71st Annual Report 1984

Board of Governors of the Federal Reserve System

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., June 21, 1985

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 Seventy-First Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1984.

Sincerely,

Paul A. Volcker, *Chairman*

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Part 1
Monetary Policy and the U.S. Economy in 1984

Introduction

Nineteen eighty-four was another year of substantial economic growth in the United States. Production and employment gains were large, making the expansion of the last two years the strongest cyclical upswing since the early 1950s. Moreover, the continued vigor of the economy was accompanied by signs of some further lowering of inflationary expectations. Aggregate price measures rose about 4 percent in 1984, about the same as during the two preceding years. While prices of services continued to rise 5 to 6 percent, prices of many goods were relatively flat, and underlying wage trends seemed to be moderating.

Among the monetary and credit aggregates, growth rates of M1 and M2 were well within the target ranges established by the Federal Reserve, but growth rates of M3 and domestic nonfinancial debt exceeded their ranges. Credit growth in 1984 was the most rapid on record and much larger relative to the expansion of gross national product than historical trends would have suggested.

The strong gains in overall activity during the year drew attention away from a number of continuing problems, but those problems are nonetheless real and serious. The overall rate of unemployment is still uncomfortably high, and joblessness among certain groups—for example, teenagers and blacks—remains well above the average. Sectors of the economy facing intense competition from abroad, such as agriculture and certain mining and manufacturing industries, have not participated in the rapid economic expansion and have been under strong financial stress. Strains also remain evident among financial institutions: the quality of loan portfolios at some depository institutions has deteriorated, and the earnings of thrift institutions remain constrained by low-yielding assets accumulated in earlier years. Although it was not an impediment to economic expansion in 1984, the exceptionally rapid growth in credit has meant that many households and businesses have accumulated substantial indebtedness, often in short-term or variable-rate forms that make borrowers especially vulnerable to unexpected economic developments.

Many of the problems afflicting particular industries have causes and complications that, at least in part, must be handled in direct and specific ways. But it is also evident that the enormous imbalances in our federal fiscal posture and in our trade and current account positions have aggravated the problems and made constructive solutions to them much more difficult. In an expanding economy requiring additional private credit, the need to finance the large federal deficits has contributed to the pressures that have held real interest rates at historically high levels. The failure to deal with budgetary deficits also has sustained doubts in the minds of

NOTE. This discussion of economic and financial developments in 1984 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 1985).

the public about the ability of the government to continue to curb inflation over the long run.

The large federal deficits are mirrored in our external imbalance. The comparatively high real rates of return offered on dollar-denominated assets have attracted many foreign investors, and U.S. lending abroad has been reduced. Other forces stimulating capital inflows have been at work as well, including political and economic uncertainties in other countries and the relative stability and vigor of our economy. The shift in capital flows has supplemented domestic saving and helped finance the federal government deficit and private investment. But, at the same time, the strong demand for the dollar has driven its value on foreign exchange markets to extremely high levels. As the dollar has appreciated, the demand for our exports has suffered and our purchases of imported goods have increased dramatically; the result has been strong competitive pressures in a number of sectors and calls for protectionist measures. Moreover, the sizable capital inflows have led to mounting financial claims of foreigners that the nation must be prepared to deal with in future years through reducing imports or increasing exports, either of which will lower domestic consumption.

The Economy in 1984

The economy recorded major gains in 1984, with real gross national product up nearly 6 percent and the unemployment rate down more than 1 percentage point over the year. The growth in output and employment was exceptionally strong in comparison with other expansions since the Korean War. But even more striking was the great rise in domestic spending, which again outstripped growth in domestic production. Over the course of the year such spending rose about 6½ percent in real terms. Consumers and businesses purchased greatly increased quantities of imported goods, whose relative prices were lowered by the appreciation of the dollar in exchange markets, and the U.S. trade deficit reached record proportions.

Economic growth was extraordinarily rapid in the first half of 1984 and then slowed abruptly at about midyear. Although some slowing was widely anticipated, the abruptness of the change raised questions about the continuing strength of expansionary forces. However, during the last few months of the year, output and employment were clearly rising, though at a more moderate pace than earlier in the year.

The economic gains in 1984 were achieved without a pickup in inflationary pressures, partly because of the rise in the exchange value of the dollar. Ample availability of industrial capacity here and abroad helped to contain price increases. Labor cost pressures also were limited, as wage increases were slightly smaller than a year earlier. Labor markets continued to reflect the still considerable unemployment in the economy as well as the adjustments of wages in some sectors to the realities of forces associated with deregulation and foreign competition. Wage changes also reflected the favorable feedback effect of lower inflation on anticipatory or catch-up pay demands. Finally, moderately rapid increases in nonfarm business productivity helped to hold unit labor costs to only a modest rise.

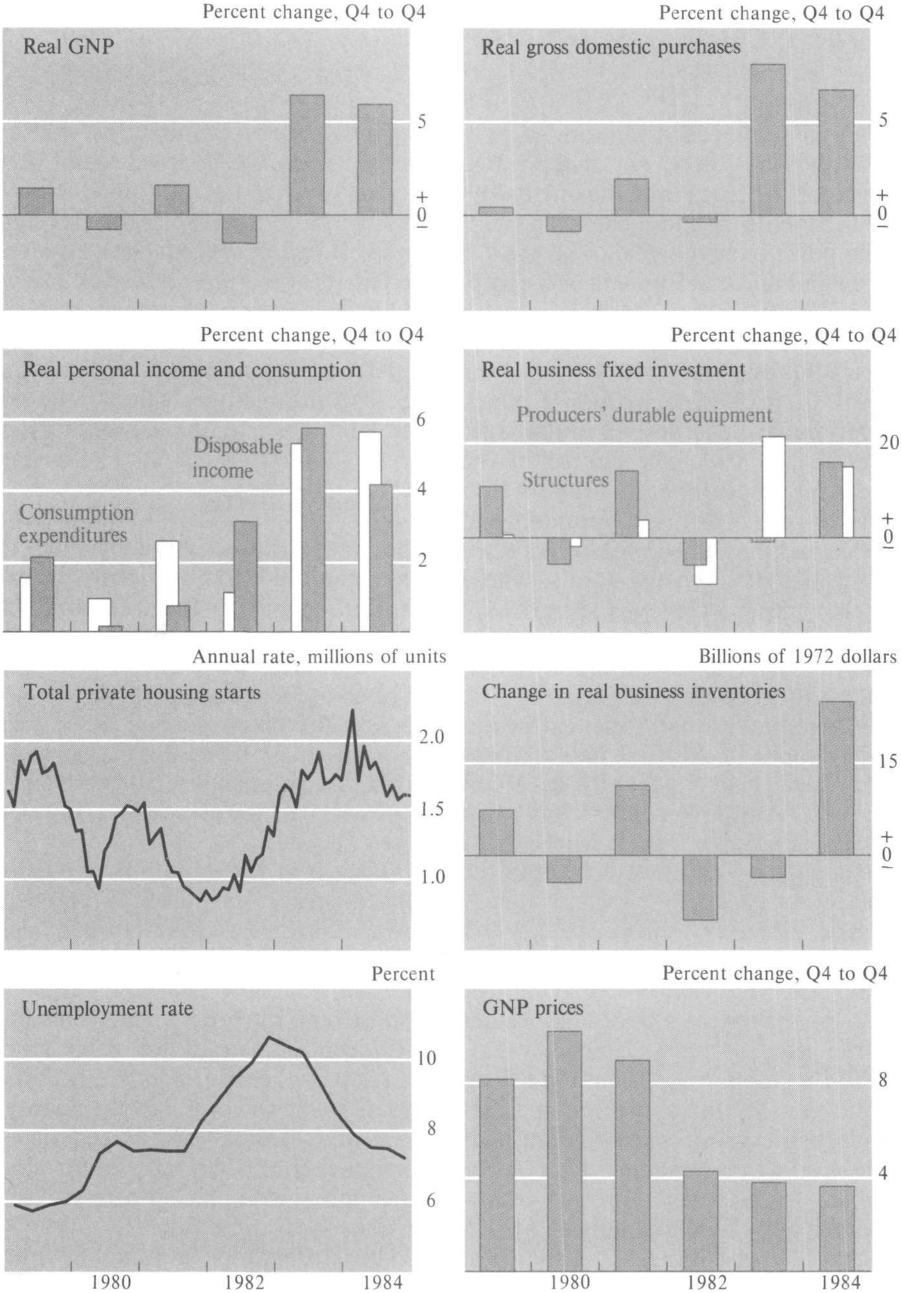
Household Sector

The household sector continued to benefit in 1984 from the economic expansion. Adjusted for inflation, the rise in disposable income from the fourth quarter of 1983 to the fourth quarter of 1984 was 5½ percent, surpassing the large gain in 1983. This strong increase in income supported a rapid rise in spending for consumer goods even as the personal saving rate rose.

Outlays by the household sector in this expansion have been tilted more toward durable goods than has been typical. In the 1980–82 period, a time of relatively slow growth in income and of high unemployment, consumers curtailed their discretionary purchases of household goods. Since the end of 1982, however, strong employment and income growth and rising consumer confidence have been translated into an appreciable restocking of household durables.

The strength of automobile purchases in 1984 was a part of this restocking process. As the stock of existing autos has aged, replacement demand has grown, and recent reduc-

Indicators of Economic Performance



All data are seasonally adjusted, and those that involve dollar amounts are in 1972 dollars. The unemployment data are from the U.S. Department of Labor; the other data are from the U.S. Department of Commerce.

tions in gasoline prices have lowered operating costs. Automobile sales in 1984 rose to 10½ million units, the highest level since 1979. The foreign share of the market shrank, largely because of limitations on Japanese imports during a period of expanding sales. Indeed, demand for domestic autos proved so strong that producers had difficulty in supplying many of the more popular models, even though auto companies operated some factories at nearly full capacity over most of the year. Total auto production was up 14 percent from the preceding year despite brief strikes in the autumn.

Spending for new homes slowed over the course of 1984; rising mortgage interest rates through midyear were a factor reducing housing activity. However, declines in interest rates during the fall led to some signs of improvement in the housing sector at year-end. From the fourth quarter of 1983 to the fourth quarter of 1984, residential construction outlays were up 2½ percent in real terms after an extremely rapid advance in 1983. For 1984 as a whole, 1.7 million new housing units were started; this was below the peak rates in the 1970s but a marked improvement over the performance of the first years of the 1980s, as housing demand continued to be supported by favorable demographic factors and expanding incomes. Moreover, relatively stable house prices and the growing use of adjustable-rate mortgages made home purchases more attainable for many households.

Business Sector

Business spending for plant and equipment increased more in 1984 than in 1983. In fact, the rise in gross capital outlays by business over these two years combined was much larger than that in any other economic expansion since World War II. Profits in the nonfinancial corporate sector were up substantially in 1984, although by year-end the level had fallen back a bit because of the slowing in sales growth.

Expansion in business spending for fixed investment was strongest in the first half of the year but continued at close to a double-digit pace in real terms in the second half. For the year as a whole, outlays on both equipment and structures showed large gains. The vigor of total spending reflected several factors, including the more favorable tax laws enacted in 1981, the desire to take advantage of technological advances, and the further narrowing of the margin of unused factory capacity stemming from strong growth in demand. Continued competitive pressure from foreign producers provided additional impetus for rapid modernization. At the same time, many U.S. producers of capital equipment, especially those outside the high-technology area, did not benefit fully from this spending. Instead, foreign manufacturers captured an increasing share of capital goods purchased by U.S. firms; for equipment, this share—approximately 25 percent—was nearly twice that of the late 1970s.

Business accumulated inventories in 1984 after reducing stocks in the preceding two years. In real terms, business inventories rose $25 billion. The buildup of stocks was especially large in the first half of the year, when the expansion of final demand was especially rapid. When sales growth slackened in the summer and autumn, businesses quickly cut back on orders and production to avoid severe imbalances.

Some of the nation's basic industries remained under marked financial strains, in many cases related to the high exchange value of the dollar. Farmers continued to face less favorable export conditions in 1984 than in much of the previous decade, land prices fell further on average, and farm income remained depressed. As a result, farmers with large debts remaining from the late 1970s continued to face serious debt-servicing problems. The metals and agricultural implement industries and some other equipment industries also still had significant financial problems.

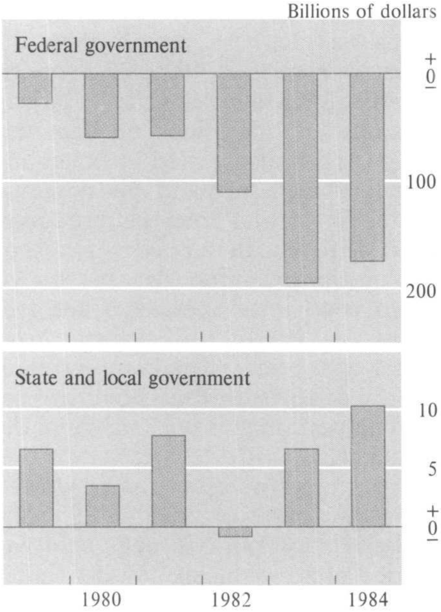
Government Sector

The expanding economy lifted federal government receipts in 1984. At the same time, growth in outlays was limited by further declines in recession-related expenditures and by a drop in agricultural support payments. Nonetheless, the federal budget deficit remained enormous, nearly 5 percent of GNP and larger than total domestic personal saving. Moreover, at the end of the year the deficit was again rising.

Federal government purchases of goods and services, the component of the budget that directly adds to GNP and accounts for about a third of total federal outlays, rose strongly last year. Excluding changes in farm inventories held by the Commodity Credit Corporation, federal purchases were up 5¾ percent after adjustment for inflation. A major addition to federal purchases came from defense spending, which increased 7 percent in real terms.

At the state and local government level, real purchases of goods and services rose 3 percent in 1984 after two years of no change. The renewed growth in such spending followed an appreciable improvement in the fiscal position of state and local governments. These units had a sizable operating and capital surplus in 1983 and early 1984 owing to the economic recovery as well as to increases in tax rates.

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.

Foreign Sector

The appreciation of the dollar over the last four years contributed directly to the imbalance between exports and imports in 1984. On a trade-weighted average basis, the dollar climbed a further 12 percent during the course of the year, bringing the cumulative appreciation since the end of 1980 to 68 percent. The relative dynamism of the U.S. economy and success in curbing inflation helped attract capital from abroad. At the same time, the relatively slow economic growth elsewhere, together with economic and political uncertainties in various countries, also may have contributed to the dollar's appreciation throughout the year.

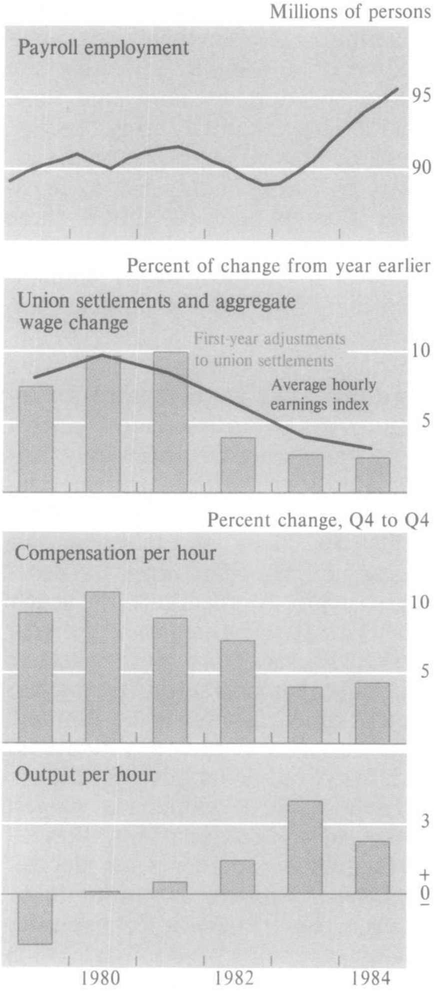
Notwithstanding a further weakening of the international competitive position of U.S. firms owing to the dollar's appreciation, and despite the sluggishness of foreign economies, the volume of U.S. merchandise exports increased 9 percent in 1984. Economic growth in many developing countries, oil producers as well as others, was limited by their debt-servicing problems, and demand by those countries for U.S.-produced goods remained generally depressed.

The vigorous expansion of the U.S. economy and the strength of the dollar pushed the volume of merchandise imports sharply higher. Consumer goods, materials, and capital equipment all shared in the increase, and the 1984 merchandise trade deficit rose to about $110 billion. In addition to the growing trade deficit, net service receipts were reduced and the current account deficit, which was $42 billion in 1983, reached about $100 billion in 1984.

Labor Markets

Developments in labor markets continued to be favorable during the second year of expansion. Reflecting the strength of activity and improved employment prospects, growth of the labor force picked up in 1984. But the number of new jobs expanded even more rapidly, and the unemployment rate was 7.2 percent in the fourth quarter, more than 1 percentage point below the rate for the fourth quarter of 1983. Indeed, since the recession low in late 1982, nonfarm payroll

Labor Market Conditions



Payroll employment covers the total nonfarm sector; union settlements cover union contracts of 1,000 or more workers in private industry; the average hourly earnings index covers production and nonsupervisory workers in the private nonfarm sector; and hourly compensation and output cover the nonfarm business sector. All data are from the U.S. Department of Labor.

employment has increased by nearly 7 million.

In 1984, employment growth continued to be widespread across industries. The trade and service sectors each added more than 1 million jobs, and construction employment also showed a gain, in large part because of a rise in nonresidential building. Government employment was up a quarter of a million, reflecting the rise in spending by state and local units. The manufacturing sector, which has borne the brunt of the increase in foreign competition, registered a large gain of almost three quarters of a million in 1984; even so, the level of manufacturing employment remained below its prerecession peak.

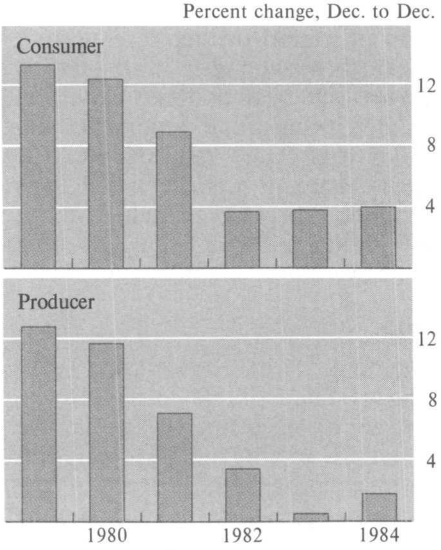
Wage developments in 1984 were more favorable to the control of inflation; even though labor market slack was reduced substantially further during the year, wage rates increased less than in 1983. The employment cost index, a comprehensive measure of change in wages and benefits, rose just 4 percent in 1984, nearly 1 percentage point less than the year earlier. Moreover, major collective bargaining agreements during the year showed no acceleration in nominal wage rates, even in those industries with improved economic conditions.

These wage developments suggest continued moderation of inflation expectations; to an increasing degree, workers and managers appear to be focusing on improving job security and on enhancing productivity, often in an attempt to remain competitive with foreign producers. Productivity increases in 1984 were substantial in the first half of the year, when output grew rapidly, and they helped restrain overall cost pressures. Over the course of the year, labor productivity in the nonfarm business sector increased 2½ percent, in part reflecting a cyclical adjustment to higher levels of output and apparently some improvement in the underlying trend rate of growth from the very slow pace of the 1970s. The combination of moderate increases in compensation and favorable developments in productivity held down cost pressures on prices; unit labor costs rose somewhat less than 2 percent over 1984, less than a fifth of the rate in 1979 and 1980.

Prices

During 1984, the consumer price index rose 4 percent, and the implicit GNP deflator rose 3½ percent. The increases in these broad indexes represent little change from inflation rates that have prevailed since the beginning of the expansion. The producer price index for finished goods, which excludes the prices of services, rose less than 2 percent last year; basic

Prices



The data are from the U.S. Department of Labor.

commodity prices, which had advanced more than 30 percent early in 1983, fell during most of 1984.

The relative softness of demand in world markets and the strength of the dollar against foreign currencies played a large role last year in holding down prices of basic commodities. Energy prices in particular, which have been a major factor in overall inflation for more than a decade, moved down. Since 1981 the weakness of world demand, together with conservation measures and additions to oil production capacity in many countries, has restrained energy prices.

Food prices at the retail level rose about in line with overall prices in 1984. Early in the year, food prices jumped sharply because farm supplies were limited by the 1983 summer drought and a winter freeze. However, with more favorable harvests and sagging export volume, supplies again became plentiful as the year progressed.

The increase in consumer prices other than food and energy was little changed from a year earlier. Prices of services rose more rapidly in 1984 than in 1983, although the rate of inflation in the sector remained well below the rates recorded in the early 1980s. The rise in consumer goods prices slowed appreciably, in part because of the relatively small increase in prices of imported goods and the accompanying competitive pressures on domestic products.

Monetary Policy and Financial Markets

Monetary policy in 1984 aimed at supporting sustainable economic growth within the context of long-term progress toward price stability. The target growth ranges chosen for the monetary and credit aggregates by the Federal Open Market Committee in February 1984 and reaffirmed in July were ½ to 1 percentage point below those set for 1983. Measured from the fourth quarter of 1983 through the fourth quarter of 1984, the ranges for the monetary aggregates were 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. The associated monitoring range for total debt of the domestic nonfinancial sector was fixed at 8 to 11 percent.

Underlying these objectives was the Committee's expectation that the special factors distorting monetary growth rates in 1982 and 1983 would be less important in 1984 and that relationships among the monetary aggregates —particularly M1—and economic activity and inflation would be more consistent with historical trends and cyclical patterns. Portfolio adjustments associated with the introduction of new deposit accounts and with the steep drop in interest rates during the 1982 recession appeared to have ended. Furthermore, the economic expansion seemed to be reducing uncertainties about employment and income prospects that earlier had boosted demands for liquid precautionary balances.

Over the year, the evidence increasingly suggested that M1 was in fact behaving more in line with historical experience. As a result, this aggregate was given more weight in policy implementation than had been the case during the latter part of the cyclical downswing and early phase of the economic recovery. However, all of the monetary and credit measures continued to be evaluated in light of the outlook for the economy and for domestic and international financial markets.

Monetary Aggregates

The actual growth rate of M1 over 1984 was 5.2 percent, somewhat below the midpoint of the target range, and M2 increased 7.7 percent, a bit above the midpoint of its range. Growth of M3, however, at 10.5 percent, exceeded its range.[1] The relatively wide divergence between the growth rates for M2 and M3 reflected mainly the substantial issuance of large certificates of deposit (CDs) and other managed liabilities by thrift institutions and commercial banks, which faced heavy credit demands.

The behavior of M1 velocity in 1984 was broadly consistent with past cyclical patterns. In contrast to its unusual weakness in the previous two years, the velocity of M1 increased 4 percent over 1984, a little above the average rate of growth during the second year of previous economic expansions. The velocity of M2 increased 1½ percent, reversing two consecutive yearly declines. The strengthening of velocity over 1984 apparently reflected, in

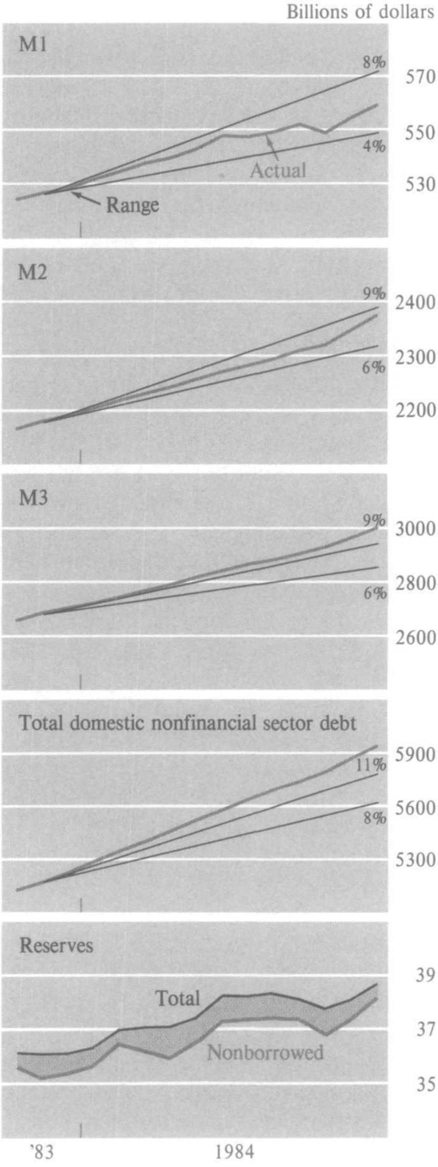
[1] The figures cited for the monetary aggregates are based on revisions in benchmarks and in seasonal adjustment factors early in 1985. Before those revisions, the 1984 increases were measured at 5.0 percent for M1, 7.5 percent for M2, and 9.9 percent for M3.

part, some unwinding of the precautionary and other motives that had swelled demands for liquid assets in 1982 and early 1983; it also appears to have reflected the rise of short-term interest rates in the first part of the year and, in the case of M2, the abatement of the dramatic inflows to money market deposit accounts that had been associated with the initial authorization of these accounts.

Demands for M1 balances and for bank reserves to support deposit growth were robust early in the year as the economy expanded rapidly. Credit demands also were very strong, and market interest rates began rising even as the Federal Reserve through open market operations was keeping the degree of pressure on bank reserve positions unchanged. In early spring, with credit and money demands continuing unabated,[2] and with economic growth continuing at an extraordinary pace, the FOMC adopted a posture of somewhat greater restraint toward supplying reserves, and both short- and long-term interest rates rose further as banks relied more heavily on credit at the discount window to meet their reserve needs. Borrowing for adjustment and seasonal purposes increased to about $1 billion in March and April after averaging about $650 million during the first two months of the year. In April the discount rate was raised ½ percentage point, to 9 percent, to bring it into better alignment with short-term market rates.

Despite the absence of any further tightening of reserve availability by the Federal Reserve, pressures on pri-

Monetary Aggregates, Nonfinancial Sector Debt, and Reserves



The ranges adopted by the FOMC for the monetary aggregates and for total debt of the domestic nonfinancial sector were for the period from 1983:4 to 1984:4.

The reserve aggregates have been adjusted to remove discontinuities associated with changes in reserve requirements. Nonborrowed reserves include extended credit. The shaded area is adjustment and seasonal borrowing, excluding borrowing by Continental Illinois Bank beginning in May 1984.

[2] Annual seasonal and benchmark revisions to the monetary aggregates subsequently lowered somewhat the growth of M1 in the first half of 1984 relative to what was estimated during the period.

vate short-term interest rates intensified around early May in reaction to the well-publicized liquidity problems of Continental Illinois Bank.[3] Uncertainties related to the international debt situation also added to market concerns. In this environment, quality differentials between yields on private money market instruments and Treasury securities widened substantially.

While growth of M1 early in the year remained in the upper part of the FOMC's target range, M2 increased at a pace slightly below the midpoint of its range even as the economy expanded rapidly. Growth of M2 relative to income may have been damped by substantial inflows to individual retirement accounts and Keogh accounts, which are excluded from the monetary aggregates. Also, as market interest rates firmed, sizable spreads developed between these rates and yields on retail deposits and money market mutual funds, probably encouraging some investors to place funds directly in credit market instruments. Meanwhile, M3 pushed above its longer-run range as banks and thrift institutions issued large CDs and other managed liabilities to accommodate rapidly rising credit demands.

After midyear, and particularly during the summer, economic expansion slowed markedly, tending to reduce transaction demands for money. Growth of M3, though remaining somewhat above the upper limit of its range, also moderated as demands for short-term business credit slackened and as some banks adopted more cautious lending and funding policies in light of the strains on financial markets.

Initially, the slowing in M1 was not resisted, because it reversed a spurt that had brought M1 growth well above the midpoint of the FOMC's target range. However, by late August and early September, with evidence of much slower economic growth, financial tensions high, and the dollar rising rapidly on foreign exchange markets, the Federal Reserve moved to lessen the degree of restraint on bank reserve positions. That process continued through much of the rest of the year. Borrowing at the discount window receded, reaching levels of about $575 million by late 1984. Total reserves and nonborrowed reserves, which had shown little expansion since June, increased markedly in the final two months of the year.

Mirroring the easing of reserve market conditions, short-term interest rates dropped considerably from their late-summer highs. Moreover, quality spreads on various money market instruments returned to normal ranges as the Continental Illinois Bank problem remained tractable and progress was made in Latin American debt negotiations. Responding to the provision of reserves and the reduced rates on alternative outlets for liquid funds, M1-type balances rose rather sharply in late 1984. Growth of M2 also was very rapid as open market interest rates fell below average yields on money market deposit accounts, small-denomination time deposits, and money market mutual fund shares.

The easing in financial markets during the second half of 1984 was reflected in, and to an extent en-

[3] Large borrowing at the discount window by Continental Illinois Bank, beginning in May, was offset in terms of its impact on overall reserve supplies through open market operations.

Reserves, Money Stock, and Debt Aggregates

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

Item	1982	1983	1984	1983	1984			
				Q4	Q1	Q2	Q3	Q4
Depository institution reserves[2]								
Total	6.1	6.5	5.7	.8	7.7	8.6	6.8	−.7
Nonborrowed	7.0	5.9	−4.8	8.2	9.0	−10.8	−44.6	30.7
Required	5.7	6.3	5.3	.3	5.3	10.3	6.6	−1.5
Monetary base[3]	7.6	9.3	7.1	7.8	9.5	7.0	7.2	3.9
Concepts of money[4]								
M1	8.8	10.4	5.2	6.3	6.2	6.5	4.5	3.4
Currency and travelers checks	8.2	10.4	7.2	10.8	8.2	7.5	7.3	5.0
Demand deposits	.9	2.7	1.1	−.5	2.0	3.3	.3	−1.0
Other checkable deposits	34.0	28.5	10.7	14.3	11.7	11.3	9.0	9.1
M2	9.1	12.2	7.7	8.4	7.2	7.1	6.8	9.0
Non-M1 component	9.3	12.8	8.5	9.0	7.5	7.2	7.6	10.8
MMDAs (n.s.a.), savings, and small-denomination time deposits	6.2	18.1	7.6	8.0	8.2	8.9	4.8	7.9
General-purpose and broker/dealer money market mutual fund assets (n.s.a.)	31.1	−26.3	17.2	−1.2	9.8	15.5	10.6	29.1
Overnight RPs and Eurodollars (n.s.a.)	19.4	31.7	7.1	24.6	23.1	.7	2.8	1.4
M3	10.0	10.0	10.4	9.8	9.2	10.5	9.5	11.0
Non-M2 component	13.6	1.1	22.2	16.0	18.2	24.9	20.3	18.9
Large-denomination time deposits	10.1	−2.0	26.1	19.6	20.7	30.4	25.7	18.8
Institution-only money market mutual fund assets (n.s.a.)	46.7	−16.6	33.6	17.4	11.1	8.1	9.7	97.4
Large-denomination term RPs (n.s.a.)	−2.0	39.1	45.6	57.1	30.8	54.2	33.4	39.6
Term Eurodollars (n.s.a.)	21.3	8.2	−8.2	−10.0	5.4	7.1	−22.1	−23.0
Domestic nonfinancial sector debt	9.1	10.8	13.4	10.9	13.1	13.1	12.5	12.6
Federal	17.3	21.5	15.9	14.6	16.6	13.1	14.7	15.6
Nonfederal	7.2	8.0	12.7	9.9	12.1	13.1	11.8	11.7

[1] Changes are calculated from the average amounts outstanding in 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.

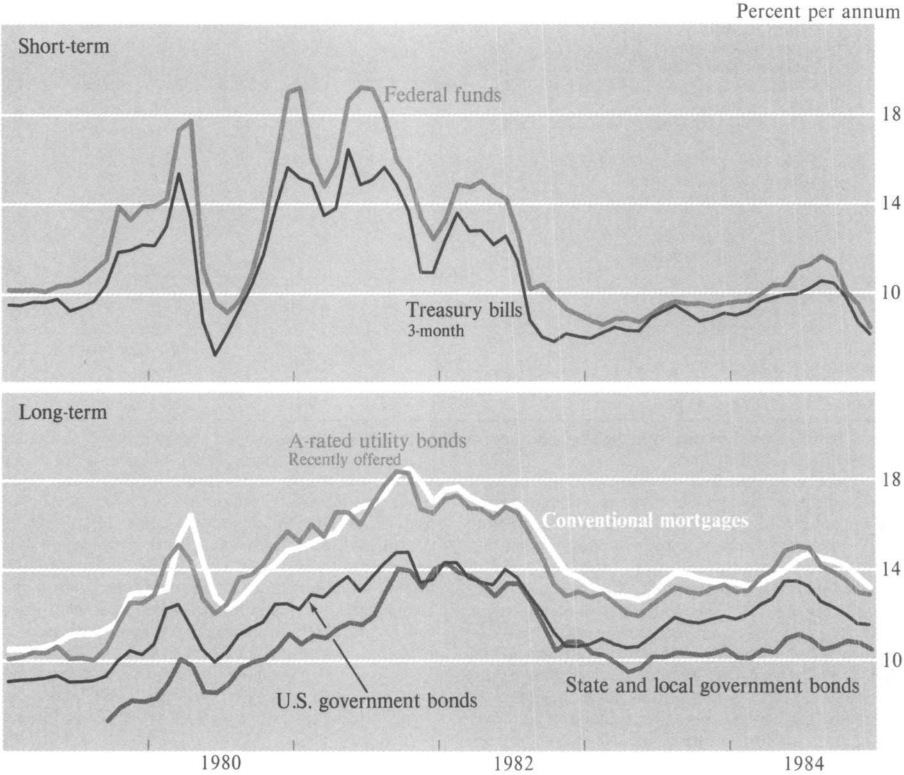
[3] The monetary base consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of 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, which 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 money market deposit accounts (MMDAs); savings and small-denomination time deposits at all depository institutions, including retail repurchase agreements (retail RPs), from which have been subtracted all individual retirement accounts (IRAs) and Keogh accounts at commercial banks and thrift institutions; taxable and tax-exempt general-purpose and broker/dealer money market mutual funds, excluding IRAs and Keogh accounts; overnight and continuing-contract RPs issued by commercial banks; and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide. M3 is M2 plus large-denomination time deposits at all depository institutions; assets of institution-only money market mutual funds; large-denomination term RPs issued by commercial banks and thrift institutions; and term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

couraged by, two reductions in the discount rate, first to 8½ percent in November and then to 8 percent in December. By year-end, short-term interest rates were 2½ to 3½ percentage points lower than they had been during the summer, ¾ to 1½ percentage points below their levels at the beginning of the year, and in some cases near their cyclical lows of early 1982.

Long-term interest rates also declined in the second half of the year, in part reflecting some moderation of inflationary expectations. But for the year as a whole, most long-term rates declined by less than ½ percentage point and remained above their earlier cyclical lows. The still relatively high level of long-term rates appears to be influenced by the continuing budgetary uncertainties, current strong demand for credit, and lingering, though lessened, fears of inflation.

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).

Aggregate Credit Flows

Total debt of the domestic nonfinancial sector increased 13.4 percent from the fourth quarter of 1983 to the fourth quarter of 1984, a rate outside the monitoring range of 8 to 11 percent. An unusually large volume of mergers and related activity involving nonfinancial corporations, including leveraged buyouts, accounted for about 1 percentage point of the growth of overall debt.

Even after allowing for the unusually large volume of merger-related borrowing, it is clear that total credit demands were exceptionally strong in 1984. Federal debt expansion, at nearly 16 percent, was unprecedented for the second year of an economic expansion, both in absolute terms and in relation to income. Federal government tax and spending policies have greatly stimulated aggregate demands for goods and services, but in credit markets the deficits have added strongly to the demands for funds and have been one important force keeping interest rates high. Total debt of domestic nonfinancial sectors other than the federal government grew about 11½ percent (abstracting from growth of merger-related debt issues), again a rate that was faster than, though much closer to, the rate at comparable stages of previous recoveries.

Businesses relied heavily on external sources of credit in 1984 to finance the increases in capital expenditures that outstripped the growth in internally generated funds. They favored shorter-term borrowing in the first half of 1984, as they elected to finance mergers initially through bank loans and commercial paper, and as high long-term interest rates discouraged bond issuance. In the second half of the year, merger financing slowed and the decline in interest rates contributed to some movement toward longer-term debt; however, the maturities of new issues tended to be much shorter than they had been in previous years, and many offerings carried provisions that essentially transformed these obligations into short-term or variable-rate debt.

Gross issuance of new equity in 1984 weakened as stock prices declined early in the year and then failed to surpass earlier highs when they rallied in the summer. Meanwhile, nonfinancial corporations liquidated about $75 billion of equity in the merger process, with much of it replaced, at least for a time, with short-term debt. In addition, they retired more than $10 billion of equity through share repurchases, frequently in defensive maneuvers to ward off unfriendly takeover attempts. After accounting for the retirement of equity associated with merger activity and share repurchases, the net issuance of stock was decidedly negative in 1984.

As a result of these financing patterns, the traditional balance-sheet ratios used to assess aggregate business financial strength worsened over the year: the ratio of loans and short-term paper to total debt of nonfinancial corporations rose, as did the ratio of debt to equity.

Growth of household indebtedness picked up noticeably last year, and consumer installment debt as a share of disposable income moved close to the peak set in the late 1970s. In the home mortgage sector, variable-rate instruments became increasingly popular. Adjustable-rate mortgages (ARMs) accounted for almost two-thirds of the number of conventional first mortgages originated at major institutions in 1984, up considerably from only one-quarter the previous year.

Thrift institutions, in particular, preferred to acquire ARMs rather than fixed-rate mortgages in an attempt to reduce their acute exposure to interest rate risk. The widespread acceptance of ARMs by consumers was attributable partly to substantial initial rate advantages offered on ARMs compared with fixed-rate mortgages, as well as to other features that limited borrower exposure to higher future interest payments, at least for several years. Large initial rate discounts became less prevalent after the adoption of somewhat tighter standards both for purchases by federal credit agencies and for the underwriting of ARMs by private mortgage insurers. Yet, despite both the shift toward ARMs during 1984 and increased consumer and business lending, the assets of thrift institutions remained heavily concentrated in instruments having relatively low yields.

The second year of strong growth in income and spending was accompanied by significant changes in household balance sheets. Late in 1983 and in the first half of 1984, financial assets declined relative to income primarily because of the sluggish performance of stock prices, and reversed a portion of the strong gains made earlier in the recovery. However, the subsequent rise in equity prices helped to restore household asset positions to their previous high levels.

Despite the rise in indebtedness, there were few signs of increased financial stress in the household sector. The incidence of payment difficulties on consumer installment debt remained historically low, and home mortgage delinquency rates were about unchanged for the year as a whole. Nonetheless, the proportion of problem loans in the home mortgage market has not receded from its recession high, and there is some special concern about prospects in this area owing to the added risk exposure of homeowners who took on mortgages carrying adjustable features, especially mortgages made with sizable initial concessions on interest rates. The sustained high level of mortgage loan delinquencies appears attributable not so much to adjustable-rate loans as to a combination of still high unemployment and real estate prices that have been more stable than some borrowers anticipated.

Borrowing by state and local governments in 1984 matched the strong 1983 volume. Financing activity in the municipal bond market was bolstered, in addition, by heavy issuance of industrial development bonds (IDBs). Tax-exempt offerings were relatively light over the first half of the year as authority to issue single-family housing revenue bonds lapsed and as the market anticipated the retroactive imposition of ceilings on the issuance of IDBs. But volume rebounded in early summer after passage of the Deficit Reduction Act, which reauthorized housing bonds and stimulated a flood of issues toward year-end to avoid stricter rules for IDBs and student loan bonds —effective January 1, 1985.

Foreign savings financed a large share of the domestic borrowing in 1984. Net inflows of capital from abroad were more than double the already advanced pace of 1983, thus supplementing domestic saving and enabling the massive federal deficits to be financed at the same time that private investment expanded rapidly. Banks continued to intermediate substantial amounts of these inflows, and sales of Eurobonds by U.S. corporations reached record levels. Direct investment in the United States also was very strong and included several large takeovers of domestic firms by foreign corporations.

With strong demands for business, real estate, and consumer loans, total loans at commercial banks grew more than 14 percent. Given only moderate inflows to core deposits in the face of this brisk growth in loans, commercial banks increased their outstanding CDs in 1984 by more than 13 percent, after having allowed a large volume of CDs to run off during 1983. Reflecting a wave of bank-financed mergers, credit growth at banks was especially rapid during the first half of last year. The bulk of the CD issuance was concentrated in this period and likely would have been even greater had not banks also borrowed heavily from their foreign offices. In the second half, loan expansion slackened appreciably, and growth in large time deposits tapered off, as some earlier merger-related loans were repaid with the proceeds from issuance of commercial paper and other debt obligations and from selective sales of assets of the merged companies.

Strains on some sectors of the economy, as well as the effects of overly aggressive lending policies by some institutions, continued to be reflected in relatively high levels of nonperforming and other troubled loans at a number of depository institutions. As the year wore on, there were signs of more forceful efforts to deal with these problems and their consequences. Loan-loss provisions were significantly increased, and steps were taken to correct weaknesses in credit standards. The largest bank holding companies generally improved their capital positions over the year, partly in response to supervisory guidelines that raised capital ratios. These approaches will take time to bear full fruit, and progress in strengthening balance sheets will depend on reasonable profitability as well as on developments external to the banking system. In that connection, the strains on agriculture, on heavily indebted foreign countries, and on some sectors of the energy industry pose continuing challenges.

International Developments

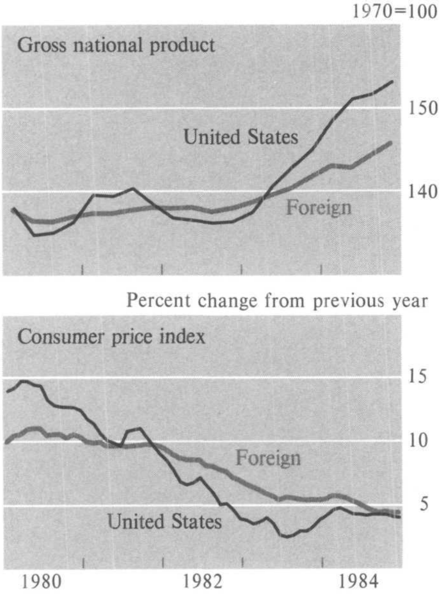
The year 1984 was marked by continued economic recovery in foreign industrial countries and a further reduction in their rate of inflation. During the year, the situation improved for several developing countries with large debts, but the adjustment process is far from complete.

Although stronger demand from abroad contributed to a 9 percent increase in the value of U.S. exports, the rapid growth in the U.S. economy and the lagged impact of the previous appreciation of the dollar resulted in a much larger increase in U.S. imports and a current account deficit of about $100 billion. Despite the improvement in economic performance abroad, the attractiveness of dollar assets and the strength of the U.S. economy led to a substantial net inflow of private capital into the United States and a further 12 percent appreciation of the dollar; this brought the dollar's trade-weighted appreciation since the fourth quarter of 1980 to 68 percent.

The pace of economic activity continued to vary considerably among the industrial countries. Japan, whose economy was stimulated by strong export demand from the United States and elsewhere, accounted for much of the average advance in the rate of real growth in foreign industrial countries in 1984. In West Germany and the United Kingdom, major strikes interrupted growth in real output. The metalworkers' strike in Germany, which lasted from May to July, caused a substantial drop in real gross domestic product during that period, but the growth of GDP during the subsequent months more than made up the loss. In the United Kingdom, where the coal miners' strike began in March and was not settled until early 1985, real output fell during the second quarter of the year but rose slowly through the second half.

The moderate pace of the recovery abroad was insufficient to reduce unemployment rates in foreign industrial countries. Unemployment rates in Canada, Germany, and Japan remained essentially unchanged from their very high levels at the end of 1983, while in France and the United

GNP and Prices



Foreign data are multilaterally weighted averages for 10 industrial countries, using 1972–76 total trade weights.

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

Kingdom unemployment rates rose. The high unemployment rates abroad, particularly in Europe, also reflect structural problems in labor markets.

The rate of inflation in foreign industrial countries declined somewhat further in 1984. The moderate pace of the recovery, idle capacity, and the softness in world commodity markets through much of the year all contributed to restraining price increases, despite the substantial depreciation, on average, of foreign currencies against the dollar. Growth of foreign monetary aggregates was held to stated targets in most cases. The main factors influencing fiscal policies abroad continued to be efforts to lessen the role of government in the economy and to reduce government deficits as a fraction of gross national product.

A counterpart to the increase in the U.S. current account deficit was the increase in the current account surpluses of several foreign industrial countries. Japan, where the current account surplus rose from approximately $20 billion to more than $30 billion, experienced the largest increase. In contrast, the German current account surplus rose only slightly and that of the United Kingdom declined, in part because of the effects of the miners' strike on the U.K. trade balance.

The external accounts of the developing countries in general continued to improve in 1984. Mexico, Venezuela, Yugoslavia, and Hungary registered current account surpluses last year; Brazil's deficit was essentially eliminated, and the deficits of several other countries were reduced. The progress by countries with large external debt was facilitated in many cases by significant increases in exports, particularly to the United States, and in most cases was accompanied by a recovery, or at least a slower rate of decline, of imports. Such developments, together with continued moderate capital inflows, contributed to sizable increases in the international reserves of some of these countries and to prospects of reduced demands for extraordinary external financing in the future. At the same time, some of those countries managed to achieve positive growth in their domestic economies, but they made only limited progress in reducing inflation.

Against this background of progress in debt management, several of the major borrowing countries have been able to move to a second phase in their adjustment and financing programs. One important element in this second phase has been the development of long-term or multiyear restructuring of outstanding debts on terms that presume stronger creditworthiness and that will allow debtor countries more confidence in planning for the future. Commercial banks have reached agreement in principle with Mexico and Venezuela on such arrangements; the banks have begun serious negotiations with Brazil and Yugoslavia; and the financing packages prepared by the banks for Argentina and the Philippines contain some longer-term elements.

However, developments in 1984 and the first months of 1985 show that, for many developing countries, the process of adjustment that began in 1982 is far from complete, particularly on the internal side. Continued progress depends on cooperation among borrowing countries, commercial banks, multilateral institutions, and creditor countries. A sustained recovery and resistance to protectionist pressures in industrial countries are also extremely important to the progress of these adjustment efforts, to which financial markets will remain sensitive.

