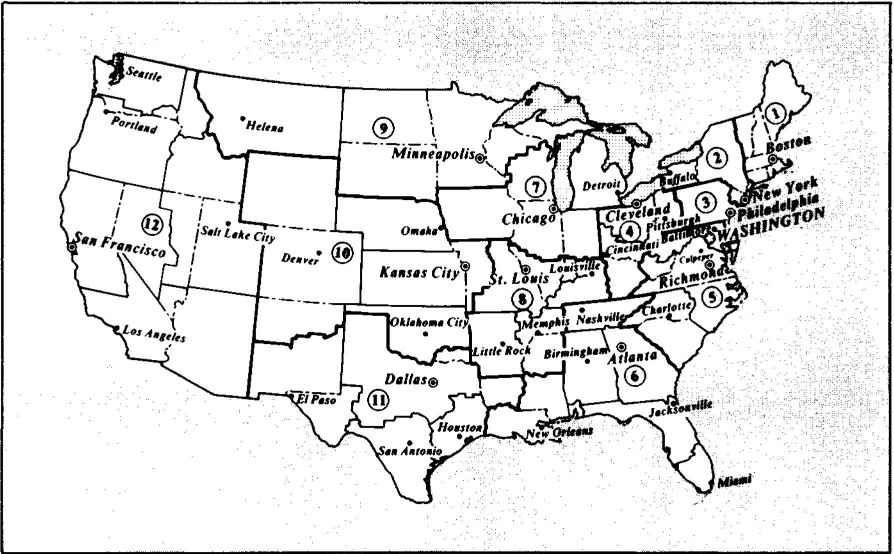
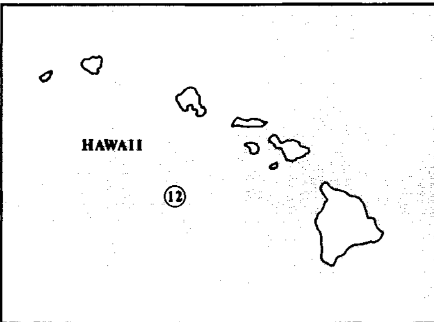
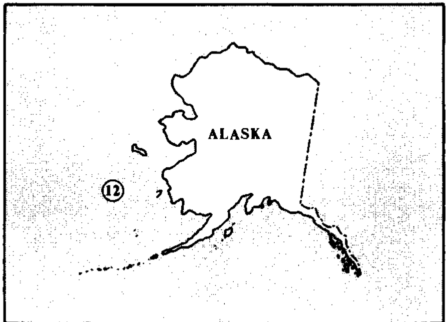
Federal Reserve Bank of St. Louis

The Federal Reserve System

Boundaries of Federal Reserve Districts and their Branch Territories







Legend

—— Boundaries of Federal Reserve Districts
—— Boundaries of Federal Reserve Branch Territories
○ Board of Governors of the Federal Reserve System
◉ Federal Reserve Bank Cities
• Federal Reserve Branch Cities
· Federal Reserve Bank Facilities

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Federal Reserve Directories and Meetings

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Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

December 31, 1983

	Term expires
PAUL A. VOLCKER of New Jersey, *Chairman*[1]	January 31, 1992
PRESTON MARTIN of California, *Vice Chairman*[1]	January 31, 1996
NANCY H. TEETERS of Indiana	January 31, 1984
J. CHARLES PARTEE of Virginia	January 31, 1986
HENRY C. WALLICH of Connecticut	January 31, 1988
EMMETT J. RICE of New York	January 31, 1990
LYLE E. GRAMLEY of Missouri	January 31, 1994

OFFICE OF BOARD MEMBERS
JOSEPH R. COYNE, *Assistant to the Board*
DONALD J. WINN, *Assistant to the Board*
STEVEN M. ROBERTS, *Assistant to the Chairman*
FRANK O'BRIEN, JR., *Deputy Assistant to the Board*
ANTHONY F. COLE, *Special Assistant to the Board*
WILLIAM R. JONES, *Special Assistant to the Board*
NAOMI P. SALUS, *Special Assistant to the Board*

OFFICE OF STAFF DIRECTOR FOR MONETARY AND FINANCIAL POLICY
STEPHEN H. AXILROD, *Staff Director*
DONALD L. KOHN, *Deputy Staff Director*
STANLEY J. SIGEL, *Assistant to the Board*
NORMAND R.V. BERNARD, *Special Assistant to the Board*

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT
S. DAVID FROST, *Staff Director*
STEPHEN R. MALPHRUS, *Assistant Staff Director*
EDWARD T. MULRENIN, *Assistant Staff Director*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES
THEODORE E. ALLISON, *Staff Director*
JOSEPH W. DANIELS, SR., *Adviser, Equal Employment Opportunity Programs*

OFFICE OF THE SECRETARY
WILLIAM W. WILES, *Secretary*
BARBARA R. LOWREY, *Associate Secretary*
JAMES MCAFEE, *Associate Secretary*

LEGAL DIVISION
MICHAEL BRADFIELD, *General Counsel*
J. VIRGIL MATTINGLY, JR., *Associate General Counsel*
GILBERT T. SCHWARTZ, *Associate General Counsel*
RICHARD M. ASHTON, *Assistant General Counsel*
NANCY P. JACKLIN, *Assistant General Counsel*
MARYELLEN A. BROWN, *Assistant to the General Counsel*

DIVISION OF RESEARCH AND STATISTICS
JAMES L. KICHLINE, *Director*
EDWARD C. ETTIN, *Deputy Director*
MICHAEL J. PRELL, *Deputy Director*
JOSEPH S. ZEISEL, *Deputy Director*

1. The designations as Chairman and Vice Chairman expire on August 6, 1987, and March 30, 1986, respectively, unless the services of these members of the Board shall have terminated sooner.

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Federal Reserve Bank of St. Louis

DIVISION OF RESEARCH AND STATISTICS—Continued

JARED J. ENZLER, *Associate Director*
ELEANOR J. STOCKWELL, *Associate Director*
DAVID E. LINDSEY, *Deputy Associate Director*
FREDERICK M. STRUBLE, *Deputy Associate Director*
HELMUT F. WENDEL, *Deputy Associate Director*
MARTHA BETHEA, *Assistant Director*
ROBERT M. FISHER, *Assistant Director*
SUSAN J. LEPPER, *Assistant Director*
THOMAS D. SIMPSON, *Assistant Director*
LAWRENCE SLIFMAN, *Assistant Director*
STEPHEN P. TAYLOR, *Assistant Director*
PETER A. TINSLEY, *Assistant Director*
LEVON H. GARABEDIAN, *Assistant Director (Administration)*

DIVISION OF INTERNATIONAL FINANCE

EDWIN M. TRUMAN, *Director*
ROBERT F. GEMMILL, *Senior Associate Director*
CHARLES J. SIEGMAN, *Senior Associate Director*
LARRY J. PROMISEL, *Associate Director*
DALE W. HENDERSON, *Deputy Associate Director*
SAMUEL PIZER, *Staff Adviser*
RALPH W. SMITH, JR., *Assistant Director*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS