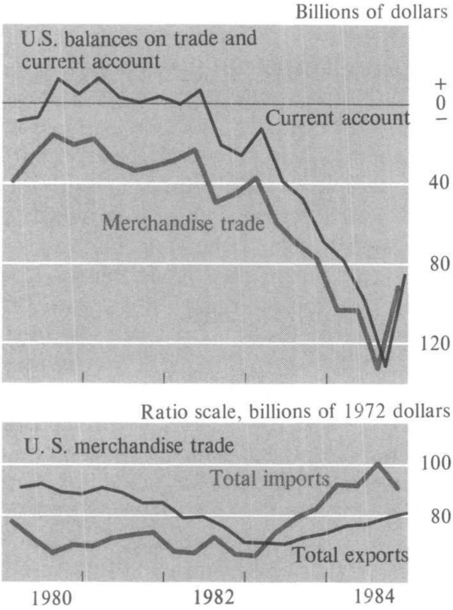
U.S. International Transactions

The U.S. merchandise trade and current account deficits continued to widen rapidly in 1984. A $20 billion increase in merchandise exports and an increase of about $70 billion in merchandise imports yielded a trade deficit of almost $110 billion, compared with about $60 billion in 1983. The current account deficit was about $100 billion, up from about $40 billion in 1983.

The expansion of exports in 1984 reflected largely the growth of volume and was concentrated in nonagricultural products. From 1983:4 to 1984:4, exports to developed countries expanded nearly 7 percent, mainly as a result of increased shipments to Canada. Part of the rise was in exports of automotive parts and other intermediate products destined to be assembled into finished goods and imported back into the United States. A rebound in shipments to Mexico was largely responsible for the increase of 10 percent from 1983:4 to 1984:4 in exports to developing countries.

As with exports, the expansion of imports in 1984 reflected predominantly volume growth, which was stimulated in large part by the expansion of the U.S. economy and the previous appreciation of the dollar. The volume of non-oil imports increased 12 percent from the fourth quarter of 1983 through the fourth quarter of 1984 and for 1984 as a whole was more than 25 percent greater than in 1983. The expansion of these imports was spread widely across commodity groups but was especially rapid for capital goods and consumer durables. The average price of non-oil imports was 2 percent higher in 1984:4 than in 1983:4. By area, most of the increase in non-oil imports came from developed countries; those from Latin America rose about $2½ billion, or 10 percent, fourth quarter to fourth quarter, and $5½ billion, or 25 percent, for the year as a whole. The volume of oil imports in 1984:4 was little changed from that in 1983:4, but the price per barrel was about 3 percent lower.

U.S. International Trade



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

Among the nontrade components of the current account, income from direct investment remained depressed in the face of a strong dollar and sluggish economic activity abroad, while net income from portfolio investments eroded further; as a result, net investment income declined about $5 billion in 1984. The balance from other services transactions declined by $6 billion.

The recorded $102 billion current account deficit for 1984 was balanced by recorded net capital inflows of $72 billion and a statistical discrepancy of $30 billion. The year-end outcome of recorded private capital transactions was a net inflow of $77 billion: net in flows reported by the banking offices located in the United States decreased somewhat further, to about $20 billion, while net inflows reported by other transactors rose sharply. To some extend, the shift in the composition of capital flows reflected the growing activities of intermediaries other than U.S. banks and the continued introduction of new financial instruments and markets. These devel-

U.S. International Transactions[1]

Billions of dollars, seasonally adjusted

Transaction	Year		Quarter				
	1983	1984[2]	1983	1984			
			Q4	Q1	Q2	Q3	Q4[2]
Current account	**−41.6**	**−101.6**	**−17.2**	**−19.7**	**−24.7**	**−33.6**	**−23.7**
Merchandise trade balance	−61.1	−107.4	−19.4	−25.8	−25.8	−32.9	−22.9
Exports	200.3	220.3	51.8	53.9	54.5	55.6	56.2
Imports	−261.3	−327.8	−71.2	−79.7	−80.4	−88.6	−79.1
Investment income (net)[3]	23.5	18.1	5.1	7.7	3.5	2.9	4.0
Other services (including military transactions)	4.6	−1.2	.2	.6	−.2	−.7	−.8
Unilateral transfers, private and government	−8.7	−11.2	−3.0	−2.1	−2.2	−2.9	−4.0
Private capital flows	**33.1**	**77.2**	**14.8**	**19.2**	**23.6**	**22.9**	**11.6**
Bank-reported capital, net (outflows, −)	23.7	20.2	14.1	10.7	.2	11.5	−2.1
U.S. net purchases (−) of foreign securities	−7.7	−4.8	−1.0	.6	−.8	−1.3	−3.3
Foreign net purchases (+) of U.S. Treasury securities	8.7	22.5	1.7	1.4	6.5	5.1	9.5
Foreign net purchases of U.S. corporate bonds	2.2	13.6	.7	.3	.6	2.6	10.1
Foreign net purchases of U.S. corporate stocks	6.4	−.6	.4	1.2	*	−1.0	−.8
U.S. direct investment abroad[3]	−4.9	−6.0	−1.6	−3.5	2.1	1.9	−6.4
Foreign direct investment in United States[3]	11.3	21.2	2.3	2.4	8.8	5.3	4.7
Other corporate capital flows, net	−6.7	11.1	−1.9	6.1	6.2	−1.1	n.a.
Foreign official assets in United States (increase, +)	**5.3**	**3.0**	**6.6**	**−2.8**	**−.3**	**−.8**	**7.0**
U.S. official reserve assets, net (increase, −)	**−1.2**	**−3.1**	**−1.0**	**−.7**	**−.6**	**−.8**	**−1.1**
Reserve position in IMF	−4.4	−1.0	−2.0	−.2	−.3	−.3	−.1
Convertible currencies and other reserve assets	3.2	−2.1	1.0	−.5	−.2	−.5	−1.0
U.S. government foreign credits and other claims, net	**−5.0**	**−5.5**	**−1.4**	**−2.0**	**−1.2**	**−1.4**	**−.7**
Seasonal adjustment discrepancy	...	...	**2.7**	**−.2**	**−.1**	**−2.4**	**2.7**
Statistical discrepancy	**9.3**	**30.0**	**−4.4**	**6.2**	**3.4**	**16.2**	**4.2**

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

[2] Data for the fourth quarter are preliminary.

[3] Includes reinvested earnings.

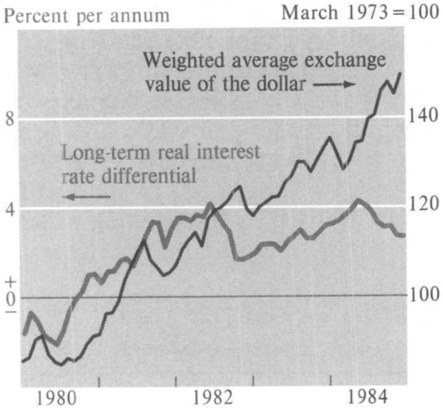
* Less than $50 million.

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

opments, in turn, were influenced by concerns about the capital adequacy of banks, the repeal of the withholding tax on interest payments to foreigners, the introduction of foreign-targeted securities by the U.S. Treasury and U.S. government agencies, and other tax and regulatory changes. In the United States, net purchases of foreign securities declined further in 1984; abroad, private net purchases of U.S. Treasury securities doubled from the 1983 level. Sales of Eurobonds by U.S. corporations also reached a record level during the year. In addition, foreign direct investment in the United States rose sharply; for the most part, however, this rise resulted not from spending on new plant and equipment in the United States but instead from several large takeovers and a shift in intracompany financial transactions.

Foreign official assets in the United States increased $3 billion in 1984, although reserve holdings by members of the Organization of Petroleum Exporting Countries declined about $8 billion. U.S. official reserve assets increased more than $3 billion: the U.S. reserve position in the International Monetary Fund rose $1 billion, and interest earnings contributed to an increase of about $2 billion in holdings of convertible currencies and other reserve assets. Other net claims by the U.S. government on foreigners, mainly credits to developing countries, increased more than $5 billion.

Weighted Average Exchange Value of the Dollar and Interest Rate Differential



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

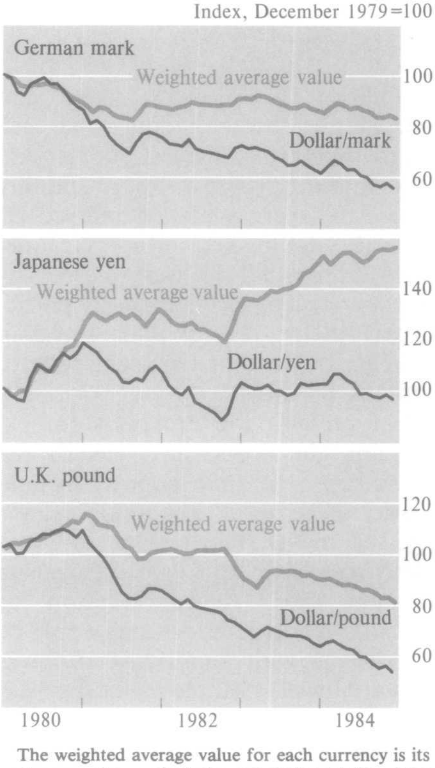
Differential is rates on long-term U.S. government or public authority bonds minus rates on comparable foreign securities, both adjusted for expected inflation estimated by a 36-month centered moving average of actual inflation or by staff forecasts where needed.

Foreign Currency Operations

In 1984, the trade-weighted average exchange value of the dollar continued to advance, gaining 12 percent from December 1983 to December 1984. The dollar rose against every major currency; its appreciation was nearly 6 percent against the Japanese yen and the Canadian dollar, about 13 percent against the German mark, and nearly 21 percent against the pound.

Very early in the year the dollar weakened somewhat as signs (later proved false) that the U.S. recovery was slowing pulled dollar interest rates down. When U.S. interest rates headed up in the early spring and M1 stayed well within its target ranges, the dollar moved up strongly; it continued to do so until late in the year, when concern arose again that the economy might be slowing down. Over the year as a whole, the dollar continued to be bolstered by the high level of real interest rates, an apparent downward revision in inflation expectations, and favorable prospects for investment in the U.S. economy. The view of the United States as a so-

Weighted Average Exchange Values and Dollar Exchange Rates



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.

called safe haven for investment probably also contributed to the dollar's strength. The general correlation between differentials in real long-term interest rates and the strength of the dollar is evident from the accompanying chart, though the mechanical proxy used to estimate inflation expectations may not fully capture short-run changes in those expectations.

The trade-weighted average value of the yen continued to rise in 1984; the mark showed a small overall depreciation, and the pound continued its steady depreciation of recent years.

Intervention transactions in exchange markets by major foreign central banks included net sales of about $2¼ billion in 1984. The United States intervened on eight days in 1984, mainly selling dollars to buy German marks. Net dollar sales by the United States amounted to $288 million, half of which was for the account of the Federal Reserve and half for the account of the U.S. Treasury's Exchange Stabilization Fund.

Holdings of foreign currencies by the Federal Reserve at year-end, essentially all of which consisted of German marks, Japanese yen, and Swiss francs, amounted to $3,597 million valued at year-end exchange rates. The valuation losses on these holdings, about $1,346 million for the year, reflected the appreciation of the dollar against these foreign currencies. In addition, the System realized a small loss, $18 million, on its 1984 interventions in exchange markets.

There were no drawings or repayments on the Federal Reserve Swap Network during 1984.

Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 7, 1984, and on July 25, 1984, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 7, 1984

The Outlook for the Economy in 1984

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. Although unemployment remained painfully high, rising production spurred gains in employment large enough to cut the unemployment rate 2½ percentage points over the course of the year. At the same time, most broad measures of prices and wages recorded further progress toward lower inflation. In short, the performance of the economy in 1983 suggested that the immediate objective of permitting sufficient growth in monetary and credit aggregates to foster a solid economic recovery, while not encouraging developments that would rekindle inflationary pressures, was achieved.

But success cannot be measured by performance during any one year, and in some respects the first year of recovery—beginning 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. Moreover, developments in 1983 were marred by certain structural imbalances, particularly in the federal budget and in foreign trade, that represent risks to orderly progress.

At present, the prospects for extending the economic gains of the past year into 1984 appear, by and large, to be good. Economic growth slowed in the final quarter of 1983, with real GNP up 4½ percent at an annual rate. A continuation of growth in that general range would be consistent with significant progress toward lower unemployment this year and with sustained expansion in a framework of greater price stability in the years beyond.

As is typical, the composition of

Objectives for Money and Credit Growth for 1984 [1]

Percent

Monetary aggregate	New ranges for 1984	Tentative ranges for 1984 set in July 1983	Ranges for 1983 established in July 1983
M2	6 to 9	6½ to 9½	7 to 10 [2]
M3	6 to 9	6 to 9	6½ to 9½
M1	4 to 8	4 to 9	5 to 9 [3]
Domestic nonfinancial sector debt	8 to 11	8 to 11	8½ to 11½

[1] Ranges apply to periods from fourth quarter to fourth quarter, except as specified.

[2] Range applies to period from February-March 1983 to fourth quarter of 1983.

[3] Range applies to period from second quarter of 1983 to fourth quarter of 1983.

output is likely to change as the cyclical expansion moves through its second year. Business investment in plant and equipment can be expected to provide a greater share of the impetus to economic growth, reflecting continuing gains in sales, rising capacity utilization, and improved profitability. Conversely, 1984 probably will see smaller contributions to growth from those sectors that lent early strength to the recovery. Housing activity surged early in 1983, largely in reaction to the sizable decline in mortgage rates that started in mid-1982; absent an appreciable movement in mortgage rates from current levels, homebuilding can be expected to be more stable this year. Consumption spending, whose upswing strongly boosted aggregate demand in 1983, is likely to decelerate in the coming year: for the first time in several years, spendable income will not be enhanced by a major federal tax cut, and any considerable further decline in the saving rate appears improbable. Inventory behavior is always uncertain; however, with the liquidation and initial accumulation phases of the cycle complete, inventory investment in 1984 is likely to add less to economic growth than it did in 1983. Stocks will probably remain low relative to sales, since high financing costs and new methods of inventory control are a restraining influence.

The prospects for continued progress against inflation have been improved by better productivity performance, more realistic wage bargaining, and a more competitive environment for price decisions. The supply-demand situation in the oil market suggests that another inflationary shock from that source is unlikely, and indicators of inflation expectations have remained at lower 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 are normally associated with the second year of an economic recovery could cause some cyclically sensitive prices to rise; a social security tax increase for employers will boost labor costs; food prices are likely to be higher than they otherwise might have been because of the effects of last summer's drought on meat prices.

While these latter forces need not in and of themselves mean the underlying trend toward lower rates of inflation has ended, they could, if associated with other factors, 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 the availability of experienced labor declines, there may be temptations to revert to the pricing and wage bargaining patterns characteristic of earlier years of rapid inflation.

Furthermore, as time passes, the imbalances associated with the current expansion will pose increasing risks. The second year of an expansion of economic activity is likely to bring with it growing business credit demands. At the same time, unless decisive action is taken, the federal government deficit will continue to drain off an extremely large portion of available net saving in the economy. With no easing of the tensions in credit markets, interest-sensitive sectors, such as housing and long-term business investment, in all probability will continue to operate well below their underlying potential and below the levels consistent with sustained, balanced economic growth and a strong productivity performance.

The large federal government deficit has had repercussions for the international economy as well. By adding to pressures on domestic credit markets, it has helped induce an inflow of capital from abroad, exerting upward pressure on the dollar, even as our trade and current account balances have deteriorated. Further deterioration in the external balance is expected this year, and that trend and level of imbalance cannot be sustained indefinitely. Under these circumstances, it certainly is questionable whether we can count on the continuing eagerness of foreigners to invest in increasing amounts of dollar-denominated assets, and this has significant implications for potential developments in credit and exchange markets. Even if the recent trends in the trade balance could be sustained, it is not at all clear that the consequences for American industry would be acceptable.

Federal Reserve Objectives for Money and Credit in 1983 and Actual Growth

Percent

Monetary aggregate	Ranges for 1983 established in July 1983	Actual growth	
		Revised data	Old data
M2	7 to 10 [1]	8.3	7.8
M3	6½ to 9½ [2]	9.7	9.2
M1	5 to 9 [3]	7.2	5.5
Domestic nonfinancial sector debt	8½ to 11½	10.5	10.5

[1] Range applies to period from February-March 1983 to fourth quarter of 1983.

[2] Range applies to period from fourth quarter of 1982 to fourth quarter of 1983.

[3] Range applies to period from second quarter of 1983 to fourth quarter of 1983.

Moreover, the federal deficit and associated high U.S. interest rates will continue to aggravate the debt servicing problems of major international debtors. To be sure, the approval of funding for the International Monetary Fund, the support of official creditors, and the widespread cooperation of the private banking community have been constructive. But, while key developing countries have put in place economic adjustment policies that have resulted in necessary reductions in their imports, such progress has been achieved at high cost to their domestic economies. Thus countries with heavy debt burdens still confront the task of restoring growth of real income as structural adjustments proceed. An important contribution to this effort, as well as to our own long-run economic health, is the continued access of these nations to the financial and goods markets of industrial countries.

The Economic Projections of the FOMC

While recognizing the risks implicit in the budgetary and international circumstances outlined above, the members of the Federal Open Market Committee (together with other Reserve Bank presidents) believe the most probable course of developments during 1984 is further growth, significant reduction in unemployment, and only modest—and essentially cyclical—increases in price pressures. The central tendency of forecasts shows real GNP growth in a range of 4 to 4¾ percent this year. This growth rate is similar to the first view expressed by the members last

Economic Projections for 1984

Percent

Economic indicator	FOMC members and other FRB Presidents		Adminis-tration
	Range	Central tendency	
Change, fourth quarter to fourth quarter			
Nominal GNP	8 to 10½	9 to 10	9.8
Real GNP . . .	3½ to 5	4 to 4¾	4.5
GNP deflator	4 to 6	4½ to 5	5.0
Average unemployment rate in the fourth quarter . . .	7¼ to 8	7½ to 7¾	7.7

summer, but, of course, would follow significantly faster growth in 1983 than anticipated. The unemployment rate is expected to continue to decline in 1984, and given the progress in reducing joblessness last year, the expected level of unemployment in the fourth quarter of this year—generally between 7½ and 7¾ percent—is substantially lower than had been anticipated.

FOMC members expect the GNP implicit deflator to rise a bit more rapidly this year than in 1983—generally in the range of 4½ to 5 percent. While some members have expressed concern that recent labor force trends and pressures on capacity in a few industries could lead to a more significant pickup in inflation, such a development generally is perceived to be only a risk rather than the most likely outcome.

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

At its meeting of January 30-31, the FOMC modified only slightly the tentative ranges for the monetary and credit aggregates for 1984 established last July. The ranges for M2 and M3 were set at 6 to 9 percent, 1 percent and ½ percent respectively, below the ranges for 1983. The tentative M1 growth range of 4 to 8 percent was confirmed for the same period. A monitoring range of 8 to 11 percent, as anticipated in July, was established for growth in the outstanding debt of domestic nonfinancial sectors.

The ranges for 1984 are intended to be consistent with the basic policy objective of achieving long-lasting economic expansion in a context of continuing control of inflationary pressures. They assume that relationships between monetary and credit growth and economic activity and inflation will be broadly consistent with past trends and cyclical developments. There is reason to expect that the special considerations affecting monetary growth rates last year—including important institutional changes in the financial system—will be less significant in 1984. Specifically, the large-scale shifts of funds associated with the introduction of MMDAs (money market deposit accounts) and Super NOW (negotiable order of withdrawal) accounts appear, for all practical purposes, to be completed. Some of the other influences that had special effects particularly on the demand for M1 last year—uncertainties about the economic and financial outlook early in the year and the lagged effect of the sharp decline of interest rates in late 1982—are behind us. No further regulatory or statutory changes that would significantly affect growth rates of the monetary aggregates appear imminent. Some proposals—such as payment of interest on demand deposits or on required reserve balances —would have important impacts on the aggregates and would require reconsideration of the ranges, especially for M1, if they were enacted to be effective in 1984.

A further reduction of ½ percent in the growth range for M2 for 1984 from that tentatively set last July was influenced by technical considerations. Last year's range—though it was based on February-March to abstract from the bulk of distortions connected with the introduction of MMDAs—necessarily had allowed for some residual shifting into such accounts as the year progressed, which in fact took place. In any event, M2 in 1983 was maintained well within its target range, and growth in 1984 should not be influenced by that special factor.

The Committee anticipates that both M2 and M3, which will continue to receive substantial weight in policy implementation, may well fluctuate in the upper part of their ranges in the current year. The actual growth of M2 and M3 will depend in part on the strategies and on the aggressiveness with which depository institutions seek deposits in an environment of deregulated deposit interest rates.

Growth of the broader aggregates will also be influenced by the pattern of net capital inflows from abroad. For example, nonresident holdings of Eurodollars are not included in M2 or M3, and should banks bid aggressively for funds through that channel, as seems possible, growth in those aggregates would tend to be restrained relative to growth in bank credit and nominal GNP. Limited allowance was made for that development in setting the ranges.

As tentatively agreed in July, the range for M1 was reduced 1 percentage point from the range set for the last half of 1983. Growth around the midpoint of the range would appear appropriate on the assumption of relatively normal velocity growth; if velocity growth remains weak compared with historical experience, M1 growth might appropriately be higher in the range.

In recent quarters, the velocity of M1 has shown a moderately rising tendency, in contrast to sharp declines in 1982 and early 1983. Still, the rise in M1 velocity in the first year of the current economic recovery was decidedly less than in earlier post-World War II cyclical expansions. Velocity behavior over the past 18 months appears to have reflected responses to the declines of interest rates in the latter part of 1982; the subsequent leveling off of rates; changing precautionary attitudes; and to some degree perhaps, more lasting changes in motives for holding M1, as the composition of that aggregate has shifted.

Since their introduction on a nationwide basis, interest-bearing accounts with full checking privileges (NOW accounts) have become an increasingly important element in M1. Most of these accounts are subject to a ceiling rate, though a growing proportion (Super NOWs) pay market rates. All of the accounts contain funds placed for long-term savings purposes as well as funds used primarily for transactions. In light of these structural changes, it is not yet clear how the public's demand for M1 might be affected, for any given level of income, by variations in credit market or other conditions that affected savings preferences, or how it might be affected by variations in the level of income itself; nor is it clear how quickly or in what ways depository institutions might themselves respond to such variations by altering terms on deposit offerings.

While there is evidence of more "normal" and predictable patterns reappearing, the Committee felt that more time would be required for assessing the impact of recent structural changes on public and institutional behavior before full or primary weight could be placed on M1 as a policy guide. Thus the Committee decided in setting a range for M1 that its behavior should be evaluated in the context of movements in the broader monetary aggregates, which for the time being would continue to be given substantial weight in policy implementation.

The FOMC also considered whether the procedures of System open market operations should be altered in light of the shift to the new contemporaneous reserve requirement system (CRR) on February 2, a system that potentially would permit somewhat closer short-run control of M1. It was the Committee's view that adaptation of open market procedures does not depend on the technical characteristics of the reserve requirement system in place but rather on broader policy judgments about the relative weight to be given to M1 as a target and the desirability of seeking close short-run control of that aggregate. Taking account of policy judgments about the role of M1 and other monetary aggregates under current circumstances, as well as uncertainties in the period of transition to CRR, the Committee agreed to make no substantial change in current operating procedures at this time.[1]

The Committee set a monitoring range of 8 to 11 percent for growth in the debt of domestic nonfinancial sectors during 1984. This range is ½ percentage point below the corresponding range for 1983, reflecting the moderating trend that, based on historical relationships, would be expected to accompany progress toward price stability and sustainable growth in production. The range allows for growth of debt in 1984 that might outpace expansion in nominal GNP, as often occurs in the second year of a cyclical recovery.

Implications for Credit Markets

Developments in credit markets and interest rates, as always, will be subject to a variety of influences at home and abroad. The ranges specified for the monetary and credit aggregates, which are felt to be broadly consistent with the expectations of members of the FOMC about the course of economic activity and prices, will not in and of themselves determine the course of interest rates and the degree of credit market pressures. Whether interest rates fall or rise—or remain stable—will depend importantly on the strength and composition of demands on the economy, actual and anticipated price pressures, and credit demands.

Dominating the outlook for credit flows in the year ahead is the prospect that—in the absence of immediate action by the fiscal authorities—the federal deficit will approach the record level of the past year. The federal deficit was nearly 6 percent of GNP in 1983, the high for the post-World War II years, and is likely to be only slightly lower in 1984, the second year of cyclical expansion. In the comparable stage of earlier cyclical recoveries, this percentage generally dropped rapidly or was at much lower

[1] A statement issued on January 13, 1984, on the policy implications of CRR appears as appendix A to this report.

levels—providing room for additional borrowing to support expanding business capital outlays and housing.

While debt formation by the private sector may proceed at a somewhat more rapid pace this year than in 1983, the expected pickup is modest by the standards of earlier recoveries. That expectation is partly a reflection of the fact that the massive federal presence in the credit markets, unlike the pattern in previous expansions, will continue to absorb the bulk of the net saving available to the domestic economy. The federal deficit over the past two years absorbed an unusually large proportion of the saving available to the domestic economy, and this will continue into 1984. The availability of domestic saving to finance the growing federal deficit and expanding private investment has remained limited, and expansion of total saving in line with financing needs last year was dependent on large increases in net funds obtained from abroad. Further such increases will again be required this year. And if present trends continue, the government will continue to drain off much more of the nation's domestic saving than at any time in the preceding three decades, apart from the first year of recovery from the 1973-75 recession.

The persistence of large deficits in the face of strengthening private credit demands would tend to exert pressures on domestic credit markets, keeping interest rates higher than they otherwise would be. Put another way, large deficits are an offset to other forces working toward lower interest rates. These pressures stemming from the federal deficit work to restrain expansion in areas of the economy that are more sensitive to interest rates—such as housing, autos, and long-term business capital spending. They also —to the extent higher interest rates lead to a strong dollar on exchange markets—retard our export industries. And, finally, high interest rates contribute to strains on the domestic and international financial system from the lingering heavy indebtedness incurred during inflationary expansion of earlier years.

Actions taken to reverse the upward trend in the structural budgetary deficit clearly would work to reduce potential credit market pressures, to help assure a balanced and sustainable economic expansion, and to promote a more orderly readjustment of our balance of payments position. The timing and magnitude of the favorable impact naturally would depend on the scheduling, force, and prospective "carry through" of any action to reduce the budgetary deficit as well as on the surrounding economic environment.

Ordinarily, the principal effect of a lower budget deficit on credit markets and the economy would be expected to occur as the programs—whether on the spending or tax side—actually become effective. Gains could occur earlier, however, in anticipation of reduced federal credit demands. For example, actions taken this year that would clearly reduce structural federal deficits beginning in fiscal years 1985 and 1986 could work in some degree in 1984 to lower interest rates, particularly longer-term rates. This would result from favorable effects on inflation expectations as well as the anticipated relief from the weight of governmental pressure on credit markets.

A decline in the structural federal deficit would in the first instance reduce one source of economic stimulus. However, any such effects should be associated with lower interest rates than otherwise, encouraging offsetting increases in spending by businesses and households for capital goods, homes, and consumer durables.

The positive effects from small reductions in the federal deficit would be difficult to isolate in our large, active credit markets. However, as structural deficits are reduced by substantial amounts—say $50 billion to $100 billion—the counterpart rise in private credit may be most noticeable initially in mortgage markets at the lower, long-term interest rates that are likely to evolve. In addition, businesses would be in a position to increase bond and stock offerings as they take advantage of the more favorable capital market atmosphere to improve their liquidity and balance sheet positions. Prospects for business spending for plant and equipment would be improved—an important factor in maintaining growth and productivity over the years ahead. As time went on, the export sector of the economy also should benefit as an aspect of the readjustment in our present unbalanced external position.

The Performance of the Economy in 1983

Output and employment registered sharp gains in 1983, lifting the economy out of one of the most severe recessions since World War II. These gains brought a considerable reduction in the unemployment rate, which fell 2½ percentage points over the year 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, given 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. The consumer price index rose 3¾ percent in 1983, the smallest increase in more than a decade. The continued slowing in inflation was aided by favorable price developments in energy markets and by the damping effect on food prices of abundant supplies of livestock products. However, 1983 also saw improvements in broader forces affecting prices and wages. With important lags, business and labor involved in key contract settlements seemed to be adapting constructively to the less inflationary environment, and overall wage and compensation increases were considerably smaller than those of the previous year. At the same time, productivity improved, thereby helping to limit increases in unit labor costs, and average real incomes rose.

While the performance of the economy in 1983 marked a strong and encouraging advance toward the goal of sustained, noninflationary growth, several areas of concern remained. Although labor market conditions improved markedly, unemployment continued to be unacceptably high—especially for younger job seekers and minorities. In addition, 1983 saw a sharp—and worrisome—increase in the federal deficit. For the fiscal year ending in September, the deficit (not including off-budget programs) climbed to almost $200 billion. This deficit represented about 6 percent of GNP; the highest deficit so measured in the previous three decades had been 4 percent in 1976. The borrowing necessary to finance the deficit, in combination with continuing huge prospective government credit demands, exerted pressures on market interest rates—offsetting the effects of lower inflation and other factors—thereby tending to temper expansion of credit-sensitive private sectors of the economy.

Firms tied closely to world markets also did not share proportionately in the U.S. economic recovery in 1983. Large federal deficits and associated high domestic interest rates helped induce sizable inflows of foreign capital to the United States 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 foreign 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 in 1983; this shift had a significant moderating influence on 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 continued to place heavy burdens on the many developing countries with outstanding debt concentrated in dollars.

Financial Markets

Partly reflecting the ready availability of funds from abroad, financial markets absorbed the increase in demand for credit associated with both the financing of the record federal deficit and the upturn in the economy in 1983 without undue stress. In fact, interest rates were lower on average, and less variable, in 1983 than during the preceding few years, although most rates were somewhat higher at the end of the year than they were at the start.

Short-term yields were relatively stable early in 1983, following a marked decline during the second half of 1982. In late spring, economic growth accelerated sharply, and the monetary aggregates, looked at as a whole, were continuing to grow at a relatively rapid pace. 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 months. For the remainder of the year, most short-term rates fluctuated in a generally narrow range, ending 1983 around 1 percentage point higher than a year earlier.

The decline in long-term interest rates that had commenced in mid-1982 continued through the early months of 1983. These rates also began moving up in the spring, climbing fairly steadily through August. Thereafter, long rates fluctuated in a range somewhat above that of the first half of the year. At the end of 1983, long rates generally were 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 the close of 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.

Household Sector

Most households experienced financial and economic gains in 1983. With unemployment down and gains in employment sizable, growth in personal income rebounded smartly during the past year. Further deceleration 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, primarily reflecting the surge in stock market prices that began in 1982 and carried into 1983.

These gains no doubt were instrumental in boosting consumer confidence, which surveys indicated rose sharply in 1983 to its highest level in a decade. This improved mood encouraged households 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 4.8 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 lower rates on bank loans. Lower gasoline prices and the introduction of new and better American products also appeared to help. The recovery in domestic automobile sales continued through the second half of the year, despite the withdrawal of financing incentives. Sales of imported models, still constrained by import restrictions on Japanese models, edged up a bit in 1983, regaining their prequota (1980) level. 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 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 leveled off in the final quarter, influenced by the backup in mortgage interest rates during the second half of the year. However, 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, as is typical in the first year of an economic recovery.

The expansion in housing construction in 1983 was supported by increased lending by thrift institutions (where deposit growth was much improved) 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 builder buydowns and seller financing remained important features of housing finance during the year.

Business Sector

Economic and financial conditions in the business sector also improved markedly in 1983, as firms started the process of rebuilding their balance sheets from the recession. Sales and production rose sharply, bringing increased capacity utilization and productivity. These gains helped propel before-tax profits, which had been depressed in the early 1980s, to an unusually rapid increase for the first year of an economic expansion. With effective corporate tax rates lower, businesses were able to retain a larger proportion of their profits than in previous recoveries. Much-improved cash flows and lower interest rates put firms in a much better position to service their outstanding debt in 1983. Further, the corporate sector improved its overall capital position in 1983 by issuing new stock in vastly improved equity markets. During the first half of the year, firms strengthened their balance sheets by shifting borrowing toward longer maturities. 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.

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. With sales and shipment quite strong during the second half of the year, 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 almost 11½ percent in real terms between the fourth quarter of 1982 and the fourth quarter of 1983. At year-end, rising new orders and surveys showing that businesses planned higher investment spending suggested that the recovery in investment had developed momentum that would carry it into 1984.

The strength in investment spending was concentrated in the equipment sector early in 1983, especially in motor vehicles, high-technology office equipment, and computing machinery. The recovery in equipment spending became more broadly based as the year progressed, as it spread 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. Construction of new office buildings declined sharply during the first half of 1983 and held at that reduced pace during the second half of the year, as vacancy rates remained quite high.

International Trade

The rising exchange value of the dollar was a major influence on U.S. exports and imports in 1983. On a weighted-average basis, the dollar rose an additional 10 percent during the course of the year, bringing the cumulative appreciation since 1980 to 50 percent. The sustained strength of the dollar has reflected economic policies here and abroad as well as the attractiveness of dollar investments in a time of international political and financial uncertainty.

Despite a comparatively good inflation performance, the competitive position of firms in the United States eroded further in 1983. After declining more than 15 percent in 1982, the volume of U.S. exports remained weak last year. Exports to industrial countries, which account for almost two-thirds of the U.S. total, recovered somewhat in response to a moderate pickup in aggregate demand abroad. However, economic growth in many developing nations was limited by their debt service problems, and demand by those countries for imports from the United States remained depressed. In contrast, the vigorous expansion in the U.S. economy and the strength of the dollar pushed both the volume and the value of imports significantly higher. As a result, the U.S. trade deficit increased from an annual rate of about $45 billion in the fourth quarter of 1982 to a rate of about $75 billion in the fourth quarter of 1983. The U.S. current account registered a corresponding shift, with the deficit for the year reaching about $40 billion. Essentially, rapid increases in demand in the United States were partly satisfied by increasing imports, limiting gains in U.S. output.

The Government Sector

Government purchases of goods and services were lower in real terms in 1983 than in 1982. However, this decline stemmed largely from a reduction in crop inventories held by the Commodity Credit Corporation (CCC) that was 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 a bit, after two years of weakness induced by the recession and cutbacks in federal support.

An especially important development in the government sector in 1983 was the shifting fiscal positions of governments. The federal deficit ballooned to $195 billion in the fiscal year ending in September 1983. This figure was nearly twice as large as the previous year's deficit, which itself was of record proportions. 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 also were important. Revenue growth was limited by the cumulative effects of three years of sizable tax reductions, and spending was buoyed by increases in outlays for defense, social insurance expenditures, and interest payments on national debt.

At the state and local level, 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 an unanticipated increase in the tax base as the economy expanded at a surprisingly rapid pace.

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 the 12 months ending in December 1983. The most rapid gains were registered in durable goods manufacturing and in construction, the sectors hit hardest during the recession. Service jobs also contributed importantly to overall employment growth during the year.

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 those who reported that they had permanently lost their last job. Because such workers typically are out of work for extended periods, the number of long-term unemployed workers also fell sharply last year.

Nominal wage increases continued to decelerate in 1983. Hourly compensation rose at a rate of 5 percent over the four quarters of 1983—the slowest 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 size of the "new settlements" component of union wage increases was reduced to less than 1 percent. At the same time, cost-of-living adjustments slowed, reflecting the continued moderation in prices.

On average, however, wage gains in 1983 exceeded price increases, so that most workers experienced improved purchasing power. Rising real wages mirrored improvements in labor productivity. Although a good deal of the gain in output per hour worked was attributable to the pickup normal during the early stages of an economic recovery, there is reason to believe that longer-run improvements also were in train. Revisions in work rules at many establishments during the recession contributed to efficiency, and in 1983 both business and labor appeared to sustain their efforts to trim costs and improve quality. Reflecting wage and productivity developments, unit labor costs rose only 1¼ percent in 1983. This was the best performance since the mid-1960s.

Prices

The continued moderation in labor costs, a principal determinant of price movements, helped to unwind further the wage-price spiral that fueled inflation throughout the 1970s. Household surveys during 1983 revealed that, despite some increase in the second half of the year, expectations about inflation throughout 1983 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 reflected in most key price measures. Increases in the consumer price index remained in a much reduced range in 1983. The brighter inflation picture in part reflected transitory factors. Slack demand and large worldwide inventories caused a sharp decline in petroleum prices early in the year, and prices of food at the consumer level were relatively stable throughout 1983. However, the agricultural picture turned less favorable in the wake of the summer drought. The resulting depletion of grain stocks, coming on top of the effects of the federal government's PIK program designed to reduce agricultural production, put upward pressures on the prices of many agricultural commodities in the latter part of the year that can be expected to affect consumer food prices in 1984. In addition, severe December weather promised to adversely affect the supply of fresh fruits and vegetables early in 1984.

The deceleration of prices in 1983 was not limited to the food and energy sectors. The consumer price index excluding those sectors rose less than 5 percent—about half the pace of just three years earlier. Producer prices in general were little changed in 1983, as price increases of capital equipment as well as of consumer goods slowed markedly.

The Growth of Money and Credit in 1983

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—at least over the near term—as a policy target; the effects of newly introduced Super NOWs and money market deposit accounts (MMDAs) on the behavior of M1 also were subject to considerable uncertainty. In addition, it was evident early in 1983 that M2 was 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.

Reflecting these special factors and uncertainties, in early 1983 the Federal Open Market Committee departed from past practice in establishing monetary objectives for 1983. 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, it seemed that such effects would be smaller and more predictable for the broader aggregates than for M1.

In the case of M2, an annual target range of 7 to 10 percent was established. The FOMC believed that performance of the aggregate would most appropriately be measured 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 as the base for measuring growth, rather than the fourth quarter, the period that generally had been used in the past. It was anticipated that the range for

M2, which was 1 percentage point higher than the range for 1982, would 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. This range was the same as that established in the previous year, but 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 CDs) included in M3.

In light 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 1 percentage point wider than usual. As noted above, the Committee agreed that, in implementing monetary policy, less than customary weight would be assigned to M1; instead, the Committee would rely primarily on the broader aggregates, at least until M1 had evidenced more regular and predictable behavior. Moreover, the Committee emphasized that, in implementing policy, 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 inflationary 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 about in line with expected growth in nominal GNP, reflecting the historically similar growth trends of each. It was recognized that, in the early stages of other postwar recoveries, growth in GNP had exceeded growth in debt by an appreciable margin; 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.

The behavior of M1 in early 1983 continued to diverge from precedents. (The analysis here—as elsewhere in this section—is based on recently revised data for the monetary aggregates, but the same finding holds for the data that were available during 1983.)[2] As apparently was the case during the second half of the previous year, 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; in addition, the lagged effects of earlier declines in interest rates contributed to increased demands for money. M1 expanded rapidly through late spring; growth was dominated by its highly liquid, interest-earning other checkable deposit (OCD) component. Growth in OCDs during the first half of the year accounted for more than half of the expansion in M1, a contri-

[2] Appendix B to this report provides detailed information on the recent benchmark and seasonal adjustment revisions of monetary data for 1983, as well as on the impact of a redefinition of M3 to include term Eurodollars.

bution well out of proportion to the importance of this component. In turn, inflows to 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 to 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 judgments 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, which 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 pronounced 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, reflecting improved confidence arising from the recovery; a moderate rise in interest rates, which began in late spring, also curbed demands for money. Demand deposits peaked in July and edged down, on balance, during the second half; the growth of OCDs fell to a fraction of the 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 last quarter. Even with this acceleration, growth in M1 velocity in the full year following 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 to MMDAs in January alone totaled $147 billion, and by March outstandings had reached $321 billion. However, most of the inflow to MMDAs appears to have come from other instruments in-

Growth of Money and Credit[1]

Percentage changes

Period	M1	M2	M3	Domestic non-financial sector debt[2]
Base to fourth quarter, 1983[3]	7.2	8.3	9.7	10.5
Fourth quarter to fourth quarter				
1978	8.2	8.0	11.8	13.0
1979	7.5	8.1	10.3	12.0
1980	7.4	9.0	9.6	9.5
1981	5.1 (2.5)[4]	9.3	12.3	9.6
1982	8.7	9.5	10.5	9.2
1983	10.0	12.1	9.7	10.5
Quarterly growth rates				
1983:1	12.8	20.5	10.8	8.8
2	11.6	10.6	9.3	12.0
3	9.5	6.9	7.4	9.9
4	4.8	8.5	10.0	9.8

[1] M1, M2, and M3 incorporate effects of benchmark and seasonal adjustment revisions. M3 incorporates a definitional change as well, the inclusion of term Eurodollars. See appendix B to this report for detailed information.

[2] Growth rates of domestic nonfinancial sector debt are measured between last months of periods.

[3] The base for measuring growth in M1 was the second quarter of 1983; for M2, February-March; for M3, the fourth quarter of 1982; and for domestic nonfinancial sector debt, December 1982.

[4] M1 figure in parentheses is adjusted for shifts to NOW accounts in 1981.

cluded 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 evident 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, reflecting a sharp drop in interest rates offered on these accounts. At the same time, the less liquid small time deposit component of M2 increased quite rapidly over the second half of the year, as a result of 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 growth from the fourth quarter of 1982 through the fourth quarter of 1983 was 12 percent. However, from the February-March period used by the FOMC as the base for its target growth range, expansion through the fourth quarter was at an 8¼ percent annual rate, well within its range.

After declining at a record rate in the first quarter, M2 velocity rose during the rest of the year; over the year as a whole, velocity 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 were in reasonably close correspondence with experience.

M3 growth picked up a bit in the first quarter from its late 1982 pace, owing to 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 limited loan demand at commercial banks. On the other hand, 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.[3]

Domestic nonfinancial sector debt increased 10½ percent in 1983, a bit above the pace of the previous year. The outstanding debt of the federal government grew almost 20 percent, about matching the pace of 1982; this expansion accounted for about 40 percent of the increase in all domestic nonfinancial debt last year. State and local government financing activity surged to a new record; some of the borrowing reflected efforts on the part of the issuers to market debt before the imposition of anticipated constraints, including requirements for bond registration and proposed limits on revenue bond issuance. 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 slowed to a quite slow pace, as internal cash flows of corporations exceeded capital expenditures for much of the year, and relatively high stock prices encouraged issuance of new equity shares.

The proportion of credit intermediated by depository institutions grew substantially, rising from about one-third in 1982 to about one-half in 1983. This increase reflected both the impact of MMDA inflows and a surge in demands for mortgages. 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.

Thus each of the monetary and credit aggregates finished the year close to or within the ranges set by the FOMC. (Indeed, for the data before the recent benchmark, seasonal, and definition revisions, all of the money stock measures were well within their ranges at the end of 1983.) Achievement of these objectives 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, on average interest rates 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 likewise declined significantly.

Other indicators attested to a greater degree of stability and confidence in financial markets and 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 dra-

[3] M3 has been redefined to include term Eurodollars, previously included only in the aggregate L.

matically during 1983, as did spreads between yields on lower- and higher-rated private securities. The strong stock market enabled many large firms to strengthen their balance sheets and 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 —experienced credit-quality problems so severe that they were closed or merged into other institutions. Nonetheless, 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 have enjoyed a substantial increase in core deposits, and their improved profit position has enabled them to expand large time deposits at reasonable cost. In contrast to commercial banks, thrift institutions saw a heavy demand for loans last year. For the first time, in 1983 a large proportion of mortgages that they made carried adjustable-rate features, thus repairing some of the severe mismatch in asset and liability durations. Nevertheless, profit positions remain marginal and highly sensitive to changes in interest rates.

Appendix A: Federal Reserve Press Release of January 13, 1984, Regarding Contemporaneous Reserve Requirements

Beginning Thursday, February 2, the new contemporaneous reserve requirement (CRR) system will become effective. In that connection, questions have been raised about the implications of this change for the Federal Reserve's open market operating procedures. This issue has been considered by the Federal Open Market Committee. Taking account of technical transitional uncertainties as well as policy judgments about the role of M1 and other monetary aggregates under current circumstances, the Committee agreed to make no substantial change in current operating procedures at this time.

Background

The new CRR system differs from the present lagged reserve requirement structure in two principal ways. First, required reserves against transaction deposits will have to be held on an essentially contemporaneous basis, instead of being lagged by two weeks. Second, the reserve holding period has been lengthened from one week to two weeks (with the relevant period for deposits also lengthened to roughly the same two weeks—the two-week deposit period running from Tuesday to the second Monday, and the reserve period running from Thursday to the second Wednesday).

This structural change in the reserve accounting system has tightened the linkage between reserves and the current behavior of transaction deposits—demand deposits and interest-bearing accounts with full checking privileges (NOW and similar accounts). These deposits, along with currency held by the public, comprise M1, the measure of money most nearly related to the transaction needs of the economy. But because of NOW and similar accounts, which have grown substantially in volume over the past few years, M1 is also affected by saving propensities and patterns. The Committee has been placing less weight than formerly on M1 because of the institutional changes that have altered its composition, affected its behavior, and increased uncertainties about its relationship to the economy.

Other, broader aggregates—M2 and M3—encompass M1 plus other highly liquid assets and forms of saving, such as money market fund accounts and time and savings deposits held at banks and thrift institutions. Some of these other assets also, in one degree or another, serve transaction purposes, though they are not by law subject to transaction reserve requirements. In general, the bulk of the assets in the broad aggregates are not subject to reserve requirements, although nonpersonal time deposits bear a relatively small lagged requirement.

Open Market Operations and CRR

Adaptations in open market operating procedures to CRR must take account of certain technical and transitional issues as well as the policy issue about the weight to be given M1 and other monetary aggregates in operations. The more technical and transitional issues involve how the depository system as a whole adjusts to the new reserve requirement system—which may influence demands for excess reserves, attitudes toward the discount window, and the speed of asset and liability adjustments generally. It can be expected that some time will elapse before banks and other depository institutions have fully adjusted their reserve management, as well as portfolio and liability management, to the new system. Money managers have to become accustomed to operating without certain knowledge of their required reserves for a full reserve averaging period during most of that period. In addition, usual start-up problems with new data systems will probably add to uncertainties at least for a while. Such data problems would also affect the timing and reliability of figures available to the Federal Reserve.

These technical issues aside, the new reserve requirement structure would potentially permit somewhat closer short-term control of M1 in particular. With CRR, if open market operations were geared primarily to M1, an "automatic" tightening or easing of reserve positions that worked to bring M1 under control would tend to occur somewhat more promptly than with lagged reserve accounting.

Whether operating procedures should be adapted for this purpose does not depend on the technical characteristics of the reserve requirement system in place but rather on broader policy judgments about the relative weight to be given to M1 as a target and the desirability of seeking close short-run control of that aggregate. To the extent less weight continues to be placed on M1, and relatively more on broader aggregates less closely related to reserves, "automatic" changes in reserve pressures in response to short-run movements in

M1 alone may not be appropriate.

In light of these various considerations, the Committee agreed that no substantial change would be made in open market operating procedures at this time. These operating procedures will be reviewed after a transitional period in the context of the role played by the monetary aggregates, particularly M1, in policy implementation and the potential implicit in CRR for achieving closer short-run control of M1.

Appendix B: Money Stock Revisions

Measures of the money stock have been revised to reflect annual seasonal factor and benchmark revisions, as well as a definitional change affecting M3. This appendix discusses these revisions and presents tables comparing growth rates of the old and new series.

Definitional Change

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

Comparison of Revised and Old Growth Rates for M1

Percentage changes at annual rates

Period	Revised M1	Old M1	Difference (1 − 2)	Differences	
				Benchmark	Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	17.3	14.2	3.1	.5	2.6
November	15.8	13.6	2.2	.8	1.4
December	10.3	10.6	−.3	−.4	.1
1983—January	11.5	9.8	1.7	−2.4	4.1
February	14.8	22.4	−7.6	.2	−7.8
March	13.0	15.9	−2.9	0	−2.9
April	3.6	−2.7	6.3	1.7	4.6
May	21.0	26.3	−5.3	.5	−5.8
June	10.2	10.2	0	1.4	−1.4
July	9.4	8.9	.5	.9	−.4
August	5.8	2.8	3.0	0	3.0
September	3.5	.9	2.6	.6	2.0
October	6.2	1.9	4.3	1.6	2.7
November	3.2	.9	2.3	0	2.3
December	5.3	6.5	−1.2	−1.0	−.2
Quarterly					
1982:4	15.4	13.1	2.3	.2	2.1
1983:1	12.8	14.1	−1.3	−.7	−.6
2	11.6	12.2	−.6	.8	−1.4
3	9.5	8.9	.6	.8	−.2
4	4.8	2.1	2.7	.6	2.1
Annual 1983					
1982:4 to 1983:4	10.0	9.6	.4	.4	0
Semiannual					
1982:4 to 1983:2	12.4	13.3	−.9	0	−.9
1983:2 to 1983:4	7.2	5.5	1.7	.7	1.0

Comparison of Revised and Old Growth Rates for M2

Percentage changes at annual rates

Period	Revised M2	Old M2	Difference (1 − 2)	Differences	
				Benchmark	Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	9.3	7.9	1.4	−.1	1.5
November	10.5	9.5	1.0	.4	.6
December	12.1	8.9	3.2	.5	2.7
1983—January	31.9	30.9	1.0	−.6	1.6
February	21.7	24.4	−2.7	−.9	−1.8
March	7.8	11.2	−3.4	.0	−3.4
April	8.4	2.8	5.6	1.9	3.7
May	11.8	12.4	−.6	.1	−.7
June	8.4	10.4	−2.0	−.1	−1.9
July	5.4	6.8	−1.4	.0	−1.4
August	4.9	6.0	−1.1	.0	−1.1
September	7.1	4.8	2.3	.6	1.7
October	10.8	9.1	1.7	.9	.8
November	8.2	7.2	1.0	.0	1.0
December	8.2	5.5	2.7	.3	2.4
Quarterly					
1982:4	10.6	9.3	1.3	.3	1.0
1983:1	20.5	20.3	.2	−.2	.4
2	10.6	10.1	.5	.5	.0
3	6.9	7.8	−.9	.1	−1.0
4	8.5	7.0	1.5	.4	1.1
Annual					
1982:4 to 1983:4	12.1	11.7	.4	.3	.1
February-March 1983 to 1983:4	8.3	7.8	.5	.6	−.1

Benchmark Revisions

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

Seasonal Revisions

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

Report on July 25, 1984

The Outlook for the Economy

As reviewed in later sections of this report, the nation's economy in the first half of 1984 was characterized by marked strength in sales, production, and employment, and by relatively low inflation. Moreover, economic activity still appeared to have substantial forward momentum at mid-

Comparison of Revised and Old Growth Rates for M3 [1]

Percentage changes at annual rates

Period	Revised M2	Old M2	Difference (1 − 2)	Differences	
				Benchmark	Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	11.7	9.3	2.4	0	2.4
November	7.7	9.3	−1.6	−.8	−.8
December	5.7	3.7	2.0	−.3	2.3
1983—January	14.4	13.0	1.4	−1.2	2.6
February	13.1	13.7	−.6	1.4	−2.0
March	7.2	8.1	−.9	1.2	−2.1
April	8.7	3.3	5.4	2.8	2.6
May	9.6	10.9	−1.3	.5	−1.8
June	10.3	11.0	−.7	.2	−.9
July	5.1	5.5	−.4	−.2	−.2
August	6.1	8.8	−2.7	−.3	−2.4
September	8.8	7.6	1.2	−.5	1.7
October	9.4	8.6	.8	−1.0	1.8
November	14.1	11.9	2.2	2.7	−.5
December	8.8	6.6	2.2	.3	1.9
Quarterly					
1982:4	10.0	9.5	.5	−.3	.8
1983:1	10.8	10.2	.6	−.1	.7
2	9.3	8.1	1.2	1.5	−.3
3	7.4	8.4	−1.0	−.1	−.9
4	10.0	9.0	1.0	.1	.9
Annual					
1982:4 to 1983:4	9.7	9.2	.5	.5	0

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

year, and the strong growth of the U.S. economy was helping to encourage recovery abroad as well. Amid the favorable overall performance, however, some important structural imbalances and financial strains were apparent that need attention lest they impair the sustainability of orderly growth. In particular, extraordinary increases in domestic demand have been accompanied by a further deterioration of our trade and current account deficits, which has contributed to dangerous protectionist pressures. The persistent strength of the dollar in foreign exchange markets has helped to keep inflation quiescent, but that strength has been dependent on a pattern of massive capital inflows. Interest rates, under pressure from the combined credit demands of the federal government and the rapidly growing private sector, have risen from what already were high levels historically, adding to stresses on some sectors of the U.S. economy and on heavily indebted foreign countries. As labor and capital resources have become much more fully utilized, and as real growth has continued exceptionally rapid, the possibility of demand pressures contributing to renewed inflationary tendencies has become a concern to many.

For the near term, the prospects for continuing good gains in economic activity appear favorable. Consumers seem to be willing to spend, and they have the wherewithal to do so. The rising trend of contracts and orders points to further sizable increases in business plant and equipment spending. And inflation should remain relatively subdued in the period immediately ahead, given the recent behavior of labor and material costs.

However, as we look beyond the near term, the stresses and imbalances in the economy give rise to significant uncertainties in assessing the economic and price outlook and pose substantial challenges for public policy. The members of the Federal Open Market Committee recognized this fact as they prepared their economic projections for the remainder of 1984 and for 1985 at their meeting earlier this month, emphasizing that the probability of maintaining highly satisfactory performance could only be assured by timely decisions in a number of public policy areas. In formulating its own policy plans, the Committee agreed that, while flexibility and sensitivity might be required in conducting monetary policy during this crucial period, Federal Reserve policy would need to remain basically oriented toward encouraging growth in a context of maintaining progress over time toward price stability. The specific monetary objectives outlined in the next section provided part of the assumptions underlying the projections.

Economic Projections for 1984 and 1985 [1]

Item	FOMC members and other FRB presidents	
	Range	Central tendency
	1984	
Percent change, fourth quarter to fourth quarter		
Nominal GNP..........	9½ to 11½	10½ to 11
Real GNP	6 to 7	6¼ to 6¾
Implicit deflator for GNP	3¼ to 4½	4 to 4½
Average level in the fourth quarter, percent		
Unemployment rate	6½ to 7¼	6¾ to 7
	1985	
Percent change, fourth quarter to fourth quarter		
Nominal GNP..........	6¾ to 9½	8 to 9
Real GNP	2 to 4	3 to 3¼
Implicit deflator for GNP	3½ to 6½	5¼ to 5½
Average level in the fourth quarter, percent		
Unemployment rate	6¼ to 7¼	6½ to 7

[1] The administration has yet to publish its Mid-Session Budget Review document, and consequently the customary comparison of FOMC forecasts and administration economic goals is not included in this report.

At this time, the members of the FOMC (including those Reserve Bank presidents who are not at present voting members) generally foresee appreciable gains in economic activity over the remainder of 1984, but with growth of real gross national product less rapid than in the first half of the year. While clear evidence of substantial moderation in the pace of expansion is still limited, some slowing seems likely in light of some softening of demand in the housing market, the probable tendency for inventory investment to level off after a sharp surge in the first half, and other factors. The central tendency of Committee members' forecasts is for an increase in real output of about 6½ percent for the year as a whole. The unemployment rate, which averaged about 7½ percent in the second quarter of 1984, is expected to fall further in coming months, although much will depend on the highly uncertain behavior of labor force participation rates and productivity growth, as well as on the strength of demand in the economy. The implicit deflator for gross national product is expected to rise slightly faster than in the first half of 1984, but even so, the central tendency of Committee members' inflation forecasts shows an increase for the year that—at around 4¼ percent—would be only slightly above the 1983 rise and would be lower than generally expected at the start of this year.

Members of the FOMC believe that growth in activity is likely to continue in 1985, though at a slower pace. That slower pace would be satisfactory to the extent it reflected the settling of the economy into a sustainable pattern of longer-run expansion after a rebound from an exceptionally deep recession. Specifically, the central tendency of FOMC forecasts calls for real growth of 3 to 3¼ percent next year and some further decline in the unemployment rate. The Committee expects price increases to be somewhat larger in 1985 than this year, with the central tendency of members' forecasts being 5¼ to 5½ percent, on the assumption that the dollar would remain in the trading range of the past year or so; the expectation of some pickup in price increases in fact partly reflects the assumption that the inflation-damping influence of dollar appreciation will abate, but on the basis of past experience some cyclical pressures on wages and prices might also be anticipated as a result of reduced slack in labor and product markets.

The behavior of the dollar in foreign exchange markets is only one of the uncertainties in the outlook for 1985. Strains in financial markets have been aggravated by the historically large current and prospective federal budget deficits, and international debt problems will continue to require attention. With respect to the federal budget, Committee members are assuming that the Congress and the administration will soon complete action on a series of measures that represent an initial "down payment" toward reducing current and prospective federal budget deficits. Although no specific assumptions were made regarding further deficit-reducing steps in 1985, it was recognized that additional, substantial budgetary actions will be needed to enhance the prospects for sustained, orderly economic growth.

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

The Federal Open Market Committee has reviewed its target ranges for 1984 and established tentative ranges for 1985 in light of its objective of achieving sustained growth in the context of continuing progress toward reasonable price stability over time. The behavior of M1 and M2 in the first half of 1984 was broadly consistent with the Committee's expectations and objectives. Although difficulties in anticipating demands for various measures of money and credit under changing economic circumstances remained, partly reflecting the new deposit accounts introduced in the recent period of deregulation and changing financial practices, no developments were foreseen that would call for changes in the 1984 targets for M1 and M2. Consequently, the Committee reaffirmed the existing target ranges for 1984 for those aggregates.

M3 expanded above its target range and domestic nonfinancial sector debt ran well above its monitoring range during the first half of the year. The unexpectedly brisk expansion of spending appears to be a factor influencing credit expansion. But in addition, this rapid growth is partly attributable to the unusual amount of corporate mergers and buyouts, which also have led to a sharp reduction in corporate equity shares outstanding. Some of this rapid debt expansion may have influenced M3, as banks issued CDs, for example, to finance credit expansion, though it is always difficult to evaluate how institutions or depositors would have behaved if circumstances had differed.

It appears that the factors that led to growth in M3 and in debt above the upper limits of their ranges in the first half could be less important during the second half. Credit flows associated with corporate acquisition activity should diminish, partly because of higher prevailing interest rates and partly because of greater caution on the part of lenders in evaluating the soundness of proposed transactions. It also seems likely that growth of household spending and consumer and mortgage credit demands will moderate somewhat. However, given the levels of the money and credit aggregates at midyear, it is unlikely that M3 and debt will be within their ranges by year-end, although some deceleration toward the upper limits of the ranges is expected to occur.

Under the circumstances, the Committee considered the question of whether increases in the ranges for 1984 for M3 and domestic nonfinancial sector debt would be appropriate. On balance, the Committee was of the view that the broad direction of policy would best be communicated by retaining the current range for M3 and the associated monitoring range for domestic nonfinancial sector debt. While the Committee anticipated growth somewhat above the ranges for the year as a while, it was felt that higher "target" ranges would provide an improper benchmark for evaluating desired longer-term trends in these aggregates.

The Committee also discussed the ranges for the aggregates to be established on a tentative basis for 1985. The Committee reaffirmed its intention to lower over time growth of money and credit to rates appropriate to progress toward price stability in an environment of sustainable economic growth. Consistent with these goals, the FOMC established tentative ranges for M1 and M2 that were somewhat below those for 1984. For M1, the upper limit was lowered one percentage point, and the range was set at 4 to 7 percent. For M2, the upper limit was lowered one-half point, and a tentative range of 6 to 8½ percent was established.

The width of the M1 range was brought more in line with the dimensions of the ranges for the other aggregates. This reflected experience over the past year in which the behavior of M1 has been more consistent with previous cyclical patterns than was the case in the recent recession. Consequently, the Committee felt that it would be appropriate to give roughly equal weight to all of the monetary aggregates in implementing policy. Nonetheless, it was recognized that uncertainties remained about the behavior of M1, as well as of the other aggregates, in periods of changing market conditions. For instance, should market interest rates change considerably, it is possible that funds would flow quickly into or out of such fixed interest deposits as NOW accounts, leading to sizable movements in M1—but, with limited experience to date with the present account structure, the extent of these movements cannot be projected with confidence. Moreover, the process of financial deregulation continues. At the beginning of 1985, the minimum denomination for Super NOW accounts and MMDAs is scheduled to decline from $2,500 to $1,000; it was assumed that this change will have no more than a minimal impact on M1 and M2. Should legislative action permit interest on reserves or on demand deposits, this interest would tend to affect—perhaps significantly—the demand for monetary aggregates, particularly M1.

The Committee retained for 1985 the current target range for M3 and the current monitoring range for domestic nonfinancial sector debt. As noted above, these aggregates might be somewhat above their ranges in 1984. Thus, growth next year within their ranges would represent an actual slowing from this year's pace. The Committee noted that some deceleration in growth of these aggregates is both desirable and likely, reflecting a slowing in expansion of nominal GNP and a drop in corporate merger activity. Still, business demands for external finance are likely to remain strong, and absent a substantial improvement in the stock and bond markets would tend to continue to be concentrated at banks and in short-term credit markets generally. Although household borrowing is expected to moderate somewhat in 1985, state and local government borrowing may be heavier than in 1984, and the federal budget implies the continuation of exceptionally large Treasury borrowing.

In its discussion, the Committee noted that only limited progress has been made recently in reducing federal budget deficits, and that current and prospective structural deficits remain huge. The massive fiscal stimulus and credit demands associated with these structural deficits will tend to hold interest rates at high levels. Further progress in lowering the deficit would help to relieve credit market pressures.

The Committee felt that implementation of monetary policy would require continuing appraisal of the progress of economic activity and prices and of conditions in domestic and international financial markets—especially in light of the sensitive state of these markets and of a number of economic sectors. The Committee emphasized, however, the importance of appropriate restraint in monetary and credit growth. A good start has been made in reversing the debilitating trends of rising inflation and languishing productivity that plagued our economy for so many years. But monetary vigilance—in combination with determined action to reduce the federal presence in the credit markets —is essential to the achievement of durable reductions in interest rates, overall financial and economic stability, and sustained growth of the economy.

The Performance of the Economy in the First Half of 1984

The economic expansion gained further momentum in the first half of 1984, as the growth of real gross national product accelerated to an annual rate of almost 9 percent. Employment also increased rapidly, and the unemployment rate dropped to its lowest level in more than four years. Price increases continued to be relatively moderate.

In 1983, the economy had followed a path that was fairly typical of previous postwar recoveries; with the continued rapid growth of activity in 1984, the current expansion has proved stronger than during comparable cyclical periods since World War II, the only exception being the period of the

Korean war buildup. Real GNP has grown faster, and the levels of economic slack have declined more rapidly, than in the usual expansion. In addition, real gross domestic spending rose even more rapidly than production during the first half—about 10¼ percent at an annual rate—and was reflected in a surge in the demand for imports as well as strong demands for the goods and services being produced domestically. These gains, of course, followed a deep recession. The civilian unemployment rate at midyear—at just over 7 percent—had dropped about 3¾ percentage points from its peak, but is still above "full employment" levels. The capacity utilization rate in manufacturing is slightly below the postwar average.

The strong growth, reduced unemployment, and more stable prices of the past year and a half have been reflected in rising productivity and higher real incomes for most Americans. After the immediate hardships associated with the recession, progress toward our long-range goals has been apparent. Even so, the economy still faces a number of serious problems and, in some respects, these problems have grown more worrisome over time. During the current expansion, there has been an enormous increase in federal debt and an unprecedented deterioration in our balance of trade. A number of domestic producers have not shared fully in the expansion, and many developing nations still are burdened by large external debts. Concern about financial stress in both the domestic and international economies has heightened this year as interest rates have risen from levels that already were high by historical standards.

Widespread concern about the outlook for inflation also persists, despite the continuation of favorable wage and price patterns through the first half of 1984. One cause for concern is that growth in the demands placed on the economy could continue at a pace that, if maintained for long, would damage the prospects for sustaining real growth, achieving better balance in financial markets, and making further progress toward price stability—central objectives of public policy. Inflationary pressures would be intensified if the exchange value of the U.S. dollar were to decline sharply from its current high level in the face of unprecedentedly large current account deficits. These concerns are importantly related to the strains on real and financial markets stemming from federal budget deficits, actual and potential, which, among other implications, now complicate the conduct of monetary policy.

The Household Sector

Strength in the household sector continued to provide a strong impetus for expansion in the first half of 1984. Personal income, in nominal terms, rose at an annual rate of about 10¾ percent during the first half of the year, and with inflation low, most of that nominal gain translated directly into sizable increases in real purchasing power. In addition, despite the recent upswing in interest rates and some decline in stock market wealth, consumers remain generally optimistic about future business conditions. Reflecting that optimism, they have continued to consume heavily out of current income and have become increasingly willing to take on higher levels of debt. As a result, personal consumption expenditures, in real terms, rose rapidly in the first half of 1984—at an annual rate of nearly 6 percent.

Consumer spending for new cars was particularly robust in the first half of 1984 as unit auto sales rose to the highest level since mid-1979. With quotas limiting the imports of foreign models, most of the rise in spending was channeled into sharply higher purchases of domestically produced automobiles, and in light of strong sales, many domestic auto plants operated near full capacity in the first half of 1984. Auto output, in real terms, was about 50 percent above the depressed level of 1982.

Spending for housing also continued to advance in the first half of 1984, thereby maintaining the vigorous cyclical expansion that was apparent during 1983. Housing starts spurted to a six-year high in January and February, and outlays for residential construction rose in both the first and second quarters. All told, the rebound in housing activity over the past year and a half has been stronger than generally expected and has exceeded the gains experienced during most previous housing recoveries. During this period, demographic influences and relatively stable house prices provided underlying support for housing demand, and innovations in housing finance helped to soften the effect of high mortgage interest rates. While home sales appeared to be moving lower toward midyear, there should continue to be a supporting influence in housing markets from some of the same factors that have helped to boost activity to a high level during the early phases of the expansion.

Household balance sheets are no longer strengthening as they did during the recession and early phases of the recovery. Some of the earlier gains in stock market wealth have been reversed during this year's decline in stock prices, and household debt has been growing much more rapidly than in 1983. In addition, there are troubling aspects to some of the recent patterns of household credit growth. Consumer credit has been rising much faster than income this year, and some of the recent innovations in mortgage lending, while supportive of current housing activity, also increase the level of borrower exposure to adverse movements in interest rates or unexpected shortfalls in future household incomes.

The Business Sector

Economic conditions in the business sector have strengthened during the past year and a half. Output, sales, profits, productivity, and investment spending have all been rising throughout the expansion. By the first quarter of 1984, after-tax profits in the domestic nonfinancial corporate sector were about twice the levels of late 1982. Fixed investment spending, in real terms, has risen roughly 25 percent during the first year and a half of the recovery.

The rise in business investment spending during the current expansion has been much stronger than generally expected. Unused capacity was at a particularly high level when the expansion began and appeared likely to inhibit new capital outlays for some time. However, as the economic expansion started to look more durable during the course of 1983, businesses began rushing to modernize old units or to add to capacity. In addition, other factors, such as the 1982–83 stock market boom and changes in tax laws, contributed to the ebullience in investment spending. The widespread adoption of new computer-based technologies, which was evident even during the recession, also has continued to provide an element of strong support in the capital goods sector, and, more generally, businesses have recognized a need to invest in new technologies in order to remain competitive with foreign producers. Reflecting these influences, spending for new capital equipment recorded particularly strong gains during the past year and a half, and spending for structures also has strengthened markedly in recent quarters.

Inventory accumulation during 1983 was less rapid than in the early phases of many previous recoveries, but, in light of lengthening delivery times and the sustained strength of sales, businesses appear to have become more willing to rebuild stocks in the first half of 1984. In real terms, business inventories rose at an annual rate of more than $30 billion in the first quarter of the year, and a further sizable accumulation was apparent in the second quarter. Even so, stocks in most industries still appear lean relative to the recent pace of sales.

Despite the impressive improvement in activity over the past year and a half, businesses have not restored their financial ratios to positions comparable to pre-inflation and prerecession levels. As is typical in the early phases of economic expansions, many businesses began moving to strengthen their balance sheets in 1983, but the period of balance sheet restructuring in the current expansion appears to have been unusually brief. A downturn in stock prices this year has made equity financing less attractive, and rising long-term interest rates have inhibited bond financing. Mergers and so-called "leveraged buyouts" have resulted in a disturbing net retirement of equity so far this year. The business sector has remained heavily reliant on short-term credit as its source of finance and is still relatively vulnerable to adverse interest-rate developments.

Financial problems of a more severe nature are evident in particular sectors of the economy. In farming, for example, export developments have continued to be discouraging, land prices are falling in important agricultural areas, and many farmers who had accumulated large volumes of debt during the more inflationary years are, at present, facing severe financial strains.

The Government Sector

With the cyclical strengthening in economic activity, federal tax revenues have increased, and the rate of growth in federal spending for income support programs has slowed markedly. Nevertheless, federal debt has continued to accumulate at an enormous rate, reflecting both an underlying uptrend in federal outlays and the series of tax reductions that took effect during the past three years. Federal debt outstanding has risen more than 80 percent since the end of 1979. Net interest payments on the debt have more than doubled over that same period, rising to an annual rate of about $110 billion by the first half of 1984. Current prospects are for further sizable increases in both outstanding debt and net interest payments in coming years.

These spending and revenue policies of the federal government have provided an extraordinary stimulus to aggregate demand for goods and services, but they also have contributed to high interest rates, unsettled conditions in financial markets, and a startling deterioration in our balance of trade. Recognizing the dangers posed by current policies, the Congress and the administration have sought appropriate ways to reduce federal budget deficits, but the actions taken to date are only a limited beginning toward dealing with the full magnitude of the problem.

The underlying thrust toward higher federal spending has been obscured in some of the recent data. For example, in real terms, federal purchases of goods and services in the first half of 1984 were slightly below year-earlier levels as outlays early in the year were depressed by an unusually rapid liquidation of the farm inventories held by the government's Commodity Credit Corporation. For other goods and services, federal purchases in the first half were nearly 4 percent more than a year earlier, after adjustment for inflation. Real outlays for defense were up about 5¼ percent from a year earlier.

The financial situation of state and local governments has improved markedly during the expansion. In real terms, state and local outlays, though up moderately in the first half of 1984, still have shown only a small real gain over the past three years as a whole; these cautious spending patterns, coupled with increased tax revenues associated with the expansion, have resulted in large operating surpluses for state and local governing units as a whole.

The Foreign Sector

After falling sharply in 1981 and 1982, the volume of U.S. exports rose moderately during 1983 and increased further in the early part of this year. However, imports have grown much faster, and as a result the trade deficit increased from an annual rate of roughly $40 billion in the first quarter of 1983 to a rate of more than $100 billion in the first quarter of 1984. The U.S. current account deficit registered a corresponding shift during this period, with the first-quarter deficit reaching an annual rate of nearly $80 billion. Data through May indicate that the trade balance remained weak into the second quarter. The magnitudes of these trade and current account deficits are without historical precedent.

While the gains in exports in recent quarters have not fully reversed the declines that occurred during the last recession, imports have surged far above their prerecession peak. A major influence on these trade patterns has been the tremendous appreciation in the exchange value of the U.S. dollar in recent years. Buoyed by high U.S. interest rates and an eagerness of foreigners to invest in dollar-denominated assets, the dollar rose about 45 percent against other currencies from late 1980 to late 1983 and, after turning down temporarily in early 1984, rose to new highs around midyear. This appreciation, through its impact on relative prices, has been both a depressant of exports and a strong stimulant to import growth.

Recent trade developments also reflect the sharply divergent growth patterns in the world economy. The exceptional strength of the U.S. economy over the past year and a half has been manifested partly in a surge of import buying. In contrast, the economic recovery in other industrial nations has been substantially less rapid than in the United States, and exports to those nations have lagged. Many developing countries that are burdened with huge external debts have, necessarily, sharply constrained imports, including those from the United States.

Labor Market Developments

Labor market developments in the first half of 1984 were shaped both by the vigorous expansion in economic activity and by widespread restraint on increases in nominal wages and salaries. Employment rose rapidly, work schedules lengthened, and unemployment declined. Thus far in the current expansion, payroll employment has risen a little more rapidly than in most previous postwar recoveries; the average workweek, another indicator of labor demand, has increased much faster than usual.

The slack economic conditions during the recession and the early phases of the recovery may have discouraged many persons from seeking new jobs, but as the expansion has lengthened into 1984, new jobseekers started entering the labor force at a faster pace. However, employment opportunities rose even faster and, as a result, unemployment rates continued to fall. By June the civilian unemployment rate had dropped to nearly 7 percent, its lowest level since April 1980.

Notwithstanding the general improvement in labor market conditions, there are wide disparities in the job situations across different regions. Unemployment is still quite high in many of the traditional industrial states, and problems of longer-term unemployment remain especially acute in communities where plants were permanently closed during the recession. Jobless rates for blacks and teenagers also remain exceptionally high.

Recent wage developments appear to have been affected both by changes in behavior that first were evident during the recession period and by the moderation of price increases. Nominal wage increases, which were running close to 10 percent per year at the start of the decade, fell sharply in 1982 as unemployment rose to nearly 11 percent of the labor force. As the economy has expanded, the rate of wage increase has remained close to those lower levels. Year-to-year increases in the employment cost index, a fairly comprehensive measure of wage and benefit change, held at about 5¾ percent from September 1983 through March 1984; the hourly earnings index, a measure of wage change for production and nonsupervisory workers, has slowed a little further in the first half of this year to an annual rate of about 3¼ percent.

By the 1970s, large annual increases in nominal wages had become almost automatic in a number of industries, thereby imparting strong momentum to the inflationary process. However, as labor markets weakened in the early 1980s and price expectations moderated, there were marked changes in patterns of wage determination. Outright declines in wages occurred in many troubled industries, and workers in general became more concerned about job security than about automatic wage increases. Workers and managers alike took new interest in measures to improve productivity and to enhance competitiveness in foreign markets.

With labor markets now tightening, a key question in the outlook is whether the recent conservative patterns of wage determination will be maintained or, alternatively, whether there will be a reversion to the more inflationary patterns of the previous decade. Important signs regarding the outlook for wages should emerge later this year, as new collective bargaining negotiations get under way, including some in industries in which economic conditions have strengthened markedly during the expansion.

Price Developments

Inflation rates fell dramatically during 1982 and—by the standards of the past decade—have remained relatively moderate through the first year and a half of the expansion. The consumer price index rose at an annual rate of about 4½ percent during the first five months of 1984; the price deflator for gross national product was up at a rate of only 3¾ percent in the first half. The rate of increase in the CPI was slightly above the pace experienced during 1983; the GNP deflator has risen at the same rate this year as in 1983. Producer prices, after rising only fractionally in 1983, increased at close to a 3 percent rate in the first half of this year; basic commodity prices have been declining in recent weeks, reversing some of the sharp advances that occurred earlier in the expansion.

Taken together, these and other price data suggest that inflation in the first half remained in the range that has generally prevailed since early 1982 and is running at little more than one-third of the peak inflation rates of the period from 1979 to 1981. Price behavior over the past year and a half has been constrained by highly competitive markets, as well as by the ample plant capacity and labor resources generally available during the recovery period. In addition, because of the sharp rise of the dollar in exchange markets, the dollar prices of imported goods have increased only slightly thus far in the expansion and have been a greater restraining influence on domestic prices than in past expansions.

Imbalances between supply and demand have been an important influence on price developments in food and energy markets, sectors in which inflationary pressures had been particularly acute in the 1970s. Because of spare capacity in world oil markets, a protracted war in the Persian Gulf has, to date, had little effect on the prices of oil or petroleum products; consumer energy prices, in relative terms, have continued to decline this year. Similarly, the slack export demand for U.S. farm products has helped to damp price pressures in the food sector; despite the severe drought of last summer and a damaging freeze this past winter, the rise in consumer food prices in the first half of the year was not much different from the general rate of inflation.

All told, the nation is enjoying a better price performance than for any other sustained period in more than a decade. The fact that inflation rates and underlying wage trends have remained moderate during a particularly robust expansion is an encouraging development. However, there typically has been little price acceleration in the first two years of business expansions; the dangers have become greater in the later stages of expansion. Moreover, while the foreign sector has provided an important restraining influence on domestic prices thus far in the current expansion, that influence has been dependent on an exceptionally strong dollar and a high level of capital inflows from abroad. Thus, although current price trends are favorable, important tests of progress toward greater price stability remain ahead.

Money, Credit, and Financial Markets in the First Half of 1984

Earlier this year, the Federal Open Market Committee established specific growth objectives for the monetary and credit aggregates for 1984. These objectives were 4 to 8 percent for M1, 6 to 9 percent for both M2 and M3, and 8 to 11 percent for domestic nonfinancial sector debt. The ranges were set ½ or a full percentage point below the ranges for 1983, to be consistent with continued restraint on inflationary pressures while encouraging sustainable expansion in economic activity.

In setting these objectives, the FOMC assumed that special factors that had contributed to strong demands for money in 1982 and 1983 would not be nearly so important in 1984. The massive shifts of funds brought about by the introduction of the new deposit accounts were largely completed last year. The continuing strength of the economic rebound and the size of federal budget deficits made it appear that further substantial declines in interest rates, such as those that had accompanied the recession in 1982 and had contributed to sharp declines in monetary velocity, were unlikely over the near term. Moreover, greatly improved prospects for employment and incomes seemed to be reducing the uncertainties that earlier had swelled demands for precautionary balances. Consequently, the relationships of the monetary aggregates to income and interest rates were expected to fall more into line with historical norms.

Even though, as 1984 began, there was some evidence that the velocity of M1 was behaving more in accord with past patterns, the Committee decided that it would not yet be appropriate to place full weight on that aggregate as a policy guide and that its growth would need to be interpreted in light of growth in the other aggregates. Moreover, growth of all the aggregates needed to be appraised in the context of the outlook for economic activity and prices, and overall credit market developments.

Growth of Money and Credit

Percentage changes

Period	M1	M2	M3	Domestic nonfinancial sector debt
Fourth quarter to June 1984	7.5	7.0	9.7	13.1 [e]
Fourth quarter to second quarter 1984	6.7	6.9	9.7	13.1 [e]
Fourth quarter to fourth quarter				
1978	8.2	8.0	11.8	13.3
1979	7.5	8.1	10.3	12.1
1980	7.4	9.0	9.6	9.6
1981	5.1 (2.5)[1]	9.3	12.3	9.9
1982	8.7	9.5	10.5	9.0
1983	10.0	12.1	9.7	10.8
Quarterly growth rates				
1983:1	12.8	20.5	10.8	8.9
2	11.6	10.6	9.3	10.4
3	9.5	6.9	7.4	11.8
4	4.8	8.5	9.8	10.3
1984:1	7.2	7.0	9.0	12.5
2	6.1	6.8	10.2	13.3 [e]

[1] M1 figure in parentheses is adjusted for shifts to NOW accounts in 1981.

e Estimated.

In the first part of the year, credit demands proved to be exceptionally strong, reflecting the continued rapid expansion in private sectors of the economy, coupled with sustained, large federal borrowing needs. Indeed, growth in the debt of domestic nonfinancial sectors accelerated in the first quarter and remained at an advanced pace of around 13 percent at an annual rate through the first half, significantly above the range set by the FOMC at the beginning of the year. The debt of private sectors increased at about a 12½ percent annual rate in the first half of the year—some 4½ percentage points more than last year—while federal debt expansion remained strong at an annual rate of about 14¾ percent.

In appraising credit growth over the first half of the year, account needs to be taken of an unusually large volume of merger activity. Several large mergers and many smaller ones were financed largely with debt and led to liquidation of a sizable amount of equity. Such mergers are estimated to have accounted for roughly one percentage point of the annual growth rate of domestic nonfinancial sector debt in the first half of the year.

Much of the debt expansion was concentrated in short-term markets. Growth in bank credit accelerated to a 14 percent annual rate in the first quarter of the year, though it slowed somewhat in the spring as banks liquidated securities to a greater extent in accommodating loan demands. Large amounts of credit also were raised in the commercial paper market. Corporate borrowers—which as a group had not had any significant need for net external financing in the previous two years—this year began to experience a rise in the financing gap, as spending for inventories and plant and equipment came to outpace internally generated funds.

While borrowing in short-term markets particularly strengthened, the demand for funds in longer-term debt markets remained large relative to the supply of savings in those instruments. Mortgage borrowing by households rose sharply, and corporate bond issuance picked up somewhat from its pace of the second half of last year. Meanwhile, the federal government continued to market a sizable amount of longer-term debt obligations to meet its continuing large cash needs and to roll over maturing debt. On the other hand, activity in the municipal bond market was subdued during the first half, at least by comparison with the past two years, reflecting a lapse in authority to issue mortgage revenue bonds and anticipated legislative limits on industrial development and student loan bonds retroactive to January.

The strength of total credit demands exerted upward pressures on interest rates. These pressures were reflected in a rise of about 1 to 2 percentage points in short-term rates over the first half of the year. Long-term rates also rose about that amount, reflecting in part the weight of Treasury financing and uncertainties about the budgetary and economic outlook generally, whereas they normally rise much less than short-term rates.

The Federal Reserve in implementation of monetary policy added moderately to pressures on the reserves of the banking system around the end of the first quarter to maintain appropriate growth of money and credit. To meet credit demand and deposit growth, institutions had to turn somewhat more to the discount window; borrowing for adjustment and seasonal purposes at the window rose to around $1 billion in March and April after averaging only about $640 million during the first two months of the year. The narrower monetary aggregates—M1 and M2—have remained within their ranges. However, under the pressure of strong public and private credit demands, both M3 and total domestic credit have been expanding at a more rapid rate than anticipated.

As reserve pressures increased, growth of total reserves and the monetary base slowed substantially during the early spring. Part of the slowing in growth of total reserves reflected the return of excess reserves to more usual levels after they had expanded sharply in February, at the time of the introduction of contemporaneous reserve accounting. In May and June, growth in the reserve aggregates accelerated, partly reflecting the upward impact on required reserves of shifts in the deposit mix as banks relied relatively more heavily on large time deposits and as government and interbank deposits also rose. The large borrowing by Continental Illinois Bank over this period was offset in open market operations by reduced holdings of U.S. government securities, so that borrowing by depository institutions apart from that bank remained close to the level reached in early spring.

The federal funds rate rose from about 9½ percent in the early part of the year to around 10 percent in early spring and to around 11 percent in June and early July. The Federal Reserve discount rate was raised from 8½ to 9 percent in April. While the rise in the funds rate—which is sensitive to banks' day-to-day demands for reserves relative to supply—in part reflected somewhat greater restraint by the Federal Reserve in the provision of reserves through open market operations during the spring, it also reflected the increased willingness of banks to pay more for federal funds as credit demands remained strong, and as other sources of funds became relatively expensive.

The loss of confidence in the Continental Illinois Bank and well-publicized problems related to ongoing international debt negotiations in May led to a widening in the spread of yields on certificates of deposit issued by depository institutions over Treasury securities of similar maturity. Indeed, investors increasingly seemed to show a preference for government securities relative to private credit instruments generally. More recently, yield spreads have narrowed, as progress has been made on debt questions and the Continental Illinois situation has remained unique and contained.

M1 has grown generally in the upper half of the 4 to 8 percent range adopted by the Committee. From the fourth quarter of 1983 through June of this year, that aggregate grew at a 7½ percent annual rate, close to the rate of growth during the second half of 1983, but significantly lower than during 1983 as a whole. Growth in currency, demand deposits, and travelers checks (essentially the narrow measure of money used before 1980) has remained near last year's 5¼ percent pace.

However, other checkable deposits (OCDs) have decelerated sharply from the nearly 30 percent rate of growth of 1983 to around 14 percent this year. OCDs—primarily consisting of NOW accounts—are interest earning, and tend to be used not only for transactions but also as a repository for liquid savings. This year's slowing apparently reflects a waning of the motives that led to heavy demands for liquid assets in 1982 and 1983, as well as recent increases in the opportunity cost of holding such balances as interest rates on other instruments have risen.

While M1 growth has slowed relative to last year, its income velocity—measured by the ratio of gross national product to money—increased rapidly, given the strength of the economy and associated demands for money and credit. Over the first half of the year the income velocity of M1 has increased at about a 5½ percent annual rate, a little more rapid than usually has occurred in the second year of an expansion. Nonetheless, the level of M1 velocity still remains about 3 percent below the peak reached during 1981, and about 10 percent below an extrapolation of its pre-1982 trend—suggesting that at least some relatively permanent, sizable increase in demand for M1 may have stemmed from the impact on the public's money preferences of the sharp drop of market interest rates in 1982 as inflation abated, given the comparatively low opportunity cost of holding M1 that developed with the larger role of interest-bearing transaction accounts in that aggregate.

Growth in M2 also has been well below that of GNP over the first half of 1984. To some degree, expansion in M2 appears to have been restrained by heavy inflows to individual retirement accounts (IRAs) and Keogh accounts, which are excluded from money stock measures. Inflows to IRA and Keogh accounts at depository institutions alone surged more than $20 billion over the first half of the year, much of which likely has not yet been taken into account by seasonal adjustment factors. The composition of growth in the nontransaction component of M2 has tended in recent months to shift toward small time deposits, perhaps reflecting a willingness of investors to sacrifice liquidity in order to receive higher yields. At the same time, the fact that depository institutions have lagged in raising their offering rates on time deposits relative to market interest rates probably has encouraged some savers to invest in market instruments instead.

However, M3 growth—like growth in total debt—has pushed above the upper end of its range. This aggregate comprises, in addition to all of the assets in M2, large CDs and certain other borrowings by depository institutions. Thrift institutions have continued to issue large CDs at a rapid pace, owing to heavy acquisitions of mortgages and mortgage-backed securities and moderate growth of core deposits. Loan growth at commercial banks strengthened further in the first half of 1984. Commercial banks, which last year ran off about $40 billion of large CDs in response to the flood of money market deposit account money and sluggish loan demand, increased outstandings $25 billion in the first six months of the year to fund the surge in loan demand. Growth in M3 would probably have been even more rapid had not commercial banks supplemented deposit funds by heavy borrowing from foreign offices, amounting to $15 billion over the first half of 1984.

In general, the rapid further expansion of the economy in the first half of 1984 has been financed by an accelerated rise in velocity of money and by large-scale extensions of credit, all accompanied by further increases in interest rates and by an unusually large share of credit raised abroad. In the process, greater stresses, or their potential, have been evident this year in the financial position of some economic sectors.

Depository institutions as a group have not been under pressure from disintermediation as they often were in the past when interest rates rose because regulatory ceilings on yields payable by depository institutions have largely been removed. Thus, deposit flows have been well maintained. Still the profits of banks and thrifts deteriorated in the first half of 1984—in the case of banks, partly because of continuing problem loans, and in the case of thrifts, mainly because of rising interest rates.

With regard to the corporate business sector, the reduction in equity shares outstanding thus far this year, together with the concentration of overall borrowing in short-term market sectors, has in some degree reversed the progress made last year toward stronger balance sheet positions. In the household sector, rapid growth in consumer credit and in mortgage debt, especially adjustable-rate mortgages, has increased the actual and potential share of income devoted to debt service.

There has been a sharp upswing in use of adjustable-rate mortgages, most of which are made at initial rates well below the cost of fixed-rate financing, that has tended to support housing activity and mortgage lending. Nearly two-thirds of conventional mortgages originated by savings and loan institutions in early 1984 were of the adjustable-rate variety. Thrifts also have been originating and holding a growing volume of consumer loans. Both of these types of assets carry yields that more closely track current market yields than do long-term fixed-rate mortgages. Despite the shift away from origination of fixed-rate mortgages, however, the asset stocks of thrift institutions remain heavily concentrated in such instruments, leaving industry earnings vulnerable to rising interest rates.

The foreign exchange value of the dollar on a trade-weighted basis declined somewhat during the first few months of the year, but has since retraced all of its decline and more, establishing bilateral record highs against several currencies. The dollar's rebound appears partly related to increases in dollar interest rates relative to yields on assets denominated in foreign currencies. Demand for the dollar may have been spurred also by the favorable inflation performance in the United States and a perception that monetary policy will continue to resist inflationary pressures. In addition, part of the dollar's strength may reflect labor relations problems that have affected European currencies, as well as military conflicts in the Mideast. Reports of a widening trade deficit may have weakened the dollar, but on balance the forces mentioned above more than offset the effects of the deficit.

The large net inflow of funds that foreigners have been willing to place in the United States has been an important factor enabling credit markets to finance the faster rise in private borrowing needs, while still accommodating the unusually large and continuing federal credit demands. Thus, the imbalance, at current interest rates, between domestic savings and domestic demands on that saving from the federal budgetary deficit and private spending for investment has been accommodated by a large further rise in debt owed to foreigners.

Part 2

Records, Operations, and Organization

Record of Policy Actions of the Board of Governors

Regulation D (Reserve Requirements of Depository Institutions)

October 31, 1984—Amendments

The Board amended Regulation D, effective January 1, 1985, (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. Wallich, Partee, Rice, Gramley, and Ms. Seger. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Martin.

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 of transaction balances subject to the lower reserve requirement to reflect changes in the amount of transaction balances in the banking system nationwide. By the beginning of 1984, the amount had been raised to $28.9 million. Recent growth in such balances indicated that a further increase of $0.9 million was warranted. The Board, therefore, amended Regulation D to increase to $29.8 million the amount of transaction balances to which the 3 percent 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 deposit growth. Recent growth in deposits indicated that the amount subject to a zero percent reserve requirement should be increased from $2.2 million to $2.4 million, and the Board amended Regulation D accordingly.

Regulation E (Electronic Fund Transfers)

October 4, 1984—Amendments

The Board amended Regulation E to expand coverage, modify error-resolution procedures, and provide additional flexibility in the disclosure of charges for electronic fund transfer (EFT) services.

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

The amendments to Regulation E (1) expand coverage of the regulation to include all transfers resulting from debit card transactions, including those that do not involve an electronic terminal at the time of the transaction; (2) extend the period of time allowed for resolving errors resulting from point-of-sale debit card transactions; (3) exempt consumer asset accounts that are subject to Regulation T (Credit by Brokers and Dealers) from the provisional recrediting requirements; and (4) provide more flexibility in disclosing on consumers' periodic statements charges for electronic fund transfers.

The last three amendments cited above were effective October 16, 1984. The provisions in the first amendment that affected restrictions on issuance of debit cards and on liability for unauthorized transactions were effective November 16, 1984; the other requirements applicable to transfers resulting from debit card transactions that do not involve electronic terminals were to be effective April 16, 1985.

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

September 5, 1984—Amendments

The Board amended Regulations G, T, and U, effective November 13, 1984, to make any stock designated as a National Market System security automatically eligible for margin credit. The Board also made certain other changes in conjunction with these amendments.

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

Securities are included in the National Market System (NMS) under criteria developed by the National Association of Securities Dealers and approved by the Securities and Exchange Commission. To facilitate development of that system, the Board amended the margin regulations to make any NMS security eligible for trading on margin. In two related actions, the Board changed to a quarterly schedule for publishing its List of Marginable OTC Stocks, and amended Regulations G and U to provide protection in the interim between the quarterly publication dates to lenders who may not have received notice of a stock's designation as an NMS security.

Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds)

January 25, 1984—Amendment

The Board amended Regulation J, effective April 2, 1984, to permit Reserve Banks to charge for checks they present to institutions that regularly close one day in midweek and to defer credit to institutions depositing checks drawn on banks that close for state or local holidays that are not observed nationally.

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

Under the first action, a Reserve Bank may charge an institution for checks made available to it on a weekday on which the institution regularly is closed but the Reserve Bank is open. Alternatively, the institution may elect to pay for the float generated by its midweek closing, using the System's procedures for recovery of interterritory float.

The second action allows a Reserve Bank to delay credit for one day to depositing institutions for checks drawn on institutions closed for nonstandard holidays on which the Reserve Bank is open. The value of any remaining float attributable to such holidays will be added to the cost base of the Reserve Bank's check collection services.

Regulation K (International Banking Operations)

February 2, 1984—Amendments

The Board amended Regulation K, effective February 13, 1984, to require the establishment of reserves against certain international assets and to establish reporting and disclosure requirements for certain international assets that are subject to the risks associated with the wire transfer of funds.

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

The amendments implement provisions of the International Lending Supervision Act of 1983 that require banking institutions to maintain reserves against certain foreign assets if it is determined that the quality of those assets has been impaired by a protracted inability of public or private borrowers in a foreign country to make payments on their internal or external debts, or when no definite prospects exist for orderly restoration of debt service. The Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency adopted similar requirements for banks under their jurisdictions.

The Board also adopted a rule setting forth the framework for requiring country exposure reports by banking institutions. The content and format of the reports will be developed jointly by the Board and the other federal banking agencies.