CLYDE H. FARNSWORTH, JR., *Director*
ELLIOTT C. MCENTEE, *Associate Director*
DAVID L. ROBINSON, *Associate Director*
C. WILLIAM SCHLEICHER, JR., *Associate Director*
WALTER ALTHAUSEN, *Assistant Director*
CHARLES W. BENNETT, *Assistant Director*
ANNE M. DEBEER, *Assistant Director*
JACK DENNIS, JR., *Assistant Director*
EARL G. HAMILTON, *Assistant Director*
JOHN F. SOBALA, *Assistant Director*[2]

DIVISION OF BANKING SUPERVISION AND REGULATION

JOHN E. RYAN, *Director*
WILLIAM TAYLOR, *Deputy Director*
FREDERICK R. DAHL, *Associate Director*
DON E. KLINE, *Associate Director*
JACK M. EGERTSON, *Assistant Director*
ROBERT A. JACOBSEN, *Assistant Director*
ROBERT S. PLOTKIN, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
SIDNEY M. SUSSAN, *Assistant Director*
SAMUEL H. TALLEY, *Assistant Director*
LAURA M. HOMER, *Securities Credit Officer*

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

GRIFFITH L. GARWOOD, *Director*
JERAULD C. KLUCKMAN, *Associate Director*
GLENN E. LONEY, *Assistant Director*
DOLORES S. SMITH, *Assistant Director*

DIVISION OF PERSONNEL

DAVID L. SHANNON, *Director*
JOHN R. WEIS, *Assistant Director*
CHARLES W. WOOD, *Assistant Director*

DIVISION OF SUPPORT SERVICES

DONALD E. ANDERSON, *Director*
ROBERT E. FRAZIER, *Associate Director*
WALTER W. KREIMANN, *Associate Director*

OFFICE OF THE CONTROLLER

GEORGE E. LIVINGSTON, *Controller*
BRENT L. BOWEN, *Assistant Controller*

DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, *Director*
BRUCE M. BEARDSLEY, *Deputy Director*
GLENN L. CUMMINS, *Assistant Director*
NEAL H. HILLERMAN, *Assistant Director*
RICHARD J. MANASSERI, *Assistant Director*
WILLIAM C. SCHNEIDER, JR., *Assistant Director*
ROBERT J. ZEMEL, *Assistant Director*

2. On loan from the Federal Reserve Bank of New York.

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Federal Reserve Bank of St. Louis

Federal Open Market Committee

December 31, 1983

Members

PAUL A. VOLCKER, *Chairman,* Board of Governors

ANTHONY M. SOLOMON, *Vice Chairman,* elected by Federal Reserve Bank of New York

LYLE E. GRAMLEY, Board of Governors

ROGER GUFFEY, elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco

SILAS KEEHN, elected by Federal Reserve Banks of Chicago and Cleveland

PRESTON MARTIN, Board of Governors

FRANK E. MORRIS, elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond

J. CHARLES PARTEE, Board of Governors

EMMETT J. RICE, Board of Governors

THEODORE H. ROBERTS, elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas

NANCY H. TEETERS, Board of Governors

HENRY C. WALLICH, Board of Governors

Officers

STEPHEN H. AXILROD, *Staff Director and Secretary*

NORMAND R.V. BERNARD, *Assistant Secretary*

NANCY M. STEELE, *Deputy Assistant Secretary*

MICHAEL BRADFIELD, *General Counsel*

JAMES H. OLTMAN, *Deputy General Counsel*

JAMES L. KICHLINE, *Economist*

EDWIN M. TRUMAN, *Economist (International)*

ANATOL BALBACH, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

THOMAS E. DAVIS, *Associate Economist*

ROBERT EISENMENGER, *Associate Economist*

EDWARD C. ETTIN, *Associate Economist*

MICHAEL J. PRELL, *Associate Economist*

KARL A. SCHELD, *Associate Economist*

CHARLES J. SIEGMAN, *Associate Economist*

JOSEPH S. ZEISEL, *Associate Economist*

PETER D. STERNLIGHT, *Manager for Domestic Operations, System Open Market Account*

SAM Y. CROSS, *Manager for Foreign Operations, System Open Market Account*

During 1983, the Federal Open Market Committee held eight regularly scheduled meetings. (See "Record of Policy Actions of the Federal Open Market Committee" in this REPORT.)

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Federal Reserve Bank of St. Louis

Federal Advisory Council

December 31, 1983

Members

District No. 1—WILLIAM S. EDGERLY, *Chairman of the Board and President,* State Street Bank and Trust Company, Boston, Massachusetts

District No. 2—LEWIS T. PRESTON, *Chairman of the Board and Chief Executive Officer,* Morgan Guaranty Trust Company of New York, New York, New York

District No. 3—JOHN H. WALTHER, *Chairman of the Board,* New Jersey National Corporation and New Jersey National Bank, Trenton, New Jersey

District No. 4—JOHN G. MCCOY, *Vice Chairman and Chief Executive Officer,* Banc One Corporation, Columbus, Ohio

District No. 5—VINCENT C. BURKE, JR., *Chairman of the Executive Committee and Director,* Riggs National Corporation, and *Director,* The Riggs National Bank of Washington, D.C., Washington, D.C.

District No. 6—PHILIP F. SEARLE, *Chairman and Chief Executive Officer,* Flagship Banks, Inc., Miami, Florida

District No. 7—ROGER E. ANDERSON, *Chairman and Chief Executive Officer,* Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois

District No. 8—RONALD TERRY, *Chairman,* First Tennessee Bank, N.A., Memphis, Tennessee

District No. 9—E. PETER GILLETTE, JR., *Vice Chairman,* Norwest Corporation, and *Chairman,* Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota

District No. 10—N. BERNE HART, *President, Chairman of the Board and Chief Executive Officer,* United Banks of Colorado, Inc., Denver, Colorado

District No. 11—T.C. FROST, JR., *Chairman,* Cullen/Frost Bankers, Inc., San Antonio, Texas

District No. 12—JOSEPH J. PINOLA, *Chairman and Chief Executive Officer,* First Interstate Bancorporation, Los Angeles, California

Officers

RONALD TERRY, *President*

WILLIAM S. EDGERLY, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Associate Secretary*

Directors

T.C. FROST, JR.

JOHN G. MCCOY

JOHN H. WALTHER

Meetings of the Federal Advisory Council were held on February 3–4, May 5–6, September 8–9, and November 3–4, 1983. The Board of Governors met with the council on February 4, May 6, September 9, and November 4, 1983. The council, which is composed of 12 representatives of the banking industry, one from each Federal Reserve District, is required by law to meet in Washington at least four times a year and is authorized by the Federal Reserve Act to consult and advise the Board on all matters within the jurisdiction of the Board.

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Federal Reserve Bank of St. Louis

Consumer Advisory Council

December 31, 1983

Members

ARTHUR F. BOUTON,
Little Rock, Arkansas

JAMES G. BOYLE,
Austin, Texas

GERALD R. CHRISTENSEN,
Salt Lake City, Utah

THOMAS L. CLARK, JR.,
New York, New York

JEAN A. CROCKETT,
Philadelphia, Pennsylvania

JOSEPH N. CUGINI,
Westerly, Rhode Island

SUSAN PIERSON DEWITT,
Chicago, Illinois

MEREDITH FERNSTROM,
New York, New York

ALLEN J. FISHBEIN,
Washington, D.C.

E.C.A. FORSBERG, SR.,
Atlanta, Georgia

LUTHER R. GATLING,
New York, New York

RICHARD F. HALLIBURTON,
Kansas City, Missouri

CHARLES C. HOLT,
Austin, Texas

GEORGE S. IRVIN,
Denver, Colorado

HARRY N. JACKSON,
Minneapolis, Minnesota

KENNETH V. LARKIN,
San Francisco, California

TIMOTHY D. MARRINAN,
Minneapolis, Minnesota

STANLEY L. MULARZ,
Chicago, Illinois

WILLIAM J. O'CONNOR, JR.,
Buffalo, New York

WILLARD P. OGBURN,
Boston, Massachusetts

ELVA QUIJANO,
San Antonio, Texas

JANET J. RATHE,
Portland, Oregon

JANET M. SCACCIOTTI,
Providence, Rhode Island

GLENDA G. SLOANE,
Washington, D.C.

HENRY J. SOMMER,
Philadelphia, Pennsylvania

NANCY Z. SPILLMAN,
Los Angeles, California

WINNIE F. TAYLOR,
Gainesville, Florida

MICHAEL M. VAN BUSKIRK,
Columbus, Ohio

CLINTON WARNE,
Cleveland, Ohio

FREDERICK T. WEIMER,
Chicago, Illinois

Officers

SUSAN PIERSON DEWITT, *Chairman*

WILLIAM J. O'CONNOR, JR., *Vice Chairman*

Meetings of the Consumer Advisory Council with members of the Board of Governors were held on March 16–17, July 20–21, and October 26–27, 1983. The council is composed of representatives of the financial industry, and of consumer and community interests, as well as academics. It was established pursuant to the 1976 amendments to the Equal Credit Opportunity Act to advise the Board on matters related to consumer financial services.

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Federal Reserve Bank of St. Louis

Thrift Institutions Advisory Council

December 31, 1983

Members

HARRY W. ALBRIGHT, *Chairman,* Dime Savings Bank of New York, New York, New York

JAMES A. ALIBER, *Chairman and Chief Executive Officer,* First Federal of Michigan, Detroit, Michigan

GENE R. ARTEMENKO, *President,* United Airlines Employees' Credit Union, Chicago, Illinois

THOMAS R. BOMAR, *President,* AmeriFirst Federal Savings and Loan Association, Miami, Florida

JOHN R. EPPINGER, *President and Chief Executive Officer,* MainLine Federal Savings and Loan Association, Villanova, Pennsylvania

MARY A. GRIGSBY, *Chairman and Chief Executive Officer,* United Savings of Texas, Houston, Texas

NORMAN M. JONES, *President,* Metropolitan Federal Savings and Loan Association, Fargo, North Dakota

ROBERT R. MASTERTON, *President,* The One Maine Savings Bank, Portland, Maine

JAMES F. MONTGOMERY, *Chairman of the Board,* Great Western Financial Corporation, Beverly Hills, California

FRED A. PARKER, *President,* Heritage Federal Savings and Loan Association, Monroe, North Carolina

Officers

HARRY W. ALBRIGHT, *President*

THOMAS R. BOMAR, *Vice President*

The members of the Thrift Institutions Advisory Council met with the Board of Governors on March 22, June 7, September 22, and November 29, 1983. The Council, which is composed of representatives from credit unions, savings and loan associations, and savings banks, consults with and advises the Board on issues pertaining to the thrift industry and on various other matters within the Board's jurisdiction.

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Federal Reserve Bank of St. Louis

Officers of Federal Reserve Banks, Branches, and Offices

December 31, 1983[1]

BANK, branch, or office	Chairman[2] Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON[3]	Robert P. Henderson Thomas I. Atkins	Frank E. Morris James A. McIntosh	
NEW YORK[3]	John Brademas Gertrude G. Michelson	Anthony M. Solomon Thomas M. Timlen	
Buffalo	M. Jane Dickman		John T. Keane
PHILADELPHIA	Robert M. Landis Nevius M. Curtis	Edward G. Boehne Richard L. Smoot	
CLEVELAND[3]	J.L. Jackson William H. Knoell	Karen N. Horn William H. Hendricks	
Cincinnati	Clifford R. Meyer		Robert E. Showalter [4]
Pittsburgh	Milton G. Hulme, Jr.		Harold J. Swart [4]
RICHMOND[3]	Steven Muller William S. Lee III	Robert P. Black Jimmie R. Monhollon	
Baltimore	Edward H. Covell		Robert D. McTeer, Jr. [4]
Charlotte	Henry Ponder		Albert D. Tinkelenberg [4]
Culpeper [5]			John G. Stoides [4]
ATLANTA	William A. Fickling, Jr. John H. Weitnauer, Jr.	Robert P. Forrestal (Temporarily vacant)	
Birmingham	Samuel R. Hill, Jr.		Fred R. Herr
Jacksonville	Joan W. Stein		Charles D. East
Miami	Eugene E. Cohen		Patrick K. Barron
Nashville	Robert C.H. Mathews, Jr.		Jeffrey J. Wells
New Orleans	Roosevelt Steptoe		James D. Hawkins
Atlanta			Delmar Harrison
CHICAGO	John Sagan Stanton R. Cook	Silas Keehn Daniel M. Doyle	
Detroit	Russell G. Mawby		William C. Conrad [4]
ST. LOUIS	W.L. Hadley Griffin Mary P. Holt	Theodore H. Roberts Joseph P. Garbarini	
Little Rock	Richard V. Warner		John F. Breen
Louisville	William C. Ballard, Jr.		James E. Conrad
Memphis	G. Rives Neblett		Paul I. Black, Jr.
MINNEAPOLIS	William G. Phillips John B. Davis, Jr.	E. Gerald Corrigan Thomas E. Gainor	

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Federal Reserve Bank of St. Louis

BANK, branch, or office	Chairman[2] Deputy Chairman	President First Vice President	Vice President in charge of branch
Helena	Gene J. Etchart		Robert F. McNellis
KANSAS CITY	Paul H. Henson Doris M. Drury	Roger Guffey Henry R. Czerwinski	
Denver	James E. Nielson		Wayne W. Martin [4]
Oklahoma City	Christine H. Anthony		William G. Evans
Omaha	Robert G. Lueder		Robert D. Hamilton
DALLAS	Gerald D. Hines John V. James	Robert H. Boykin William H. Wallace	
El Paso	Chester J. Kesey		Joel L. Koonce, Jr.
Houston	Paul N. Howell		J.Z. Rowe [4]
San Antonio	Carlos A. Zuniga		Thomas H. Robertson
SAN FRANCISCO	Caroline L. Ahmanson Alan C. Furth	John J. Balles Richard T. Griffith	
Los Angeles	Bruce M. Schwaegler		Richard C. Dunn [4]
Portland	John C. Hampton		Angelo S. Carella
Salt Lake City	Wendell J. Ashton		A. Grant Holman
Seattle	John W. Ellis		Gerald R. Kelly [4]

1. A current list of these officers appears each month in the *Federal Reserve Bulletin.*

2. The Chairman of a Federal Reserve Bank, by statute, also serves as Federal Reserve Agent.

3. Additional offices of these Banks are located at Lewistown, Maine; Windsor Locks, Connecticut; Cranford, New Jersey; Jericho, New York; Utica at Orishkany, New York; Columbus, Ohio; Columbia, South Carolina; Charleston, West Virginia; Des Moines, Iowa; Indianapolis, Indiana; and Milwaukee, Wisconsin.