The Board delayed, for further comment, action on the related issue of whether U.S. branches, agencies, or commercial lending subsidiaries of foreign banks should be subject to the same reserve and disclosure requirements as U.S. banks.

March 21, 1984—Amendments

The Board amended Regulation K to establish uniform requirements for accounting for the fees associated with certain international loans.

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

The changes supplement actions taken in February to implement the International Lending Supervision Act of 1983. The amendments prohibit bank holding companies, member banks, and Edge and agreement corporations from charging, in connection with the restructuring of an international loan, any fee that exceeds the administrative cost of the loan. They also establish accounting rules to ensure that appropriate portions of other fees charged in connection with international loans are accrued as income over the life of the loan.

The new accounting regulations were effective June 30, 1984, except for the provisions relating to accounting for fees on restructured international loans, which were effective March 29, 1984.

Regulation T (Credit by Brokers and Dealers)

March 7, 1984—Amendment

The Board amended Regulation T, effective April 13, 1984, to permit an options clearing agency to accept certain approved margin securities in satisfaction of its deposit requirements.

> 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 Board amended Regulation T in recognition of action by the Securities and Exchange Commission that allowed an options clearing agency to accept from its members certain margin securities to meet the agency's deposit requirements. Previously, only the securities underlying the options contracts could be used. The amendment permits brokers and dealers to accept the deposit of any margin security if it also meets the criteria of the SEC for clearing deposits.

September 5, 1984—Amendments

These actions are discussed under Regulation G.

Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks)

September 5, 1984—Amendments

These actions are discussed under Regulation G.

Regulation Z (Truth in Lending)

November 21, 1984—Amendment

The Board amended Regulation Z, effective December 31, 1984, to clarify that the provisions governing issuance of credit cards and liability for their unauthorized use are applicable to all credit cards, even those cards used for transactions that otherwise are exempt from the regulation.

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

The amendment principally affects credit cards used for two classes of transactions that are generally exempt from the regulation: credit extended by public utilities and credit of more than $25,000 not secured by real property. The Board amended the regulation to make clear that all credit cards are covered by the provisions that prohibit unsolicited issuance of credit cards and that limit a consumer's liability for the unauthorized use of a card, regardless of use or cardholder status. The cards most immediately affected by the amendment are telephone credit cards.

Policy Statements and Other Actions

February 15, 1984—Delayed Disbursement Practices

The Board issued a policy statement emphasizing its opposition to delayed disbursement practices.

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

Delayed disbursement involves the practice followed by some businesses and individuals of establishing checking accounts at depository institutions that are located far from the payees in order to delay payment of their checks. Delayed disbursement reduces the efficiency of the payments system by increasing processing and transportation costs.

The Board issued the policy statement to express its concern about the increased use of delayed disbursement practices in recent years and to affirm its commitment to accelerate the check collection process.

March 21, 1984—Delayed Availability of Funds

The Board issued a policy statement jointly with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Federal Home Loan Bank Board that asked financial institutions to avoid unnecessary delays in making funds deposited by check available to their customers.

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

The four agencies were concerned about the practice by some depository institutions of limiting their customers' ability to withdraw funds deposited by check to their accounts. Institutions often delay availability of funds to allow sufficient time to determine whether checks will be returned unpaid. In issuing the policy statement, the agencies asked that financial institutions review their delayed availability practices, disclose them to their customers, and refrain from imposing unnecessary delays on checks deposited, particularly on social security and other government checks.

March 21, 1984—Advertisements for Multiple-Rate Time Deposits

The Board issued a policy statement concerning the advertisement by state member banks of interest rates on certain time deposits.

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

The policy statement resulted from several recent advertisements by depository institutions offering a high effective interest rate on individual retirement accounts (IRAs) for a short, initial period, and a much lower rate for the time remaining until maturity. In such advertisements the initial, higher rates appeared in large type, while the lower rates were stated in much smaller type. The new policy requires that the two rates be stated in type of equal size and that the advertisements also indicate the average annual yield of the deposit. Furthermore, banks may not refer to individual retirement account contributions as "tax exempt."

In adopting this policy, the Board indicated it was considering incorporating the substance of the statement into the advertising rules of Regulation Q (Interest on Deposits). The other regulators of financial institutions were expected to take similar actions in the near future.

March 26, 1984—Use of the Federal Reserve's Wire Transfer Network

The Board issued a policy statement indicating that it is inappropriate for depository institutions to use the Federal Reserve's wire transfer system to avoid System efforts to reduce transfer risk.

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

The Board was concerned about the growing use of payments networks that transfer extremely large amounts of funds by wire each day, both domestically and internationally. Because of the lag between the time a payment message is sent and final settlement is effected, there is a risk of nonpayment from failure to settle, not only for institutions using the wire transfer system but for other sectors of the economy as well. The Federal Reserve operates a transfer network and three other systems are operated by private sector groups.

In addition to issuing the policy statement, the Board sought public comment on several alternative proposals that would reduce the risk of failure to settle. One proposal would limit the amount of overdrafts a network participant could incur (sender net debit limits) and another would permit a receiving institution to limit the amount of intraday credit it would extend to a sending institution (bilateral net credit limits).

In a related action, the Board rescinded the moratorium that had prevented new wire transfer networks from having access to the System's net settlement services. New networks may have access if they agree to establish net debit and credit limits and provide appropriate data on transactions to the Federal Reserve.

October 31, 1984—Priced Services

The Board issued a policy statement concerning the treatment of any surpluses or deficits that the System may incur in connection with the provision of priced services.

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

The policy statement confirmed that fees for Federal Reserve services are established to provide sufficient revenue to cover the anticipated costs during the year of providing the services, including the private sector adjustment factor. Fees are not established to offset surpluses or deficits incurred in previous years. Adoption of the statement represented a formal announcement of existing policy rather than a change in policy.

1984 Discount Rates

The Board approved three changes in the basic discount rate during 1984: an increase from 8½ to 9 percent in April and reductions to 8½ percent in November and to 8 percent in December. During the year the Board voted at eight meetings to turn down requests for changes in the basic discount rate submitted by individual Federal Reserve Banks. As described below, the Board also approved certain modifications in the structure of rates under the extended credit program.

The reasons for the Board's decisions are reviewed below. Those decisions were made in the context of broad economic and financial developments that are covered in greater detail elsewhere in this REPORT. A listing of the Board's discount rate actions during 1984, including the votes on those actions, follows this review.

Actions on the Basic Discount Rate

January to March: No Change

Early in the year the Board disapproved two separate requests submitted by one Federal Reserve Bank to reduce the basic discount rate from 8½ percent, the level in effect since mid-December 1982, to 8 percent. The other eleven Banks had proposed that the current rate be maintained. The Board decided that a lower discount rate was not warranted by interest rate developments or, more generally, by prevailing economic and financial conditions, including the behavior of the monetary aggregates. Growth in M1 had picked up in earlier weeks after several months of reduced expansion, while increases in the broader monetary aggregates appeared to be continuing at rates that were in line with those contemplated by the Federal Open Market Committee.

Early April: Increase in Basic Discount Rate

During February and March, market interest rates rose appreciably in association with a pronounced strengthening of economic activity and rising credit demands. The higher market rates also reflected disappointment in efforts to reduce the federal budget deficit and increasing concerns about a possible intensification of inflation pressures. The rise in short-term interest rates was accompanied by a considerable increase in adjustment and seasonal borrowing from the Reserve Banks. On April 6, the Board approved an increase in the discount rate from 8½ to 9 percent to bring it into better alignment with short-term market rates.

Mid-April to Mid-November: No Change

No further change in the discount rate was approved until the latter part of the year. From late May through mid-September, the Board turned down six requests by individual Reserve Banks to raise the discount rate by ½ percentage point to 9½ percent. Market interest rates continued to rise on balance through midsummer, but borrowing, apart from extended credit to a major bank that was experiencing severe liquidity problems, showed little trend during this period. The Board's disapprovals also took account of broader economic and financial developments, including growing evidence of considerable slowing in the rate of economic expansion and reduced growth in the monetary aggregates, especially M1, after midyear. By late summer short-term market interest rates began to decline and borrowing from the Federal Reserve Banks also tended to fall.

November-December: Reductions in Basic Discount Rate

The Board approved reductions of ½ percentage point, to 8½ percent on November 21 and to 8 percent on December 21. The reductions were made in the context of a tendency for short-term market rates to decline and against the background of substantial reduction in the pace of business expansion; the restrained trend of wages and prices, including relative stability or declines in sensitive commodity prices; and the strength of the dollar on foreign exchange markets. The Board also noted that while the expansions of both M1 and M2 were well within desired ranges for the year as a whole, growth in M1 had been relatively sluggish on average since mid-1984.

Modifications in Extended Credit Program

In mid-May the Board approved a change in the program for making advances at a rising schedule of rates to depository institutions that are borrowing for extended periods. A major bank in Chicago was experiencing numerous withdrawals of large deposits and was borrowing on a very substantial scale from the Chicago Federal Reserve Bank to cover its needs for funds. Because the borrowing was expected to be outstanding for an unusually long period and to remain relatively large, the Board agreed on the desirability of permitting a shortening of the usual time period for which each rate in the extended rate structure might be applied.

During August the Board approved a further change to allow a flexible rate related to market rates in exceptional cases when market rates are above the normal rate for extended credit. The flexible rate was intended to avoid giving the borrowing institution an unfair competitive advantage in funding. It was initially set at 11¾ percent on August 21 and later reduced as market rates declined.

In early November the Board approved a further modification in the extended credit program. When the flexible, market-related rate is above the basic rate plus 2 percentage points, it will ordinarily apply only to larger institutions that have access to national money markets. When it is below the basic rate plus 2 percentage points, it can be applied to all depository institutions. In no case will the flexible rate be less than the basic rate plus 1 percentage point. The flexible rate was expected to be uniform among the Federal Reserve Districts.

Votes on Reserve Bank Actions to Change the Discount Rate

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 approval or disapproval of actions to change rates.

The basic discount rate noted in this report is the rate on discounts for, and advances to, depository institutions for short-term adjustment credit. The basic rate also applies to seasonal credit, which 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. The other category of discount window credit relates to 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.

As of December 31, 1984, the structure of rates was as follows: a basic rate of 8 percent for short-term adjustment credit and for seasonal credit; and a rate on extended credit at the basic rate of 8 percent for the first 60 days of borrowing, 9 percent for the next 90 days of borrowing, and 10 percent after 150 days. As an alternative, for loans outstanding for more than 150 days, a Federal Reserve Bank may charge a flexible rate that takes into account rates on market sources of funds; at the end of 1984, this flexible rate was 9 percent. When it is anticipated that credit provided to a depository institution will be outstanding for an unusually prolonged period and in relatively large amounts, the period during which each rate under this structure is applied may be shortened.

January 4, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on December 29, 1983, to reduce the basic discount rate to 8 percent (a reduction from 8½ percent).

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

January 16, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on January 12, 1984, to reduce the basic discount rate to 8 percent.

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

April 6, 1984
Effective April 9, 1984, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, and Dallas to increase the basic discount rate to 9 percent.

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

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Cleveland and Atlanta, effective April 10, and the Federal Reserve Banks of Kansas City and San Francisco, effective April 13, 1984.

May 16, 1984
The Board approved a modification in the schedule of rates on extended borrowing to permit the Federal Reserve Bank of Chicago to apply the higher rates in the schedule to borrowing by a major bank without regard to the 60- and 90-day time periods.

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

May 29, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of Cleveland on May 24, 1984, to increase the basic discount rate to 9½ percent.

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

June 11, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of Cleveland on June 7, 1984, to increase the basic discount rate to 9½ percent.

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

June 25, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on June 22, 1984, to increase the basic discount rate to 9½ percent.

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

August 20, 1984
The Board approved the establishment by the Federal Reserve Bank of Chicago of a flexible rate, related to market rates on alternative sources of funds, for borrowings by a depository institution that are expected to be outstanding for an unusually prolonged period and in unusually large amounts.

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

On August 20, 1984, the Board also approved a request by the directors of the Federal Reserve Bank of San Francisco to disregard, if deemed necessary under exceptional circumstances, the 60- and 90-day time periods for extended credit surcharges.

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

August 27, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on August 23, 1984, to increase the basic discount rate to 9½ percent.

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

September 10, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on September 7, 1984, to increase the basic discount rate to 9½ percent.

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

September 17, 1984
The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on September 13, 1984, to increase the basic discount rate to 9½ percent.

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

November 8, 1984
On November 8, 1984, the Board approved a modification of its extended credit program to permit Federal Reserve Banks to charge an alternative flexible rate on loans outstanding more than 150 days. The flexible rate will be determined periodically and will be somewhat above the effective rate paid by depository institutions that are raising funds in national money markets on a variety of liabilities. When the flexible rate is above the basic rate plus the 2 percent surcharge, it will ordinarily apply to larger institutions that normally have access to national money markets. The flexible rate may be applied to all institutions when it is below the basic rate plus the 2 percent surcharge. In no case may the rate be less than the

basic rate plus 1 percentage point. The flexible rate is expected to be uniform among Federal Reserve Districts. The period for which each rate in the extended credit rate structure applies may be shortened at the discretion of the Reserve Bank when it is anticipated that borrowing by a particular depository institution will be outstanding for an unusually long period and in unusually large amounts.

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

November 21, 1984

Effective November 21, 1984, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the basic discount rate to 8½ percent.

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

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston and Atlanta, effective November 23, and the Federal Reserve Bank of Cleveland, effective November 26, 1984.

December 21, 1984

Effective December 24, 1984, the Board approved actions taken by the directors of all the Federal Reserve Banks to reduce the basic discount rate to 8 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, and Rice. Vote against this action: Mr. Gramley. Absent and not voting: Ms. Seger.

Mr. Gramley dissented from this action because he was opposed to any further easing of monetary policy under prevailing economic and financial conditions, or to any signal of such easing through a reduction in the discount rate.

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 1984, 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 equallv 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 1984 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 1984. 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, 1984

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 $5.0 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. 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 basis set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within

[1] Pursuant to an action taken by the Committee at its meeting on December 19-20, 1983, the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities was set at $5.0 billion for the period through the close of business on January 31, 1984, at which time it reverted to $4.0 billion.

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, 1984[2]

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 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.

[2] Adopted by the Committee at its meeting on December 19-20, 1983.

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.

Authorization for Foreign Currency Operations

In Effect January 1, 1984

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 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 Com-

mittee 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	700
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

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 operations 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 infor-

mation 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, 1984

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.

Meeting Held on January 30-31, 1984

Domestic Policy Directive

The information reviewed at this meeting indicated that growth in real gross national product had moderated to an annual rate of about 4½ percent in the fourth quarter of 1983, following expansion at annual rates of about 9¾ percent and 7½ percent in the second and third quarters respectively. Strength in personal consumption expenditures and further substantial expansion in business fixed investment in the fourth quarter were major factors in the continued growth of economic activity. Price and wage increases generally remained moderate, though advances in some indexes were somewhat larger than in the spring and summer.

The index of industrial production increased ½ percent in December, following gains of about ¾ percent in October and November. Production of consumer durable goods strengthened in December, as auto assemblies increased substantially, and output of business equipment continued to rise at a relatively rapid pace; production changed little in most other major market groupings.

Nonfarm payroll employment advanced about 230,000 further in December, compared with an average monthly increase of about 325,000 since the first quarter. Employment gains continued to be widespread across industry groupings and were particularly marked in manufacturing and service industries. The civilian unemployment rate declined 0.2 percentage point further to 8.2 percent.

The nominal value of retail sales was reported to have changed little in December, after large gains in preceding months. Sales at furniture and applicance stores and at automotive outlets remained strong, but were about offset by declines at food and apparel stores and gasoline stations. Although the reported data for retail sales in the preholiday weeks proved weaker than had been suggested by qualitative reports, real personal consumption expenditures for the fourth quarter as a whole rose at an annual rate of about 6½ percent. One factor in that rise was a strengthening in automobile demand; sales of new domestic autos rose to an annual rate of about 7¾ million units in December, after averaging about 7 million units in other recent months. In the last 20 days of December, auto sales were at an annual rate of nearly 8 million units, a selling pace that was maintained through the first 20 days of January.

Private housing starts declined about 5 percent in December, but for the fourth quarter were at a rate close to the 1.7 million units recorded for the year as a whole. Sales of new and existing homes, which had changed little in November, rose about 28 percent and 8½ percent respectively in December. The exceptional rise in sales of new homes reflected a record volume of activity in the South; sales in other regions held steady or declined.

Recent data indicate very considerable strength in business capital spending. Shipments of nondefense capital goods increased markedly in November and December. Real expenditures on equipment rose at an exceptionally rapid pace in the fourth quarter, when they registered one of the largest quarterly increases in the postwar period. Strong sales of heavy industrial machinery and communications equipment and a continued brisk pace of truck sales contributed to the fourth-quarter gain.

The producer price index for finished goods was unchanged on balance in November and December. For the year 1983 the index increased about ½ percent. The consumer price index rose marginally less in November and December than the 3¾ percent rate recorded for the year as a whole. The rise in the index of average hourly earnings was somewhat larger in the fourth quarter than in the preceding two quarters, but over 1983 the index rose a little less than 4 percent, compared with 6 percent over 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had appreciated on balance about 1 percent further since the latter part of December, with most of the rise occurring in early January. After mid-January the dollar receded from its peak and then moved somewhat erratically, partly reflecting uncertainties among market participants regarding the outlook for economic activity and interest rates in the United States. The U.S. foreign trade deficit was higher in the fourth quarter than in the third; a sharp rise in non-oil imports accounted for the increase, as oil imports declined and exports changed little.

At its meeting on December 19–20, 1983, the Federal Open Market Committee had decided that in the short run, open market operations should be directed toward maintaining at least the existing degree of reserve restraint. The members anticipated that such a policy would be associated with growth of both M2 and M3 at annual rates of around 8 percent from November to March, and that growth of M1 at an annual rate of about 6 percent over the four-month period was likely to be consistent with the objectives for the broader aggregates. Expansion in total domestic nonfinancial debt was expected to be within the tentative range of 8 to 11 percent established for the year 1984. It was agreed that, 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.

M2 and M3 expanded at annual rates of about 8 percent and 8½ percent respectively in December and apparently continued to grow at moderate rates in January.[1] Expansion in M1 accelerated in January, after several months of reduced growth. By the fourth quarter of 1983, M2 was at a level close to the midpoint of the Committee's range for the year, M3 was around the upper limit of its range, and M1 was near the middle of

[1] The growth rates cited are based on revised data for the monetary aggregates, reflecting new benchmarks and revised seasonal factors and a minor change in the definition of M3 to include term Eurodollars that U.S. residents hold in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

The monetary aggregates are defined as follows: M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, travelers checks of nonbank issuers, 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 (including money market deposit accounts (MMDAs)) at all depository institutions, overnight repurchase agreements (RPs) at commercial banks, overnight Eurodollars held at foreign branches of U.S. banks by U.S. residents other than banks, and 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, institution-only money market mutual funds, and term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

the Committee's monitoring range for the second half of the year.

The debt of domestic nonfinancial sectors expanded at an annual rate of about 10 percent in both November and December. For the year ending December 1983, debt grew 10½ percent, well within the Committee's monitoring range of 8½ percent to 11½ percent. Growth in total credit at U.S. commercial banks remained strong in December, at an annual rate of about 13 percent, as additional lending activity offset a reduced pace of securities acquisition. The increased loan demand reflected a further pickup in all major categories of loans—business, consumer, and real estate. Businesses continued to rely heavily on external financing as expenditures for inventories and fixed investment evidently began to outpace growth in internally generated funds. In addition to the expansion in borrowing from banks, commercial paper issued by nonfinancial corporations rose sharply in December.

Nonborrowed reserves expanded at a modest rate on average in December and January while total reserves grew only slightly, as the average level of adjustment plus seasonal borrowing declined somewhat. Borrowing temporarily bulged to $1.3 billion in the reserve statement week that encompassed the year-end statement date, but averaged about $650 million during the other weeks of the intermeeting interval.

The federal funds rate averaged close to 9½ percent over the intermeeting period, little changed from the level prevailing just before the December meeting. Most other market rates moved somewhat lower, reflecting a perception of a slowing in the economic expansion and an abatement of seasonal pressures after the mid-December tax date. Yields on private short-term debt and on corporate and municipal bonds declined about ½ to ⅝ percentage point, while yields on most Treasury securities fell about ¼ percentage point. Average rates on new commitments for fixed-rate conventional home mortgage loans also fell slightly over the intermeeting period.

The staff projections presented at this meeting continued to indicate that real GNP would grow at a moderate pace in 1984. Consumption expenditures, new residential construction, and business inventory investment were projected to expand at reduced rates in 1984. Business fixed investment was expected to remain a source of strength, and export demand was believed likely to improve in conjunction with rising world economic activity and an expected drop in the foreign exchange value of the dollar. A decline in the unemployment rate was anticipated over the projection period. Prices were expected to increase marginally more than in 1983.

In the Committee's discussion of the economic situation and outlook, the members agreed that growth in real GNP was likely to moderate in 1984 and that the rate of unemployment would probably fall somewhat further by year-end. The members referred to the performance of real GNP in the fourth quarter and to other recent data that suggested slower economic expansion. On the other hand, it was observed that domestic final demands were well maintained in the fourth quarter and that economic activity would continue to be sustained by a stimulative fiscal policy.

Most of the members expected prices to rise somewhat faster on average in 1984 than in 1983, reflecting growing cost pressures likely to be associated with the cyclical rise in capacity utilization rates and declining unemployment and special circumstances such as the impact of adverse weather conditions on food prices. Concern was also expressed that a possible decline in the foreign exchange value of the dollar could also tend to have some inflationary impact on the domestic economy; that impact, one member commented, would be greater if it occurred at a time when the economy had a reduced margin of idle capacity.

For this meeting, the individual members of the Committee had prepared specific projections of economic activity, the rate of unemployment, and average prices. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, the central tendency of the members' projections for growth in real GNP was in a range of 4 to 4¾ percent, while the range for all members was 3½ to 5 percent. The central tendency for the GNP deflator was a range of 4½ to 5 percent, and for growth in nominal GNP it was a range of 9 to 10 percent. Projections for the rate of unemployment in the fourth quarter of 1984 varied from 7¼ to 8 percent, with a central tendency of 7¼ to 7¾ percent. These projections were based on the Committee's objectives for monetary and credit growth established at this meeting, and on the assumption that any legislation to reduce substantially the deficit in the federal budget would affect mainly the years beyond 1984.

The members expressed a great deal of concern at this meeting about the risks that unprecedented deficits in the federal budget posed for the sustainability of the economic expansion and the stability of financial markets, domestic and international. Unless decisive action were taken to reduce the deficits, federal financing needs would continue to absorb a large part of available net savings in the economy and curtail the availability of credit to private borrowers at a time in the cyclical expansion when business credit demands were likely to be growing. The result would be to increase pressures in financial markets with potentially adverse consequences for interest-sensitive sectors of the economy such as housing and long-term business investment. Moreover, unprecedented net capital inflows from abroad, which helped to finance domestic credit needs, might well prove to be unsustainable, and their eventual diminution or reversal could have highly unsettling effects on domestic credit markets. Concern was also expressed about the risks to the domestic economy and financial markets from other international conditions, such as the severe debt-servicing problems of several developing countries.

At this meeting the Committee completed the review, begun at the December meeting, of the 1984 growth ranges for the monetary and credit aggregates that it had tentatively set in July within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). Those tentative ranges included growth 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 had indicated that growth of M1 in a range of 4 to 8 percent over the same period was likely to 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.

In the Committee's discussion

nearly all the members indicated that the ranges tentatively established for 1984 remained acceptable, although some expressed a preference for slightly lower ranges for one or more of the aggregates. The members viewed the various ranges under consideration as broadly consistent with the objectives of promoting sustainable growth in economic activity and encouraging progress toward price stability. While all of the tentative ranges for 1984 represented reductions from the 1983 ranges, slight further reductions would, in the view of some members, help to underscore the Committee's commitment to an anti-inflationary policy. With regard to the range for M2, a small additional reduction was also favored on technical grounds to make the resulting range for 1984 more consistent with the reduced ranges contemplated for the other monetary aggregates. The 1983 range for M2 had been set slightly on the high side to allow for some residual shifting of funds into that aggregate associated with the introduction of money market deposit accounts; those shifts had in fact occurred to about the extent expected, but they now appeared to have been virtually completed.

The ranges under consideration for 1984 assumed that the relationships between the monetary aggregates and nominal GNP—the velocity of money—would be broadly consistent with past trends and cyclical patterns following atypical behavior in 1982 and early 1983. A tendency for velocity to rise as 1983 progressed suggested a return toward earlier velocity patterns, but several Committee members believed that more experience was needed before that trend was confirmed. Accordingly, they emphasized the desirability of interpreting text of the emerging performance of the economy, the outlook for inflation, and conditions in domestic and international financial markets. The members also recognized that recent regulatory and institutional developments might be reflected in some permanent changes in the underlying trends of velocity, particularly that of M1. Those changes were not yet knowable, given the limited experience under the deregulated institutional structure.

In this situation most members agreed that for the time being substantial weight should continue to be placed on M2 and M3 in policy implementation, while growth in M1 should be evaluated in light of the performance of the broader aggregates. The view was expressed that emphasis on the broader aggregates appropriately recognized the remaining uncertainties with respect to the relationship between M1 and economic activity, and it was also observed that the use of a relatively wide range for M1 tended to work in the same direction. However, one member urged placing primary emphasis on M1 and also supported a narrower range for that aggregate, noting that the introduction of contemporaneous reserve accounting provided an opportunity to exert closer control over its short-run behavior. A number of other members supported giving M1 greater weight, if not primary emphasis, in light of what they viewed as the emergence of a more predictable pattern in its velocity, at least in relation to that of M2 and of M3. Still other members were not prepared to increase the policy role of M1, at least at this time. In the view of these members, the prospective behavior of M1 velocity remained subject to unusual uncertainties, in part because of the increased role in M1 of NOW (negotiable order of withdrawal account) and Super NOW components, which bear interest and serve both a transactions and a longer-term savings function. These and related changes made it difficult to anticipate the public's demand for cash balances under varying circumstances or the response of depository institutions in altering terms on the newer components of M1.

Nearly all the members agreed that the Committee should not increase the weight given to the behavior of total domestic nonfinancial debt but should continue to monitor the expansion in such debt. However, one member favored giving primary emphasis to this variable. Most of the members endorsed a reduction in its range for 1984 in light of its historical relationship with nominal GNP. The upper part of the tentative range allowed for the possibility that its growth might outpace that of nominal GNP in 1984 as had often occurred in the second year of past cyclical recoveries.

After further discussion most of the members indicated that they favored or found acceptable the reduced ranges for monetary and credit growth that the Committee had tentatively approved in July for 1984, subject to a further reduction of ½ percentage point in the range for M2. A few members would have preferred an additional reduction of ½ percentage point in the range for M1. It was anticipated that actual growth of the broader aggregates and total debt of domestic nonfinancial sectors might fluctuate in the upper part of their ranges. For M1, growth around the midpoint of its range appeared likely on the assumption of relatively normal growth in its velocity, but if velocity growth remained weak compared with historical experience, M1 expansion might appropriately be higher in the range. The actual growth of M2 and M3 would be affected by the aggressiveness with which depository institutions sought to influence their share of total credit growth in an environment where interest rate ceilings had largely been deregulated. Growth in the broader aggregates was also thought likely to be affected by inflows of capital from abroad. In particular, a portion of bank credit expansion during 1984 might be funded through nonresident placements in the Eurodollar market rather than directly in domestic deposits. Such expansion would not be reflected in M2 or M3, and growth in those aggregates would therefore tend to be somewhat restrained relative to growth in bank credit and nominal GNP.

At the conclusion of its discussion the Committee adopted the ranges for monetary and credit growth in 1984 that had been tentatively approved in July, but with a reduction of ½ percentage point in the range for M2 from the tentative target. The behavior of all of the aggregates would be interpreted against the background of economic and financial developments, including conditions in domestic credit and international markets. The Committee did not anticipate any further regulatory or statutory changes that would significantly affect monetary growth rates in 1984. However, if some outstanding proposals for change were enacted and took effect in 1984, such as the payment of interest on demand deposits and/or on reserve balances, the Committee would have to reconsider its monetary growth ranges, especially for M1.

The following paragraphs relating to the longer-run ranges were approved:

The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

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 believed that regulatory changes and financial innovations had made M1, M2, and M3 unsuitable targets for monetary policy since, in his view, they were no longer predictably related to nominal GNP. Accordingly, he preferred to focus on total domestic nonfinancial debt and total liquid assets as intermediate targets for monetary policy.

In the Committee's discussion of policy for the short run, all of the members indicated that they could support a policy directed toward maintaining essentially the existing degree of restraint on reserve positions. Such a policy was thought likely to be associated with short-run growth in the monetary aggregates consistent with the Committee's objectives for the year. With regard to deviations in pressure on reserve positions toward lesser or greater restraint in response to incoming information, many members endorsed a symmetrical approach that would relate any deviation in either direction to the behavior of the monetary aggregates and to emerging indications of the strength of the business expansion and inflationary pressures in the economy. Other members preferred somewhat more asymmetrical approaches. A few members would give more weight to the potential need for easing of reserve conditions should monetary growth prove weaker than anticipated, while being a bit more tolerant, up to a point, of some tendency for the aggregates to strengthen. Other members believed the Committee should be prepared to move promptly toward restraint if monetary growth should accelerate, particularly in the context of a more ebullient economy. No member anticipated developments that would call for a substantial change in the degree of reserve pressure over the weeks ahead.

In their discussion the members took note of uncertainties associated with the introduction of contemporaneous reserve accounting on February 2. The members agreed that no substantial changes would be made in open market operating procedures at this time, but they anticipated the passage of some time before depository institutions fully adjusted their reserve management to the new accounting system. In that interval, for instance, depository institutions might want to hold more excess reserves than usual. The members agreed that such developments would need to be accommodated by adjustments to reserve paths.

At the conclusion of the Committee's discussion, the members indicated their acceptance of a short-run policy directed at maintaining the existing degree of restraint on reserve positions. The members expected such a policy to be associated with growth of both M2 and M3 at an annual rate of about 8 percent for the period from December to March and growth of M1 at an annual rate of about 7 percent over the three-month period. The rate of expansion in total domestic nonfinancial debt was thought likely to be within the Committee's monitoring range for 1984. 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 might be acceptable in the context of more rapid growth in the aggregates. In either case, the need for lesser or greater restraint on reserves would also be evaluated against the background of developments relating to the strength of the business expansion and of inflationary pressures. 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.

The following directive, embodying the Committee's longer-run ranges and its short-run operating instructions, was issued to the Federal Reserve Bank of New York.

The information reviewed at this meeting indicates that the advance in real GNP moderated in the fourth quarter, following rapid expansion in the spring and summer. In December, industrial production and nonfarm payroll employment increased somewhat further and the civilian unemployment rate declined 0.2 percentage point to 8.2 percent. Retail sales were reported to have changed little in December following sizable gains in preceding months. Housing starts declined in December but for the fourth quarter as a whole were close to their average for the year. Recent data indicate substantial strength in business capital spending. Producer prices were about unchanged on average in November and December, and consumer prices increased at about the moderate pace recorded for the year as a whole. The index of average hourly earnings rose somewhat faster in the fourth quarter than in the previous quarter, but for the year 1983 the index increased more slowly than in 1982.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has appreciated somewhat further since the latter part of December, with most of the rise occurring in early January. In the fourth quarter the U.S. foreign trade deficit was markedly higher than in the third quarter, reflecting a sharp rise in non-oil imports.

M2 and M3 have expanded at moderate rates over the past two months. Expansion in M1 apparently accelerated in January, following several months of reduced growth. By the fourth quarter M2 was at a level close to the midpoint of the Committee's range for 1983, M3 was around the upper limit of its range, and M1 was around the middle of the Committee's monitoring range for the second half of the year. Most interest rates have declined somewhat since the latter part of December.

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 an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks to maintain the existing degree of pressure on bank reserve positions, anticipating that approach will be consistent with growth of M2 and M3 each at annual rates of about 8 percent and M1 at an annual rate of about 7 percent during the period from December to March. Growth in nonfinancial debt is expected to be within the range established for the year. Lesser restraint would be acceptable in the context of a shortfall in monetary and credit growth from current expectations, while somewhat greater restraint might be acceptable with more rapid expansion of the aggregates, both viewed in the context of the strength of the business expansion and inflationary pressures.

In implementing policy in the weeks ahead, the Manager was instructed to take account of the uncertainties associated with the introduction of the system of more contemporaneous reserve requirements, particularly including the possibility that depository institutions, during a transition period, may desire to hold more excess reserves.

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 the short-run operational paragraphs: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

On March 20, the Committee held a telephone conference to review monetary and economic developments following the January 30–31 meeting, including some increase in interest rates over the period. It was noted that economic activity in most sectors was rising with considerable momentum, helping to generate strong demands for credit. While measures of monetary growth have remained broadly in line with objectives for the year, it was also felt that, in the light of current and prospective developments, the Committee would need to remain alert to the possibility of excessive growth in credit and money. Against that background, it was the consensus of the Committee that, in the short interval until the next scheduled meeting, pursuit of the degree of reserve restraint and associated reserve paths, consistent with the money and credit objectives set at the January 30–31 meeting, should not be constrained by a federal funds rate at or above the monitoring range set at that meeting.

Meeting Held on March 26–27, 1984

1. Domestic Policy Directive

The information reviewed at this meeting indicated that growth in real GNP had accelerated markedly in the first quarter from the 5 percent annual rate of expansion in the fourth quarter of 1983. The latest data suggested that demands for goods and services might remain relatively strong in the months ahead, though real growth was expected to slow from the first-quarter pace. The rise in average prices, as measured by the fixed-weight index for gross domestic business product, appeared to have increased somewhat, but wage increases generally remained moderate.

The index of industrial production rose 1¼ percent in both January and February, after average monthly increases of about ½ percent in the fourth quarter. Gains in output were widespread across major product and material categories, with especially large increases in construction supplies, consumer goods, and durable goods materials. Despite relatively lean inventories at automobile dealers, auto production was little changed in January and February from the 8 million unit rate recorded in December, as some plants producing the more popular large-size cars were encountering capacity constraints. The rate of capacity utilization in manufacturing rose one percentage point further in February to 81.0 percent—the highest level since May 1981 and only slightly below the 81.8 percent average for the 1967–82 period.

In January and February gains in nonfarm payroll employment averaged 325,000, substantially above the average monthly increases of about 250,000 in the fourth quarter. Manufacturing employment continued to rise by more than 100,000 in each month, and the factory workweek, which had jumped 0.5 hour in January to 41.0 hours, held steady in February at its highest level since 1967. The civilian unemployment rate declined 0.2 percentage point each month to 7.8 percent in February.

Consumer spending has contributed substantially to recent gains in economic activity. Retail sales grew at an exceptional pace in January and changed little in February. The automobile market was particularly strong, with sales of domestic models in January and February, at an annual rate of 8½ million units, up over 1 million units from the average pace during the fourth quarter. Sales during the first 20 days of March continued relatively strong, at a pace of about 8 million units.

Private housing starts surged in January and February, reaching an annual rate of nearly 2.2 million units, the highest level in almost six years and well above the rate of 1.7 million units recorded in the fourth quarter and in 1983 as a whole. Building permits for residential construction also rose in both January and February, and home sales remained high.

In the business sector, capital outlays have continued to grow, though at rates below the unusually rapid expansion in the last half of 1983. Shipments of nondefense capital goods weakened in the first two months of the year but remained at high levels. Other recent information, including a rising trend in new orders and survey reports of upward revisions in business spending plans, generally suggests continuing strength in business fixed investment.

The producer price index for finished goods and the consumer price index both increased about ½ percent per month in January and February. The rise in prices was faster than in the fourth quarter of 1984, with increases concentrated in the food sector. The index of average hourly earnings rose only slightly over the first two months of the year, although total compensation costs apparently increased more rapidly, in part because of higher payroll taxes for social security.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies declined about 7 percent from the end of January through the first week of March. Concerns about inflation prospects in the United States, given large budget deficits and a strengthening private economy, were cited by market participants as factors weakening the dollar. More recently, part of that decline was retraced, apparently aided by rises in U.S. interest rates relative to foreign rates. The merchandise trade deficit rose sharply in January, mainly because of larger non-oil imports.

At its meeting on January 30–31, 1984, the Federal Open Market Committee had agreed that in the short run policy should be directed at maintaining the existing degree of restraint on reserve positions. The members anticipated that such a policy would be associated with growth of both M2 and M3 at an annual rate of about 8 percent for the period from December to March and growth of M1 at an annual rate of about 7 percent over the three-month period. The rate of expansion in total domestic nonfinancial debt was thought likely to be within the Committee's monitoring range of 8 to 11 percent for the year 1984. It was also agreed that the need for lesser or greater restraint on reserves would be evaluated against the background of developments relating to the strength of the business expansion and of inflationary pressures. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was retained at 6 to 10 percent.

Data available through mid-March indicated that since December M1 and M3 had been expanding somewhat more rapidly than anticipated at the January meeting. Tentative estimates suggested that in the first quarter as a whole M1 and M3 grew at annual rates of about 7¼ percent and 8½ percent from the fourth quarter, well up in their longer-run ranges of 4 to 8 percent and 6 to 9 percent respectively established by the Committee for 1984. Growth in M2 appeared to have been less rapid than previously expected and was estimated to be at a rate in the lower part of the 6 to 9 percent range for 1984.

The debt of domestic nonfinancial sectors apparently increased in January and February at a pace substantially above the Committee's monitoring range for the year. Total credit at U.S. commercial banks continued to expand rapidly, at an annual rate of about 11 percent in January and 15 percent in February. Loan demand continued to be brisk in all major categories of loans—business, consumer, and real estate. Even after adjusting for the loan growth in February that was associated with merger-related financing, business borrowing at banks and in the commercial paper market remained substantial.

The implementation in early February of contemporaneous reserve-requirement accounting, and also the legislated phasedown to lower reserve requirements for member banks under the Monetary Control Act at the same time, apparently prompted a cautious approach to reserve management by depository institutions, entailing for a time, as anticipated, an unusually high level of excess reserves. In large part because of the high volume of excess reserves, but also reflecting the strength in required reserves accompanying growth in transaction deposits, total and nonborrowed reserves expanded rapidly in February. They appeared to be changing little in March, however, as excess reserves declined. Borrowing at the discount window averaged about $600 million over the first three reserve maintenance periods following the previous meeting, but moved up to an average of somewhat over $1 billion in the current maintenance period, which began in mid-March.

Market interest rates moved considerably higher over the intermeeting period, generally rising about ¾ to 1 percentage point in both short- and long-term markets. The increases appeared to be induced by the strength of economic activity and private credit demands, disappointment over the absence of significant progress to curb the federal deficit, concern that prices might rise more rapidly, and expectations that monetary policy would not accommodate rapid growth in money and credit. Federal funds traded in a range of 9½ to 9¾ percent during most of the intermeeting interval; most recently, however, the funds rate tended to fluctuate around 10 percent and was occasionally somewhat higher. Against the background of generally rising market rates and brisk business loan demand, commercial banks raised their "prime loan" rate from 11 to 11½ percent in mid-March. Average rates on new commitments for fixed-rate conventional home mortgage loans rose nearly ¼ percentage point on balance over the intermeeting period.

The staff projections presented at this meeting suggested that growth in real GNP would moderate considerably over the course of the year but that the rate of price increase might pick up somewhat from its recent pace. It was expected that inventory investment and auto demand would level off and that housing activity would decline from the advanced pace of the first quarter. The impetus for continued economic expansion was expected to come from business fixed investment, from government purchases and, with rising world economic activity, from export demand.

In the Committee's discussion of the economic situation and outlook, members expressed concern that the current pace of the economic expansion, if maintained for long, would lead to growing imbalances, to price and wage pressures in some sectors of the economy and to continuation—against the background of persisting large federal deficits—of exceptionally heavy credit demands. Consequently, the sustainability of the expansion would be jeopardized. The view that the present rate of economic growth could be expected to moderate was widely shared, but several members suggested that it might remain significantly faster than generally anticipated, at least over the months immediately ahead. It was noted, for instance, that business investment and inventory rebuilding might well provide greater stimulus to economic activity than many expected. Moreover, members indicated particular concern that fiscal policy was likely to remain unduly stimulative in the context of an economy with rapidly rising levels of resource utilization, including a few industries that were beginning to experience pressures on existing capacity.

At the same time, several members observed that, in the light of various imbalances and distortions, both domestic and international, the economy might be vulnerable to large and sudden increases in interest rates and pressures on financial markets. The emergence of strong business credit demands on top of a continuing large rate of increase in consumer and mortgage credit and massive Treasury financings accentuated these risks. Housing and the thrift industry that serviced it were likely to be seriously affected by any further marked rise in interest rates, especially in an environment in which variable rate and other new financing instruments were exposing a growing number of borrowers to unaccustomed financial risks. Reference was also made to the vulnerability of commercial construction, notably that involving office structures, given the considerable volume of new building in several sections of the country that were experiencing high vacancy rates. In agriculture, a sizable number of farmers were experiencing serious debt problems that were being worsened by pressures on earnings and on lower land prices. On the international side, higher U.S. interest rates would clearly exacerbate the debt servicing problems of several less developed countries. The very large foreign trade deficit was also seen as a threat to the continuing health of the economy.

The members expressed a good deal of concern about the possibility of an intensification of price and wage pressures. While price increases had accelerated only slightly in recent months and wage advances had remained relatively restrained, a number of members commented that inflationary expectations appeared to be worsening. Capacity utilization rates were already high in some sectors of the economy and, more generally, were approaching levels that had been associated with rising rates of inflation in previous periods of economic expansion. In this situation, an environment conducive to more aggressive pricing could develop despite the increase in profit margins of many companies during the expansion period. The trend in wage settlements would be a key element in that respect, with potentially trend-setting wage negotiations scheduled for later in the year. The ready availability of imports was a material factor restraining prices for a wide range of goods, but a sharp decline in the foreign exchange value of the dollar could aggravate inflationary pressures. In evaluating the price outlook it was also noted that, in contrast to the experience in some earlier years, oil prices were not contributing to inflation, and one member observed that faster growth in the labor force, should it materialize following the slow growth in 1983, combined with a rate of unemployment that was still relatively high by historical standards, would also tend to curb inflationary pressures.

In the Committee's discussion of policy for the period ahead, there was a relatively narrow range of preferences with regard to monetary growth objectives for the second quarter. All of the members wanted to maintain growth within the Committee's longer-run ranges; while, as earlier, growth in the broader aggregates in the upper part of their ranges was considered acceptable, there was a desire to see M1 closer to the middle of its range over a period of time. A number of members suggested that the degree of reserve pressure might be attuned a bit more rapidly than over the past year to deviations in monetary aggregates from objectives, but no member advocated that the degree of reserve restraint be adjusted automatically and related solely to the performance of the monetary aggregates. Some members emphasized their concern that growth in the aggregates was more likely to exceed than to fall short of the second-quarter objectives if the expansion in economic activity remained exceptionally strong. The Committee, it was argued, should in that event be prepared to lean cautiously, in the present environment, against excessive monetary growth as it emerged. The point was also emphasized by some members that significant shortfalls in monetary growth might desirably lead to some easing of interest rate pressures. There was general acceptance of an approach that would take into account such factors as the apparent strength of economic activity and of inflationary pressures in any adjustment of the degree of reserve restraint. A number of members also called attention to the rate of credit growth, which had accelerated considerably in early 1984 and which appeared to be an important factor in recent interest rate increases.

With regard to preferences for the Committee's operational approach, there were some differences of view about whether the recent degree of reserve restraint should be maintained or altered in the period ahead, and under what conditions. Many felt that maintenance of something like the degree of restraint that had developed in recent days offered a reasonable prospect for achieving the monetary growth and financial market conditions that would foster a sustainable pace of economic expansion, help to contain inflation, and minimize the potential damage to interest-sensitive sectors of the economy. However, several of these members foresaw economic and monetary developments that might call for some further restraint during the intermeeting period, and they wanted to be prepared to move promptly in that event. Some members did not want to rule out the possibility of lesser restraint, but most regarded such a development as less likely.

Other members of the Committee, viewing demand pressures on the economy as stronger and posing a more immediate threat of rising price pressures and growing imbalances, felt that some intensification in the degree of reserve restraint was called for at this time. This would, it was maintained, reduce the risk that much more vigorous restraint would be needed later, with sharply adverse consequences for sectors of the economy that were vulnerable to rising interest rates. These members were, nonetheless, concerned about moving too aggressively in the direction of greater restraint, given the sensitive state of domestic and international credit markets and uncertainties about the underlying strength of demand pressures.

In light of recent market developments, the members agreed that the intermeeting range for the federal funds rate should be raised from the 6 to 10 percent that had been specified since mid-November 1982. It was understood that the federal funds range is essentially a mechanism for initiating Committee consultations when its limits look as if they might be persistently exceeded. In that context, however, members indicated differing views, within a narrow range, as to the appropriate "consultation point." Some members preferred a smaller increase in that limit to provide for earlier consultation of the Committee should significant further pressures develop in financial markets; others favored a bit more leeway in the degree of pressure that would be acceptable before a consultation would be triggered. In general, it was understood that the federal funds rate was likely to fluctuate in response not only to conditions in the reserve market, partly in the context of the newly introduced two-week reserve period, but also to changing market expectations about the course of credit and money demands and monetary policy. In the discussion of the degree of reserve restraint that would be consistent with the Committee's money and credit objectives, it was noted that reserve paths might have to be considered in light of changes in the discount rate that might subsequently be made by the Board of Governors, depending on such surrounding circumstances as the intensity of bank demands for borrowing, overall money and credit demands, and whether the market had already adjusted to any new discount rate.