4. This officer is a Senior Vice President.

5. Culpeper Communications and Records Center is a facility.

Conference of Chairmen

The chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by the deputy chairmen, were held in Washington on June 2–3 and December 1–2, 1983.

The Executive Committee of the Conference of Chairmen during 1983 comprised Robert P. Henderson, Chairman, William G. Phillips, Vice Chairman, and Steven Muller, member.

On December 2, 1983, William G. Phillips was elected chairman of the conference and of its Executive Committee to serve for the succeeding year; William H. Knoell was elected vice chairman of the conference and a member of the Executive Committee; and Stanton R. Cook was elected as the other member of the Executive Committee.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets periodically to consider matters of common interest and to consult with and advise the Board of Governors. On September 15, 1982, Anthony M. Solomon, President of the Federal Reserve Bank of New York, was elected Chairman, and William F. Ford, President of the Federal Reserve Bank of Atlanta, was elected Vice Chairman for 1983. Bradley K. Sabel of the Federal Reserve Bank of New York was appointed

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Federal Reserve Bank of St. Louis

Secretary, and William B. Estes of the Federal Reserve Bank of Atlanta was appointed Assistant Secretary. On September 16, 1983, E. Gerald Corrigan, President of the Federal Reserve Bank of Minneapolis, was elected Vice Chairman, replacing Mr. Ford on October 1, 1983, and Kathleen J. Balkman of the Federal Reserve Bank of Minneapolis replaced Mr. Estes as Assistant Secretary.

Conference of First Vice Presidents

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet periodically for the consideration of operational and other matters. On October 8, 1982, Thomas M. Timlen, First Vice President of the Federal Reserve Bank of New York, was elected Chairman, and Robert P. Forrestal, First Vice President of the Federal Reserve Bank of Atlanta, was elected Vice Chairman for 1983. Bradley K. Sabel of the Federal Reserve Bank of New York was appointed Secretary, and William B. Estes of the Federal Reserve Bank of Atlanta was appointed Assistant Secretary. On September 26, 1983, Thomas E. Gainor, First Vice President of the Federal Reserve Bank of Minneapolis, was elected Vice Chairman, replacing Mr. Forrestal on October 1, 1983, and Kathleen J. Balkman of the Federal Reserve Bank of Minneapolis was elected Assistant Secretary, replacing Mr. Estes.

Directors

Class A and Class B directors are elected by the member banks of a Federal Reserve District. Class C directors are appointed by the Board of Governors of the Federal Reserve System. One term in each class of directors expires each year. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. Class B and Class C directors represent the public and are selected with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class B and Class C directors may not be officers, directors, or employees of any bank, nor may Class C directors be stockholders of any bank. Annually, the Board of Governors designates one Class C director of each Reserve Bank to serve as chairman of the Bank and one to serve as deputy chairman.

Branches of Federal Reserve Banks have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank. The others are appointed by the Board of Governors of the Federal Reserve System. The chairmen of branch boards are selected from among directors appointed by the Board of Governors.

A list of the current directors appears in the March issue of the *Federal Reserve Bulletin* each year.

District 1—BOSTON

		Term expires Dec. 31
Class A		
Henry S. Woodbridge, Jr.	Chairman of the Board and Chief Executive Officer, Rhode Island Hospital Trust National Bank, Providence, Rhode Island	1983
James Stokes Hatch	President and Chief Executive Officer, The Canaan National Bank, Canaan, Connecticut	1984
William W. Treat	President, Bank Meridian, N.A., Hampton, New Hampshire	1985

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		Term expires Dec. 31
Class B		
Joseph A. Baute	Chairman and Chief Executive Officer, Markem Corporation, Keene, New Hampshire	1983
George N. Hatsopoulos	Chairman of the Board and President, Thermo Electron Corporation, Waltham, Massachusetts	1984
Matina S. Horner	President, Radcliffe College, Cambridge, Massachusetts	1985
Class C		
Michael J. Harrington	Harrington Company, Peabody, Massachusetts	1983
Robert P. Henderson	Vice Chairman of the Board of Directors, Greylock Management Corporation, Boston, Massachusetts	1984
Thomas I. Atkins	General Counsel, National Association for the Advancement of Colored People, Brooklyn, New York	1985

District 2—NEW YORK

Class A		
Peter D. Kiernan	Chairman and President, Norstar Bancorp, Inc., Albany, New York	1983
Robert A. Rough	President, The National Bank of Sussex County, Branchville, New Jersey	1984
Alfred Brittain	Chairman of the Board, Bankers Trust Company, New York, New York	1985
Class B		
John R. Opel	Chairman and Chief Executive Officer, International Business Machines Corporation, Armonk, New York	1983
Edward L. Hennessy, Jr.	Chairman of the Board, Allied Chemical Corporation, Morristown, New Jersey	1984
William S. Cook	President and Chief Executive Officer, Union Pacific Corporation, New York, New York	1985
Class C		
Clifton R. Wharton, Jr.	Chancellor, State University of New York System, Albany, New York	1983
Gertrude G. Michelson	Senior Vice President, R.H. Macy & Company, Inc., New York, New York	1984
John Brademas	President, New York University, New York, New York	1985

BUFFALO BRANCH

Appointed by Federal Reserve Bank		
Carl F. Ulmer	President, The Evans National Bank of Angola, Angola, New York	1983

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		Term expires Dec. 31
Edward W. Duffy	Chairman of the Executive Committee, Marine Midland Bank, N.A., Buffalo, New York	1984
Frederick G. Ray	Chairman of the Board, Rochester Community Savings Bank, Rochester, New York	1985
Donald I. Wickham	President, Tri-Way Farms, Inc., Stanley, New York	1985

Appointed by Board of Governors

John R. Burwell	President, Rollins Container Corporation, Rochester, New York	1983
George L. Wessel	President, Buffalo AFL/CIO Council, Buffalo, New York	1984
M. Jane Dickman	Partner, c/o Touche Ross & Co., Buffalo, New York	1985

District 3—PHILADELPHIA

Class A

Roger S. Hillas	Chairman and President, Provident National Bank, Philadelphia, Pennsylvania	1983
Douglas Eugene Johnson	Chairman and President, Ocean County National Bank, Point Pleasant Beach, New Jersey	1984
JoAnne Brinzey	Cashier and Chief Executive Officer, The First National Bank at Gallitzin, Gallitzin, Pennsylvania	1985

Class B

Harry A. Jensen	President and Chief Executive Officer, Armstrong World Industries, Inc., Lancaster, Pennsylvania	1983
Richard P. Hauser	Chairman and Chief Executive Officer, John Wanamaker, Philadelphia, Pennsylvania	1984
Eberhard Faber IV	Chairman of the Board and Chief Executive Officer, Eberhard Faber, Inc., Wilkes-Barre, Pennsylvania	1985

Class C

Robert M. Landis	Partner, Dechert, Price & Rhoads, Philadelphia, Pennsylvania	1983
George E. Bartol III	Chairman of the Board, Hunt Manufacturing Company, Philadelphia, Pennsylvania	1984
Nevius M. Curtis	President and Chief Executive Officer, Delmarva Power & Light Company, Wilmington, Delaware	1985

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District 4—CLEVELAND

		Term expires Dec. 31
Class A		
J. David Barnes	Chairman of the Board, Mellon Bank, N.A., Pittsburgh, Pennsylvania	1983
Raymond D. Campbell	President and Chief Executive Officer, Independent State Bank of Ohio, Columbus, Ohio	1984
William A. Stroud	President, First-Knox National Bank, Mount Vernon, Ohio	1985
Class B		
E. Mandell de Windt	Chairman of the Board, Eaton Corporation, Cleveland, Ohio	1983
Richard D. Hannan	Chairman of the Board and President, Mercury Instruments, Inc., Cincinnati, Ohio	1984
John W. Kessler	President, John W. Kessler Company, Columbus, Ohio	1985
Class C		
William H. Knoell	President and Chief Executive Officer, Cyclops Corporation, Pittsburgh, Pennsylvania	1983
J.L. Jackson	President and Chief Operating Officer, Diamond Shamrock Corporation, Dallas, Texas	1984
John D. Anderson	Senior Partner, The Andersons, Maumee, Ohio	1985

CINCINNATI BRANCH

Appointed by Federal Reserve Bank		
O.T. Dorton	President, Citizens National Bank, Paintsville, Kentucky	1983
Richard J. Fitton	President and Chief Executive Officer, First National Bank of Southwestern Ohio, Hamilton, Ohio	1984
Sherrill Cleland	President, Marietta College, Marietta, Ohio	1984
Clement L. Buenger	President, The Fifth Third Bank, Cincinnati, Ohio	1985
Appointed by Board of Governors		
Clifford R. Meyer	President and Chief Operating Officer, Cincinnati Milacron Inc., Cincinnati, Ohio	1983
Don Ross	Owner, Dunreath Farm, Lexington, Kentucky	1984
Sister Grace Marie Hiltz	President, Sisters of Charity Health Care Systems, Inc., Cincinnati, Ohio	1985

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PITTSBURGH BRANCH		*Term expires Dec. 31*
Appointed by Federal Reserve Bank		
Ernest L. Lake	President, The National Bank of North East, North East, Pennsylvania	1983
Robert C. Milsom	President, Pittsburgh National Bank, Pittsburgh, Pennsylvania	1984
James S. Pasman, Jr.	Vice Chairman, Aluminum Company of America, Pittsburgh Pennsylvania	1984
A. Dean Heasley	President and Chief Executive Officer, Century National Bank & Trust Co., Rochester, Pennsylvania	1985
Appointed by Board of Governors		
Milton G. Hulme, Jr.	President and Chief Executive Officer, Mine Safety Appliances Company, Pittsburgh, Pennsylvania	1983
Vacant		
Robert S. Kaplan	Dean, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania	1985

District 5—RICHMOND

Class A		
J. Banks Scarborough	Chairman and President, Pee Dee State Bank, Timmonsville, South Carolina	1983
Joseph A. Jennings	Chairman and Chief Executive Officer, United Virginia Bankshares Inc. and United Virginia Bank, Richmond, Virginia	1984
Willard H. Derrick	President and Chief Executive Officer, Sandy Springs National Bank and Savings Institution, Sandy Springs, Maryland	1985
Class B		
Leon A. Dunn, Jr.	Chairman, President, and Chief Executive Officer, Guardian Corporation and Subsidiaries, Rocky Mount, North Carolina	1983
Paul G. Miller	Chairman of the Board, Commercial Credit Company, Baltimore, Maryland	1984
Vacant		
Class C		
Steven Muller	President, The Johns Hopkins University, Baltimore, Maryland	1983
William S. Lee III	Chairman of the Board and Chief Executive Officer, Duke Power Company, Charlotte, North Carolina	1984
Robert A. Georgine	President, Building and Construction Trades Department, AFL-CIO, Washington, D.C.	1985

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BALTIMORE BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Maryland	1983
Pearl C. Brackett	Deputy Manager (retired), Baltimore Regional Chapter of the American Red Cross, Baltimore, Maryland	1984
Hugh D. Shires	Senior Vice President (retired), The First National Bank of Maryland, Cumberland, Maryland	1985
Howard I. Scaggs	Chairman of the Board, American National Building and Loan Association, Baltimore, Maryland	1985
Appointed by Board of Governors		
Robert L. Tate	Chairman, Tate Industries, Baltimore, Maryland	1983
Thomas H. Maddux	Executive Vice President and Chief Operating Officer, Easco Corporation, Baltimore, Maryland	1984
Edward H. Covell	President, The Covell Company, Easton, Maryland	1985

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank		
Nicholas W. Mitchell	Chairman of the Board, Piedmont Federal Savings and Loan Association, Winston-Salem, North Carolina	1983
Hugh M. Chapman	Chairman of the Board and Chief Executive Officer, The Citizens & Southern National Bank of South Carolina, Columbia, South Carolina	1984
John G. Medlin, Jr.	President, Wachovia Bank and Trust Company, N.A., Winston-Salem, North Carolina	1985
J. Donald Collier	President, First National Bank in Orangeburg, Orangeburg, South Carolina	1985
Appointed by Board of Governors		
Wallace J. Jorgenson	President, Jefferson-Pilot Broadcasting Co., Charlotte, North Carolina	1983
Henry Ponder	President, Benedict College, Columbia, South Carolina	1984
G. Alex Bernhardt	President, Bernhardt Industries, Lenoir, North Carolina	1985

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District 6—ATLANTA

		Term expires Dec. 31
Class A		
Hugh M. Willson	President, Citizens National Bank, Athens, Tennessee	1983
Guy W. Botts	Chairman of the Board, Barnett Banks of Florida, Inc., Jacksonville, Florida	1984
Dan B. Andrews	President, First National Bank, Dickson, Tennessee	1985
Class B		
Harold B. Blach, Jr.	President, Blach's Inc., Birmingham, Alabama	1983
Horatio C. Thompson	President, Horatio Thompson Investment, Inc., Baton Rouge, Louisiana	1984
Bernard F. Sliger	President, Florida State University, Tallahassee, Florida	1985
Class C		
William A. Fickling, Jr.	Chairman and Chief Executive, Charter Medical Corporation, Macon, Georgia	1983
Jane C. Cousins	President and Chief Executive Officer, Merrill Lynch Realty/Cousins, Miami, Florida	1984
John H. Weitnauer, Jr.	Chairman and Chief Executive Officer, Richway, Atlanta, Georgia	1985

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank		
Henry A. Leslie	President and Chief Executive Officer, Union Bank and Trust Company, Montgomery, Alabama	1983
William M. Schroeder	Chairman and President, Central State Bank, Calera, Alabama	1984
Grady Gillam	Chairman, The American National Bank, Gadsden, Alabama	1985
G. Mack Dove	President, AAA Cooper Transportation Co., Dothan, Alabama	1985
Appointed by Board of Governors		
Samuel R. Hill, Jr.	President, University of Alabama in Birmingham, Birmingham, Alabama	1983
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Co., Birmingham, Alabama	1984
Martha A. McInnis	Executive Vice President, EnviroSouth, Inc., Montgomery, Alabama	1985