At the conclusion of its discussion the Committee decided to seek to maintain pressures on reserve positions that were deemed to be consistent with growth of M1, M2, and M3 from March to June at annual rates of about 6½, 8, and 8½ percent respectively; initially those pressures should be close to those that had emerged in recent days. The members agreed that greater restraint on reserve conditions would be acceptable in the context of more substantial growth in the monetary aggregates, while somewhat lesser restraint might be acceptable if monetary growth were significantly slower. In either event, the need for greater or lesser restraint would also be appraised against the background of developments relating to the continuing strength of the business expansion and of inflationary pressures and the rate of expansion in total credit. It was agreed that the intermeeting range for the federal funds rate would be raised to 7½ to 11½ percent.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that growth in real GNP has accelerated markedly in the current quarter and suggests that demand for goods and services may remain relatively strong in the months ahead. In January and February, industrial production rose at a considerably faster pace than in the fourth quarter, and gains in nonfarm payroll employment were large over the two-month period. The civilian unemployment rate declined 0.2 percentage point each month to 7.8 percent in February. Retail sales grew at an exceptional pace in January and changed little in February. Housing starts rose substantially in both months to the highest rate in several years. Information on outlays and spending plans generally suggests continuing strength in business fixed investment. Prices rose somewhat faster in early 1984 than in the fourth quarter, with increases concentrated in the food sector. The index of average hourly earnings rose only slightly over the first two months of the year, although total compensaton costs appear to have increased more rapidly.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies declined considerably from the end of January through the first week of March, but part of that decline was retraced more recently. The merchandise trade deficit rose sharply in January, mainly because of larger non-oil imports.

Data available through mid-March indicate that M1 and M3 have expanded somewhat more rapidly than anticipated at the previous meeting; since the fourth quarter of 1983, M1 and M3 are tentatively estimated to have grown at rates close to the upper limits of the Committee's ranges for 1984. Growth in M2 appears to have been less rapid than previously expected and was estimated to be at a rate in the lower part of its longer-run range. In January and February, growth of total domestic nonfinancial debt apparently rose at a pace substantially above the Committee's monitoring range for the year, and bank credit continued to expand at a relatively rapid rate. Interest rates have risen considerably since late January.

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 an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run the Committee seeks to maintain pressures on bank reserve positions judged to be consistent with growth in M1, M2, and M3 at annual rates of around 6½, 8, and 8½ percent, respectively, during the period from March to June. Greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly; in either case, such a change would be considered in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, and the rate of credit growth.

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 7½ to 11½ percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Mrs. Horn, Messrs. Partee, Rice, and Mrs. Teeters. Votes against this action: Messrs. Gramley, Martin, and Wallich.

Messrs. Gramley and Wallich dissented from this action because they preferred a directive calling for a somewhat greater degree of reserve restraint and slightly lower objectives for monetary growth in the second quarter. In their view the strength of the economic expansion warranted more restraint now to help avert more serious inflation and financial pressures later.

Mr. Martin dissented because he was concerned that implementation of the Committee's policy was likely to lead to more restraint than would be desirable in light of the vulnerability of key sectors of the economy to rising interest rates. Thrift institutions, housing, agriculture, and also problems associated with less developed country debt were examples that he cited. In his view, slightly higher objectives for monetary growth needed to be established for the second quarter.

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 after the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1984. The Committee reaffirmed the authorization for domestic open market operations, 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. The Committee also reaffirmed its agreement with the Treasury to warehouse foreign currencies on the terms adopted on March 18, 1980, with the understanding that the agreement would continue to be subject to annual review.

Votes for these actions: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

3. Authorization for Domestic Open Market Operations

At this meeting, the Committee approved a temporary increase from $4 billion to $6 billion in 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. The increase was effective for the intermeeting period ending with the close of business on May 22, 1984. Subsequently, on April 18, 1984, the Committee voted to increase the limit for the intermeeting period by an additional $1 billion to $7 billion.

> Votes for these actions: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

These actions were taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net purchases of securities were likely to be required over the intermeeting interval to accommodate large reserve needs resulting from an expected bulge in Treasury balances at Federal Reserve Banks. By April 18, the leeway for further purchases had been reduced to about $100 million, as the increase in Treasury balances proved to be somewhat larger than had been anticipated earlier. The Manager requested the additional $1 billion increase in the limit to provide for flexibility in the normal course of open market operations.

Meeting Held on May 21–22, 1984

Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real GNP, while moderating from the annual rate of 8¾ percent recorded for the first quarter, was continuing at a relatively rapid pace in the current quarter. Thus far in 1984, average prices as measured by the fixed-weight index for gross domestic business product, appeared to be increasing at about the same rate as in 1983.

Industrial production rose nearly 1½ percent in April, after slowing to an increase of ½ percent in March. Gains in April were widespread across most major product and material categories. Auto production declined, however, primarily reflecting reduced output at plants producing small cars and the less popular large-size models. Some plants producing fast-selling models were encountering capacity constraints. The rate of capacity utilization in manufacturing rose 1 percentage point further in April to 82.3 percent, somewhat above the 81.8 percent average for the 1967–82 period.

Nonfarm payroll employment surged 400,000 in April. The rise was attributable in large part to a rebound in employment at construction sites after a weather-related decline in March and to substantial employment gains in service industries. In manufacturing, employment rose 100,000, about the same as the average monthly increase over the previous twelve months, and the length of the average factory workweek reached 41.2 hours, its highest level in nearly two decades. Despite continued gains in employment, the civilian unemployment rate was unchanged at 7.8 percent in March and April, as the labor force increased appreciably.

Total retail sales climbed 2.9 percent in April, about offsetting declines in the preceding two months. Sales gains were reported at all major types of stores but were particularly strong at automotive outlets and at general merchandise, apparel, and furniture and appliance stores. Sales of new domestic automobiles, which had dipped in March, rebounded in

April to an annual rate of 8¼ million units and then surged to a rate of about 8¾ million units in early May.

In April, private housing starts recovered from a sizable decline in March and, at an annual rate of nearly 2 million units, matched their advanced first-quarter pace. Building permits for residential construction were unchanged in April at an annual rate of slightly more than 1.7 million units, somewhat below the level earlier in the year. In the first quarter, sales of new houses continued at about the same pace as in the fourth quarter of 1983, while sales of existing homes rose appreciably.

Business investment spending moderated from the extraordinarily rapid rate of expansion in the second half of 1983, but remained brisk. In real terms, fixed investment spending rose at an annual rate of about 14¾ percent in the first quarter. Data on shipments and new orders of nondefense capital goods have moved erratically in recent months; both series declined sharply in April after exhibiting considerable strength in some earlier months of 1984. But other recent information, including survey reports that indicate upward revisions in business spending plans, generally suggests continuing strength in business fixed investment.

The producer price index for finished goods was unchanged in April, after increases of about ½ percent per month in the first quarter. A reversal of the sharp runup in food prices contributed to the favorable performance in April. The consumer price index rose ½ percent in April, slightly more than the average rate in the first quarter; large increases in prices of energy-related items and some commodities accounted for the April rise. Over the first four months of the year, the index of average hourly earnings increased at about the same pace as in 1983.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had increased about 5¼ percent since late March to a level close to its peak for the floating-rate period, reached in the first part of January. Increases in U.S. interest rates relative to foreign rates, together with labor unrest in some European countries and conflict in the Persian Gulf area, apparently contributed to the dollar's appreciation. The merchandise trade deficit widened further in the first quarter, as a surge in non-oil imports exceeded a rise in exports.

At its meeting on March 26–27, 1984, the Federal Open Market Committee had decided to seek to maintain pressures on reserve positions that were deemed to be consistent with growth of M1, M2, and M3 from March to June at annual rates of about 6½, 8, and 8½ percent respectively; it was decided that initially those pressures should be close to those that had emerged in the days preceding the March meeting. The members had agreed that greater restraint on reserve conditions would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the aggregates slowed significantly. It was also agreed that the need for greater or lesser restraint would be considered in the context of the continuing strength of the business expansion, inflationary pressures, and the rate of credit growth. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was set at 7½ to 11½ percent.

M1 changed little in April, but data available for early May suggested a considerable strengthening. Given the pickup in early May, it was estimated that growth of M1 since March was roughly in line with the 6½ percent annual rate of expansion sought by the Committee for the March-to-June period. Expansion in M2 was at an annual rate of about 7¼ percent in April, close to the rate specified by the Committee for the three-month period, while growth in M3, at an annual rate of 10¾ percent in April, was well above its 8½ percent March-to-June growth path. From the fourth quarter of 1983 through April, M1 grew at a rate a little below the midpoint of the Committee's range of 4 to 8 percent for 1984; M2 increased at a rate in the lower part of its 6 to 9 percent longer-run range; and M3 expanded at a rate a bit above the 9 percent upper limit of its range.

Total domestic nonfinancial debt appeared to be growing at a pace above the Committee's monitoring range for the year. Credit growth accelerated in April because of a faster pace of borrowing by the federal government; business borrowing also remained brisk, with most borrowing still concentrated in the short-term area. Growth in business loans at domestic offices of U.S. commercial banks slowed from the vigorous pace of recent months, as banks booked a sizable volume of loans offshore and firms shifted more of their borrowing to the commercial paper market. In the household sector, consumer installment credit expanded at an annual rate of about 17 percent in the first quarter and appeared to have remained strong in April; mortgage borrowing also was continuing to grow at a rapid pace.

Total reserves showed little net change in April, as a decline in excess reserves offset further increases in required reserves. In the three complete reserve maintenance periods ending May 9, adjustment plus seasonal borrowing at the discount window averaged somewhat less than $1.2 billion compared with about $1.1 billion at the time of the previous meeting. In the current two-week statement period ending May 23, average borrowing was running considerably higher, in excess of $4 billion, because of advances to a large bank that was experiencing substantial outflows of funds caused by market uncertainties about the bank's underlying condition.

The federal funds rate rose from an average of about 10 percent in the period immediately preceding the March FOMC meeting to about 10½ percent recently. Most other interest rates moved considerably higher over the intermeeting interval, generally rising about ½ to 1¼ percentage points in both short- and long-term markets. Commercial banks raised their "prime" rate twice during the period, a total of 1 percentage point, to 12½ percent. On April 6 the Federal Reserve announced an increase of ½ percentage point in the discount rate to 9 percent. The increases in market rates apparently reflected continuing strong credit demands as economic activity expanded, the absence of rapid progress in reducing the federal deficit, and related concerns about future inflationary pressures and a possible need for a more restrictive provision of reserves. Late in the intermeeting period, market conditions also reflected a heightened degree of anxiety and sensitivity to potential liquidity strains, and especially the persistent rumors that a major bank was in serious financial difficulty. There were also renewed concerns about the possible implications of continuing international debt problems, particularly in the light of increased interest rates.

The staff projections presented at

this meeting continued to suggest that real GNP would grow at a much more moderate pace over the balance of the year and in 1985, in line with the slower pattern characteristic of maturing business expansions. The unemployment rate was projected to decline over the period and, while current evidence of growing cost and price pressures was limited, the rate of price increase was expected to pick up modestly from its recent pace.

In the Committee's discussion of the economic situation and outlook, the members noted that the expansion in economic activity did indeed appear to be moderating from an unsustainable pace in the first quarter, but the extent of the slowdown remained in question as did the prospective degree of upward price pressures as the expansion continued. In the course of the discussion, the members gave considerable emphasis to uncertainties inherent in the unusually sensitive conditions in financial markets and volatile market attitudes.

It was noted that growth in nominal GNP might moderate relatively little if business and consumer spending remained strongly buoyed by a highly stimulative fiscal policy. In that connection members commented that credit growth had shown no sign of slowing so far and there were, as yet, no significant indications of a stiffening in loan standards and credit availability; in fact, there were indications of aggressive lending practices in real estate and other areas. On the other hand, some members stressed the cyclical tendency for a maturing expansion to slow and they saw some evidence already pointing in that direction. It was also pointed out that there had been a sizable rise in interest rates over the past several weeks; current rate levels, particularly against the background of concerns about potential liquidity problems, could have a considerable effect, after some lag, in curbing expenditures in interest-sensitive sectors of the economy and, more broadly, in fostering more cautious consumer and investor attitudes. Developments in financial markets had already contributed to a more guarded investor climate in some respects, as reflected in some declines in stock prices and a tendency among investors to back away from the long-term debt markets. The problems of a major commercial bank had sensitized markets to other potential problem areas such as outstanding loans to less developed countries that were experiencing debt servicing difficulties. In general, it was difficult to evaluate how such uncertainties—which were seen as likely to persist for some time even if the most immediately pressing problems were resolved—would affect business and consumer spending.

Most of the members, as they had at previous meetings, expressed concern that growing capacity constraints, declining unemployment, and the prospect of reduced productivity growth might be conducive to greater inflationary pressures over time. Individual members also commented on the development of price and wage pressures in some industries and occupations. While indications of greater inflationary pressures were still limited, there was a danger that they might become more widespread later in the year. In that connection some members commented that the terms of the wage settlements in the automotive industry later in the year, should they prove to be higher than the generally restrained pattern to date, might have a pervasive effect on other settlements, while others thought the circumstances in that industry were unique.

A more optimistic view of the outlook for inflation emphasized the possibility of currently relatively favorable wage-cost developments continuing for some time. In particular, productivity growth might not diminish as much as some observers expected, given the prospect that many businesses would continue their efforts toward greater operating efficiencies. One member also observed that the relatively rapid growth in the labor force over the course of recent months, if it persisted, would have favorable wage-cost implications.

In the Committee's discussion of policy for the weeks ahead, most of the members supported a proposal to maintain the current degree of restraint, although some sentiment in favor of marginally greater restraint was also expressed. In the view of most members, no significant change in policy—in either direction—was desirable at this time in light of the performance of the economy, the behavior of the monetary aggregates, and conditions in financial markets. Under present circumstances, it was argued, any significant further restraint would produce added strains in interest-sensitive sectors of the economy such as housing and agriculture and would incur an undue risk of a pronounced effect on already somewhat unsettled financial markets, with adverse effects on economic activity. At the same time, the apparent strength of the ongoing expansion and inflationary concerns argued against any significant easing. An argument advanced in favor of slightly greater restraint was that such a policy would tend to improve the prospects of achieving a desirable moderation in the rate of business expansion and progress over time in containing inflation.

The members noted that, according to a staff analysis, implementation of approximately the current degree of reserve restraint was likely to continue to be consistent with attainment of the growth objectives for M1 and M2 that the Committee had previously established for the second quarter. Growth in M3 was expected to exceed the second-quarter objective because depository institutions were currently making more active use of managed liabilities than had been anticipated to finance their share of the large rise in total credit.

A few members favored raising the current intermeeting range for the federal funds rate a small amount as a technical adjustment to bring the present trading level of the federal funds rate closer to the midpoint of the range. However, most of the members preferred to retain the current range, which they believed was likely to encompass the probable trading range over the intermeeting period.

At the conclusion of the discussion, all but one member agreed that no change should be made at this time in the existing degree of pressure on reserve positions. The members anticipated that this policy would continue to be associated with growth of M1 and M2 at annual rates of about 6½ and 8 percent for the period from March to June and with growth of M3 at an annual rate of about 10 percent, somewhat above the objective set in March for the second quarter. It was agreed that the intermeeting range for the federal funds rate would remain at 7½ to 11½ percent. It was also recognized that, within the context of this overall policy approach, operations might need to be modified if unusual financial strains appeared to be developing.

In keeping with the Committee's usual practice, the members contemplated that operations might be adjusted during the intermeeting period toward implementing somewhat greater or somewhat lesser restraint on reserves if monetary growth should prove to be significantly faster or slower than targeted for the current quarter. In the view of most members, the implementation of open market operations should be equally sensitive to the potential need for greater or lesser restraint over the weeks ahead. Any such adjustment should not be made automatically but should be undertaken only after an appraisal of the strength of economic activity and inflationary pressures, and evaluations of conditions in financial and banking markets and the rate of growth in total domestic nonfinancial debt.

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

The information reviewed at this meeting suggests that growth in real GNP, while moderating from the unusually strong first-quarter pace, remains relatively rapid in the current quarter. In April, industrial production and nonfarm payroll employment rose substantially following decreased growth in March; the civilian unemployment rate was unchanged at 7.8 percent in March and April as the labor force increased appreciably. Retail sales grew rapidly in April after two months of decline, and housing starts recovered to a rate equaling their first-quarter average. Information on outlays and spending plans generally suggests continuing strength in business fixed investment. Since the beginning of the year, prices and wages have continued to rise at about the same pace as in 1983.

M1 changed little in April on average, but data available for early May suggest a considerable strengthening. In April M2 grew about in line with expectations while M3 expanded more rapidly than anticipated. From the fourth quarter of 1983 through April, M1 grew at a rate a little below the midpoint of the Committee's range for 1984; M2 increased at a rate in the lower part of its longer-run range, while M3 expanded at a rate a bit above the upper limit of its range. Total domestic nonfinancial debt apparently is growing at a pace above the Committee's monitoring range for the year, with borrowing by businesses continuing to be concentrated in the short-term markets. Interest rates have risen considerably further since late March. On April 6, the Federal Reserve announced an increase in the discount rate from 8½ to 9 percent. Recently, day-to-day market conditions have reflected considerable sensitivity to potential liquidity strains, as highlighted by problems of one large bank, and to uncertainties about the financial and budgetary outlook generally.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has risen considerably further since late March to a level close to the peak in early January. The merchandise trade deficit widened further in the first quarter, as a sharp rise in non-oil imports offset a substantial rise in exports.

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 an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks

to maintain existing pressures on bank reserve positions. This is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6½, 8, and 10 percent, respectively, during the period from March to June. Somewhat greater reserve restraint might be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. 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 7½ to 11½ percent.

> Votes for this action: Messrs. Volcker, Solomon, Boehne, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, and Wallich. Vote against this action: Mr. Boykin. (Absent and not voting: Mrs. Teeters.)

Mr. Boykin dissented because he believed a directive calling for somewhat greater reserve restraint and marginally lower monetary growth would improve the prospects for curbing inflation and achieving sustainable expansion without incurring a material risk of unsettling financial markets.

Meeting Held on July 16–17, 1984

Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real GNP in the second quarter, though moderating from the annual rate of about 9¾ percent currently recorded for the first quarter, would be stronger than the annual rate of about 5¾ percent indicated by the preliminary estimate of the Commerce Department. Although the expansion in economic activity was continuing at a strong pace, in late spring and early summer there were indications of moderation in some sectors. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have risen more slowly in the first half of 1984 than in 1983.

Industrial production rose about ½ percent in both May and June, after average increases of about 1 percent per month earlier in the year. Output of business equipment and defense and space products continued to show sizable gains, while production of durable consumer goods and construction supplies leveled off. The rate of capacity utilization in manufacturing edged up 0.1 percentage point in each month to 81.8 percent in June, the average for the 1967–82 period.

The rise in total retail sales slowed in the May–June period from an extraordinarily rapid pace in April. In the second quarter as a whole, sales advanced about 2¾ percent, after a rise of 3½ percent in the first quarter. Sales gains were reported at all major types of stores in the second quarter, but were particularly strong at general merchandise, apparel, and furniture and appliance stores. Sales of new domestic automobiles continued at an annual rate of about 8¼ million units, the same pace as in the first quarter.

Housing starts declined in May, the latest month for which data were available, to a level about 10 percent below the average for the first four months of the year. Sales of both new and existing homes edged down in May, apparently in response to the rising cost of mortgage credit.

In contrast to the slowing in the housing sector, business fixed investment, in real terms, appeared to have grown quite rapidly in the second quarter, perhaps faster than the annual rate of 16 percent reported for the first quarter. Shipments of nondefense capital goods increased sharply in May, more than offsetting a decline in April, and data on new orders pointed to further gains in the months ahead. Recent surveys on spending plans also suggested continued strength in business fixed investment.

Nonfarm payroll employment, adjusted for strike activity, rose 300,000 further in both May and June. Employment gains in services and trade accounted for a major part of the increase in each month. In manufacturing, employment in durable goods industries advanced somewhat further, but employment in nondurable goods firms was flat. The civilian unemployment rate fell appreciably over the two-month period, to 7.1 percent in June.

The producer price index for finished goods was unchanged in June for the third consecutive month. In the second quarter as a whole, a marked decline in prices of consumer foods offset an increase in prices of energy-related items, as most other components of the index changed little. The rise in the consumer price index slowed in May to 0.2 percent from 0.5 percent in April. The index of average hourly earnings increased more slowly over the first half of this year than in 1983.

In foreign exchange markets, the trade-weighted value of the dollar against major foreign currencies had risen about 3½ percent on balance since the Committee's meeting in May. The dollar weakened for a brief period early in the intermeeting interval, partly reflecting rumors about the vulnerability of large U.S. banks to international debt problems. Subsequently, indications of more strength in U.S. economic activity than had been anticipated and increases in U.S. short-term interest rates contributed to an appreciation of the dollar to a level above its peak in early January. The U.S. merchandise trade deficit rose further in the April–May period relative to the first quarter; an increase in oil and non-oil imports exceeded a slight rise in exports.

At its meeting on May 21–22, 1984, the Committee had decided that, in the period immediately ahead, policy should be directed toward maintaining existing pressures on reserve positions. That action was expected to be consistent with growth in M1, M2, and M3 at annual rates of about 6½, 8, and 10 percent respectively during the period from March to June. The Committee also agreed that somewhat greater restraint might be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. Any such adjustment would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was retained at 7½ to 11½ percent.

M1 grew at an annual rate of about 12¼ percent on average in May and June, after having changed little in April. As a result, expansion in M1 over the March-to-June period was at an annual rate of about 8¼ percent, above the Committee's expectation for that period. Growth in the broader aggregates was about in line with expectations, as M2 and M3 grew at estimated annual rates of 7¾ and 10¼ percent respectively over the three-month period. Relative to the Committee's longer-run ranges for 1984, M1 by June was somewhat below its upper limit, M2 was a little below the midpoint of its range, and M3 was above the upper limit of its range.

Total domestic nonfinancial debt continued to expand in the second quarter at a pace above the Committee's monitoring range for the year, with both federal and private borrowing very strong. Borrowing that was related to business mergers and acquisitions accounted for some of the rapid private credit growth but even after adjustment for such borrowing, the rate of expansion in total debt was estimated to have exceeded the upper limit of the Committee's range.

Growth in total reserves picked up in May and accelerated further in June, reflecting increased demand for excess reserves and rapid expansion of required reserves associated with strong growth in demand deposits in June and a surge in large time deposits that began in May. The increase in reserves provided by discount window credit, extended because of the special situation of one large bank, was offset by reduced reserve provision through open market operations, so that there was little change in other borrowing. Adjustment plus seasonal borrowing (excluding advances to the large bank) continued to average close to $1 billion in the three complete reserve maintenance periods after the previous Committee meeting. In the first part of the current two-week statement period ending July 18, average borrowing was running lower, at about $670 billion.

The federal funds rate moved up irregularly over the intermeeting period, from an average of about 10½ percent at the time of the May meeting to a range of about 11 to 11½ percent in recent weeks. Pressures in the money market were especially marked around the mid-June tax date and in the reserve maintenance period containing the quarter-end statement date and the July 4 holiday. The federal funds rate moved higher over the intermeeting interval despite little change in the average level of adjustment plus seasonal borrowing at the discount window. In addition to usual end-of-quarter and holiday pressures in the federal funds market, banks apparently became willing to pay more for federal funds as credit demands continued strong and other sources of funds remained relatively expensive. On balance, rates on bank CDs and other private short-term securities rose about ½ to ¾ percentage point further, while rates on Treasury bills were about unchanged. The heightened uncertainties in financial markets, reflecting concerns about international debt problems and shifting perceptions about the outlook for economic activity and credit demands, led to a widening of differentials between yields on private instruments and Treasury obligations and to considerable day-to-day rate fluctuation. In long-term debt markets, rates moved over an exceptionally wide range but over the intermeeting period as a whole rates on most private obligations changed little on balance, while those on Treasury bonds declined about 15 to 40 basis points. Commercial banks raised their "prime" rate ½ percentage point to 13 percent in the last week of June. The average rate on conventional fixed-rate mortgage loans at savings and loan associations rose about ⅝ percentage point over the intermeeting interval to a little above 14⅝ percent.

The staff projections presented at this meeting suggested that growth in real GNP would moderate appreciably over the second half of the year and into 1985 to a sustainable rate of expansion. The staff continued to expect a decline in unemployment over the period and, given recent strong gains in employment, the projected level of unemployment was somewhat lower than previously anticipated. Although current evidence of wage and price pressures was limited, the rate of increase in prices was expected to pick up modestly from its recent pace as the economy continued to move toward fuller utilization of its productive resources.

In the Committee's discussion of the economic situation and outlook, the members commented that the expansion appeared to have a good deal of momentum, but with limited indications of some moderation. For the months immediately ahead, the members generally expected a slower, although relatively sizable, rate of expansion in economic activity and a comparatively subdued rate of inflation. Most believed that appreciably slower but sustainable growth with some pickup in the rate of inflation were probable, though by no means certain, prospects for 1985. Several observed, however, that uncertainties created by various imbalances and financial strains in the economy made forecasting economic activity and prices particularly difficult at this time, and less confidence should be placed in any particular forecast.

In keeping with the usual practice for meetings when the Committee considers its longer-run objectives for monetary growth, the members had prepared specific projections of economic activity, the rate of unemployment, and average prices. With regard to growth in real GNP, the projections had a central tendency of 6¼ to 6¾ percent for 1984 as a whole and 3 to 3¼ percent for 1985, all measured from fourth quarter to fourth quarter. The central tendency for the rate of unemployment was an average rate in a range of 6¾ to 7 percent for the fourth quarter of 1984 and 6½ to 7 percent for the fourth quarter of 1985. The members' projections for the implicit GNP deflator centered on a rise of 4 to 4½ percent for the year 1984 and about one percentage point higher for the year 1985, assuming that the value of the dollar in foreign exchange markets would remain generally in the trading range experienced over the past year. The projections also took into account the monetary policy decisions made at this meeting.

The members recognized that there were a number of threats to the realization of the relatively favorable economic developments implied by their projections and that the maintenance of a satisfactory economic performance for an extended period could only be assured by timely actions in a number of policy areas. Given the persisting strength of domestic demands, which had been growing faster than GNP as reflected in the widening deficit in external trade, several members indicated their concern about the risks that those demands might proceed too long at an unsustainable pace, with potentially adverse implications for inflationary pressures and for the continuation of the expansion itself. On the other hand, most members clearly did not want to rule out the possibility that relatively high interest rates, partly related strains in international and domestic financial markets, and cautionary attitudes that might be emerging in economic sectors such as housing might result in more substantial slowing than was typically indicated. Various imbalances and distortions in the economic and financial picture, notably the massive deficits in the federal budget and in the current account of the balance of payments, were also viewed as particular sources of concern.

With regard to the federal budget, current legislation was cited as a welcome development, but further measures were deemed essential to reduce the widening structural deficit. Federal financing requirements would otherwise continue to absorb a large part of available net savings in a period of heavy demands for credit by businesses and households. The resulting pressures in financial markets would aggravate the strains on thrift and some other financial institutions and would impair the creditworthiness of both potential new borrowers such as homebuyers and the growing number of borrowers with outstanding loans or commitments on a variable interest rate basis. Relatively high interest rates would also worsen financial pressures in the agricultural sector where many farmers were experiencing serious debt problems. In addition, high U.S. interest rates tended to exacerbate the already severe debt-servicing problems of several developing countries and, in the process, to lessen confidence in U.S. banks with sizable loans to such countries.

With regard to the balance of payments and related capital flows, the unprecedented volume of capital attracted from abroad was contributing to the appreciation of the dollar despite enlarged deficits in the trade and current accounts. Such inflows were helping to finance domestic credit needs and were contributing to moderation of inflationary pressures. However, their sustainability was subject to doubt, and their eventual decrease, especially if associated with a sudden and sharp fall in the value of the dollar, could have adverse repercussions for the economy.

While the members generally anticipated a small increase in wages and prices over the period through the end of 1985, they discussed possible developments that could produce a different outcome. Some members, who were relatively optimistic about the outlook for inflation, emphasized such factors as the remaining margins of unemployed resources in the economy, which might in fact be underestimated by current measures of capacity utilization, the impact of competition from abroad, and the prospects for faster gains in productivity than many observers expected. They also suggested that wage settlements might continue to be relatively restrained, to the extent that workers' wage demands had been reduced significantly by back-to-back recessions in the past few years and concomitant high unemployment and a recent period of relatively low inflation. Several members noted, however, that important negotiations currently under way or about to begin, especially in the automobile industry, could have a significant precedential impact on subsequent wage negotiations. All of the members recognized that inflationary pressures would be greater than otherwise, perhaps substantially so, if growth in demands for goods and services for too long exceeded sustainable rates or if the value of the dollar were to decline substantially over the projection period.

At this meeting the Committee reviewed its target ranges for 1984 and established tentative ranges for 1985 within the framework of the Full Employment and Balanced Growth Act of

1978 (the Humphrey-Hawkins Act).[2] At its meeting on January 30-31, 1984, the Committee had adopted growth ranges of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984, and a range of 4 to 8 percent for M1 over the same period. It was understood at that time that substantial weight would continue to be placed on M2 and M3 in policy implementation and that, for some interim period, the behavior of M1 would be evaluated in light of the performance of the broader aggregates. Because of the changed composition of M1, reflected in the relatively rapid growth of its NOW and Super NOW components, its relationship to GNP remained uncertain and required further observation. The monitoring range for total domestic nonfinancial debt had been set at 8 to 11 percent for the year 1984.

With regard to the target ranges for 1984, all of the members favored the retention of the existing ranges for M1 and M2, both of which had grown at rates within the Committee's targets over the first half of 1984. The members continued, however, to recognize the difficulty of anticipating the ongoing relationships of these aggregates with broad economic measures under changing economic and financial circumstances, particularly in light of the rapid expansion of new deposit accounts in a period of deregulation and of marked changes in financial practices.

The members expected expansion in M3 and total domestic nonfinancial debt to moderate during the second half of 1984, but growth in both measures, especially domestic debt, was still believed likely to exceed the existing ranges for the year as a whole. Accordingly, some members favored raising the ranges somewhat to reflect first-half developments and the Committee's expectations for the year. However, a majority preferred to retain the existing ranges on the ground that higher ranges would provide an inappropriate benchmark for judging the long-run growth desired by the Committee. It was also suggested that raising these ranges might be misread as an easing of monetary policy rather than as a technical adjustment to past developments, including the unusual extent of merger-related and leveraged buyout financings, which were estimated to have added about 1 percentage point to the rate of credit growth during the first half of the year.

At the conclusion of this discussion, the Committee voted as follows to reaffirm the ranges for the monetary aggregates and the associated range for total domestic nonfinancial debt that were established at the January meeting:

> The Committee agreed at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: None.

[2] The Board's Midyear Monetary Policy Report pursuant to this legislation was transmitted to the Congress on July 25, 1984. That document appears elsewhere in this REPORT.

Turning to the establishment of tentative ranges for 1985, the members stressed the desirability of taking further action, in line with previously stated Committee intentions, to reduce growth in money and credit over time to rates that would be consistent with maintaining reasonable price stability and sustainable economic expansion. However, individual members expressed some small differences in their views about the amount or timing of specific reductions in the ranges for 1985.

In discussion of the tentative range for M1 growth for 1985, the members generally favored lowering the upper limit and narrowing the range to a width more consistent with the ranges for the other aggregates. Discussion centered on whether the range should be reduced to 4 to 7 percent or 4 to 7½ percent. Members who preferred the range with a 7 percent upper limit commented that it would represent an appropriate reduction from 1984 because it would signal more clearly the Committee's intention to reduce monetary growth to rates more consistent with reasonable price stability while encouraging further expansion of economic activity. Those who preferred the smaller reduction in the upper limit felt that a cautious approach was warranted in light of the many uncertainties bearing on the economic outlook and developments with respect to velocity. They also noted that the ranges would be reviewed next February and could then be reduced further if circumstances warranted.

Most members favored a small reduction for M2 in 1985, although a few expressed an initial preference for no change. A lower range for M2 would be in keeping with the Committee's intention to reduce monetary growth over time and, at least on the basis of the recent behavior of M2, would be consistent with the members' projections of lower growth in nominal GNP for 1985. On the other hand, it was argued in support of retaining the 1984 range that the recently prevailing relationship between M2 and nominal GNP was at odds with historical trends and a reduction in the M2 range would incur too much of a risk that actual growth might exceed the range, even with much slower expansion in nominal GNP during 1985.

A majority of the members were in favor of not changing the current ranges for M3 and total domestic nonfinancial debt for 1985, but a few members proposed small reductions in the range for M3 and additional members favored marginal reductions in the monitoring range for nonfinancial debt. In support of retaining the current ranges, it was pointed out that, given the expectation that actual growth was likely to exceed both ranges in 1984, expansion within those ranges next year would represent a significant slowdown. However, some members expressed concern about the implications of rapid debt expansion this year, which appeared to be reflected to some extent in M3, and they believed that reduced ranges would be desirable and consistent with overall policy objectives.

In the course of discussion about the appropriate ranges for the aggregates, the members noted that in recent quarters the behavior of M1 in relation to nominal GNP had been more consistent with previous cyclical patterns than had been the case during 1982 and early 1983. As a result it was concluded that M1 should be given roughly equal weight with the broader monetary aggregates in the implementation of monetary policy. However, the behavior of M1 as well as that of the broader aggregates would still continue to be appraised in light of developments in the economy and financial markets, the outlook for inflation, and the rate of credit growth.

At the conclusion of its discussion, the Committee took the following action to establish tentative ranges for 1985 that included reductions from 1984 in the upper limits of the ranges for M1 and M2 by 1 and ½ percentage point respectively and no changes in the range for M3 and the associated range for total domestic nonfinancial debt:

> For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.
>
> The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Vote against this action: None.

In the Committee's discussion of policy implementation for the weeks immediately ahead, most of the members indicated that they could support an approach directed toward maintaining the existing degree of restraint on reserve positions. Such an approach was thought likely to be associated with growth in the monetary aggregates from June to September at rates that were consistent with the Committee's objectives for the year and below those experienced over the second quarter, particularly for M1. Some members commented that the risks of intensified inflationary pressures as the economy moved closer to capacity limits would, in other circumstances, warrant some increase of reserve restraint; but the current behavior of the monetary aggregates and the prospect that earlier increases in market interest rates would tend after some lag to be reflected in growth at sustainable rates, together with the relatively sensitive conditions in some financial markets, were factors that argued in favor of an essentially unchanged approach to policy implementation.

With regard to possible deviations in pressure on reserve positions toward greater or lesser restraint in response to incoming information, some members endorsed a symmetrical approach that would relate any deviation in either direction to the behavior of the monetary aggregates judged in the context of developments in economic activity, inflationary pressures, financial market conditions, and the rate of growth in credit. However, most of the members preferred a somewhat asymmetrical approach that would involve a more prompt response to the potential need for a move toward somewhat greater restraint if monetary growth should accelerate in association with continued indications of an ebullient economy. In this view, policy implementation should be relatively tolerant, for a time, of some shortfall in monetary growth because the latter might well prove to be temporary if the present apparent momentum in the economy were to continue.

In light of recent market developments, the members generally favored, for technical reasons, raising the intermeeting range for the federal funds rate by a small amount. The members regard the federal funds range as essentially a mechanism for initiating Committee consultation when its limits are persistently exceeded. In recent weeks federal funds had tended to trade well up in the current 7½ to 11½ percent range, and occasionally above that range, despite a relatively unchanged level of borrowing at the discount window (apart from special borrowing by one large bank). A small upward adjustment was deemed advisable to provide some leeway above the recent trading level before triggering a consultation of the Committee.

At the conclusion of the Committee's discussion, the members indicated their acceptance of a directive that called for maintaining the existing degree of restraint on reserve positions. The members expected such an approach to be associated with growth of M1, M2, and M3 at annual rates of about 5½, 7½, and 9 percent respectively in the period from June to September. The members agreed that somewhat greater restraint on reserve conditions would be acceptable in the context of more substantial growth in the monetary aggregates, while somewhat lesser restraint might be appropriate if monetary growth were significantly slower. In either event, the need for greater or lesser restraint would be considered only against the background of developments relating to the continuing strength of the business expansion, inflationary pressures, conditions in financial markets, and the rate of credit growth. It was agreed that the intermeeting range for the federal funds rate would be raised to 8 to 12 percent.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that the expansion in economic activity is continuing at a strong pace, but there are indications of moderation in some sectors. In May and June, industrial production and retail sales expanded further, though at a somewhat slower pace than earlier in the year. Nonfarm payroll employment rose substantially further in both months and the civilian unemployment rate fell to 7.1 percent in June. Housing starts declined in May to a rate appreciably below the average in the first four months of 1984. Information on outlays and spending plans continues to suggest strength in business fixed investment. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

M1 grew rapidly in May and June after having changed little in April, while M2 continued to expand moderately. M3 growth slowed somewhat in June but was relatively strong over the second quarter. From the fourth quarter of 1983 through June, M1 grew at a rate somewhat below the upper limit of the Committee's range for 1984; M2 increased at a rate a little below the midpoint of its longer-run range, while M3 expanded at a rate above the upper limit of its range. Total domestic nonfinancial debt continued to grow in the second quarter at a pace above the Committee's monitoring range for the year, reflecting very large government borrowing along with strong private credit growth. Interest rates have fluctuated considerably since the May meeting of the Committee. Financial markets were affected by concerns arising from international debt problems. On balance, rates on private short-term securities rose further, while rates on Treasury bills were about unchanged; in long-term debt markets, rates on most private obligations changed little while those on Treasury bonds declined.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has risen considerably further since mid-May to a level above its peak in early January. The merchandise trade deficit rose further in April-May compared with the first quarter; an increase in oil and non-oil imports exceeded a slight rise in exports.

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 an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks to maintain existing pressures on reserve positions. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 5½, 7½, and 9 percent respectively during the period from June to September. Somewhat greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. 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 8 to 12 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Partee, Rice, Ms. Seger, and Mr. Wallich. Vote against this action: Mr. Martin.

Mr. Martin dissented from this action because he wanted to give more weight to the possible need for some easing of reserve conditions in light of the vulnerability of key sectors of the economy and of financial markets to high interest rates. He also believed that somewhat higher objectives for monetary growth should be established for the third quarter.

Meeting Held on August 21, 1984

1. Domestic Policy Directive

The information reviewed at this meeting suggested that the expansion in economic activity was continuing at a relatively strong pace, though moderating from the annual rate of about 7½ percent recorded for the second quarter. Thus far in 1984, average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have risen more slowly than in 1983.

Industrial production rose 0.9 percent in July, the same as the increase in the preceding month, which had been revised upward. Production of durable consumer goods increased sharply, while output of nondurable goods rose little on balance. Output of business equipment remained sizable though somewhat below the advanced pace of other recent months. The rate of capacity utilization in manufacturing reached 82.6 percent in July, its highest level since early 1980.

Labor market reports for July gave mixed signals. Nonfarm payroll employment rose 300,000 further, just a little less than the average gain over the first six months of the year. However, the civilian unemployment rate, which had plunged to 7.1 percent in June, returned to its May level of 7.5 percent, as the survey of households showed a sharp drop in employment after two months of especially large increases. For the three-month period ending in July, both measures of employment reported a sizable increase of nearly 1 million jobs.

Retail sales fell 0.9 percent in July, after rising considerably in both the first and the second quarters of the year. Sales declines were reported at nearly all major types of stores but were especially pronounced at general merchandise, apparel, and furniture and appliance stores where growth had been especially strong earlier. Sales of new domestic automobiles were a little above the annual rate of about 8¼ million units recorded for the first half of the year; but they dropped back to a rate of about 7½ million units in the first 10 days of August, in part because some popular models were in short supply.

Housing starts fell in July to a rate appreciably below the average in the second quarter. Starts of single-family units, declining for the third month in a row, were nearly 14 percent below the second-quarter average; multifamily starts, though edging down in July, remained above the average in the preceding quarter. Newly issued building permits declined almost 12 percent in July, with issuance down by comparable margins for both single-family and multifamily construction.

In contrast to the slowing in the consumer and housing sectors, business fixed investment continued to expand quite rapidly, and commitments for future spending remained high. Shipments of nondefense capital goods rose further in June and were up nearly 6 percent for the second quarter as a whole. New orders for such goods increased about 5 percent in the quarter and the backlog of outstanding orders continued to rise.

Incoming information on prices and wages indicated a continuation of recent favorable trends. The producer price index for finished goods increased 0.3 percent in July, after three months of virtually no change. Data on consumer prices in July were not yet available, but in June the consumer price index had risen 0.2 percent for the second consecutive month. Over the first seven months of 1984, producer prices increased at an annual rate of about 3 percent, and over the first half of the year, consumer prices and the index of average hourly earnings rose at annual rates of about 4 percent and 3½ percent respectively.

In the period after the July FOMC meeting, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies rose about 2 percent further to a new high in early August; subsequently the dollar's value fluctuated in a range a little below the peak. Over most of the intermeeting interval exchange markets were quite volatile, apparently reflecting changing perceptions among market participants about the outlook for interest rates, inflation, and economic activity in the United States. The merchandise trade deficit in June was somewhat above the May level, and for the second quarter as a whole the deficit was little changed from the high first-quarter rate.

At its meeting on July 16–17, 1984, the Committee had decided that open market operations in the period until this meeting should be directed initially toward maintaining existing pressures on reserve positions. That action was expected to be consistent with growth in M1, M2, and M3 at annual rates of about 5½, 7½, and 9 percent respectively during the period from June to September. The Committee also agreed that somewhat greater restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly. Any such adjustment would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was set at 8 to 12 percent.

M1 contracted at an annual rate of 1½ percent in July, after increasing at an average annual rate of about 12 percent in May and June. Data for early August, however, suggested some rebound in M1 growth. Growth in M2 was at an annual rate of about 5 percent in July, a relatively slow pace that was due in part to the sluggishness in M1, while expansion in M3 was relatively well maintained at an annual rate of a little below 9 percent. Despite the decline in M1 and comparatively slow growth in M2 in July, these aggregates remained well within the Committee's objectives for the year. From the fourth quarter of 1983 through July, M1 grew at a rate a bit above the midpoint of the Committee's range of 4 to 8 percent for 1984; M2 increased at a rate a little below the midpoint of its longer-run range of 6 to 9 percent. Over the same period, M3 expanded at a rate somewhat above the upper limit of its range of 6 to 9 percent.

Expansion of total domestic nonfinancial debt was estimated to have remained at an annual rate of about 13 percent in July, keeping growth thus far in 1984 at a pace above the Committee's monitoring range of 8 to 11 percent for the year. A pickup in growth of federal debt offset some slowing in expansion of private debt, as merger-related borrowing lessened. Total credit at U.S. commercial banks expanded at an estimated annual rate of 9¼ percent in July, after rising only slightly in June. The acceleration primarily reflected a shift from liquidation to accumulation in holdings of U.S. Treasury securities; growth in business and consumer loans showed little change from the pace in June.

Total reserves decreased in July at an annual rate of about 2 percent, after expanding rapidly over the two preceding months. The contraction reflected a marked deceleration in growth of required reserves, associated with weakness in transaction accounts as demand deposits fell following a sharp increase in June, and a reduction in excess reserves from the relatively high June level. In the two complete reserve maintenance periods since the July FOMC meeting, adjustment plus seasonal borrowing continued to average in the neighborhood of $1 billion.

Despite little change in the average level of borrowing from the discount window, the federal funds rate tended to drift higher over the intermeeting period; recently funds traded in a range of 11½ to 11¾ percent, up from about 11¼ percent at the time of the Committee meeting in July, as banks seemed to be somewhat reluctant to borrow from the discount window and they bid more aggressively for funds in the market. Some other very short-term rates rose slightly over the intermeeting period but most short- and long-term rates declined, with yields on bonds falling about ⅝ to ¾ percentage point. Stock price indexes advanced 9 to 10 percent over the interval on record trading volume, as the market reacted positively to interpretations of the future course of monetary policy in connection with the Federal Reserve's midyear report to the Congress, and to incoming data on economic activity, prices, and money supply growth.

The staff projections presented at this meeting continued to suggest that expansion in real GNP would moderate over the balance of the year and in 1985, a pattern of growth often characteristic of maturing business expansions and rising utilization of productive resources. The unemployment rate was projected to decline somewhat further over the period and, though current information on cost and price pressures remained quite favorable, the rate of price increase was expected to pick up a little from its recent pace.

In their discussion of the economic situation and outlook, Committee members generally agreed that the expansion in economic activity was continuing at a relatively strong pace, although they expected the rate of growth to slow appreciably over the next several quarters. They recognized, however, that the outlook for economic activity and for prices and wages remained subject to substantial uncertainties. These were especially pronounced because of the distortions created by unprecedented deficits in the federal budget and the balance of payments, the strength of the dollar, and the sensitive state of domestic and international financial markets.

A number of members pointed to indications—such as in housing, retail sales, and steel production—that the rate of expansion might be moderating appreciably, and some members commented on the emergence of more cautious attitudes among businessmen in many parts of the country. Members also referred to the cyclical tendency for expansions to lose momentum over time and to the risks inherent in the various imbalances and financial strains that were affecting the economy. Some members, however, continued to view the risks as mainly in the direction of more rapid expansion than was generally expected, given the economy's current momentum, the strength of business investment, and a highly stimulative fiscal policy. With regard to the nearer-term outlook, it was noted that a prolonged strike in the automobile industry could have a considerable impact, at least temporarily, in retarding the overall expansion.

The members expressed somewhat diverging views on the outlook for inflation. Some placed considerable stress on the prospect that price and wage pressures might increase as the economy's productive resources became more fully employed. An inflationary threat was also seen in the possibility of a sizable decline in the foreign exchange value of the dollar. Likewise, a number of members expressed concern that an excessive wage settlement in the automobile industry, if it were to occur, would tend to have an inflationary impact on other wage negotiations, with widespread consequences for wage-cost pressures in the economy.

Members who were relatively optimistic about the outlook for inflation stressed, among other factors, the prospects for continued good gains in productivity. They commented in particular about the renascent and apparently strong determination of businessmen to hold down their costs and to improve the efficiency of their operations. Moreover, the large investments in capital during recent quarters would, it was argued, help to enhance productivity over time. One member also observed that, while a sizable decline in the foreign exchange value of the dollar would tend to increase upward price pressures, such a result might well be more limited or delayed longer than usual in light of the relatively sluggish pace of economic activity abroad and consequent efforts by foreign competitors to retain recently enhanced U.S. market shares through aggressive pricing.

At its meeting in July, the Committee had reviewed and reaffirmed the basic policy objectives that it had established in January for growth of the monetary and credit aggregates in 1984 and had set tentative objectives for growth in 1985. For 1984 the policy objectives included growth of 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for growth in total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. Given developments in the first half of the year, the Committee anticipated that M3 and particularly nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges. The tentative ranges established for 1985 included reductions of 1 and ½ percentage point from the upper limits of the 1984 ranges for M1 and M2 respectively, and no changes in the range for M3 and in the associated range for total domestic nonfinancial debt.