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JACKSONVILLE BRANCH		*Term expires Dec. 31*
Appointed by Federal Reserve Bank		
Gordon W. Campbell	Vice Chairman, NCNB National Bank of Florida, Tampa, Florida	1983
Lewis A. Doman	President, The Citizens and Peoples National Bank, Pensacola, Florida	1984
E.F. Keen, Jr.	Vice Chairman and President, Ellis Banking Corporation, Bradenton, Florida	1985
George C. Boone, Jr.	President and Chief Executive Officer, Security First Federal Savings and Loan Association, Daytona Beach, Florida	1985
Appointed by Board of Governors		
Joan W. Stein	Chairman, Regency Square Properties, Inc., Jacksonville, Florida	1983
Jerome P. Keuper	President, Florida Institute of Technology, Melbourne, Florida	1984
E. William Nash, Jr.	President, South Central Operations, The Prudential Insurance Company, Jacksonville, Florida	1985

MIAMI BRANCH

Appointed by Federal Reserve Bank		
Daniel S. Goodrum	Senior Executive Vice President, Sun Banks of Florida, Inc., Ft. Lauderdale, Florida	1983
E. Llwyd Ecclestone, Jr.	President and Chief Executive Officer, National Investment Co., West Palm Beach, Florida	1984
Stephen G. Zahorian	President, Barnett Bank of Lee County, N.A., Fort Myers, Florida	1984
D.S. Hudson, Jr.	Chairman, First National Bank and Trust Company of Stuart, Stuart, Florida	1985
Appointed by Board of Governors		
Eugene E. Cohen	Chief Financial Officer and Treasurer, Howard Hughes Medical Institute, Coconut Grove, Florida	1983
Roy Vandegrift, Jr.	President, Roy Van, Inc., Pahokee, Florida	1984
Sue McCourt Cobb	Attorney, Greenberg, Traurig, Askew, Hoffman, Lipoff, Quentel, and Wolff, P.A., Miami, Florida	1985

NASHVILLE BRANCH

Appointed by Federal Reserve Bank		
James F. Smith, Jr.	Chairman and Chief Executive Officer, First American National Bank of Knoxville, Knoxville, Tennessee	1983

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		Term expires Dec. 31
Michael T. Christian	President and Chief Executive Officer, Commerce Union Bank of Greeneville, Greeneville, Tennessee	1984
Owen G. Shell, Jr.	President and Chief Executive Officer, First American National Bank of Nashville, Nashville, Tennessee	1985
Samuel H. Howard	Vice President and Treasurer, Hospital Corporation of America, Nashville, Tennessee	1985

Appointed by Board of Governors

Robert C.H. Mathews, Jr.	Managing General Partner, R.C. Mathews, Nashville, Tennessee	1983
C. Warren Neel	Dean, College of Business Administration, The University of Tennessee, Knoxville, Tennessee	1984
Condon S. Bush	President, Bush Brothers & Company, Dandridge, Tennessee	1985

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank

Paul W. McMullan	Chairman and Chief Executive Officer, First Mississippi National Bank, Hattiesburg, Mississippi	1983
Jerry W. Brents	President and Chief Executive Officer, First National Bank, Lafayette, Louisiana	1984
Philip K. Livingston	President and Chief Executive Officer, Citizens National Bank, Hammond, Louisiana	1985
Tom Burkett Scott, Jr.	President and Chief Executive Officer, Unifirst Federal Savings and Loan Association, Jackson, Mississippi	1985

Appointed by Board of Governors

Leslie B. Lampton	President, Ergon, Inc., Jackson, Mississippi	1983
Roosevelt Steptoe	Professor of Economics, Southern University, Baton Rouge, Louisiana	1984
Sharon A. Perlis	Attorney, Metairie, Louisiana	1985

District 7—CHICAGO

Class A

Ollie Jay Tomson	President, The Citizens National Bank of Charles City, Charles City, Iowa	1983
Charles M. Bliss	Chairman of the Board and Chief Executive Officer, Harris Trust and Savings Bank, Chicago, Illinois	1984
Patrick E. McNarny	President, First National Bank of Logansport, Logansport, Indiana	1985

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		Term expires Dec. 31
Class B		
Leon T. Kendall	Chairman of the Board and Chief Executive Officer, Mortgage Guaranty Insurance Corp., Milwaukee, Wisconsin	1983
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1984
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1985
Class C		
John Sagan	Vice President-Treasurer, Ford Motor Company, Dearborn, Michigan	1983
Edward F. Brabec	Business Manager, Chicago Journeymen Plumbers, Local Union 130, U.A., Chicago, Illinois	1984
Stanton R. Cook	President, Tribune Company, Chicago, Illinois	1985

DETROIT BRANCH

Appointed by Federal Reserve Bank		
Lawrence A. Johns	President, Isabella Bank and Trust, Mount Pleasant, Michigan	1983
James H. Duncan	Chairman and Chief Executive Officer, First American Bank Corporation, Kalamazoo, Michigan	1984
Thomas R. Ricketts	Chairman and President, Standard Federal Savings and Loan Association, Troy, Michigan	1984
Charles T. Fisher III	Chairman and President, National Bank of Detroit, Detroit, Michigan	1985
Appointed by Board of Governors		
Karl D. Gregory	Professor, School of Economics and Management, Oakland University, Rochester, Michigan	1983
Robert E. Brewer	Executive Vice President Finance, K Mart Corporation, Troy, Michigan	1984
Russell G. Mawby	President and Trustee, W. K. Kellogg Foundation, Battle Creek, Michigan	1985

District 8—ST. LOUIS

Class A		
Clarence C. Barksdale	Chairman and Chief Executive Officer, Centerre Bank National Association, St. Louis, Missouri	1983
George M. Ryrie	President, First National Bank & Trust Co., Alton, Illinois	1984
Donald L. Hunt	President, First National Bank of Marissa, Marissa, Illinois	1985

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Class B		*Term expires Dec. 31*
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tennessee	1983
Jesse M. Shaver	Consultant, Allis-Chalmers Corporation, Louisville, Kentucky	1984
Robert J. Sweeney	President and Chief Operating Officer, Murphy Oil Corporation, El Dorado, Arkansas	1985

Class C		
W.L. Hadley Griffin	Chairman of the Board, Brown Group, Inc., St. Louis, Missouri	1984
Mary P. Holt	President, Clothes Horse, Little Rock, Arkansas	1985
Robert L. Virgil, Jr.	Dean, School of Business, Washington University, St. Louis, Missouri	1985

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank		
William H. Kennedy, Jr.	Chairman of the Board, National Bank of Commerce of Pine Bluff, Pine Bluff, Arkansas	1983
Gordon E. Parker	Chairman of the Board and President, The First National Bank of El Dorado, El Dorado, Arkansas	1984
Wilbur P. Gulley, Jr.	Chairman of the Board and Chief Executive Officer, Savers Federal Savings and Loan Association, Little Rock, Arkansas	1984
D. Eugene Fortson	Chairman and Chief Executive Officer, Worthen Bank and Trust Company, N.A., Little Rock, Arkansas	1985

Appointed by Board of Governors		
Richard V. Warner	Group Vice President, Wood Products Group, Potlatch Corporation, Warren, Arkansas	1983
Sheffield Nelson	Chairman of the Board and Chief Executive Officer, Arkla, Inc., Little Rock, Arkansas	1984
Shirley J. Pine	Department of Communicative Disorders, University of Arkansas at Little Rock, Little Rock, Arkansas	1985

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank		
Frank B. Hower, Jr.	Chairman of the Board and Chief Executive Officer, Liberty National Bank and Trust Company, Louisville, Kentucky	1983
R.I. Kerr, Jr.	Chairman of the Board, President, and Chief Executive Officer, Great Financial Federal, Louisville, Kentucky	1984

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		Term expires Dec. 31
John E. Darnell, Jr.	Chairman of the Board, The Owensboro National Bank, Owensboro, Kentucky	1984
Allan S. Hanks	President, Anderson National Bank, Lawrenceburg, Kentucky	1985

Appointed by Board of Governors

William C. Ballard, Jr.	Executive Vice President-Finance and Administration, Humana, Inc., Louisville, Kentucky	1983
Sister Eileen M. Egan	President, Spalding College, Louisville, Kentucky	1984
Henry F. Frigon	President, BATUS, Inc., Louisville, Kentucky	1985

MEMPHIS BRANCH

Appointed by Federal Reserve Bank

Wayne W. Pyeatt	President, Memphis Fire Insurance Company, Memphis, Tennessee	1983
Edgar H. Bailey	Chairman and President, Leader Federal Savings and Loan Association, Memphis, Tennessee	1984
William M. Matthews, Jr.	Chairman of the Board and Chief Executive Officer, Union Planters National Bank of Memphis, Memphis, Tennessee	1984
William H. Brandon, Jr.	President, First National Bank of Phillips County, Helena, Arkansas	1985

Appointed by Board of Governors

Donald B. Weis	President, Tamak Transportation Corp., West Memphis, Arkansas	1983
G. Rives Neblett	Attorney, Neblett, Bobo & Chapman, Shelby, Mississippi	1984
Patricia W. Shaw	President, Universal Life Insurance Company, Memphis, Tennessee	1985

District 9—MINNEAPOLIS

Class A

Vern A. Marquardt	President, Commercial National Bank of L'Anse, L'Anse, Michigan	1983
Dale W. Fern	President and Chairman of the Board, The First National Bank of Baldwin, Baldwin, Wisconsin	1984
Curtis W. Kuehn	President, The First National Bank in Sioux Falls, Sioux Falls, South Dakota	1985

Class B

Harold F. Zigmund	Chairman, Blandin Paper Company, Grand Rapids, Minnesota	1983

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		Term expires Dec. 31
William L. Mathers	President, Mathers Land Co., Inc., Miles City, Montana	1984
Richard L. Falconer	District Manager, Northwestern Bell, Bismarck, North Dakota	1985

Class C

John B. Davis, Jr.	President, Macalester College, St. Paul, Minnesota	1983
William G. Phillips	Chairman and Chief Executive Officer, International Multifoods, Minneapolis, Minnesota	1984
Sister Generose Gervais	Administrator, St. Mary's Hospital, Rochester, Minnesota	1985

HELENA BRANCH

Appointed by Federal Reserve Bank

Roger H. Ulrich	President, The First State Bank of Malta, Malta, Montana	1983
Harry W. Newlon	President, First National Bank, Bozeman, Montana	1984
Seabrook Pates	President and Chief Executive Officer, Midland Implement Co., Inc., Billings, Montana	1984

Appointed by Board of Governors

Gene J. Etchart	Past President, Hinsdale Livestock Company, Glasgow, Montana	1983
Ernest B. Corrick	Vice President and General Manager, Champion International Corporation, Timberlands-Rocky Mountain Operation, Missoula, Montana	1984

District 10—KANSAS CITY

Class A

Wayne D. Angell	Chairman of the Board, First State Bank, Pleasanton, Kansas	1983
John D. Woods	Chairman and Chief Executive Officer, The Omaha National Bank, Omaha, Nebraska	1984
Howard K. Loomis	President, The Peoples Bank, Pratt, Kansas	1985

Class B

James G. Harlow, Jr.	Chairman of the Board and President, Oklahoma Gas and Electric Co., Oklahoma City, Oklahoma	1983
Duane C. Acker	President, Kansas State University, Manhattan, Kansas	1984
Charles C. Gates	President and Chairman of the Board, Gates Corporation, Denver, Colorado	1985

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Class C		Term expires Dec. 31
John F. Anderson	Consultant to the President, Farmland Industries, Inc., Liberty, Missouri	1983
Doris M. Drury	Professor of Economics, University of Denver, Englewood, Colorado	1984
Paul H. Henson	Chairman, United Telecommunications, Inc., Kansas City, Missouri	1985

DENVER BRANCH

Appointed by Federal Reserve Bank		
Delano E. Scott	Chairman, IntraWest Bank of Steamboat Springs, N.A., Steamboat Springs, Colorado	1983
Kenneth C. Naramore	Chairman of the Board and Chief Executive Officer, Stockmen's Bank & Trust Company, Gillette, Wyoming	1983
Donald D. Hoffman	Chairman and Chief Executive Officer, Central Bank of Denver, Denver, Colorado	1984
George S. Jenks	President and Chief Executive Officer, First New Mexico Bancshare Corporation, Albuquerque, New Mexico	1985

Appointed by Board of Governors		
Ralph F. Cox	Executive Vice President, Atlantic Richfield Company, Denver, Colorado	1983
James E. Nielson	President and Chief Executive Officer, JN Incorporated, Cody, Wyoming	1984
Alvin F. Grospiron	Denver, Colorado	1985

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank		
William H. Crawford	President and Chief Executive Officer, First National Bank and Trust Company, Frederick, Oklahoma	1983
Marcus R. Tower	Vice Chairman of the Board and Chairman of the Credit Policy Committee, Bank of Oklahoma, N.A., Tulsa, Oklahoma	1984
William O. Alexander	President and Chief Executive Officer, Continental Federal Savings & Loan Association, Oklahoma City, Oklahoma	1984

Appointed by Board of Governors		
Christine H. Anthony	Oklahoma City, Oklahoma	1983
Samuel R. Noble	Chairman of the Board, Noble Affiliates, Inc., Ardmore, Oklahoma	1984

OMAHA BRANCH

Appointed by Federal Reserve Bank		
Joseph J. Huckfeldt	Chairman of the Board, Gering National Bank and Trust Company, Gering, Nebraska	1983

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		Term expires Dec. 31
William W. Cook, Jr.	President, Beatrice National Bank and Trust Company, Beatrice, Nebraska	1983
Donald J. Murphy	Director, United States National Bank of Omaha, Omaha, Nebraska	1984

Appointed by Board of Governors

Kenneth Morrison	President, Morrison-Quirk Grain Corporation, Hastings, Nebraska	1983
Robert G. Lueder	Chairman of the Board, Lueder Construction Company, Omaha, Nebraska	1984

District 11—DALLAS

Class A

Miles D. Wilson	Chairman of the Board and President, The First National Bank of Bellville, Bellville, Texas	1983
Lewis H. Bond	Chairman of the Board and Chief Executive Officer, Texas American Bancshares Inc., Fort Worth, Texas	1984
John P. Gilliam	Chairman of the Board and Chief Executive Officer, First National Bank in Valley Mills, Valley Mills, Texas	1985

Class B

Kent Gilbreath	Associate Dean, Hankamer School of Business, Baylor University, Waco, Texas	1983
J. Wayland Bennett	Professor of Agricultural Finance and Associate Dean, College of Agricultural Sciences, Texas Tech University, Lubbock, Texas	1984
Robert Ted Enloe III	President, Lomas & Nettleton Financial Corporation, Dallas, Texas	1985

Class C

John V. James	Chairman of the Executive Committee, Dresser Industries, Inc., Dallas Texas	1983
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Texas	1984
Robert D. Rogers	President, Texas Industries, Inc., Dallas, Texas	1985