In the Committee's discussion of policy implementation for the weeks immediately ahead, a majority of the members expressed a preference for continuing to maintain about the current degree of restraint on reserve positions. A number of members, while finding the current approach to policy implementation acceptable, nonetheless were prepared to look toward some slight easing of reserve conditions, either currently or soon should monetary growth fail to pick up from recent trends. They believed that such an approach would likely be consistent with attainment of the third-quarter objectives for monetary growth that had been set at the July meeting, given the shortfall in the aggregates since the meeting, and would also be consistent with signs of some weakening in the rate of economic growth relative to expectations. Moreover, in the view of at least some of these members, some lessening in the degree of reserve restraint would appropriately tend to offset the unusual pressures that had developed in the federal funds market during June and July. Those pressures were not associated with any change in the degree of reserve restraint, but they appeared to reflect the emergence of more conservative reserve management attitudes on the part of banks. Other members commented, however, that any active effort to ease reserve conditions would be undesirable at present, and could well be misinterpreted, unless clearly related to emerging weakness in monetary growth in the context of appreciably slower-than-expected expansion in economic activity.

One Committee member indicated a preference for somewhat tighter reserve conditions so as to help assure moderate rates of monetary expansion. In this view, the near-term pressure on interest rates that might result from such an approach to policy implementation could well preclude the need for greater, and more disruptive, rate increases later. On the other hand, other members commented that further restraint would be undesirable except in the context of rapid monetary growth against a background of greater strength in economic activity. It was viewed that current reserve conditions had become restrictive enough, as pressures on financial institutions and borrowers had cumulated over a number of months, so that the risk of an unduly rapid spurt of money and credit growth was relatively low.

In discussing how operations might be adjusted during the intermeeting period if monetary growth should prove to be significantly faster or slower than targeted for the current quarter, most members felt that the implementation of open market operations should be sensitive to the potential desirability of somewhat lesser restraint over the weeks ahead, as well as to the possible need for some greater restraint should monetary growth resume at an excessive rate against a background of greater economic ebullience than seemed to be taking place currently. As compared with conditions at the time of the previous meeting, the monetary aggregates had weakened—with M1, for example, closer to the middle of its longer-run range—and there were more indications of a moderation in the expansion of economic activity. It was understood that any intermeeting adjustment in reserve pressures would not be made automatically in response to the behavior of the monetary aggregates, but would be undertaken only in the context of appraisals of the strength of economic activity and inflationary pressures, and evaluations of conditions in domestic and international financial and banking markets and the rate of credit growth.

At the conclusion of the discussion, all but one member indicated their acceptance of a directive specifying no change at this time in the degree of pressure on reserve positions, but calling for a response to any significant deviation in the aggregates from expectations against the background of economic and financial developments. The members anticipated that this approach to policy implementation would be consistent with growth of the various aggregates at rates for the quarter close to those specified at the previous meeting. Specifically, M1 was expected to grow at an annual rate of about 5 percent or slightly less for the period from June to September, a little less than expected at the previous meeting reflecting the contraction in M1 in July. The annual rates of growth for M2 and M3 in the third quarter would continue to be 7½ and 9 percent respectively. The intermeeting range for the federal funds rate was left unchanged at 8 to 12 percent. It was also recognized that, within the context of this overall approach, operations might need to be modified if unusual financial strains appeared to be developing.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that the expansion in economic activity is continuing at a strong pace, but there are indications of a moderation in the rate of growth. In July, industrial production and nonfarm payroll employment rose further, but retail sales fell after rising considerably in earlier months and housing starts declined to a rate appreciably below the average in the second

quarter. The civilian unemployment rate increased 0.4 percentage point to 7.5 percent. Information on outlays and spending plans continues to suggest strength in business fixed investment. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.

In July, M1 declined after two months of rapid growth, though data for early August suggested some rebound, while M2 expanded at a relatively slow pace. M3 growth, however, remained comparatively sizable. From the fourth quarter of 1983 through July, M1 grew at a rate a bit above the midpoint of the Committee's range for 1984; M2 increased at a rate a little below the midpoint of its longer-run range, while M3 expanded at a rate above the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing at a pace above the Committee's monitoring range for the year, reflecting very large government borrowing along with strong private credit growth. Most interest rates have fallen considerably since the July meeting of the Committee, with the largest declines generally in intermediate and long-term bond markets.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies rose further to a new high in early August and since then has fluctuated in a range just below the peak. The merchandise trade deficit in June was somewhat above the May level, and for the second quarter as a whole the deficit was little changed from the high first-quarter rate.

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 an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to maintain existing pressures on reserve positions. This action is expected to be consistent with growth in M1 at an annual rate of around 5 percent or slightly less, and in M2 and M3 at annual rates of around 7½ and 9 percent respectively during the period from June to September. Somewhat greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint would be acceptable in the event of significantly slower growth. In either case, such a change would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. 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 8 to 12 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, and Ms. Seger. Vote against this action: Mr. Wallich.

Mr. Wallich dissented from this action because he preferred a directive calling for a somewhat greater degree of reserve restraint and marginally lower monetary growth in the third quarter. In his view such a directive was more likely to help avert more serious inflation and financial pressures later.

2. Authorization for Domestic Open Market Operations

At this meeting, the Committee approved a temporary increase from $4 billion to $6 billion in 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. The increase was effective for the intermeeting period ending with the close of business on October 2, 1984.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, 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 projected increases in required reserves and currency might require net purchases of securities over the intermeeting interval in amounts close to the usual $4 billion leeway. A likely rise in Treasury balances at Federal Reserve Banks would add to the need for System purchases of securities. Accordingly, the Manager requested the temporary increase in the limit to provide the necessary leeway for handling that contingency.

Meeting Held on October 2, 1984

Domestic Policy Directive

The information reviewed at this meeting indicated that growth in real GNP had slowed appreciably in the third quarter from the annual rate of about 8½ percent recorded in the first half of the year. The slowing was most marked in final sales, which seemed to grow little during the quarter, while the rate of inventory accumulation appeared to have accelerated. Thus far in 1984, the rise in various measures of prices and wages appeared to be close to, or slightly below, the pace in 1983.

Industrial production edged up 0.2 percent in August, after climbing 0.9 percent in both June and July. Output of consumer durable goods fell markedly in August, largely reflecting fewer assemblies of automobiles and light trucks, and production of nondurable consumer goods also declined. In contrast, production of equipment for business and defense continued to advance briskly, and output of construction supplies edged up. With production gains moderating in August, capacity utilization in manufacturing was unchanged, after a sizable increase in July. At 82.8 percent, the utilization rate was slightly higher than the 1967–82 average and 14 percentage points above the postwar low registered in late 1982.

Gains in employment slowed in recent months. As measured by the establishment survey, nonfarm payroll employment (adjusted for strikes) rose a little over 200,000 per month in July and August, about two-thirds the average monthly increase during the first half of 1984. As measured by the survey of households, employment fell sharply in both July and August, partly reversing exceptionally large increases in the two preceding months. In August, the drop was about equal to the decline in the civilian labor force—a decline accounted for by youths under 25, apparently related to their leaving jobs and returning to school—and the civilian unemployment rate was unchanged at 7.5 percent.

Consumer spending, after rapid growth earlier, was notably weaker during the summer. The advance report on retail sales in August suggested a decline of about ¾ percent; moreover, the decline in sales in July, originally reported to be about 1 percent, was revised substantially to 2 percent. Sales of new domestic automobiles, hindered by a shortage of popular models, dropped to an annual rate of 7.6 million units in August. However, a rebound to an 8.5 million unit pace was reported for the first 20 days of September, reflecting in part the early introduction of 1985 models by some major producers.

Housing starts fell appreciably in August to 1.5 million units. Starts of single-family units, declining for the fourth consecutive month, were more than 20 percent below their average in the second quarter. Multifamily starts, which had changed little on balance over the spring and early summer, fell to a level about 17 percent below their second-quarter pace. Newly issued building permits for both types of structures moved down for the second straight month.

Information on outlays and spending plans suggested that the expansion in business fixed investment in the third quarter had been slower than the exceptionally rapid pace over the preceding year. In August, orders placed at U.S. manufacturers for nondefense capital goods fell for the third consecutive month, and shipments edged off further after an appreciable decline in July; in contrast, purchases of equipment from abroad continued to climb. Backlogs of unfilled orders, which were still relatively large, continued good levels of corporate profits, and reported increases in business spending plans in the latest Department of Commerce survey suggested further growth in capital expenditures.

Incoming information on prices and wages generally indicated a continuation of recent favorable trends. The producer price index for finished goods edged down 0.1 percent in August; the index had risen 0.3 percent in July but had shown no change in the three preceding months. The consumer price index rose 0.5 percent in August after an increase of 0.3 percent in July. Thus far in 1984, producer and consumer prices had risen at annual rates of about 2½ and 4¾ percent respectively, and the index of average hourly earnings had increased at an annual rate of about 2¾ percent.

The foreign exchange value of the dollar fluctuated widely in often volatile market conditions but rose sharply on balance over the intermeeting period. By September 20 the dollar had risen 7 percent to a new high; since then, it had declined somewhat to a level about 5 percent above its value at the time of the August FOMC meeting. In this environment, monetary authorities intervened, some on a substantial scale, in exchange markets. The U.S. foreign trade deficit increased to a record high rate in the July–August period, as a further surge in non-oil imports overwhelmed a moderate increase in exports.

At its meeting on August 21, 1984, the Committee had adopted a directive specifying no change in the degree of pressure on reserve positions in the period immediately ahead, but calling for a response to any significant deviation in the aggregates from expectations, viewed against the background of economic and financial developments. The members had anticipated that this approach to policy implementation would be consistent with growth of M1, M2, and M3 over the period from June to September at annual rates of about 5 percent or slightly less, 7½ percent, and 9 percent respectively. The intermeeting range for the federal funds rate was left unchanged at 8 to 12 percent.

As the intermeeting period progressed, incoming information pointed to continuing substantial shortfalls in growth of the monetary aggregates relative to the Committee's expectations for the third quarter. Growth of M1 in August turned out to be quite small, and while there appeared to be a moderate acceleration in September, expansion over the three-month period from June to September was running well below the Committee's expectations. Growth of M2 and M3 also appeared to have picked up in September after expanding at relatively sluggish rates over the previous two months, but growth in these broader aggregates over the summer was also lower than expected.

Expansion of total domestic nonfinancial debt was estimated to have been at an average annual rate of about 13¼ percent in July and August, keeping growth thus far in 1984 at a pace well above the Committee's monitoring range of 8 to 11 percent for the year. Expansion of private debt was estimated to have eased a bit from the rapid rates recorded earlier in the year, as the growth of mortgage and consumer borrowing slowed somewhat and merger financing abated. Expansion in business borrowing remained at a relatively rapid pace, however, and growth of federal debt surged.

Against the background of monetary growth that was weaker than anticipated, evidence of a slowing pace of economic advance, and a rapidly rising dollar in foreign exchange markets, open market operations were conducted, as the intermeeting period progressed, so as to lessen pressures on bank reserve positions. In the two complete reserve maintenance periods ending in September, adjustment plus seasonal borrowing averaged about $750 million, down from an average of about $1 billion over the previous intermeeting period. The easing in bank reserve positions was reflected in a decline in the federal funds rate from the area of 11½ to 11¾ percent at the time of the August FOMC meeting to a range about 11 percent recently, though day-to-day trading levels fluctuated widely. In short-term markets, yields on Treasury securities fell about ¼ percentage point over the intermeeting interval, and those on private instruments declined about ½ percentage point. Most long-term interest rates declined about 5 to 30 basis points, while yields on municipal bonds increased under heavy supply pressure. Most major banks reduced their "prime" lending rate from 13 to 12¾ percent.

The staff projections presented at this meeting suggested that real GNP would expand at a moderate pace over the remainder of the year and in 1985. The unemployment rate was projected to decline somewhat further over the period, and the rate of price increase was expected to pick up a little from its recent pace, as the economy continued to move toward fuller utilization of its productive resources.

The Committee's discussion of the economic situation and outlook focused on the implications of recent indications of appreciably slower growth in the context of an economic outlook that was already complicated by unusually large, sustained federal deficits, a strengthening dollar on exchange markets, and sensitive domestic and international financial markets. Many members commented that the economy appeared to be adjusting to a reduced, but potentially more sustainable, rate of expansion and that the moderation was likely in turn to be associated with relatively subdued rates of wage and price inflation. It was noted that many past expansions had been interrupted by a "pause" in the rate of economic growth. Although no one could say with certainty whether this most recent experience represented a "pause" and, if so, how long it would last, a number of members believed that a modest rebound was a likely prospect for the next quarter or two followed by some moderation in the rate of expansion later. Other members gave more weight to elements of slowing in the current economic situation, and they saw a greater likelihood of sluggish growth in the period ahead.

While acknowledging a greater potential for adverse developments, a number of members stressed various factors that seemed conducive to continued satisfactory expansion in economic activity. Among these were the direct economic stimulus provided by fiscal policy; a high level of consumer confidence sustained by continued growth in disposable incomes and relatively strong financial positions; and a favorable climate for business investment fostered by generally good profit levels, substantial tax incentives, and reduced margins of unused capacity. Other members, who were somewhat more concerned about the prospects for economic activity, placed more emphasis on the retarding influences of lower housing expenditures, the competition of imports, and the vulnerability of some depository institutions, businesses, and farmers to financial strains. Reference was also made to the related possibility that consumers might tend to curtail their spending if uncertainties about economic and financial conditions should intensify. In that event growth in business spending might also be scaled back, with inventories especially likely to become a less expansive factor.

Several members referred to the progress that had been made in containing inflation, although some threats to future progress remained, and a few members commented that inflation was still the main economic problem for the longer run. In this connection, concern was expressed that too strong a resurgence in spending, though not viewed as a likely development, would intensify inflationary pressures and would set in motion forces, which could threaten the sustainability of the expansion itself. Moreover, as the foreign exchange value of the dollar rose, the possibility increased that a subsequent decline in the exchange rate could be precipitous when it occurred, which would exert significant upward pressures on domestic prices. Prior experience suggested that those pressures would emerge after some lag, but one member commented that the lag might well be shorter than usual as many domestic producers attempted to restore profit margins that were held down by foreign competition. On the favorable side, it was noted that apparently diminished inflationary expectations, relatively restrained wage settlements, and a business climate favoring improvements in productivity had enhanced the prospects for containing inflation.

At its meeting in July, the Committee had reviewed and reaffirmed the basic policy objectives that it had established in January for growth of the monetary and credit aggregates in 1984 and had set tentative objectives for growth in 1985. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, the policy objectives included growth of 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. Through September, M1 apparently grew at a rate close to the midpoint of the range for the year, M2 at a rate somewhat below the midpoint of its range, and M3 at a rate near the upper limit of its range. For 1985 the Committee had established tentative ranges that included reductions from the upper limits of the 1984 ranges for M1 and M2 of 1 and ½ percentage point respectively and no change in the range for M3. For both years the associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent.

In the Committee's discussion of policy implementation for the weeks immediately ahead, most of the members favored directing open market operations, at least initially, toward maintaining the lesser degree of reserve restraint that had been sought in recent weeks. Such an approach to policy was expected to be associated with expansion in the monetary aggregates from September to December at rates that were somewhat above those experienced over the third quarter, especially in the case of M1. It was noted in this connection that the degree of reserve restraint had been eased appreciably in recent weeks and that any further easing should be contingent upon clear evidence of further weakness in the monetary aggregates and the economy. A number of members expressed particular concern that under current conditions appreciably lesser restraint might well induce a sharp decline in market interest rates, excessive money growth, and an unsustainably strong rebound in economic activity. These members noted the risk that such a decline in interest rates might have to be strongly reversed later with damaging consequences for the financial system and the economy. Some members, however, favored a prompt further lessening of reserve restraint. They deemed such an approach to operations to be desirable for a number of reasons, including the recent behavior of the monetary aggregates, the progressive slowdown in the economic expansion since the first quarter, the relatively favorable outlook for inflation, and the strength of the dollar in foreign exchange markets.

In the course of discussing how operations should respond to incoming information, most of the members agreed that the Committee should be prepared to respond a little more promptly in an easing than in a tightening direction, should monetary developments deviate significantly from expectations. In this view policy implementation, given recent shortfalls in money growth, should be relatively tolerant, up to a point, of any tendency for expansion in the monetary aggregates to strengthen more than expected, especially if such growth were not accompanied by clear indications of a strengthening of inflationary pressures or economic activity and if the dollar remained under strong upward pressure in the foreign exchange markets. Others, while not disagreeing that there might be a need to reduce restraint over the coming intermeeting period, emphasized that policy implementation should also be alert to potential developments that might call for greater restraint and that any move in either direction should be carried out in a cautious and probing manner.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept a directive that called for maintaining the lesser degree of restraint on reserve positions that had been attained over recent weeks. The members expected that such an approach to policy implementation would be consistent with growth of M1, M2, and M3 at annual rates of about 6, 7½, and 9 percent respectively for the period from September to December. Somewhat lesser restraint would be acceptable if growth of the monetary aggregates should fall significantly short of expectations, with any adjustment in operations to be evaluated in the context of the strength of the business expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected, provided such growth was associated with evidence that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, should be left unchanged at 8 to 12 percent.

At the conclusion of the meeting the following directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that the expansion in economic activity slowed appreciably in the third quarter from a strong pace earlier in the year. In August, industrial production rose only slightly and gains in nonfarm payroll employment moderated further; retail sales and housing starts declined for the second month in a row. The civilian unemployment rate was unchanged in August at 7.5 percent. Information on outlays and spending plans suggest slower expansion in business fixed investment, following exceptionally rapid growth in recent quarters. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.
>
> In August the monetary aggregates expanded at relatively slow rates, but data available for September suggested some strengthening. From the fourth quarter of 1983 through September, M1 apparently grew at a rate close to the midpoint of the Committee's range for 1984, M2 at a rate somewhat below the midpoint of its longer-run range, and M3 at a rate near the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing at a pace above the Committee's monitoring range for the year, reflecting large government borrowing along with relatively strong private credit growth. Interest rates generally have fallen somewhat further since the August meeting of the Committee.
>
> Over the past month, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has fluctuated widely under often volatile market conditions, reaching a new high in the latter part of September; since then the dollar has declined somewhat. The merchandise trade deficit rose sharply to a record high rate in the July–August period.
>
> 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 an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evalu-

ating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to maintain the lesser degree of restraint on reserve positions sought in recent weeks. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6, 7½, and 9 percent, respectively, during the period from September to December. A somewhat further lessening of restraint on reserve positions would be acceptable in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of business expansion and inflationary pressures, domestic and international financial market conditions, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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 8 to 12 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Partee, and Wallich. Votes against this action: Messrs. Martin, Rice, and Ms. Seger.

Messrs. Martin, Rice, and Ms. Seger dissented from this action because they preferred a directive calling for a somewhat lesser degree of reserve restraint and marginally faster monetary growth in the fourth quarter. In their view some additional easing of reserve positions would be appropriate given the reduction in monetary growth over the third quarter and indications of further slowing in the rate of economic expansion. Somewhat lesser restraint would not incur a significant risk of stimulating inflation and would also be desirable in light of current conditions in domestic and international financial markets. Mr. Martin in particular expressed concern about strains now being experienced by some financial institutions.

Meeting Held on November 7, 1984

Domestic Policy Directive

The information reviewed at this meeting indicated a mixed pattern of developments but on balance suggested that economic activity was continuing to expand, though at a considerably more moderate pace than earlier in the year. Final demands appeared to have picked up a bit in early autumn after a lull during the summer. However, domestic production was apparently being damped by strong and growing competition from imported products and by partly related efforts in a few sectors to reduce inventories. Thus far in 1984, broad measures of prices generally have continued to rise at rates close to the reduced rates recorded in 1983.

Nonfarm payroll employment rose 440,000 in October, following average monthly gains of about 200,000 in the third quarter. The October advance was most pronounced in the service and retail trade industries, but employment in manufacturing also increased somewhat after falling sharply in September. The civilian unemployment rate was unchanged in October at 7.4 percent, as an increase in the civilian labor force offset a substantial rise in employment.

Industrial production fell 0.6 percent in September, after edging up 0.1 percent in August. About half of the September decline was due to a decrease in the production of motor vehicles, which had been affected by a short strike and by continuing problems related to the availability of quality parts. Production of nondurable goods and construction supplies also fell, while output of equipment for business and defense continued to advance. Available information suggested that industrial production increased little in October.

Retail sales rebounded in September, rising an estimated 1.6 percent after two consecutive monthly declines. Gains were recorded at nearly all types of retail outlets and included sharp increases at stores selling largely discretionary items such as apparel and general merchandise. Sales of new domestic automobiles, curtailed by a variety of supply factors, were at an annual rate of about 7¾ million units in September and fell in October to a rate of about 7¼ million units.

Housing starts rose substantially in September after dropping in both July and August. The advance was broadly based: starts of single-family and multifamily units rose by similar margins, and all major geographic regions of the country recorded increases. Sales of new homes rose nearly 22 percent in September, more than offsetting the declines of the previous two months.

Business fixed investment picked up in September, with shipments of equipment and expenditures on nonresidential construction both expanding appreciably. Investment spending slowed considerably during the third quarter as a whole, however, following exceptional increases over the preceding year. Recent indicators of outlays and spending plans suggested a continuation of the slower expansion in business fixed investment, and investment in inventories, which had risen relative to sales in recent months, also appeared to be slowing.

The producer price index for finished goods fell 0.2 percent in September and had remained essentially unchanged over the past two quarters. The consumer price index rose 0.4 percent in September, continuing its pattern of increasing in recent months at an annual rate of 4 to 5 percent. Various measures of wage inflation, including the index of average hourly earnings and the employment cost index, have continued to rise more slowly in 1984 than in 1983.

The foreign exchange value of the dollar fluctuated widely over the intermeeting period, rising to a new high in mid-October, but subsequently declining to a level about 2¾ percent below that prevailing at the time of the previous meeting. Factors contributing to the dollar's recent decline included an apparent perception among market participants of slower economic activity in the United States than previously anticipated and a judgment that U.S. interest rates might decline somewhat further. The U.S. foreign trade deficit in the third quarter was substantially above the rate in the first half of the year, as a sharp rise in non-oil imports exceeded further growth in exports.

At its meeting on October 2, 1984, the Committee had adopted a directive that called for maintaining the lesser degree of reserve restraint that had been sought in the weeks just before that meeting. The members expected that such an approach to policy implementation would be consistent with growth of M1, M2, and M3 at annual rates of about 6, 7½, and 9 percent respectively for the period from September to December. The Committee agreed that somewhat lesser restraint would be acceptable in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of the business expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. The intermeeting range for the federal funds rate was left unchanged at 8 to 12 percent.

Growth in the monetary aggregates strengthened in September from the sluggish pace in August. But data available for October indicated that M1 declined during the month; as a result, M1 was running well below the Committee's expectations for growth in the fourth quarter. Expansion in M2 was also below the Committee's expectations, although to a much lesser extent, while growth in M3 appeared to be at a pace somewhat above the Committee's expectations.

Expansion of total domestic nonfinancial debt moderated to an estimated annual rate of about 11¼ percent in September from an average pace of about 13 percent in the preceding two months. Government borrowing remained large, while private credit growth, though relatively strong, moderated. At commercial banks, credit expansion slowed as the pace of consumer lending slackened and growth in business borrowing eased. Thus far in 1984, total domestic nonfinancial debt appeared to be growing at a rate appreciably above the Committee's monitoring range of 8 to 11 percent for the year.

Over much of the intermeeting interval borrowing by banks at the discount window averaged slightly below levels in the weeks preceding the meeting. However, despite indications of reduced pressure on reserve positions and narrowing spreads between the discount rate and short-term market rates, borrowing at times was sizable. Banks apparently became more willing borrowers at the window following the more cautious approach to reserve management, particularly on the part of large banks, that had developed in late spring. Toward the end of the intermeeting interval, open market operations were conducted to further reduce pressures to borrow in recognition of the extended weakness of M1, and to a degree M2, against the background of incoming economic and financial indicators suggesting, on balance, a marked slowing in the pace of economic expansion. As a result of these developments, together with market expectations of monetary easing and a drop in other short-term rates, the federal funds rate moved down irregularly from about 11 percent just before the October meeting to about 10 percent most recently, with trading on several days in the area of 9½ percent or below. At the same time, other short-term rates fell about 1¼ to 1½ percentage points over the period. Long-term rates on taxable securities generally declined about ¾ percentage point, responding in part to expectations of an improved outlook for inflation as oil prices weakened as well as to the signs of moderating economic expansion. Most major banks reduced their "prime" lending rate in several steps from 12¾ percent to 12 percent, and a few banks lowered their rate to 11¾ percent.

The staff projections presented at this meeting suggested that real GNP would grow somewhat more rapidly in the fourth quarter than in the third and that the expansion would continue at a moderate pace in 1985. Personal consumption expenditures were expected to pick up in the near term, and growth over the coming year was also expected to be sustained by continued expansion in business fixed investment, though at a much slower pace than in recent quarters, and by defense spending. The unemployment rate was projected to decline somewhat further over the period, and the rate of price increase was expected to rise a little from its recent pace if the dollar depreciates significantly on exchange markets following its strong rise during the past year.

In the Committee's discussion of the economic situation and outlook, members commented that a mixed pattern of developments had fostered increased uncertainty about the prospects for economic activity. While most agreed that the staff projection of moderate growth in real GNP was a reasonable expectation, much of the discussion focused on the risks of an appreciable deviation from the projection under prevailing circumstances. A few members believed that the chances of a deviation were tilted in the direction of somewhat faster expansion than the staff was projecting, but others expressed concern that the rate of growth might remain quite sluggish in the near term with some possibility of a rise in the rate of unemployment.

The outlook for consumer expenditures was cited as a key area of uncertainty. Several members felt that evidence of general improvement was still lacking after the summer slowdown. It was noted, however, that a number of retailers expected sales to improve in conjunction with the forthcoming holiday season. A failure of consumer spending to revive in line with expectations would have adverse implications for economic growth beyond the fourth quarter, as it would reinforce a recent tendency by businesses to curb their accumulation of inventories or possibly induce them to attempt to reduce previously acceptable inventory levels.

Members who were relatively optimistic about the prospects for economic activity noted the favorable impact that recent declines in interest rates were likely to have on interest-sensitive sectors of the economy such as housing. They also noted that the basic forces that had given impetus to the expansion over the last several quarters were still largely present. These included rising consumer incomes, a high degree of consumer confidence and relatively strong financial positions, a subdued rate of inflation, a favorable outlook for investment in plant and equipment, and a large federal deficit that, at least in the short run, provided a strong stimulus to the expansion. A number of members observed, however, that while underlying factors favored sustained expansion, the timing of a pickup in economic growth following the "pause" experienced in recent months remained uncertain and growth might well remain relatively sluggish in the current quarter. Moreover, even a substantial increase in retail sales over the period ahead might not contribute to significant short-run improvement in domestic production to the extent that inventories were drawn down or that a rising share of sales was accounted for by imported goods. However, a strong rise in retail sales that tended to deplete inventories would have a favorable effect on production in 1985.

Members who were somewhat less optimistic about the economic outlook noted that the surge in imports was having a strong impact on a number of important domestic industries, both in terms of inhibiting their sales and curbing their investment plans. The current value of the dollar together with relatively weak economic growth in foreign countries were also inhibiting demands for U.S. exports. Moreover, some concern was expressed that rising consumer debt burdens might tend increasingly to curtail consumer spending.

Several members commented that the outlook for inflation remained relatively favorable. While inflationary expectations appeared to have subsided further in recent months, the need to be alert to inflationary potential remained. It was noted, for instance, that a sizable decline in the foreign exchange value of the dollar, if it were to occur, would in time exert upward pressure on domestic prices.

At its meeting in July, the Committee had reviewed and reaffirmed the basic policy objectives that it had established in January for growth of the monetary and credit aggregates in 1984 and had set tentative objectives for expansion in 1985. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, the policy objectives included growth of 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. Through October, M1 grew at a rate in the lower half of the range for the year, M2 at a rate somewhat below the midpoint of its range, and M3 at a rate a bit above the upper limit of its range. For 1985 the Committee had established tentative ranges that included reductions of 1 and ½ percentage point from the upper limits of the 1984 ranges for M1 and M2 respectively and no change in the range for M3. For both years the associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent.

During the Committee's discussion of policy implementation for the weeks immediately ahead, a number of members expressed concern about the persisting weakness in M1, especially in the context of the concurrent "pause" or "lull" in the economic expansion, and they saw a need for some easing of reserve conditions to encourage a resumption in M1 growth. Other members, while not necessarily disagreeing, nonetheless noted that the recent expansion of M2 had been much closer to the Committee's expectations and that growth in M3 had been somewhat faster. A few members cautioned against putting too much emphasis on M1 in light of its typically volatile behavior, the difficulties of achieving accurate seasonal adjustments, and the often unpredictable relationship of M1 to aggregate measures of economic performance.

Most members felt that the potential for a sharp upward surge in business activity had diminished appreciably for the time being and with it the possible need for a near-term reversal of easing steps already taken. On balance, nearly all of the members favored further easing from the reduced degree of reserve restraint sought recently. While preferences with regard to the extent of such easing differed somewhat, a majority urged that the lesser restraint be implemented in limited steps, pending an evaluation of its impact on financial markets and of incoming information on the economy and the monetary aggregates. A number of members, who suggested slightly more aggressive steps, stressed that the risks of stimulating an intensification of inflationary pressures were relatively small under forseeable circumstances and that, on balance, more weight needed to be given to the risks of inadequate monetary and economic growth. With regard to the latter, some members noted that the economy appeared to have the capacity for somewhat faster expansion than was generally expected without generating significantly greater inflationary pressures.

A differing view placed more emphasis on prospects for some strengthening in economic activity, partly in light of the sizable declines in interest rates that had already occurred. In this view, little or no easing of reserve conditions would be desirable at this time, although the Committee needed to remain sensitive to possible indications of further weakness in monetary growth and in economic performance. It was pointed out that any very substantial decline of interest rates over the near term might have to be reversed later, with potentially unsettling consequences for financial markets and institutions, in order to restrain a resurgence of monetary growth and inflationary pressures.

In the course of the Committee's discussion, the members generally agreed that under prevailing economic and financial conditions, policy implementation should be particularly alert to the possible need for adjustment toward lesser restraint. It was felt that any such adjustment should be made promptly, although not automatically, depending on the behavior of the monetary aggregates and continuing indications of relatively sluggish economic activity. In this view, policy implementation should be relatively tolerant, for a time, of a substantial rebound in monetary growth, given the unexpected weakness of M1 in October. Any adjustment of operations in a tightening direction should also depend upon clear evidence of substantial strengthening in economic activity.

Members noted that, along with other interest rates, the federal funds rate had declined appreciably during recent weeks. Accordingly, most of the members favored a reduction in the intermeeting range of the federal funds rate from the current 8 to 12 percent that had been set initially at the July meeting, thus technically providing a more symmetrical range around recent levels. The members regard the federal funds range as a mechanism for initiating Committee consultation when its boundaries are persistently exceeded.

At the conclusion of the Committee's discussion, all but one member indicated that they favored or could accept a directive that called for a somewhat reduced degree of restraint on reserve positions. The members expected such an approach to policy implementation to continue to be consistent with growth of M2 and M3 at annual rates of about 7½ and 9 percent respectively as established at the early October meeting for the period from September to December. Given the appreciable decline in M1 during October, its growth over the three-month period was now expected to be at an annual rate of about 3 percent, down from the 6 percent rate anticipated at the October meeting. The members recognized the volatility of this monetary measure and indicated that more rapid growth would be acceptable for the quarter. Lesser restraint on reserve conditions would be sought if the monetary aggregates grew significantly below expectations, evaluated in the context of the strength of the business expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of growth in domestic nonfinancial debt. Conversely, greater restraint might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected, provided such growth was associated with evidence that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate should be reduced by one percentage point to 7 to 11 percent.

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

The information reviewed at this meeting indicates a mixed pattern of developments but on balance suggests that economic activity is continuing to expand, though at a considerably more moderate pace than earlier in the year. Nonfarm payroll employment rose substantially outside of manufacturing in October, following a moderate increase in September, and the civilian unemployment rate was unchanged at 7.4 percent. Industrial production fell in September, partly because of strikes, and available information suggests little increase in October. Retail sales and housing starts rebounded in September after two months of decline. Information on outlays and spending plans suggests slower expansion in business fixed investment, following exceptionally rapid growth earlier, and inventory investment, having risen relative to sales in recent months, also appears to be slowing. Since the beginning of the year, broad measures of prices generally have continued to rise at rates close to, or somewhat above, those recorded in 1983, and the index of average hourly earnings has risen somewhat more slowly.

Growth of the monetary aggregates strengthened in September, but data available for October indicated that M1 declined during the month, growth of M2 slowed somewhat, and expansion of M3 picked up further. From the fourth quarter of 1983 through October, M1 grew at a rate in the lower half of the Committee's range for 1984, M2 at a rate somewhat below the midpoint of its longer-run range, and M3 at a rate a bit above the upper limit of its range. Growth in total domestic nonfinancial debt appears to be continuing above the Committee's monitoring range for the year, reflecting large government borrowing; private credit growth, though relatively strong, has moderated in recent months. Interest rates have fallen substantially further since the meeting of the Committee on October 2.

Over the past month, the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has continued to fluctuate widely, rising to a new high in mid-October but subsequently declining to somewhat below its level at the time of the previous meeting. The merchandise trade deficit in the third quarter was substantially above the first-half rate as a sharp rise in non-oil imports exceeded some further growth in exports.

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 an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluations of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the

short run, the Committee seeks to reduce somewhat existing pressures on reserve positions. This action is expected to be consistent with growth of M2 and M3 at annual rates of around 7½ and 9 percent during the period from September to December. Ml is expected to grow over the period at an annual rate of around 3 percent, less than anticipated earlier in view of the decline in October. In light of that decline, more rapid growth of Ml would be acceptable. Lesser restraint on reserve positions would be sought in the event of significantly slower growth in the monetary aggregates, evaluated in relation to the strength of the business expansion and inflationary pressures, domestic and international financial market conditions, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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 7 to 11 percent.

Votes for this action: Messrs. Volcker Solomon, Boehne, Boykin, Corrigan, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Vote against this action: Mr. Gramley.

Mr. Gramley dissented from this action because he preferred a directive that called for maintaining approximately the existing degree of reserve restraint. Despite the pause in the current expansion, underlying forces in the economy, together with the decline in interest rates that had already occurred, were likely to produce a resumption of economic expansion in the reasonably near future. In those circumstances, he was concerned that further easing of reserve positions might lead to a significant decline in interest rates that would subsequently have to be reversed as economic activity and money growth picked up again.

Authorization for Domestic Open Market Operations

During the intermeeting period, the Committee approved temporary increases in the $4 billion 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. The first increase from $4 billion to $6 billion was effective on November 21, 1984, and the second from $6 billion to $8 billion on December 5, 1984. Both increases applied to the period ending with the close of business on December 18, 1984. They were approved on the recommendation of the Manager for Domestic Open Market Operations. During the first part of the intermeeting period, substantial net purchases of securities were undertaken to provide reserves in association with seasonal increases in required reserves and in currency in circulation. The need to provide reserves through open market operations had been augmented this year by some reduction in borrowing on an extended basis at the Federal Reserve Banks. By November 21, immediately contemplated purchases would have nearly exhausted the $4 billion leeway in the authorization and the Manager believed that additional purchases were likely to be required before the next Committee meeting. Subsequently, in early December the Manager advised that a greater need to provide reserves than previously expected had arisen from a combination of factors, all working in the same direction, that included further declines in extended credit at the discount window, anticipated changes in vault cash, currency, and required reserves, and an increased pool of overnight investment funds of foreign official accounts.

Votes for the action effective November 21, 1984: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: None.

Votes for the action effective December 5, 1984: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Martin, Partee, Rice, Ms. Seger, Messrs. Wallich and Keehn. Votes against this action: None. (Mr. Keehn voted as alternate for Mrs. Horn.)

Meeting Held on December 17-18, 1984

Domestic Policy Directive

The information reviewed at this meeting indicated a mixed pattern of developments, with some sectors showing a pickup from the lull of earlier months. On balance, however, economic activity appeared to be expanding in the current quarter at a rate approximating the considerably reduced pace recorded in the third quarter. Broad measures of prices generally continued to increase at rates close to those in 1983.

After two months of decline, industrial production increased about 0.4 percent in November, largely reflecting a rebound in auto production from strike-reduced levels. Production of business equipment and construction supplies declined further, while output of materials turned up and production of defense and space equipment continued to advance strongly.

The rise in nonfarm payroll employment exceeded 300,000 in November for the second month in a row, compared with monthly increases averaging about 200,000 in the third quarter. There were large gains in the service and retail trade industries, but employment in manufacturing rose only slightly. The civilian unemployment rate fell 0.2 percentage point to 7.2 percent, following four months of virtually no change.

Retail sales, after changing little in October, rose an estimated 1.8 percent in November according to the advance report of the Census Bureau. The November gain was broadly based, but sales were especially strong at stores selling primarily discretionary items such as apparel and general merchandise. Sales of new domestic automobiles were at an annual rate of about 7¼ million units in both October and November, but rebounded to an annual rate of nearly 8¾ million units in the first ten days of December. Nevertheless, sales thus far in the fourth quarter were running at an annual rate about ½ million units below the third-quarter rate of nearly 8 million units.

Total private housing starts, at an annual rate of 1.5 million units in November, were about unchanged from the reduced October pace. However, newly issued building permits for residential construction rose nearly 11 percent in November. The declines in mortgage rates over recent months apparently helped to bolster home sales: in October, sales of new homes rose slightly further after a surge in September and sales of existing homes leveled off after declining for five consecutive months.

The rise in business fixed investment spending had slowed substantially in recent months, following exceptionally rapid growth earlier. Shipments and orders of equipment from domestic capital goods producers declined markedly in October. Nevertheless, recent surveys of business spending plans for 1985 indicated continued, though moderating, growth in expenditures in the quarters ahead.

The producer price index for finished goods rose 0.5 percent in November, after declining 0.2 percent in each of the preceding two months. The reversal reflected in part a 0.7 percent increase in food prices, which had declined on balance since July; prices for a variety of other consumer goods also picked up in November. Thus far in 1984 producer prices for finished goods had risen at an annual rate of less than 2 percent. Through October, the latest month for which data on consumer prices were available, the CPI had increased at an annual rate of about 4¼ percent. The index of average hourly earnings over the first 11 months of the year rose at an annual rate of about 3 percent, compared with an increase of 4 percent in 1983 as a whole.

The foreign exchange value of the dollar appreciated about 5 percent over the intermeeting interval; this rise reversed most of the previous decline from the peak in mid-October. The dollar moved up during the period despite a narrowing in the differential between U.S. and foreign interest rates. In October the U.S. foreign trade deficit was significantly reduced from the rate in the third quarter, mainly because of a sharp decline in non-oil imports.

At its meeting on November 7, 1984, the Committee had adopted a directive that called for a somewhat reduced degree of restraint on reserve positions. The members expected that such an approach to policy implementation would be consistent with growth of M2 and M3 at annual rates of about 7½ and 9 percent respectively, as established at the early October meeting for the period from September to December. Given the appreciable decline in M1 in October, its growth over the three-month period was expected to be at an annual rate of about 3 percent, rather than the 6 percent rate anticipated at the October meeting; however, the members indicated that more rapid growth in M1 than currently anticipated would be acceptable for the quarter. Lesser restraint on reserve positions would be sought if growth in the monetary aggregates was significantly below expectations, evaluated in the context of the strength of the business expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of growth in domestic nonfinancial debt. Conversely, greater restraint might be acceptable in the event of substantially more rapid growth than expected in the monetary aggregates and evidence that economic activity and inflationary pressures were strengthening significantly. The intermeeting range for the federal funds rate was set at 7 to 11 percent.

In November M1 increased at an annual rate of about 8½ percent, offsetting the decline in October. Since early summer M1 had grown little on balance, and from the fourth quarter of 1983 through November its growth was in the lower half of the Committee's range for 1984. Growth in M2 and M3 was especially rapid in November, at annual rates of about 15 and 16 percent respectively, bringing M2 to the midpoint of its longer-run range and M3 a bit further above the upper limit of its range. Expansion in total domestic nonfinancial debt was estimated to have picked up to an annual rate of about 14 percent in November, reflecting very large government borrowing and continued strong growth in private credit. Thus far in 1984, expansion in domestic nonfinancial debt was running appreciably above the Committee's monitoring range for the year.

Open market operations over the intermeeting interval were directed at achieving some reduction in pressures on bank reserves against the background of lagging growth in the narrow money supply, generally sluggish expansion in the economy, subdued inflation, and continued strength of the dollar in foreign exchange markets. The average level of borrowing by depository institutions at the discount window moved down on balance over the period, and in November nonborrowed and total reserves increased at annual rates of about 17½ and 11¼ percent respectively. The decline in borrowing, along with a reduction in the discount rate from 9 to 8½ percent on November 21, was associated with a drop in the federal funds rate from the 9½ to 10 percent area at the time of the November FOMC meeting to about 8¾ percent recently, with trading on the days immediately preceding this meeting somewhat below that level. Other short-term interest rates also moved down, declining about 50 to 90 basis points; intermediate-term rates fell about 45 to 65 basis points, while most long-term rates declined only modestly. At savings and loan associations, however, the average rate on new commitments for fixed-rate conventional home mortgage loans—which typically move in lagged response to changes in market yields —declined 65 basis points over the period. Most commercial banks reduced their "prime" rate in several steps by 75 basis points to 11¼ percent, and a few banks were lowering their rates further at the time of this meeting.

The staff projection presented at this meeting suggested that growth in real GNP in the short run would be somewhat slower than previously anticipated as some final demands were expected to be satisfied by reductions of inventories rather than through current production. For the year 1985, however, the staff continued to expect a moderate rate of expansion in economic activity. The unemployment rate was projected to edge down over the period and the rate of price increase to remain close to that experienced in 1984.

In the Committee's discussion of the economic situation and outlook, the members differed to some extent on the prospects for economic activity in 1985, but they generally agreed that underlying economic conditions favored further moderate growth during the year, especially in the context of a stimulative fiscal policy and the decline in interest rates that had occurred. While various measures of economic activity continued to indicate a mixed pattern of developments, some recent information suggested a less sluggish overall performance than earlier. With reference to the staff projection, a few members felt that the risks of a deviation were in the direction of somewhat faster growth. Some others saw those risks as about evenly balanced, while several believed there were more risks of a shortfall. Many members were concerned that the projected rate of expansion was in any event inadequate in light of the availability of labor and capacity and other factors.

The members continued to give considerable emphasis to the many risks that could lead to an unexpected outcome, especially in view of potential complications associated with massive and sustained federal deficits and very large imbalances in the nation's foreign trade. Other areas of uncertainty related to various financial strains or other problems in several sectors of the economy, including energy-related industries and especially agriculture, which was experiencing serious difficulties in many parts of the country. It was also noted that the recent tax proposals of the U.S. Treasury might tend to alter business spending plans in uncertain ways as the likelihood of implementation of various elements of the proposals was assessed.

The members recognized that the performance of the economy in the months immediately ahead would depend in important measure on consumer expenditures. The rising incomes of consumers, their large holdings of liquid assets, and an apparently high degree of consumer confidence pointed to continuing growth in consumer spending. In the view of at least some members, however, such spending might remain relatively sluggish during the year ahead. They noted in this regard that consumer expenditures often tended to falter during the third year of an expansion and that the substantial rise that had already occurred in consumer debt might inhibit further increases in debt-financed expenditures. Moreover, a substantial portion of consumer demand might in any event continue to be met from imports, with adverse consequences for domestic production.

Members noted that growth in business fixed investment had moderated considerably in recent months from an exceptionally rapid pace earlier. While continuing growth could be expected in 1985, it would probably contribute much less than earlier to overall gains in economic activity, but uncertainties connected with the recent tax proposals might affect the extent of the slowdown. On the other hand, reduced mortgage rates would make housing a less constraining influence on economic activity than it had been in recent quarters, and the view was expressed that some revival in housing construction was a reasonable prospect for 1985. It was noted, though, that uncertainties about future tax legislation could exert some restraining effect on housing, notably with regard to certain financing activities and particular types of housing such as second homes.

As they had at previous meetings, the members gave a good deal of attention to the effects of the continuing strength of the dollar in foreign exchange markets. The related surge in imports was having a very negative impact on production in many domestic industries, while expansion in exports was being curbed by the appreciated value of the dollar as well as by relatively slow economic growth abroad. Some members commented that they saw little or no prospect for significant improvement in the trade balance in 1985. If the foreign exchange value of the dollar were to decline moderately, foreign suppliers were viewed as likely to absorb some of the exchange loss through their profits, at least in the short run, in order to protect their market shares in the United States, in the process moderating any inflationary impact of the dollar's decline. It was noted that a rapid decline of the dollar might have undesirable effects on confidence or on the stability of markets if it led to a worsening of inflationary expectations.

The members continued to regard the outlook for inflation as relatively favorable in the sense that a moderate expansion in economic activity was not seen as likely to be associated with renewed upward pressures on wages and prices or, absent a sharp decline in the dollar, strong new price pressures from other sources. Members noted that prices of sensitive commodities were still declining and that there appeared to have been a downward shift in inflationary expectations in recent months, with favorable implications for future progress in containing wage and price increases. Indeed, a number of members commented that somewhat faster economic growth than was generally expected at this time might also be compatible with little or no additional inflationary pressures in 1985. At the same time, it was emphasized that the rate of inflation was still too high and needed to be reduced over time. One member also expressed the view that improvements in productivity were likely to contribute to diminishing inflationary pressures over the longer run. On the negative side, a sizable decline in the value of the dollar would in time exert upward pressure on domestic prices, although given the lags that were involved, any such impact might be relatively limited during 1985. Reference was also made to uncertainties about productivity improvements and to a desire to raise profit margins in many industries, even though competitive factors, both domestic and international, might well continue to hold prices down for a time.

At its meeting in July the Committee had agreed on policy objectives that called for tentative growth ranges for the period from the fourth quarter of 1984 to the fourth quarter of 1985 of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1985. At this meeting the Committee reviewed background factors bearing on the ranges for 1985—including how experience in 1984 may affect the establishment and implementation of those ranges—in the expectation that at its next meeting it would reassess and set specific ranges for the year within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act).

During the Committee's discussion of policy implementation for the intermeeting period ahead, most of the members expressed a preference for directing open market operations toward some further easing of reserve conditions to encourage satisfactory growth in M1 and to improve the prospects for economic expansion in 1985. The views of these members differed to some extent on the degree of easing that should be sought. A few members, though, wanted essentially to maintain, pending new developments, the lesser degree of reserve restraint that had been achieved recently.