EL PASO BRANCH

Appointed by Federal Reserve Bank

David L. Stone	President, The Portales National Bank, Portales, New Mexico	1983
Ernest M. Schur	Chairman of the Executive Committee, InterFirst Bank of Odessa, N.A., Odessa, Texas	1984
Gerald W. Thomas	President, New Mexico State University, Las Cruces, New Mexico	1984

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		Term expires Dec. 31
Stanley J. Jarmiolowski	Chairman of the Board and Chief Executive Officer, InterFirst Bank in El Paso, N.A., El Paso, Texas	1985

Appointed by Board of Governors

Chester J. Kesey	C.J. Kesey, Enterprises, Pecos, Texas	1983
Mary Carmen Saucedo	Associate Superintendent, Central Area, El Paso Independent School District, El Paso, Texas	1984
S. Lee Ware, Jr.	Ruidoso, New Mexico	1985

HOUSTON BRANCH

Appointed by Federal Reserve Bank

Raymond L. Britton	Professor of Law, University of Houston, Houston, Texas	1983
Ralph E. David	Chairman of the Board and Chief Executive Officer, Freeport, Texas	1984
Thomas B. McDade	Vice Chairman, Texas Commerce Bancshares, Inc., Houston, Texas	1984
Will E. Wilson	Chairman of the Board and Chief Executive Officer, First Security Bank of Beaumont, N.A., Beaumont, Texas	1985

Appointed by Board of Governors

Paul N. Howell	Chairman of the Board, Howell Corporation, Houston, Texas	1983
George V. Smith, Sr.	President, Smith Pipe & Supply, Inc., Houston, Texas	1984
Robert T. Sakowitz	Chairman of the Board and President, Sakowitz Inc., Houston, Texas	1985

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

John H. Garner	President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, Texas	1983
Charles E. Cheever, Jr.	Chairman of the Board, Broadway National Bank, San Antonio, Texas	1984
Joe D. Barbee	President and Chief Executive Officer, Barbee-Neuhaus Implement Company, Weslaco, Texas	1984
George Brannies	Chairman of the Board and President, The Mason National Bank, Mason, Texas	1985

Appointed by Board of Governors

Lawrence L. Crum	Professor of Banking and Finance, The University of Texas at Austin, Austin, Texas	1983
Carlos A. Zuniga	Partner, Zuniga Freight Services, Inc., Laredo, Texas	1984

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		Term expires Dec. 31
Robert F. McDermott	Chairman of the Board and President, United Services Automobile Association, San Antonio, Texas	1985

District 12—SAN FRANCISCO

Class A

Ole R. Mettler	President and Chairman of the Board, Farmers & Merchants Bank of Central California, Lodi, California	1983
Robert A. Young	Chairman of the Board and President, Northwest National Bank, Vancouver, Washington	1984
Spencer F. Eccles	Chairman, President, and Chief Executive Officer, First Security Corporation, Salt Lake City, Utah	1985

Class B

J.R. Vaughan	Senior Member, Richards, Watson, Dreyfuss & Gershon, Los Angeles, California	1983
George H. Weyerhaeuser	President and Chief Executive Officer, Weyerhaeuser Company, Tacoma, Washington	1984
Togo W. Tanaka	Chairman, Gramercy Enterprises, Inc., Los Angeles, California	1985

Class C

Fred W. Andrew	Chairman of the Board, President, and Chief Executive Officer, Superior Farming Company, Bakersfield, California	1983
Alan C. Furth	President, Southern Pacific Company, San Francisco, California	1984
Caroline L. Ahmanson	Chairman of the Board, Caroline Leonetti, Ltd., Hollywood, California	1985

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank

James D. McMahon	President and Chief Executive Officer, Western United National Bank, Encino, California	1983
Robert R. Dockson	Chairman and Chief Executive Officer, California Federal Savings, Los Angeles, California	1984
Bram Goldsmith	Chairman of the Board, City National Bank, Beverly Hills, California	1985
William L. Tooley	Managing Partner, Tooley and Company, Los Angeles, California	1985

Appointed by Board of Governors

Lola M. McAlpin-Grant	Attorney, Los Angeles, California	1983

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		Term expires Dec. 31
Bruce M. Schwaegler	President, Bullock's-Bullock's Wilshire, Los Angeles, California	1984
Thomas R. Brown, Jr.	Chairman and Chief Executive Officer, Burr-Brown Research Corporation, Tucson, Arizona	1985

PORTLAND BRANCH

Appointed by Federal Reserve Bank

William S. Naito	Vice President, Norcrest China Company, Portland, Oregon	1983
Jack W. Gustavel	President and Chief Executive Officer, The First National Bank of North Idaho, Coeur d'Alene, Idaho	1984
John A. Elorriaga	Chairman and Chief Executive Officer, United States National Bank of Oregon, Portland, Oregon	1984
Herman C. Bradley, Jr.	President and Chief Executive Officer, Tri-County Banking Company, Junction City, Oregon	1985

Appointed by Board of Governors

John C. Hampton	President, Willamina Lumber Company, Portland, Oregon	1983
Carolyn S. Chambers	Executive Vice President and Treasurer, Liberty Communications, Inc., Eugene, Oregon	1984
G. Johnny Parks	Northwest Regional Director, International Longshoremen's & Warehousemen's Union, Portland, Oregon	1985

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank

Albert C. Gianoli	President and Chairman of the Board, The First National Bank of Ely, Ely, Nevada	1983
Lela M. Ence	Executive Director, University of Utah Alumni Association, Salt Lake City, Utah	1984
John A. Dahlstrom	Chairman of the Board, Tracy-Collins Bank and Trust Company, Salt Lake City, Utah	1985
Fred C. Humphreys	President and Chief Executive Officer, The Idaho First National Bank, Boise, Idaho	1985

Appointed by Board of Governors

J.L. Terteling	President, The Terteling Company, Inc., Boise, Idaho	1983
Wendell J. Ashton	Publisher, Deseret News, Salt Lake City, Utah	1984
David A. Nimkin	Executive Director, Salt Lake Neighborhood Housing Services, Inc., Salt Lake City, Utah	1985

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SEATTLE BRANCH		*Term expires Dec. 31*
Appointed by Federal Reserve Bank		
Lonnie G. Bailey	Executive Vice President and Chief Operating Officer, Farmers & Merchants Bank of Rockford, Spokane, Washington	1983
John N. Nordstrom	Co-Chairman of the Board, Nordstrom, Inc., Seattle, Washington	1984
G. Robert Truex, Jr.	Chairman, Rainier Bancorporation and Rainier National Bank, Seattle, Washington	1984
William W. Philip	Chairman, President, and Chief Executive Officer, Puget Sound Bancorp, Tacoma, Washington	1985
Appointed by Board of Governors		
Virginia L. Parks	Vice President for Finance, and Treasurer, Seattle University, Seattle, Washington	1983
John W. Ellis	President and Chief Executive Officer, Puget Sound Power & Light Company, Bellevue, Washington	1984
Byron I. Mallott	Chairman and Chief Executive Officer, Sealaksa Corporation, Juneau, Alaska	1985

NOTE. A complete list of directors who will serve during 1984 is scheduled to appear in the March 1984 issue of the *Federal Reserve Bulletin*.

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