In the discussion of the pressures to be sought on reserve positions, some members stressed the risks of inadequate economic expansion in 1985 and commented that even a relatively rapid pace of economic growth next year would not be likely to incur much risk of stimulating a significant intensification of inflationary pressures. Some observed that despite sizable declines in nominal interest rates, real interest rates were still quite high, partly because of a downward shift in inflationary expectations, and were exerting considerable restraint on economic activity. A number of members also commented that domestic considerations in favor of lesser restraint were reinforced by the need to take account of the strength of the dollar in foreign exchange markets and the severe debt-servicing problems of several developing countries. Other members, particularly those who preferred little or no easing of reserve conditions, noted the possibility that the expansion might turn out to be more vigorous than was generally expected. The impact of reduced interest rates had not yet been fully reflected in the economy and more time was needed to gauge that impact as the Committee endeavored to steer an appropriate policy course that would encourage expansion in economic activity while avoiding an intensification of inflation.

The members concurred that growth in M1 might accelerate over the months ahead, partly in lagged response to sizable declines in short-term interest rates during recent months, but several were of the view that some additional easing of reserve conditions was probably needed to help assure adequate growth in M1. It was noted that there was as yet no clear evidence that the recent easing of reserve conditions and accompanying decline in short-term interest rates would foster a sustained rebound in M1 growth. On the other hand, growth in the broader aggregates appeared to be exceeding the Committee's expectations for the fourth quarter by a substantial margin and it was suggested that the performance of M1 needed to be evaluated in light of that development. With respect to the outlook for the broader aggregates, the members generally anticipated appreciable slowing from the unusually rapid growth experienced in recent weeks, largely because they expected inflows of funds to money market deposit accounts and money market mutual funds to slow substantially as the interest rates paid on such accounts were adjusted down to bring them into better alignment with short-term market rates.

Along with other short-term rates, the federal funds rate had declined considerably in recent weeks and might fall a little more if pressures on reserve positions were eased somewhat further. Under the circumstances, most of the members were in favor of a technical downward adjustment in the current intermeeting range of 7 to 11 percent. It was suggested during this discussion that a rise in the federal funds rate to about the upper limit of the existing range would imply reserve conditions that were inconsistent with the Committee's objectives for monetary growth. On the other hand, some members cautioned that a decline in the rate that was too precipitous or sizable might signal more of an easing to markets than was needed to achieve the Committee's objectives.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept a directive that called for some further reduction in the degree of restraint on reserve positions. The members expected that such an approach to policy implementation would be consistent with growth of M1 at an annual rate of about 7 percent during the four-month period from November to March and with expansion of both M2 and M3 at an annual rate of about 9 percent during the same period. Because of the currently estimated shortfall in M1 growth in the fourth quarter compared with the members' expectations at the beginning of the quarter, the Committee decided that somewhat more rapid growth of M1 would be acceptable for the period ahead, particularly if the faster growth occurred in the context of sluggish expansion in economic activity and continued strength of the dollar in foreign exchange markets. The Committee also indicated that greater restraint on reserve positions might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected and indications that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be reduced by one percentage point to 6 to 10 percent.

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

The information reviewed at this meeting indicates a mixed pattern of developments but on balance suggests that economic activity is continuing to expand in the current quarter at a rate approximating the considerably reduced pace recorded in the third quarter. Nonfarm payroll employment rose substantially further outside of manufacturing in November, and the civilian unemployment rate fell from 7.4 to 7.2 percent. After two months of decline industrial production increased somewhat in November, largely reflecting a rebound in auto production from strike-reduced levels. Retail sales registered a large gain in November after changing little in October. Information on outlays suggests substantially slower expansion in business fixed investment, following exceptionally rapid growth earlier. Since the beginning of the year, broad measures of prices generally have continued to rise at rates close to, or somewhat above, those recorded in 1983, and the index of average hourly earnings has risen somewhat more slowly.

Growth of the monetary aggregates strengthened markedly in November. The November expansion in M1 offset the decline in October, and this aggregate has grown little on balance since early summer; from the fourth quarter of 1983 through November, M1 grew at a rate in the lower half of the Committee's range for 1984. Growth in the broader aggregates was especially rapid in November, bringing M2 to the midpoint of its longer-run range and M3 a bit further above the upper limit of its range. Expansion in total domestic nonfinancial debt is continuing above the Committee's monitoring range for the year, reflecting very large government borrowing and strong private credit growth. Interest rates have fallen further since the November meeting of the Committee, with the largest declines concentrated in short-term markets. On November 21, the Federal Reserve approved a reduction in the discount rate from 9 to 8½ percent.

Since early November the foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has appreciated substantially, reversing most of the previous decline from its mid-October peak. The merchandise trade deficit in October was significantly reduced from the rate in the third quarter, mainly reflecting a sharp decline in non-oil imports.

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 an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8½ percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluations of conditions in domestic credit and foreign exchange markets.

In the implementation of policy in the short run, the Committee seeks to reduce pressures on reserve positions consistent with growth of M1, M2, and M3 at annual rates of around 7, 9, and 9 percent, respectively, during the period from November to March. Somewhat more rapid growth of M1 would be acceptable in light of the currently estimated shortfall in growth for the fourth quarter relative to the Committee's expectations at the beginning of the period, particularly in the context of sluggish growth in economic activity and continued strength of the dollar in exchange markets. Greater restraint on reserve positions might be acceptable in the event of substantially more rapid monetary growth and indications of significant strengthening of economic activity and inflationary pressures. 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, Boehne, Boykin, Corrigan, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: Messrs. Solomon and Gramley.

Mr. Solomon dissented from this action because, although he thought some further easing would be appropriate over the coming period, he believed such action should be relatively gradual. In particular, he was concerned that the provision of reserves sought by the Committee risked an excessive decline in short-term rates and an overreaction in the financial markets. He therefore preferred a more cautious probing towards easier reserve conditions.

Mr. Gramley dissented because he could not accept a directive that called for further easing of reserve conditions. In his view the underlying strength of the economy, together with the ongoing effects of earlier declines in interest rates, provided the basis for a likely rebound in economic growth during 1985. He also believed that the Committee needed to take greater account of the broader monetary aggregates whose expansion appeared to be exceeding the Committee's expectations by a substantial margin in the fourth quarter. Under current circumstances he was concerned that significant further easing of reserve conditions would foster additional declines in interest rates that would have to be reversed later as economic growth picked up again.

On January 18, 1985, the Committee held a telephone conference to discuss recent foreign exchange market developments in the context of the announcement made by the G-5 Ministers of Finance and Central Bank Governors. Against the background of various measures that could contribute to greater exchange rate stability, that announcement reaffirmed, in light of recent developments, the commitment made at the Williamsburg Summit to undertake coordinated intervention in exchange markets as necessary. It was noted in the course of discussion that the Committee's authorizations for foreign currency operations provided adequate scope for any actions in exchange markets that might be undertaken by the System in this context.

Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $4 billion to $6 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 for the intermeeting period ending with the close of business on February 13, 1985.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, 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 necessary during the weeks ahead in order to absorb reserves that had been provided recently to meet increased seasonal needs for currency in circulation and required reserves.

Consumer and Community Affairs

In 1984, the Board used a variety of regulatory and nonregulatory approaches to maintain statutory protections for consumers, to ease regulatory burdens, and to increase both efficiency and effectiveness in examinations of state member banks for compliance with consumer regulations.

As discussed further in this report, the Board proposed an amendment to Regulation Q (Interest on Deposits) that would prohibit potentially misleading advertisements of time deposits with multiple or variable rates of interest. The Board amended Regulation E (Electronic Fund Transfers) to ensure basic protections for consumers using debit cards in point-of-sale transactions and in other transactions that are not initiated at electronic terminals. To reduce the delay in the availability to consumers of funds that they deposit by check, the Board proposed an amendment to Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds); the Board also joined with other supervisory agencies in issuing a policy statement that encourages financial institutions to review and disclose their policies on delayed availability of funds. Regulation Z (Truth in Lending) was amended by the Board to ensure protection against liability for unauthorized use of credit cards in transactions otherwise exempt from the regulation—for example, transactions in which consumers use credit cards issued by telephone companies. The Board issued a proposal to amend Regulation AA (Unfair or Deceptive Acts or Practices) that would implement for banks the "credit practices rule" adopted by the Federal Trade Commission. At year-end, the Board was engaged in a review of Regulation B (Equal Credit Opportunity) under its Regulatory Improvement Project. A revised version of the regulation is likely to be proposed for public comment in early 1985.

To ease the burdens of compliance, the Board continued to maintain the official staff commentaries for Regulation Z and Regulation E and to develop pamphlets written in plain English to explain selected bank procedures required by consumer protection laws. The Board also worked with the Federal Home Loan Bank Board and 21 organizations, which included trade and consumer groups and several government agencies, to develop a "Consumer Handbook on Adjustable Rate Mortgages," a booklet for consumers on the advantages and disadvantages of this relatively new mortgage instrument. Other efforts to inform consumers included the continued distribution of a wide variety of consumer education pamphlets, teaching packages, and videotapes.

To reduce the costs of examinations for consumer compliance and to increase the time available for oversight of banks with less-than-satisfactory

NOTE. This section, "Consumer and Community Affairs," fulfills the statutory requirements for annual reports under 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.

ratings for compliance, the Board established a flexible policy that permits limited-scope examinations of banks that have strong histories of satisfactory or better-than-satisfactory compliance with consumer-related regulations. The Board also adopted a policy to reduce expenses by allowing examiners to handle some procedures at the Reserve Banks rather than at the bank being examined.

In the area of community affairs, the System instituted several improvements. These included strengthening the role of the Community Affairs Officers at the Federal Reserve Banks and enhancing the training of examiners in that area.

This report also discusses special efforts by the Board to collect data related to consumer finance; the extent of compliance by institutions with Regulation B, Regulation E, and Regulation Z; the economic impact of Regulation E; the Federal Reserve System's implementation of the Community Reinvestment Act; the activities of the Consumer Advisory Council; and legislative recommendations from the Board and other agencies with enforcement responsibilities under the Truth in Lending, Equal Credit Opportunity, and Electronic Fund Transfer Acts. In addition, this section presents 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.

Regulatory Actions

In March, the Board issued for public comment a proposal to amend Regulation Q (Interest on Deposits) to prohibit potentially misleading practices in advertising time deposits, especially those with multiple fixed or variable interest rates. In advertising time deposits that offer an initial rate for a few months and then a lower rate for the remaining term, the proposed amendment would require that the two rates appear in type of the same size and that advertisements conspicuously state the average effective annual yield based on a compounding of interest at least annually. For accounts with a variable interest rate determined by an index, the amendment would require those advertisements that show the initial interest rate to include statements explaining when the initial rate applies, and the method of determining future rates and when those rates would apply. In advertisements of accounts with an initial fixed rate followed by a variable rate, the proposed amendment would require disclosure, in type of the same size used for the fixed rate, of the way the variable rate is determined. Also, advertisements of such accounts would have to state conspicuously when the fixed and variable rates would apply. Finally, the amendment would prohibit institutions from advertising individual retirement accounts (IRAs) as tax free or tax exempt because IRA contributions and earnings are deferred—not exempt—from federal income taxes. At the time the proposal was issued, the Board set forth a parallel policy statement to encourage financial institutions to comply voluntarily with the proposed rules.

As part of its effort to encourage banks to speed the availability to consumers of funds deposited by check, the Board in June proposed an amendment to Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds). The proposed amendment would require payor institutions to provide notification directly to the institution of first deposit when they are returning checks of $2,500 or more that are collected through the Federal Reserve System. The amendment also generally would require notification within 48 hours after the time by which the payor institution must return the check. A payor institution that fails to exercise ordinary care in providing timely and accurate notification to the institution of first deposit could be liable for losses, up to the amount of the item, incurred by the institution of first deposit. To help payor institutions meet this requirement, Reserve Banks would enhance the current notification service.

Earlier in the year, the Federal Reserve Board joined with other federal financial supervisory agencies in issuing a policy statement encouraging banks and savings and loan institutions to review their policies on funds availability to eliminate any unnecessary delay in allowing consumers access to funds deposited by check. The policy statement suggested that institutions disclose their funds-availability policies to customers and refrain from imposing unnecessary delays on social security checks and other government payments to established accounts.

In October, the Board amended Regulation E (Electronic Fund Transfers) to ensure basic protections for consumers in all debit card transactions, including transactions that do not involve an electronic terminal at the point of sale or at the time the transaction is originated. The amendments also extend the time for resolving errors in transactions involving debit cards at the point of sale: disputed amounts in these transactions must be provisionally recredited to the consumer's account within 20 business days, and investigations of alleged errors must be completed within 90 days. Another amendment provides an exemption from the provisional recrediting requirements for consumer asset management accounts involving the purchase or sale of securities subject to Regulation T. In addition, the amendments permit financial institutions to itemize the electronic fund transfer (EFT) charge for each transaction on periodic statements.

In November, the Board amended Regulation Z (Truth in Lending) to ensure two basic statutory protections for consumers in their use of all credit cards. The amendment provides that no class of credit cards may be issued without an oral or written request from the consumer and that the consumer is liable for a maximum of $50 of unauthorized charges. The amendment includes those credit cards used for transactions that are exempt from all other provisions of the regulation, such as telephone credit cards.

In November, the Board requested public comment on a proposed amendment to Regulation AA (Unfair or Deceptive Acts or Practices) that would implement for banks the credit practices rule adopted by the Federal Trade Commission (FTC). The Federal Trade Commission Improvement Act requires the Board to adopt a rule substantially similar to the FTC's unless the Board finds that the governed practices are not unfair or deceptive as engaged in by banks or that a similar rule for banks would seriously conflict with essential monetary or payments policies of the Federal Reserve. The proposed amendment would prohibit banks from including in consumer credit contracts any of the following provisions:

- A "confession of judgment" clause, by which the consumer agrees in advance to permit the creditor to obtain a judgment in event of default without giving the debtor prior notice or an opportunity to be heard in court.

- A "waiver of exemption," by which the consumer waives or limits state law exemptions sheltering the consumer's home or other necessities from attachment.
- A provision by which the debtor assigns future wages to the creditor in the event of default.
- A provision permitting creditors to repossess any of the consumer's household goods beyond those for which the creditor is extending credit.

The amendment would also forbid "pyramiding" late charges, which occurs when a charge arising from one late payment is taken out of a subsequent timely payment; this can cause a series of subsequent payments to be incomplete and therefore subject to late charges. Finally, the proposed amendment would prohibit misrepresentation of a cosigner's liability and require the creditor to give the cosigner a notice that explains the nature of the cosigner's obligation and potential liability.

In 1984, the Board also monitored the status of two other trade regulation rules proposed by the FTC to determine the need for substantially similar rules applicable to banks. These rules are the Used Car Rule and an amendment to the Holder-in-Due-Course Rule.

Reduction of the Regulatory Burden

In 1984, the second full year of mandatory compliance with the simplified version of Regulation Z, the Board continued to monitor the positive effect of simplification on litigation. The number of truth-in-lending cases filed in federal courts in 1984 was 8 percent lower than the total number filed the previous year. Because lessening litigation was a part of the Board's goal in simplifying the regulation, the continued reduction in the number of cases is particularly significant. To reduce the regulatory burden, the Board continued to provide legal interpretations and guidance through the official staff commentaries on Regulation Z and Regulation E. The commentaries integrate all of the Board's official guidance and are updated at regularly scheduled intervals. Generally, the commentaries are revised annually, with revisions effective October 1. This approach appears to have enabled financial institutions and others that must comply with the regulations to increase the efficiency of their compliance programs.

The Board also distributed a variety of "plain English" pamphlets to help financial institutions better understand the procedures that are necessary for compliance with the consumer regulations. The eight pamphlets distributed through Federal Reserve Banks in 1984 focused on Regulation B, the Right to Financial Privacy Act, the Community Reinvestment Act, and the responsibilities of a bank's board of directors for consumer regulations. These pamphlets are available from the Federal Reserve Banks.

Improvements in Enforcement

In October, the Board established a policy that permits Federal Reserve examiners to review a smaller sample of loan and other documents during alternate examinations of banks that have a history of good compliance with consumer regulations. These "limited scope" examinations will allow Reserve Banks to increase their available resources for oversight of banks with less-than-satisfactory compliance records. To qualify for a limited-scope examination, a bank must meet or exceed each of the following eligibility tests:

- The bank must have a stable or improving compliance history with at least satisfactory ratings for the last two examinations, and those examinations must have been conducted by the Federal Reserve System.
- The bank must have a strong compliance program with demonstrated support from bank management and effective programs ensuring internal controls, periodic reviews for compliance adequacy, and staff training in appropriate areas of consumer compliance.
- The bank must have promptly corrected all deficiencies noted in earlier examinations.
- If the bank was required in the most recent examination to reimburse any of its customers, the reimbursements must have occurred promptly and must have involved only small amounts; similarly, any corrective action required by the Supervisory Enforcement Policy for the Equal Credit Opportunity Act and the Fair Housing Act must have occurred promptly and must have involved only a few violations.

Banks that qualify for limited-scope examinations will nonetheless receive a complete assessment of performance related to the Community Reinvestment Act.

Also in October, the Federal Reserve Banks implemented a new policy that allows examiners to perform certain parts of compliance examinations at the Reserve Banks instead of at the bank being examined. The new policy establishes procedures that may be used to review bank policies, forms, and other documents offsite before the rest of the examination is conducted on the bank's premises. The policy is designed to reduce travel time and costs related to examinations and to minimize the inconvenience and disruption of examinations for state member banks. The offsite approach does not mean that less time will be devoted to consumer compliance examinations or that examinations will be of reduced quality. Each Reserve Bank will decide whether, and to what extent, to use the offsite approach.

Community Affairs and the Community Reinvestment Act

In February 1984, the Board announced measures to strengthen the System's enforcement of the Community Reinvestment Act (CRA). These measures included strengthening the role of the Federal Reserve's Community Affairs Officers (CAOs), improving the means for detecting lender practices that illegally discourage loan applications, and enhancing the training of examiners in the area of community affairs. These actions were based on recommendations from the Board's Consumer Advisory Council.

In strengthening the role of the CAOs, the Board reaffirmed its support for the CAOs in a letter to each Reserve Bank. The Board also developed a statement of the community affairs activities and responsibilities of the Federal Reserve Banks. The majority of these activities are educational efforts directed toward banks, bank holding companies, local governments, and community groups. The CAO is responsible for gathering information about the primary development needs of communities served by state member banks and bank holding companies in the CAO's district; for offering information to state member banks and bank holding companies about government and other programs designed to assist community development; and for promoting the goals of the Community Reinvestment Act by fostering communications among borrowers, local governments, development organizations, and community financial institutions in communities served by state member banks. The CAOs also provide community and neighborhood organizations with general information about the CRA and the procedures followed by the Federal Reserve System in handling applications and protests. Finally, the CAOs provide information and assistance to bank holding companies interested in forming community development corporations.

In 1984, the Board invited other financial supervisory agencies to join in a review of the systems used by each of the agencies to gather information on the race, national origin, sex, marital status, and age of applicants for credit. These data are used by the agencies to monitor compliance with the Fair Housing Act and the Equal Credit Opportunity Act. The Board believes that a unified data notation system would reduce the burden for creditors while supplying useful information to the agencies' examiners.

The Board published a statement in which it noted that the use of testers in examinations for credit discrimination may be appropriate when an examination reveals possible illegal discrimination. Testing is a process whereby matched pairs of individuals, usually white and nonwhite, simulate a search for housing from rental property managers or sales agents in order to detect differential treatment or other evidence of discrimination; testing programs can be conducted in person or by telephone. In appropriate instances, the Reserve Banks will consult with the Board's staff to determine whether the facts of the situation warrant the use of testers to obtain information about the absence or presence of illegal discrimination.

The Board also announced measures to broaden the training of examiners in the area of community affairs. It has requested that the CAOs participate actively in the training of examiners and that each Reserve Bank involve all new examiners in meetings with the CAO on community contacts and in other community outreach programs.

Collection of Data

In 1984, the Board published the results of the 1983 Survey of Consumer Finances, which was sponsored by the Board, the Department of Health and Human Services, and five other federal agencies. No study since the Board's 1962 Survey of Financial Characteristics of Consumers has collected a more comprehensive inventory of consumers' assets than that contained in the 1983 survey. The latest survey obtained information on the assets and liabilities of 3,824 randomly selected American households. It also collected information on the use by consumers of financial services, on their reactions to consumer credit regulations, and on consumer pension rights and benefits. Some of the findings of the survey were summarized in the September 1984 and December 1984 issues of the *Federal Reserve Bulletin.*

In early January 1984, the House

Banking Committee asked the Federal Reserve and several other agencies to collect information from financial institutions about changes in service fees and related policies from 1978 through 1983. Focusing on state member banks, Federal Reserve personnel collected the following information:

- From call reports or similar sources, service charges and fee income.
- From Federal Reserve files, the number of consumer complaints about fees for deposit and loan services and about policies on funds availability.
- From selected state member banks, the dollar amount of fees related to deposit accounts and loans as well as information about any free services; current information about transaction-posting procedures and procedures for notifying customers regarding account overdrafts; policies on funds availability; the number of consumer complaints received by an institution concerning deposit and loan services and fees and policies regarding the availability of funds; copies of brochures on fees and policies regarding the availability of funds.

Compliance with Consumer Regulations

Based on reports from the five federal agencies that supervise financial institutions and from other supervisory agencies, overall compliance with the Truth in Lending Act and the Equal Credit Opportunity Act remained unchanged from compliance levels in 1983, and overall compliance with the Electronic Fund Transfer Act improved somewhat in 1984. This section summarizes the reports of the agencies on compliance with these acts during the 1984 reporting period, July 1, 1983, to June 30, 1984.[1]

Truth in Lending (Regulation Z)

Reports of the Board and those from the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Federal Home Loan Bank Board (FHLBB) indicate that slightly more than 40 percent of all institutions examined had no violations, a percentage equal to that reported in 1983. The three agencies that were able to provide ranges of violations (the Board, the OCC, and the NCUA) reported that 75 percent of the examined institutions were in full or substantial compliance, having committed no more than five violations. The agencies that reported decreases in compliance with Regulation Z are the Board, the Federal Deposit Insurance Corporation (FDIC), and the OCC; the FHLBB and the NCUA reported increases in compliance.

Summaries of examination findings compiled by the Board, the OCC, the FDIC, the FHLBB, and the NCUA indicate that the most frequent violations of Regulation Z are the following:

- Failure to disclose accurately the payment schedule.
- Failure to disclose accurately the finance charge on closed-end credit.
- Failure to disclose the annual percentage rate as required by the regulation.

[1] Although all federal agencies that regulate financial institutions do not use the same method to summarize compliance data, the data they provide support the general conclusions presented here.

- Failure to disclose accurately the amount financed for closed-end credit.
- Failure to disclose accurately the total of payments on closed-end credit.
- Failure to disclose the fact that the creditor will acquire a security interest in the property purchased.
- Failure to disclose within the prescribed tolerance the annual percentage rate on closed-end credit.
- Failure to disclose clearly and conspicuously the required information.
- Failure to make timely disclosures in residential mortgage transactions subject to the Real Estate Settlement Procedures Act.
- Failure to provide a separate written itemization of the amount financed.

Two agencies reported supervisory enforcement actions: the Board issued one cease-and-desist order involving violations of Regulation Z and the FDIC issued three. The Board also entered into one formal written agreement with a state member bank that involved Regulation Z violations. Of the institutions supervised by the Board, the FDIC, and the FHLBB, 319 reimbursed more than $2 million on 22,743 accounts under the Regulation Z enforcement policy, compared with about $2 million on 38,821 in 1983.

In 1984, the Federal Trade Commission (FTC) continued its program to increase voluntary compliance with the Truth in Lending Act as it applies to the advertising of real estate loans. According to the FTC, the vast majority of noncomplying lenders contacted in 1983 and early 1984 voluntarily brought their advertisements into compliance. The FTC staff has initiated nonpublic investigations of those companies that have not complied, and these inquiries may result in law enforcement actions. The FTC also continued a similar compliance program directed to advertisers of automobile credit. Among its other activities under Regulation Z, the FTC reports pending nonpublic investigations of compliance by lenders offering loans secured by mortgages. In 1984, the FTC also issued final orders against three major creditors for alleged violations of the Fair Credit Billing Act. Finally, to heighten consumer and creditor awareness of rights and responsibilities established by the Truth in Lending Act, the FTC published and distributed a booklet titled "Using Ads to Shop for Home Financing" and reprinted a booklet for creditors titled "How to Advertise Consumer Credit."

In 1984, the Farm Credit Administration (FCA) notified two federal land banks of its intent to order reimbursements to customers for Truth in Lending violations. The FCA also reports that violations of disclosure requirements were found in 13 of the 16 federal land bank associations in one district, and the federal land bank for that district has instituted some corrective action, which was being reviewed by the FCA at yearend.

The other agencies that enforce the Truth in Lending Act—the Civil Aeronautics Board (CAB) and the Packers and Stockyards Administration of the United States Department of Agriculture (USDA)—report no significant compliance difficulties. With the dissolution of the CAB on December 31, 1984, the Department of Transportation assumes the CAB's enforcement responsibilities for the Truth in Lending, Equal Credit Opportunity, and Electronic Fund Transfer Acts.

Equal Credit Opportunity (Regulation B)

Reports from the five federal agencies that supervise financial institutions show that the level of compliance with the Equal Credit Opportunity Act (ECOA) in 1984 is unchanged from 1983, when 76 percent of the institutions examined had no violations. The most frequent violations of Regulation B were the following:

- Failure to provide a written notice of adverse action that includes a statement of the action taken, the ECOA statement, and the name and address of the federal agency that enforces compliance.
- Failure to provide sufficiently specific reasons for adverse action.
- Illegally requiring the signature of an applicant's spouse or other person.
- Illegally requesting the sex of an applicant.
- Failure to provide the required notice before requesting information about other income, such as alimony, child support, or separate maintenance payments.
- Failure to observe the prohibition against requesting the race, color, religion, or national origin of an applicant.
- Requesting the marital status of a person applying for individual, unsecured credit, or failure to use only the terms "married," "unmarried," and "separated" in permitted inquiries about marital status.

The FDIC issued one cease-and-desist order involving violations of Regulation B, and the Board entered into one formal written agreement calling for corrective action for violations.

In 1984, the FTC brought the first enforcement action under the ECOA to challenge restrictive loan terms to the elderly on the grounds that the restrictions are not reasonably related to creditworthiness. The action was taken against a major finance company, which required applicants over age 70 to repay loans within three months and applicants between ages 66 and 70 to repay loans within twelve months. The FTC also settled one of the two ECOA complaints filed last year against a large department store chain. The retailer was enjoined, under the consent decree, from providing inadequate statements of the reasons for adverse action and from failing to provide disclosures required by the Fair Credit Reporting Act. The retailer also agreed to pay a civil penalty of $122,000 and to take corrective action.

To determine the existence of illegal discrimination, the FTC conducted a number of major investigations using statistical analysis and "testing" by auditors who applied for credit. Issues under FTC investigation include the illegal discouragement of elderly applicants, failure to retain applications, statements of nonspecific reasons for adverse action, and illegal requirements for spousal liability on a credit note.

The other agencies responsible for enforcing the Equal Credit Opportunity Act—the CAB, the FCA, the Packers and Stockyards Administration of the USDA, the Interstate Commerce Commission, the Securities and Exchange Commission, and the Small Business Administration—report no significant problems with compliance.

Electronic Fund Transfers (Regulation E)

The financial regulatory agencies reported some improvement in compliance with the Electronic Fund Transfer Act. Of the institutions examined, 87 percent were in compliance, up from 84 percent in 1983.

The following violations of Regulation E occurred most frequently:

- Failure to provide consumers with initial disclosures of terms and conditions before the consumers make their first electronic fund transfer.
- Failure to provide the address and telephone number to be used when making inquiries or giving notice of errors on periodic statements.
- Failure to indicate on the initial disclosure the financial institution's business days.
- Failure to summarize on the initial disclosure the consumer's right to receive documentation of transfers.
- Failure to disclose notice of error resolution procedures and the consumer's rights under them.

The other agencies that are responsible for enforcing the Electronic Fund Transfer Act—the CAB and the FTC—report no significant instances of noncompliance.

Economic Impact of Regulation E

In accordance with the requirements of the Electronic Fund Transfer Act, the Board monitors the costs and benefits of the act to financial institutions and consumers. The economic impact of the act increased during 1984 as more financial institutions offered electronic fund transfers (EFTs) and more consumers used them. Approximately two-thirds of the nation's depository financial institutions now provide EFT services that are covered by the compliance requirements of the act. A large percentage of depository institutions in each size class offer services to which the act applies; these include preauthorized electronic transfers and access to automated teller machines (ATMs). Approximately 65,000 ATMs are in use throughout the nation, an increase of about a third from a year earlier. Larger institutions are more likely to offer a full range of consumer EFT services than are smaller ones; smaller institutions are likely to provide most kinds of EFT services to consumers through shared networks and other joint ventures.

Consumer demand for EFT services continued to grow during 1984. Available evidence indicates that at least 70 percent of households have a savings or transaction account with an EFT feature that is used at least occasionally. The number of transactions conducted through ATMs has increased substantially, and the number of consumers electing to receive payroll or government transfer payments by electronic direct deposit has grown. The development of point-of-sale EFT and home banking systems is also accelerating.

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 violation of the consumer rights established by the act. The five federal agencies that regulate financial institutions reported decreases or no change from the preceding 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 from one to five violations, a good record in light of the volume of consumer EFT transactions.

Data from the Board's Consumer Complaint Control System offer further evidence that consumers have no serious problems with EFT. Of the 2,337 complaints processed in 1984, 80 involved EFTs. The Federal Reserve System forwarded 27 of these complaints to other agencies for resolution; of the remaining 53, 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. 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 per transaction and per dollar of transferred funds imposed by the act is therefore likely to decline.

Complaints against State Member Banks

The Federal Reserve System investigates and resolves complaints against state member banks and forwards to appropriate enforcement agencies any complaints it receives that involve other creditors or businesses. In 1984, the System received a total of 2,337 complaints (see the accompanying table). This Systemwide figure represents complaints filed against state member banks, nonmember banks, and other creditors and businesses. Of the 2,337 complaints, 1,841 were received by mail, 479 by telephone, and 17 in person.

Consumer Complaints Received by the Federal Reserve System, by Subject, 1984

Subject	Number
Regulation B (Equal Credit Opportunity)	166
Regulation C (Home Mortgage Disclosure)	18
Regulation E (Electronic Fund Transfers)	80
Regulation M (Consumer Leasing)	2
Regulation Q (Interest on Deposits)	118
Regulation X (Borrowers of Securities Credit)	0
Regulation Z (Truth in Lending)	461
Regulation BB (Community Reinvestment)	1
Fair Credit Reporting Act	65
Fair Debt Collection Practices Act	10
Fair Housing Act	3
Holder in due course	3
Real Estate Settlement Procedures Act (RESPA)	2
Transfer agents	3
Municipal securities dealer regulation	2
Unregulated bank practices	1,351
Other[1]	52
Total	**2,337**

[1] "Other" refers primarily to miscellaneous complaints against business entities.

In 1984, the Board responded to 225 written inquiries requesting information and answers to questions concerning matters such as consumer credit laws and banking policies and procedures. In responding to both inquiries and complaints, the staff members provide consumers with individualized explanations of laws, regulations, banking practices, and, when available, printed materials relevant to the consumer's concerns.

Staff members of the Board's Division of Consumer and Community Affairs regularly review and evaluate a sample of the complaints resolved by the Reserve Banks for compliance with the System's procedures and guidelines concerning the handling of complaints. To obtain the feedback necessary for improving this function, the results of the review are discussed with the appropriate Reserve Bank.

To assess attitudes of complainants concerning the handling of their complaints, the Board sent questionnaires to consumers whose complaints against state member banks were handled by the System. In 1984, consumers returned 57 percent of these questionnaires; in 1983, the return rate was 45 percent. Of those responding, approximately 52 percent reported that the explanations they received were clear and understandable; 59 percent were satisfied with the promptness with which the complaint was handled; 96 percent believed that they were treated courteously by Federal Reserve staff; and 85 percent would contact the Federal Reserve again if they should encounter another problem with the bank. Twenty-six percent of the respondents found the resolution of their complaints acceptable. These responses suggest that while many complainants were not satisfied with the outcome of their complaints, they generally found the System's handling of their dispute to have been acceptable. Many of these cases involved banking practices that, although objectionable to the consumer or difficult to understand, are permitted by the relevant law.

The following table summarizes the nature and resolution of the complaints filed against state member

Consumer Complaints Received by the Federal Reserve System, by Function and Resolution, 1984

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit function	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	**2,337**	**188**	**964**	**679**	**80**	**10**	**416**
Total concerning state member banks	994	112	380	282	53	5	162
Insufficient information[1]	28	1	4	12	1	0	10
Information furnished[2]	102	6	46	30	1	0	19
Bank legally correct							
No accommodation	373	66	138	103	21	4	41
Accommodation made[3]	103	12	50	19	2	0	20
Clerical error, corrected	155	6	59	52	18	1	19
Factual dispute[4]	48	3	12	18	3	0	12
Bank violation, resolved[5]	13	2	5	4	2	0	0
Possible bank violation, unresolved[6]	7	1	2	4	0	0	0
Customer error	8	1	2	2	1	0	2
Pending, December 31	157	14	62	38	4	0	39

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.

banks in 1984. The complaints are categorized by bank functions: loans, deposits, electronic fund transfers, trust services, and other. Approximately 50 percent of the complaints against state member banks concerned lending functions: 23 percent alleged discrimination on a prohibited basis; and 27 percent dealt with credit denial on a nonprohibited basis (such as length of residency), disclosures of credit costs, and other general lending practices (such as the release or use of credit information). About 28 percent of the complaints filed against state member banks involved disputes concerning the interest banks pay for deposits and general practices concerning deposit accounts, such as early withdrawal penalties for savings accounts or certificates of deposit.

Unregulated Practices

Under section 18f of the Federal Trade Commission Act, the Board is required to identify unfair or deceptive banking practices and to adopt regulations that prohibit such practices. To carry out these responsibilities, the Board has implemented a computer system for tracking complaints. The computer system is programmed to identify, using a coding system, the types of unregulated practices that were the subject of 15 or more complaints per quarter, or 50 annually. The computer reports indicate that the System received 1,351 complaints about unregulated practices, of which 458 fell into one of the following six categories: complaints about credit denial based on credit history (123, or 9 percent); discrepancies in accounts (75, or 5.5 percent); credit denial based on other nonprohibited factors, such as the lack of sufficient assets (74, or 5.5 percent); crediting of deposits to accounts (68, or 5 percent); excessive time to clear checks, including delayed availability of funds (65, or 5 percent); and service charges (53, or 4 percent).

The two largest categories of complaints involving unregulated bank practices were those concerned with credit denial based on credit history and discrepancies in accounts. In the first category, many of the complaints indicated that credit applicants did not fully understand the impact of a negative credit history on a lender's decision to extend credit. Complaints in the second category generally involved factual disputes regarding the amount or timing of a deposit. Each of these categories accounts for a small fraction (5 percent or less) of all consumer complaints received by the System.

Community Reinvestment Act

The Board is required by the Community Reinvestment Act (CRA) to encourage the 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 the institution in meeting such needs and to take that record into account in deciding certain applications that the institution files.

During the 1984 reporting period (July 1, 1983, through June 30, 1984) Federal Reserve System personnel examined 782 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 was ranked in the lowest category, and less than 2 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 as part of the CRA examination. In the 1984 reporting period, 1,105 such interviews were conducted with government officials, community-based organizations, community development corporations, and civil rights and consumer advocates.

In the 1984 reporting period, three applications that the Federal Reserve System processed were protested under the CRA. One of the protests was against a bank holding company that was being acquired by another bank holding company. The protest was determined to be nonsubstantive because the subsidiary banks of the holding company acquiring the protested company had satisfactory CRA records; the application was approved. The second application that was protested involved two holding companies. The protestants alleged that one of the parties to the merger had not lived up to a previous commitment to the neighborhood. The Board approved the application based on its review of the record, which showed that the bank had made a good-faith effort to adhere to the agreement and that the bank's record was generally satisfactory. The final application involved a protest against actions taken by the applicant's subsidiary bank to close branch offices. A coalition of neighborhood organizations alleged that the bank was systematically closing offices in lower-income and minority areas while opening offices in more affluent areas. After reviewing all the available facts, the Board determined that the applicant's record was satisfactory. The Board stated that branch closings should be accomplished in accordance with an overall objective that is consistent with a bank's continuing and affirmative obligation to help meet the banking needs of its entire community, including low- and moderate-income neighborhoods.

During the 1984 reporting period, the Board took several other actions relating to CRA. In January 1984, the Board adopted changes to its procedures for processing applications. Among other things, the changes facilitate efforts by the Reserve Banks to arrange meetings between applicants and protestants. Also, the Board's Division of Consumer and Community Affairs distributed supplemental procedures for examiners to use in assessing a bank's performance in opening and closing branch offices.

Consumer Advisory Council

The Consumer Advisory Council met in March, July, and October to discuss issues related to the rulewriting and enforcement responsibilities of the Board under the Consumer Credit Protection Act. The 30 members of the council represent a wide spectrum of the interests of consumers and a wide variety of financial service providers. The council's meetings are open to the public.

In 1984, the council considered the following issues:

- Increased service charges imposed on consumers by financial institutions.
- Recommendations of Vice President Bush's Task Group on Regulation of Financial Services.
- Second-mortgage lending practices.

- Branch office closings and the Community Reinvestment Act.
- The Board's review of Regulation B, Equal Credit Opportunity.
- Implications of adjustable-rate mortgages.
- Credit card surcharges and cash discounts.
- Incentives for institutions to achieve exemplary performance under the Community Reinvestment Act.
- Adjustable-rate mortgages and variable-rate lending.

Council members were concerned in 1984 about the effects on consumers of deregulation of the financial industry and in particular about increasing charges imposed by banks for financial services. At its July meeting, the council voted to recommend that the Board conduct a study to review the issue of increased service charges, the impact of those charges upon consumers, and the need for disclosures of service fees. Council members are gathering data about the need, cost, composition, and market for basic, or "lifeline," banking services; they are also assembling information about issues related to subsidies for, and the mandatory provision of, lifeline services. In addition, council members are preparing model service charge disclosures and guidelines for disclosures of these charges in periodic statements and for special notices of changes in fees.

Legislative Recommendations

In the spring of 1984, the Board recommended to the Senate Committee on Banking, Housing, and Urban Affairs and to the House Committee on Banking, Finance and Urban Affairs that the Truth in Lending Act be amended to permit merchants to offer credit card surcharges. More specifically, the Board recommended that merchants be permitted to offer price differences of up to 5 percent of the cash price to encourage payment by cash rather than by credit card. The Board believes that merchants should not be required to characterize the price difference as a discount instead of a surcharge; neither should merchants be required to treat the amount as a finance charge under the Truth in Lending Act or state law. In the Board's view, allowing a limited surcharge and moderating disclosure requirements might help to end the present subsidization by cash customers of credit card users. The Board's study, *Credit Cards in the U.S. Economy: Their Impact on Costs, Prices, and Retail Sales,* found that the size of the subsidy by cash customers is between ½ and 1¼ percent of the price of an item.

As in past years, the Board asked the agencies with enforcement responsibilities under Regulations B, E, and Z for any recommendations concerning the underlying statutes. The Office of the Comptroller of the Currency (OCC) recommends a review of section 909 of the Electronic Fund Transfer Act, which governs consumer liability for unauthorized electronic fund transfers. This provision establishes a three-tier structure for determining consumer liability that, according to the OCC, is complex and confusing for both consumers and financial institutions. The OCC believes that the provision creates difficulties for financial institutions in establishing consumer liability because the financial institution must prove when the consumer learned of the loss or theft of the access device and, in some instances, must also show 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. The act puts the burden of proof upon the financial institution in a lawsuit involving the consumer's liability—to show that a transfer was in fact authorized. The OCC suggests a clarification to indicate whether this requirement applies only in a judicial procedure or also in pretrial stages of a consumer complaint.

The Federal Trade Commission (FTC) recommends the permanent elimination from provisions of the Truth in Lending Act of any prohibition of credit card surcharges imposed by the Cash Discount Act of 1981. According to the FTC, experience confirms that the continued ban on credit surcharges does not benefit the general public and in fact may unnecessarily confuse both consumers and businesses about the requirements of the act.

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, for safety and soundness reasons, establish limits with 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.

Powers

The Board has supported proposed legislation that would permit bank holding companies to engage in a broader range of activities including the following:

- The expansion of securities powers, specifically underwriting revenue bonds and mortgage-backed securities and mutual investment fund powers.
- Insurance brokerage and certain underwriting activities with some constraints on the size combinations of banks and insurance firms.
- Real estate brokerage and the exercise of limited real estate investment powers.
- The operation of thrift institutions 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 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.

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 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.
- 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.

Return Check Notification

The Board has recommended that the Federal Reserve Act be amended to establish a procedure that would help reduce the risk associated with returned checks and help shorten holding periods on checks. The procedure would require that when a check of $2,500 or more is returned unpaid, the institution upon which the check is drawn must provide timely notice to the institution at which the check was originally deposited. The Board adopted the procedure as an amendment to Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds). The proposed legislative recommendation is that the procedure be extended beyond checks covered under Regulation J to those not originally collected through the Federal Reserve.

The Board believes that the notification procedure for returned checks will reduce the risk to depository institutions and their customers because the institutions will receive notice more rapidly that a large-denomination check is being returned. Also, the procedure should make it easier for depository institutions to make funds available sooner to their customers because the institutions will not need to impose extended holds on all checks to protect themselves from loss.

Litigation

During 1984, the Board of Governors was named in forty pending lawsuits, compared with thirty-two in 1983. Of the new lawsuits filed in 1984, twenty-two raised questions under the Bank Holding Company Act, compared with five such actions filed in 1983. As of December 31, 1984, fourteen cases were pending, eight of which involve questions under the Bank Holding Company Act. A brief description of each of these cases and of those disposed of in 1984 follows.

Bank Holding Companies—Antitrust Action

In 1984, 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 *First Bancorporation* v. *Board of Governors,* No. 82-1401 (10th Circuit, filed April 9, 1982), petitioner sought judicial review of the Board's order approving petitioner's application to acquire an industrial loan company, subject to the conditions that the industrial loan 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). The court set aside the Board's order in an opinion dated February 21, 1984 (728 F.2d 434). The Board's petition for rehearing and suggestion for rehearing en banc was denied on June 5, 1984.

In *Wyoming Bancorporation* v. *Board of Governors,* No. 82-1634 (10th Circuit, filed May 20, 1982), petitioner sought 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 challenged the Board's definition of the relevant geographic market for assessing the competitive impact of the proposal. On March 12, 1984, the court affirmed the Board's order (729 F.2d 687).

In *Association of Data Processing Service Organizations, Inc.* v. *Board of Governors,* Nos. 82-1910 and 82-2108 (D.C. Circuit, filed August 6, and September 20, 1982), petitioners sought judicial review of the Board's 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). On October 2, 1984, the court affirmed the Board's orders (745 F.2d 677).

In *Securities Industry Association* v. *Board of Governors,* No. 83-614 (Supreme Court, filed February 3, 1983), plaintiff sought 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 of appeals issued an opinion on July 15, 1983, upholding the Board's order (716 F.2d 92). On June 28, 1984, the Supreme Court affirmed the decision of the court of appeals (104 S. Ct. 3003).

In *Independent Insurance Agents of America, Inc.* v. *Board of Governors,* Nos. 83-1818 and 83-1819 (8th Circuit, filed June 21, 1983), petitioners sought 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). On June 13, 1984, the court affirmed the Board's orders (736 F.2d 468).

In *Oklahoma Bankers Association* v. *Federal Reserve Board,* No. 83-2591 (10th Circuit, filed December 13, 1983), plaintiff seeks judicial review of the Board's 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* v. *Board of Governors,* No. 83-2696 (10th Circuit, filed December 30, 1983); *First Bancorporation* v. *Board of Governors,* No. 84-1011 (10th Circuit, filed January 5, 1984); *Colorado Industrial Bankers Association* v. *Board of Governors,* No. 84-1122 (10th Circuit, filed January 27, 1984); *Financial Institutions Assurance Corporation* v. *Board of Governors,* No. 84-1407 (10th Circuit, filed January 27, 1984); *Ohio Deposit Guarantee Fund* v. *Board of Governors,* No. 84-1257 (10th Circuit, filed January 28, 1984); and *State of Ohio* v. *Board of Governors,* No. 84-1270 (10th Circuit, filed January 30, 1984), 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 (*Federal Reserve Bulletin,* volume 70, February 1984, page 121). The court set aside the definitions challenged in Regulation Y on September 24, 1984 (744 F.2d 1402).

In *Huston* v. *Board of Governors,* No. 84-1084 (8th Circuit, filed January 17, 1984), petitioner seeks review of the Board order, dated November 8, 1983, approving an application by KSAD, Inc., Council Buffs, Iowa, to become a bank holding company (*Federal Reserve Bulletin,* volume 70, January 1984, page 44). The case is pending.

In *Independent Insurance Agents of America* v. *Board of Governors,* No. 84-1083 (D.C. Circuit, filed March 5, 1984), petitioners challenged a provision of the Board's revised Regulation Y relating to acquisitions by state banks. By order dated August 2, 1984, the court of appeals dismissed the case for lack of jurisdiction.

In *First Tennessee National Corporation* v. *Board of Governors,* No. 84-3201 (6th Circuit, filed March 6, 1984), petitioner sought review of the Board's order, dated February 7, 1984, approving an application by Citicorp, New York, New York, to acquire an industrial bank in Tennessee (*Federal Reserve Bulletin,* volume 70, March 1984, page 231). The case was dismissed by stipulation of the parties.

In *Huston* v. *Board of Governors,* No. 84-1361 (8th Circuit, filed March 20, 1984), petitioner seeks review of a Board letter issued on February 21, 1984, in which the Board declined to issue control proceedings with respect to a nonvoting investment by First Bank System, Minneapolis, Minnesota, in Banks of Iowa, Des Moines, Iowa. The case is pending.

In *Northeast Bancorp, Inc.* v. *Board of Governors,* Nos. 84-4047, 84-4051, and 84-4053 (2d Circuit, filed March 27, 1984), petitioners seek review of the Board's orders, dated March 26, 1984, approving the merger of Bank of New England Corporation, Boston, Massachusetts, and CBT Corporation, Hartford, Connecticut, and the acquisition by Hartford National Corporation, Hartford, Connecticut, of Arltru Bancorporation, Lawrence, Massachusetts (*Federal Reserve Bulletin,* volume 70, April 1984, pages 374 and 353 respectively). On August 1, 1984, the court of appeals upheld the Board's orders (740 F.2d 203). A petition for writ of certiorari (No. 84-363, filed September 6, 1984) was granted by the Supreme Court on January 7, 1985 (53 U.S.L.W. 3367).

In *Florida Bankers Association* v. *Board of Governors,* Nos. 84-3269 and 84-3270 (11th Circuit, filed on April 20, 1984), petitioners seek review of the Board's order, dated March 23, 1984, approving an application by U.S. Trust Corporation, New York, New York, to expand the activities of its subsidiary, U.S. Trust Company of Florida, N.A., Palm Beach, Florida, to include the acceptance of time and demand deposits and the making of consumer loans (*Federal Reserve Bulletin,* volume 70, April 1984, page 371). The case is pending.

In *Girard Bank* v. *Board of Governors,* No. 84-3262 (3d Circuit, filed May 2, 1984), petitioners sought review of the Board's order denying an application by Mellon National Corporation, Pittsburgh, Pennsylvania, to acquire Heritage Bank, N.A., Jamesburg, New Jersey (*Federal Reserve Bulletin,* volume 70, May 1984, page 441). On November 27, 1984, the court of appeals affirmed the Board's order.

In *Citicorp* v. *Board of Governors,* No. 84-4081 (2d Circuit, filed May 22, 1984), petitioner challenged the constitutionality of the Connecticut Interstate Banking Act and the Board's approval of the application of Bank of Boston Corporation, Boston, Massachusetts, to acquire Colonial Bancorp, Inc., Waterbury, Connecticut (*Federal Reserve Bulletin,* volume 70, June 1984, page 524). On June 18, 1984, the court consolidated the case with *Northeast Bancorp, Inc.* v. *Board of Governors.* By order dated July 11, 1984, the court upheld the Board's order.

In *Bank of Boston Corporation* v. *Board of Governors,* No. 84-4089 (2d Circuit, filed June 14, 1984), petitioner sought review of the Board's decision on June 11, 1984, which stayed approval of petitioner's interstate acquisition of Colonial Bancorp, Inc., Waterbury, Connecticut, pending outcome of related litigation. The case was withdrawn from active consideration with prejudice to reinstatement.

In *Bank of New York Company, Inc.* v. *Board of Governors,* No. 84-4091 (2d Circuit, filed June 14, 1984), petitioner sought review of the Board's order denying the interstate acquisition of Northeast Bancorp, Inc., New Haven, Connecticut, by Bank of New York Company, Inc., New York, New York. On July 12, 1984, the parties stipulated to withdraw the case from active consideration pending the decision in *Northeast Bancorp, Inc.* v. *Board of Governors.*

In *Old Stone Corporation* v. *Board of Governors,* No. 84-1498 (1st Circuit, filed June 20, 1984), petitioner sought review of the Board's order, dated June 5, 1984, denying petitioner's application to acquire First Federal Savings and Loan Association of Catawba County, Conover, North Carolina (*Federal Reserve Bulletin,* volume 70, July 1984, page 593). The case was dismissed on October 25, 1984, by stipulation of the parties.

In *Seattle Bancorporation* v. *Board of Governors,* No. 84-7535 (9th Circuit, filed August 15, 1984), petitioners seek review of the Board's order, dated July 16, 1984, denying petitioners' application to acquire Alaska Pacific Bancorporation, Anchorage, Alaska, based on the Board's finding that the transaction is, in substance, an acquisition by Alaska Pacific Bancorporation of Seattle Bancorporation, Seattle, Washington (*Federal Reserve Bulletin,* volume 70, August 1984, page 667). The case is pending.

In *Citicorp* v. *Board of Governors,* No. 84-4121 (2d Circuit, filed August 27, 1984), and *David Bolger Revocable Trust* v. *Board of Governors,* No. 84-3550 (3d Circuit, filed August 31, 1984, transferred to the 2d Circuit on October 3, 1984), petitioners seek review of the Board's order, dated August 20, 1984, approving the application by Bank of Boston Corporation, Boston, Massachusetts, to acquire RIHT Financial Corporation, Providence, Rhode Island (*Federal Reserve Bulletin,* volume 70, September 1984, page 737). Parties withdrew the case from active consideration by stipulation, pending a decision by the U.S. Supreme Court in *Northeast Bancorp, Inc.* v. *Board of Governors.*

In *Citicorp* v. *Board of Governors,* No. 84-4145 (2d Circuit, filed October 12, 1984), petitioner seeks review of the Board's order approving the acquisition of Fleet National Bank of Boston, Boston, Massachusetts, and Fleet National Bank of Connecticut, Hartford, Connecticut, by Fleet Financial Group, Inc., Providence, Rhode Island (*Federal Reserve Bulletin,* volume 70, November 1984, page 834). The parties in the case stipulated entry of decision based on the Second Circuit's opinion in *Northeast Bancorp, Inc.* v. *Board of Governors.* Citicorp's petition for certiorari with the U.S. Supreme Court is pending.

In *Florida Department of Banking* v. *Board of Governors,* No. 84-3831 (11th Circuit, filed November 30, 1984), petitioner seeks review of the Board's order, dated November 1, 1984, approving the application by Bank of Boston Corporation, Boston, Massachusetts, to expand the activities of its subsidiaries, Bank of Boston Trust Company of Southeast Florida, N.A., Deerfield Beach, Florida, and Bank of Boston Trust Company of Southwest Florida, N.A., Sarasota, Florida, to include the acceptance of time and demand deposits and the making of consumer loans

(*Federal Reserve Bulletin,* volume 71, January 1985, page 55). The case is pending.

In *Florida Department of Banking* v. *Board of Governors,* No. 84-3832 (11th Circuit, filed November 30, 1984), petitioner seeks review of the Board's order, dated November 1, 1984, approving the application by Bankers Trust New York Corporation, New York, New York, to expand the activities of its subsidiary, Bankers Trust Company of Florida, N.A., Palm Beach, Florida, to include the acceptance of time and demand deposits and the making of consumer loans (*Federal Reserve Bulletin,* volume 71, January 1985, page 51). The case is pending.

In *Citicorp* v. *Board of Governors,* No. 84-4173 (2d Circuit, filed December 31, 1984), petitioner seeks review of the Board's order, dated November 19, 1984, approving the application of Hartford National Corporation, Hartford, Connecticut, to acquire Rhode Island Bancorp, Inc., Hartford, Connecticut (*Federal Reserve Bulletin,* volume 71, January 1985, page 43). The parties in the case stipulated entry of decision based on the Second Circuit's opinion in *Northeast Bancorp, Inc.* v. *Board of Governors.* Citicorp's petition for certiorari with the U.S. Supreme Court is pending.

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 sought declaratory and injunctive relief from the Board's determination that plaintiff is ineligible under the provisions of the Monetary Control Act of 1980 for the phase-in of reserve requirements for nonmember banks. On December 26, 1984, the court granted the Board's motion for summary judgment, upholding the Board's determination that plaintiff is ineligible for relief and finding that the Monetary Control Act is constitutional.

Financial Institutions Supervisory Act of 1966

In *Wolfson* v. *Board 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. On appeal (No. 83-3570), the court of appeals affirmed per curiam, on November 14, 1984, the summary judgment order.

The Glass-Steagall Act

In *A.G. Becker, Inc.* v. *Board of Governors,* No. 80-2614 (D.D.C., filed October 14, 1980), and *Securities Industry Association* v. *Board of Governors,* No. 80-2732 (D.D.C., filed October 24, 1980), plaintiffs sought review of the Board's 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, pursuant to the Glass-Steagall Act. In an opinion and order dated July 28, 1981 (519 F. Supp. 602), the district court declined 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. 81-2058, 81-2070, 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). The Supreme Court granted certiorari (No. 82-1766), and on June 28, 1984, overruled the Board's decision and remanded the case to the court of appeals (104 S. Ct. 2979). By order dated August 6, 1984, the court of appeals remanded the case to the district court, and by order dated October 19, 1984, the district court remanded the case to the Board. The case is pending.

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 containing information 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 (527 F. Supp. 1163), June 17 and September 30 (547 F. Supp. 846), and December 2, 1982 (551 F. Supp. 1006), 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 Freedom of Information 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 (721 F.2d 1). Plaintiff's motion for rehearing or rehearing en banc was denied on December 28, 1983. The case is pending.

Administrative Procedure Act

In *Sundorph Aeronautical Corp.* v. *Federal Reserve Bank of Chicago,* No. C83-4723 (N.D. Ohio, filed November 18, 1983), an unsuccessful bidder for a private transportation contract with the Federal Reserve Bank of Chicago alleged that the Reserve Bank and the Board violated the Administrative Procedure Act and federal procurement law in the solicitation process for service contracts with the Reserve Bank. The case was dismissed by the court on February 3, 1984, based on stipulation of the parties.

Other Actions

In *The Committee for Monetary Reform* v. *Board of Governors,* No. 83-1730 (D.D.C., filed June 16, 1983), plaintiff challenges 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 for lack of standing on October 26, 1983, and the plaintiff has appealed the dismissal to the court of appeals (No. 84-5067). 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), that was 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.

In *De Young* v. *Owens,* No. SC 9782-20-6 (Iowa District Court, filed March 8, 1984), plaintiff challenges the constitutionality of the Federal Reserve System and of Federal Reserve notes. The case was removed to the U.S. District Court for the Northern District of Iowa (CA-C84-4074), where the Board's motion to dismiss was granted on October 25, 1984. An appeal (No. 84-2437 NI) filed with the U.S. Court of Appeals for the Eighth Circuit was dismissed for lack of jurisdiction on November 30, 1984. The plaintiff's petition to the U.S. Supreme Court for certiorari is pending.

In *Melcher* v. *Federal Open Market Committee,* No. 84-1335 (D.D.C., filed April 30, 1984), plaintiff challenges the constitutionality of the Federal Open Market Committee. On September 26, 1984, the court stayed consideration of the case pending the decision of the court of appeals in *Committee for Monetary Reform* v. *Board of Governors.*

In *Lamb* v. *Pioneer First Federal Savings and Loan,* No. 84-2-01551-7 (Snohomish County Superior Court, Washington, filed May 8, 1984), plaintiff challenges the issuance of U.S. currency in the form of Federal Reserve notes. On July 2, 1984, the Board filed a motion to dismiss. The case is pending.

Legislation Enacted

Repurchase Agreements

Subtitle F of title III of Public Law 98-353, the Bankruptcy Amendments and Federal Judgeship Act of 1984, approved July 10, 1984, exempts repurchase agreements with a term of one year or less from the automatic-stay provisions of the Bankruptcy Code. Repurchase agreements are contractual agreements for the sale or loan of a security that include a provision requiring the seller or lender to take back the security at a fixed price plus, in many cases, an additional sum representing a yield on the investment. The exemption covers repurchase agreements involving certificates of deposit, bankers acceptances, and securities that are direct obligations of, or fully guaranteed by, the U.S. government or its agencies. Repurchase agreements are an important tool in Federal Reserve open market operations and in financing the national debt. The exemption is intended to protect the repurchase market from unnecessary disruption in the event of the bankruptcy of one of its participants.

Secondary Mortgage Market Enhancement Act of 1984

Public Law 98-440, the Secondary Mortgage Market Enhancement Act of 1984, approved October 3, 1984, is intended to expand the participation of private issuers, including banks and savings and loan associations, in the secondary mortgage market. The act includes the following provisions, among others:

- Permits private issuers to pool and market mortgages.
- Preempts provisions in the laws of various states that may put private sector participants at a competitive disadvantage with the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association.
- Requires that the mortgage-backed securities be rated in the top two categories by a national rating organization and be registered with the Securities and Exchange Commission.
- Eases margin requirements by providing that forward trading of up to 180 days will not constitute borrowing or an extension of credit. The Federal Reserve Board may issue rules or regulations restricting this period or otherwise limiting these provisions.
- Requires the Department of Housing and Urban Development in consultation with the Federal Reserve Board and other specified agencies to study the impact that prepayment penalties may have on the secondary mortgage market. The Federal Reserve, at the request of the House Committee on Energy and Commerce, also will monitor, and report to the Congress on, the competitive effect of mortgage-related securities on the availability of long-term corporate financing.

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 those of other federal and state regulatory agencies. A description of how the System fulfilled these responsibilities during 1984 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 activities, 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 1984, there were 1,071 state member banks, accounting for about 7 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 1984, System personnel conducted 756 examinations, many jointly or concurrently with examiners from state regulatory agencies.

Bank Holding Companies

During 1984, the number of bank holding companies increased by 775 to a total of 6,146. These organizations control commercial banks that hold about 89 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.

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 are inspected 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 1,568 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 1984, the Federal Reserve conducted 129 examinations of Edge and agreement corporations and their branches.

Foreign office 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 foreign offices lies. To verify and supplement the results of the head office examinations, on-site reviews of important foreign offices are performed at least every three years. In 1984, the Federal Reserve examined 7 foreign branches of state member banks and 13 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, 1984, 248 foreign banks operated 361 state-licensed uninsured branches and agencies, 35 state-licensed branches insured by the Federal Deposit Insurance Corporation (FDIC), and 84 branches and agencies licensed by the Office of the Comptroller of the Currency (OCC), of which 3 have FDIC insurance, and 25 Edge corporations. Foreign banks also owned a majority interest in 69 U.S. banks. Together, these foreign banks controlled approximately 15 percent of U.S. banking assets as of June 30, 1984.

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, Edge corporations, or 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 112 such offices in 1984.

Specialized Examinations

The Federal Reserve conducts specialized examinations in the following areas of bank activity.

Electronic Data Processing

Under the Interagency EDP Examination Program, 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 354 on-site EDP reviews. In addition, the Federal Reserve reviews EDP examination reports issued by other bank regulatory agencies on organizations that provide data processing services to state member banks.

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 law, regulations, and applicable fiduciary principles. During the year, the Board examined 265 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 1984, the Board examined 34 of the 51 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 security transactions by bookkeeping entries. The three agencies registered with the Board were examined in 1984.

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 1984, the Board examined 109 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.

Supervisory Reporting Requirements

In March 1984, the Federal Reserve, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), implemented the final phase of a major revision of the commercial bank reports of condition and income (the "call report").[2] The Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation concurrently implemented the identical reports. The call report is filed quarterly and is available to bank depositors, customers, and the general public.

[2] The Federal Financial Institutions Examination Council comprises the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve System, the Federal Home Loan Bank Board, and the National Credit Union Administration.

The revisions to the call report were accomplished in three phases: the first with the December 1982 implementation of the report on past-due, nonaccrual, and renegotiated loans and lease financing receivables; the second, in June 1983, with the addition of two quarterly schedules, repricing opportunities for selected balance sheet categories, and commitments and contingencies; and the final phase with changes to the content, frequency, and format of existing schedules and the elimination of detail not required for supervisory or regulatory purposes. These revisions yield information necessary for supervisory purposes, improve the information available to the public, and update the reports to reflect changes in bank and accounting practices and changes in deposits resulting from deregulation of interest rates. In developing the reporting requirements, the banking agencies have also attempted to minimize the disruption to reporting systems and the burden that such requirements can impose on banks.

Beginning in March 1984, banks filed a revised deposit schedule, a reformatted income statement, and a new schedule of quarterly averages. Line items also were added to the balance sheet and income statement to reflect the reporting treatment of allocated transfer-risk reserves as provided for in the International Lending Supervision Act of 1983. Small banks were permitted to report certain information less frequently and in less detail than large banks and to report certain information in a way that was consistent with their own bookkeeping systems, rather than in a specific format.

The deposit schedule has been revised to reflect changes in the types of accounts offered by banks and to capture information that assists examiners in analyzing the interest rate sensitivity of banks' interest-bearing liabilities. In addition, several brokered deposit items were added. These items are used by the bank supervisors to determine the extent to which banks are dependent on such deposits to fund themselves and the amounts of such deposits that are covered by FDIC insurance.

Effective March 1984, the income statement on the report of income was reformatted to conform to Securities and Exchange Commission guidelines, which require reporting institutions to report income on a net interest basis and to report a single net income with gains and losses on securities treated "above the line." These changes reduced the reporting burden for some banks by eliminating two of the differences that existed between the banking agencies' condition report and the report required by the SEC (10-K).

The addition of the new schedule of quarterly averages aids examiners and supervisors in determining the yields of a bank's assets and liabilities and in analyzing the impact that those yields may have on a bank's financial condition. However, in developing the call report, the banking agencies recognized the burden on small banks associated with producing quarterly averages for loan detail. To alleviate the burden while permitting supervisors to analyze a bank's loan yields, the banking agencies allow small banks to report detailed information in a way consistent with their own bookkeeping system, not only on the schedule of quarterly averages but also on several other schedules, including the income statement. 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 thus has reinforced the self-discipline of the marketplace.

Uniform Commercial Bank Report of Examination

The Federal Financial Institutions Examination Council approved a uniform commercial bank report of examination for use by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The report was approved in 1984 and is scheduled for field testing and implementation by the three federal banking agencies in 1985. It is to be used in reporting the examination findings of all federally insured commercial banks in the United States; it will also be available to state banking agencies for reporting their examination findings of state-chartered or state-licensed commercial banks.

The uniform report has two sections. The first section is the "core" and must be included in each examination report prepared by the federal banking agencies. This mandatory section consists of comments and conclusions, followed by a discussion of each of the components of the uniform interagency bank rating system: management/administration, asset quality, liquidity/funds management, earnings, and capital adequacy.

The second portion of the uniform report is the appendix. The appendix contains specific financial schedules to be used at the discretion of each agency. It permits extensive use of financial information filed quarterly by state member banks on the reports of condition and income and of data provided from the uniform bank performance report. Because the appendix will make extensive use of readily available information, examinations will be more efficient and examiners will be able to spend more time on problem areas requiring special supervisory attention.

Amendments to Capital-Adequacy Guidelines

In July 1984, the Federal Reserve proposed for public comment revisions to its capital-adequacy guidelines, which were originally implemented in 1981. These guidelines are used in examining and supervising well-managed banks and bank holding companies. The principal change would be to raise the minimum primary capital ratio for multinational and regional banking organizations from 5.0 to 5.5 percent, and the minimum total capital ratio for these organizations from 5.5 to 6.0 percent. The minimum primary capital ratio for community banking organizations would be reduced from 6.0 to 5.5 percent. Taken together, these steps would establish common standards for primary and total capital that apply to all banking organizations regardless of size. Both the OCC and the FDIC proposed similar amendments to their capital-adequacy programs, thereby establishing consistent standards for bank capital among the federal banking agencies.

Banking organizations are generally expected to maintain capital ratios above the minimum guidelines. Institutions with excessive amounts of on- or off-balance-sheet risks are expected to support these activities with capital that exceeds the minimum requirements.

The proposal for an increase in the capital guidelines that are applicable to multinational and regional banking organizations is part of an ongoing effort by the banking agencies to require large banks to strengthen their capital positions. The Federal Reserve also issued for comment proposed regulations for enforcing the capital guidelines and for implementing the authority to issue capital directives (supervisory orders to raise additional capital) as provided in the International Lending Supervision Act of 1983.

Joint Policy Statement on Interagency Exchange of Information

In 1984, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Home Loan Bank Board, under the auspices of the Federal Financial Institutions Examination Council, adopted a joint policy statement on the exchange of supervisory information among the regulatory agencies. The policy statement covers the shifting of subquality assets among depository institutions, the change in control of depository institutions, the initiation of formal and informal enforcement actions against depository institutions by regulatory agencies, and criminal referrals involving insiders of depository institutions. The federal agencies also agreed to make available to participating state supervisory authorities pertinent information when state-chartered or state-licensed financial institutions and their holding companies are affected.

Although the banking agencies have previously exchanged information, the formal guidelines will bring the Federal Home Loan Bank Board and participating states into the agreement and will enhance communication and coordination in areas of mutual concern and aid in implementing appropriate corrective actions.

Supervision of International Lending

During 1984, banks and borrowing countries continued to make progress in dealing with the international debt problems that had begun to worsen in the second half of 1982. A number of countries instituted or continued measures designed to restore their international creditworthiness and their debt-service capability, generally as part of International Monetary Fund programs. Where borrowing countries adopted suitable adjustment programs, banks cooperated by renegotiating existing loans and in many cases by providing new money. The progress of these efforts and their impact on the quality of bank assets were monitored by the Federal Reserve through its supervisory and reporting procedures.

In 1984, the Federal Reserve amended Regulation K to implement measures contained in the International Lending Supervision Act of 1983. Under the regulation and 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; and (3) report quarterly on country exposure and disclose to the public large exposures to individual countries.

Surveillance and Monitoring Program

In line with the overall supervisory objective of maintaining a safe and sound banking system, the Federal Reserve System is engaged in a surveillance program that is geared to monitoring changes in the financial condition of member banks quarterly, large bank holding companies semiannually, and smaller bank holding companies on an annual basis. This program supplements the examination program through computerized screening systems that trigger the financial analyses of institutions that have poor or deteriorating financial conditions. If it is determined that serious financial problems exist, the examination schedule of these institutions may be accelerated. The surveillance system further aids in the achievement of a more efficient allocation of System resources by lengthening examination schedules of banking institutions that are judged to be financially sound, and by focusing time and resources on organizations that warrant closer supervision.

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 1984, the Reserve Banks recommended and the Board's staff initiated 155 enforcement actions, most dealing with unsafe or unsound banking practices; 80 were completed by year-end.

Also, the Board assessed and collected civil money penalties totaling $37,002. Of the penalties, two were paid by bank holding companies, one by a bank, and twenty by individuals.

The Board made available to the public a description of all formal supervisory actions completed during the year and the reasons for them. This step 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 1984, the Federal Reserve conducted twenty-one schools, ten of which offered core banking courses—three introductory, four intermediate, and three advanced. Other programs included two schools dealing with credit analysis, two with bank holding company applications, and four with consumer compliance examinations (two introductory and two advanced), and three seminars for senior examiners (one on fraud and insider abuse, one on contingent liabilities, and one on trust activities). In addition to the two sessions of the credit analysis school held in Washington, regional sessions were conducted at three Reserve Banks for 52 students.

Courses in specialized areas, including trust activities, international banking, electronic data processing, payment system risks, activities of municipal securities dealers, management, and instructor training, were conducted by the FFIEC.

In 1984, the Federal Reserve trained 589 persons, including 32 from state banking departments and foreign central banks, in System training programs, and 325 in FFIEC 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 through 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 1984, 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 2,278 bank holding company applications. The System approved 959 proposals to organize holding companies and denied 4; approved 437 bank acquisitions by existing bank holding companies and denied 7; and approved 766 requests to acquire nonbank companies that are closely related to banking and denied 6. 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, 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 1984, the Federal Reserve approved 67 merger applications: 3 were approved by the Board, 4 by the Secretary of the Board under delegated authority, and 60 by the Reserve Banks under delegated authority. As required by law, each merger is described in table 18 in the Statistical Tables section of this REPORT.

When the Office of the Comptroller of the Currency (OCC) or the Federal

Bank Holding Company Decisions by the Federal Reserve, Domestic Applications, 1984

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	4	....	....	7	883	....	963
Merger of holding company	19	2	....	....	2	31	....	54
Retention of bank	....	....	....	....	....	1	....	1
Acquisition								
Bank	94	7	....	....	28	315	....	444
Nonbank	148	6	....	....	12	130	476	772
Acquisition of bank service corporation[2]	34	....	....	....	....	....	....	34
Other	3	1	5	....	1	....	....	10
Total	**367**	**20**	**5**	....	**50**	**1,360**	**476**	**2,278**

[1] This heading refers to decisions approved or denied by the Director of the Division of Banking Supervision and Regulation.

[2] Approved under the Bank Service Corporation Act, which contains standards patterned after those of the Bank Holding Company Act.

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 842 reports on competitive factors to the OCC and the FDIC in 1984. 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 1984, 167 changes in ownership of the stock of state member banks and holding companies were reported; all but 8 were processed by the Reserve Banks. There were no denials.

International Activities of U.S. Banking Organizations

The Board has four 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; to authorize and regulate overseas investments by member banks, Edge corporations, and bank holding companies; and to authorize and regulate investments by bank holding companies in export trading 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 review. 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 1984, the Board approved the opening of 23 foreign branches.

By the end of 1984, 163 member banks were operating 905 branches in foreign countries and overseas areas of the United States. One hundred thirty-one national banks were operating 790 of these branches, while 32 state member banks were operating the remaining 115 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 1984, 523 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. By the end of 1984, there were 146 Edge corporations, which had 138 branches. 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 1984 the Board authorized 128 foreign investments by member banks, Edge and agreement 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 1984, the Board acted affirmatively on the 19 notifications received for the establishment of export trading companies. At year-end, 33 bank holding companies had investments in 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 that to deny, certain types of applications—to the Reserve Banks, and to the Board's Division of Banking Supervision and Regulation and Office of the Secretary.

The delegation of responsibility for applications permits a more efficient use of staff resources at both the Board and the Reserve Banks by removing routine cases from the Board's agenda. During 1984, almost 84 percent of the applications were acted upon under delegated authority; this proportion was somewhat smaller than that for recent years, reflecting the increasing complexity of applications and the simplification of filing requirements.

Timely Processing of Applications

The System implemented revised procedures and schedules for applications, effective January 1, 1984, which reduced internal processing targets by one-third. The processing time was shortened 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. The new targets applied to all applications accepted for processing on or after January 1, 1984. These changes served to reduce the burden on applicants and to make more efficient use of the staff at the Board and the Reserve Banks. In addition, the number of nonbanking proposals acted upon declined 24 percent as a result of the elimination of filing requirements for many de novo notifications. As a result, the number of applications by holding companies decreased 10 percent from 1983, to 2,278; otherwise, applications would have increased 2 percent from 1983. Of the applications in 1984, the System acted on 95 percent within the goals that were set for processing time.

In 1984, 66 of the 67 applications for bank mergers were processed within 60 days; the application that took longer involved a protest. The System also prepared 842 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 167 change-of-control notices, 149 were handled within 60 days.

The System also measures its performance in processing international applications against a 60-day standard. During 1984, 90 percent of the 221 international applications on which the Federal Reserve acted were acted upon within the applicable time period.

Board Policy Decisions and Developments in Bank-Related Activities

During 1984, the Board approved by order the expansion of several activities previously approved for holding companies: issuing money orders and similar instruments up to $10,000 brokering of foreign currency options, and acting as a futures commission merchant for futures contracts on municipal bond indexes and offering related advice. The Board also approved the acquisition by a holding company of two financially distressed savings and loan associations, but denied a proposal by another bank holding company to acquire a sound savings and loan association.

Public comments were requested on a proposal to add six activities to the list of those permissible for holding companies: check guaranty, consumer financial counseling, armored car services, tax planning and preparation, collection agency and credit bureau operations, and acting as a commodity trading advisor. The Board also proposed to expand property appraisal and advice by a futures commission merchant, and to clarify permissible insurance powers.

The Board decided a number of applications that involved attempts by holding companies to expand their interstate banking presence. The Board reluctantly approved six "nonbank banks" after they received chartering approval from other agencies and after a congressionally imposed moratorium had expired. These institutions offer most banking services but do not both make commercial loans and accept demand deposits, and therefore are not prohibited from engaging in banking activities by the Bank Holding Company Act. A number of interstate holding company proposals were also approved because newly enacted state laws creating regional compacts serve to exempt such acquisitions from the limitations of the Bank Holding Company Act on interstate expansion. Litigation involving the constitutionality of some of the state laws has precluded consummation of most of the interstate proposals. In other matters, industrial banks were barred from providing a full range of commercial banking services, and limitations were placed on the ability of a holding company to expand across state lines through the use of an acquired company's grandfathered rights. The Board also had in suspense two applications by holding companies to acquire South Dakota banks and thereby to engage in interstate insurance activities prohibited to the parent directly.

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 have 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. Forty-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 similar to those issued by the Securities and Exchange Commission.

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 1983 and the first three quarters of 1984.

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, allow the Board

Period	Total loans to executive officers		Interest rates charged (percent)	
	Number	Amount (dollars)	Low	High
October 1-December 31, 1983	1,000	9,464,851	7	25
January 1-March 31, 1984	896	14,760,590	7	21
April 1-June 30, 1984	1,202	17,885,034	8	22
July 1-September 30, 1984	931	10,617,578	7	20

to object to stock repurchases if the holding company that files the notice fails to meet the standards that the Board applies in the applications process, including the Board's capital guidelines.

The Federal Reserve reviewed 141 such notifications during 1984, all but 4 of which were acted on by the Reserve Banks on the Board's behalf.

Securities Regulation

Under the Securities and 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 Securities and Exchange Commission, 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 credit secured by margin stock.

The Board, the National Credit Union Administration, the Farm Credit Administration and, since May 3, 1984, the Federal Home Loan Bank Board, examine other lenders under their respective jurisdictions for compliance with Regulation G. At the end of 1984, there were 537 such lenders, of which 294 were subject to the Board's supervision. Of these 294, 198 are subject to regular inspection by the Federal Reserve System. During the year, Federal Reserve examiners inspected 60 lenders for compliance with the Federal Reserve's margin requirements (these lenders are inspected on either a biennial or triennial basis, according to the type of credit extended).

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, of certain over-the-counter stocks that the Board designates as having characteristics similar to those of stocks listed on national exchanges, or of bonds meeting certain requirements.

The Board published revised lists of over-the-counter stocks subject to its margin regulations on February

21, June 18, and November 13, 1984. The current list, which is redesignated the List of Marginable OTC Stocks, consists of 2,245 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 1985, the Board will publish the list in February, May, August, and November.

In 1984, the Board amended Regulations G, T, and U to permit brokers and dealers to extend credit on OTC securities designated as eligible for trading in the National Market System portion of the National Association of Securities Dealers Automated Quotations (NASDAQ). Loans by banks and Regulation G lenders to purchase such securities, if secured by those securities, are now subject to the margin regulations.

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 1984, the Securities Regulation Section of the Board's Division of Banking Supervision and Regulation issued 50 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. The staff also issued a question-and-answer guide explaining the application of Regulation G. This guide has been printed in the *Federal Reserve Regulatory Service* for the convenience of examiners and Regulation G lenders.

Federal Reserve Membership

At the end of 1984, 5,983 banks were members of the Federal Reserve System, a net increase of 177 from the previous year. Member banks operated 26,698 branches on December 31, 1984, a net increase of 660 for the year.

Member banks accounted for 39 percent of all commercial banks in the United States, and for 64 percent of commercial banking offices.

Regulatory Simplification

Action that the Board of Governors took in 1984 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.

Compliance with the act is assured through a permanent Regulatory Improvement Project, to which the Board has given a mandate to improve its regulations and rulemaking procedures. Under the Project, each regulation undergoes a zero-based review once every five years. Regulatory analyses of existing and proposed regulations are also evaluated to determine whether the need for and the purpose of the provisions have been established and whether alternatives have been considered. Minimizing compliance costs, paperwork, and other burdens, as well as simplifying and clarifying the regulatory language, is an essential part of this review process.

In 1984, the Board continued systematically analyzing each regulation periodically to reduce or eliminate burdens. In taking new regulatory actions, the Board kept burdens to a minimum principally by making few changes in the existing regulatory structure. When changes were found necessary, the Board eased the adverse impact in most cases by issuing policy statements instead of formal regulations, by offering alternative methods of satisfying the regulatory objectives, or by granting generous adjustment periods for compliance.

Periodic Review Program

Margin Regulations

As reported in last year's Annual Report, the Board completed the revisions of all its margin regulations (Regulations G, T, U, and X) to simplify their language and substance. This year, the Board considered two staff studies that addressed the fundamental question of whether, in general, federal margin regulations are necessary. One report, *A Study of the Effects on the Economy of Trading in Futures and Options,* was written jointly with the Securities and Exchange Commission and the Commodity Futures Trading Commission. The other, *Review and Evaluation of Federal Margin Regulations,* considered the scope and effectiveness of margin regulations. These studies were undertaken in light of the introduction of new financial instruments and changes in the structures of financial markets since margins were first regulated in 1934.

Bank Holding Companies and Change in Bank Control

The Board recently issued the first comprehensive revision of Regulation Y, which deals with bank holding companies. In response to comments received during its review, the Board proposed in 1984 to amend the regulation by listing several additional nonbanking activities as generally permissible for bank holding companies. The activities include commodity trading advisory services, check guaranty services, consumer financial counseling, armored car services, tax planning and tax preparation, and operating a credit agency or credit bureau. The Board also proposed to define and clarify permissible insurance activities in conformity with the Garn–St Germain Depository Institutions Act of 1982.

Equal Credit Opportunity

In 1983, preliminary steps were taken toward the first revision of the regulation for equal credit opportunity (Regulation B) since its adoption in 1977. Comments were solicited on the issues to be addressed. In 1984, staff work progressed in developing alternative model forms and a commentary to be used as a guide to the regulation. In addition, the Consumer Advisory Council discussed the review of this regulation at length.

International Banking Operations

In 1984, the Board proposed revisions of its regulation governing the international operations of U.S. banking organizations (Regulation K). In response to a statutory requirement, this review has been undertaken to determine whether changes are desirable to ensure or improve the competitive positions of Edge corporations. Four alternative proposals were offered for expanding the ability of an Edge corporation to provide a broad range of services in the United States. Other major proposals included an increase in the Edge Corporation's lending limit and a relaxation of the limits on investments by such corporations in foreign companies. The language has been simplified, and the organization of the provisions has been improved.

New Regulatory Actions

This section reports on significant final regulatory actions taken by the Board in 1984 and on related proposed actions. (Adoption of pricing schedules for Federal Reserve services is discussed in the section on Federal Reserve Banks.)

Monetary Policy and Payments System

Delayed Disbursement and Availability of Funds

The Board issued a policy statement encouraging the banking industry to seek further improvements in check collection and funds availability and to avoid delayed-disbursement arrangements. Some of these arrangements have been designed to delay the collection and final settlement of checks by permitting checks to be drawn on institutions located at substantial distances from the payee when more efficient payment arrangements are available.

In addition, the Board, together with the other banking agencies, officially advised banks of customers' complaints about delays in the availability of funds. The Board asked banks to review and disclose their policies and to refrain from imposing unnecessary holds. Recognizing that banks operate on different schedules according to their capabilities, and that banks might actually incur check losses by complying with schedules imposed by regulation, the agencies avoided specific regulatory requirements.

Reduction of Float
To reduce float, the Board adopted an amendment of Regulation J (Check Collection and Funds Transfer) to charge for checks made available to a paying bank by a Reserve Bank on a weekday when the paying bank is regularly closed but the Reserve Bank is open. To reduce the impact of this change on small institutions, the Board gave banks the option of compensating the System for the float generated by their midweek closing, rather than requiring them to maintain check operations on that day.

Advertising of Interest on Deposits (Regulation Q)
Along with the other federal banking agencies, the Board issued a policy statement directed at bank advertising of the interest rates on time deposits in individual retirement accounts (IRAs) that pay more than one fixed rate over the term of the deposit. This action was necessary to prevent consumers from being misled or confused about the interest they would receive and the tax aspects of the accounts. At the same time, the Board proposed regulations to incorporate the policy statement and requested comment on alternative approaches. The proposals include other issues surrounding advertising and disclosure that may warrant consideration in view of the removal of federal limitations on deposit interest rates.

Securities Credit

Margin Eligibility for the National Market System
The Board adopted a change in the definition of "margin security" to include automatically stocks designated by the Securities and Exchange Commission as qualified for trading in the national market system for over-the-counter stocks. This change will expedite the determination of securities that are eligible for margin credit. (The Board will continue to publish its List of Marginable OTC Stocks periodically, to reflect the eligibility of other OTC securities for margin trading.)

Securities Eligible for Deposit with Options Clearing Agencies
The Board also amended its margin regulations to permit an options clearing agency regulated by the SEC to accept for fulfilling the agency's deposit requirements any margin security that meets SEC criteria for that purpose. (An options clearing agency issues options contracts and guarantees their performance.) This amendment facilitates the SEC's approval of a proposed Options Clearing Corporation program that will expand the class of securities eligible for deposit requirements. The program will generally permit brokers and dealers to deposit the same kind of securities with the clearing agency that they deposit with banks in obtaining loans secured by customer securities.

Banking Structure and Supervision

International Lending Supervision
The Board adopted amendments of Regulation K (International Banking Operations) to govern banks with respect to the maintenance of reserves against certain international assets, disclosure of information on international assets, and accounting rules for fees on certain international loans. These regulations, which are part of a joint program of the federal banking agencies, implement the International Lending Supervision Act of 1983 and are designed to prevent unsafe situations in international lending. These rules should not affect small banks because such institutions generally do not hold international assets covered by the regulation.

As a related matter, in implementing the International Lending Supervision Act, the Board proposed amended capital-adequacy guidelines for bank holding companies and state member banks. Developed in conjunction with the other federal banking agencies, the proposal is aimed at establishing uniform minimum capital levels for all federally regulated banks.

Procedures for Handling Protested Applications
The Board amended its policies to provide the public with clearer and easier procedures for filing protests to branch applications, acquisitions, and other proposals, and for requesting meetings and hearings. The changes incorporate most of the recommendations of the Consumer Advisory Council for bringing banking applications to public notice. One of the changes calls for an expanded uniform format for the weekly bulletin published by the Reserve Banks detailing applications received. This notice will now identify Reserve Bank personnel who can provide further information and will list publications concerning the Commuity Reinvestment Act. These new rules will impose no operational burdens on banking organizations and should eliminate unnecessary delays.

Consumer and Community Affairs

Electronic Fund Transfers
In view of uncertainty and requests for clarification, the Board amended Regulation E (EFT) to cover money transfers resulting from point-of-sale debit card transactions that are processed electronically but do not go through an electronic terminal at the point of sale. To ease compliance, the Board has doubled the time allowed in the regulation for resolving errors that result from such transactions. Moreover, to avoid conflict with other regulations, it has exempted consumer asset-management accounts from provisional recrediting requirements if the account is subject to margin regulations.

Another action in this area gives financial institutions the option to disclose charges for electronic fund transfers on periodic statements either transaction by transaction or as a total. This amendment responds to requests from financial institutions for such flexibility.

Truth in Lending
In response to questions from both the public and the private sectors, the Board amended Regulation Z (TIL)

to clarify that all credit cards, including those issued for transactions that are generally exempt from the regulation, are subject to the provisions that prohibit the unsolicited issuance of credit cards and that limit the cardholder's liability for unauthorized use to $50. This amendment applies primarily to telephone calling cards. To prevent unnecessary costs of compliance, the Board allowed the issuers of the 50 million telephone cards now in use to wait until they normally replace the cards to correct any statements on the cards that are inconsistent with the regulation.

Commentaries to Regulations
The Board also updated the official staff commentaries to Regulation E and Regulation Z. These commentaries have been designed to facilitate compliance with the regulations by coherently and systematically addressing a variety of questions that have arisen since the last updates.

Regulatory Impact Studies

Surveys on Consumer Use of Bank Services

In 1983, the Board conducted a Survey of Consumer Finances to gain information on consumers' financial obligations and assets and their experiences with financial institutions. In 1984, data from that survey were reported in the September and December issues of the *Bulletin* to present highlights of the debts and net worth of a representative sample of nearly 4,000 families and their selection and use of financial services. In addition, the data from the survey were used to prepare a study requested by the Consumer Advisory Council on the impact on consumers of bank service charges and fees. The study compared the 1983 information with that from a similar survey in 1977, and it drew upon the 1984 Currency and Transaction Account Usage Survey and Functional Cost Analysis data to evaluate the impact of bank service charges and fees on commercial bank profits.

Colloquium on the Future of Small Depository Institutions

The Board sponsored a conference that focused on the future of small depository institutions in an era of technological change, deregulation, and financial innovation. More than 100 representatives from financial institutions, research organizations, and the banking agencies participated. A general conclusion was that, despite their limited planning staff or expertise, many small banks will survive and prosper by adapting to change and identifying profitable new markets in which they can establish niches. The proceedings of the conference are available from the Board.

Informational Services

Pamphlet on Adjustable-Rate Mortgages

To help potential homebuyers, the Federal Reserve issued a pamphlet jointly with the Federal Home Loan Bank Board that explains how adjustable-rate mortgages work—including such features as index rates, interest rate and payment caps, and negative amortization. The pamphlet describes the risks and advantages of ARMs and ways for consumers to reduce risk. It is available from the Board and has been widely distributed through lending institutions.

Shopping Guide for Credit

The Board initiated a program to see whether the publication of interest rates charged by different depository institutions would help consumers shop for credit. As an experiment, Federal Reserve Banks in three market areas began to compile interest rates from financial institutions in their area and to make them available to newspapers. The Board surveyed consumers in these areas before publication and distribution of the shoppers' guides and will survey them again after one year to assess their response.

Guide to Regulation G

The Board issued a short guide to Regulation G, which governs margin credit extended by savings banks, insurance companies, and certain other lenders. The guide, prepared in a question-and-answer format, is written in simple language as an introduction to the basic areas of the regulation.

Federal Reserve Banks

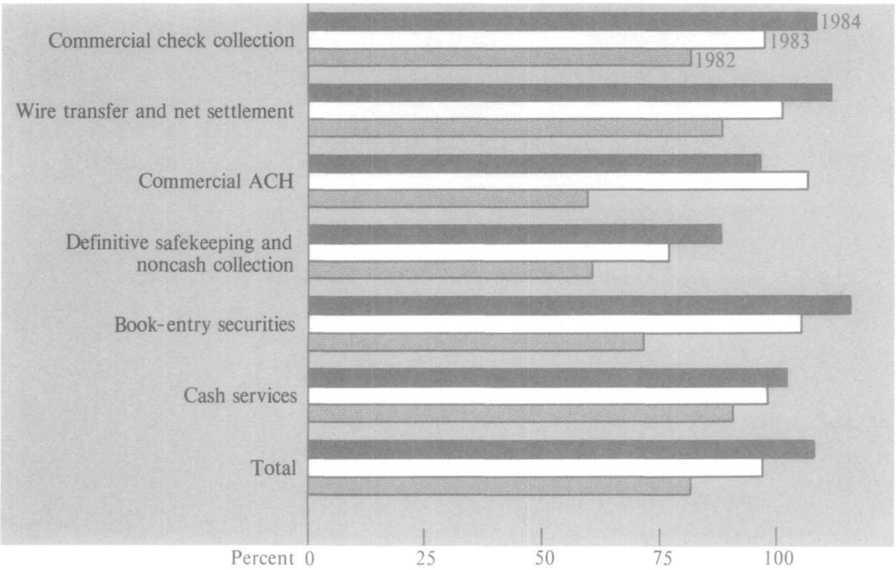
Developments in the Pricing of Federal Reserve Services and in the Payment Mechanism

Improved operations and better cost controls resulted in a significant improvement in the Federal Reserve's performance in 1984. For the year, the Reserve Banks recovered 103.9 percent of costs for priced services, compared with 99.7 percent in 1983. Table 9, in the Statistical Tables section of this REPORT, presents revenue and expenses by major category of service.

For 1984, total revenue at Reserve Banks from all priced services was $697.0 million, and total cost was $677.6 million. These figures include the income and expenses related to clearing balances, the private sector adjustment factor (the taxes and costs of capital the Federal Reserve would incur if it were a private firm), and the value of priced float. With allowances for a temporary support program for the automated clearing house service, the Federal Reserve had a net revenue of $26.3 million.

During 1984, the Federal Reserve System continued to take steps to improve the efficiency of the nation's

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.

payment mechanism. Federal Reserve operations during 1984 in connection with the payment mechanism are discussed below.

Check Collection

The revised fee schedules for check collection services implemented in December 1983 remained in place throughout 1984. Total check costs, including the cost of float and the private sector adjustment factor (PSAF), amounted to $507.6 million in 1984, while total revenues were $529.6 million. The number of checks processed by Federal Reserve Banks increased by 3.0 percent in 1984 to 14.7 billion.

In April, the Federal Reserve implemented a proposal designed to accelerate the collection of checks drawn on certain depository institutions located outside of Federal Reserve cities. This program has achieved its objective: by the end of 1984, over $1 billion was being collected one day earlier than it otherwise would have been. In conjunction with this program, each Reserve Bank offers a variety of payor bank services to depository institutions, which enable them in turn to offer cash management services to their customers.

In June, the Board requested comment on an amendment to Regulation J that would require an institution that returns a check of $2,500 or more drawn on it and collected through the Federal Reserve to notify promptly the institution at which the check was first deposited. This proposal was designed to reduce the risk to depository institutions associated with the return of checks and allow them to make funds available to their depositor sooner. (The Board adopted this proposal in early 1985.)

Automated Clearing House Service

During 1984, commercial ACH volume continued to grow rapidly, reaching 214.4 million transactions, an increase of 37.0 percent over the 1983 level. Total commercial ACH costs amounted to $20.9 million, and revenues were $13.8 million. After an adjustment to costs for the Board's incentive pricing policy, costs exceeded revenues by $0.1 million.

Automated clearing house (ACH) services offered by the Federal Reserve were improved through the implementation of later deposit deadlines and expansion of the use of electronic transmissions for the receipt and delivery of ACH transactions. In addition, work continued on a new operating system, which will be implemented during 1985, and plans were developed to convert ACH paper return items to automated form beginning in February 1985.

On December 27, 1984, a new fee structure for the ACH was established. The new structure eliminated the concept of benefit-flow pricing and set explicit charges for institutions depositing paper return items. In accordance with the Board's incentive pricing policy, the new fees were set to recover 80 percent of commercial ACH costs, including the PSAF and certain categories of float.

Wire Transfer of Funds and Net Settlement Service

In 1984, funds transfer volume grew at a rate of 9.4 percent, reaching 41.6 million transactions. Total costs of funds transfers, including the PSAF, were $71.7 million, and revenue was $75.2 million, resulting in a net surplus of $3.5 million.

During 1984, the Board approved a reduction in the basic fee for originating or receiving a funds transfer from $0.65 to $0.60, effective September 27, 1984. Effective December 27, 1984, the transaction fee was further reduced to $0.55 in conjunction with the implementation of monthly electronic connection fees in January 1985.

The number of depository institutions with on-line connections to the Federal Reserve continued to grow. By the end of 1984, nearly 5,000 institutions were electronically linked to the Reserve Banks. During 1984, the Reserve Banks began changing their local communications networks and installing new operating systems. These changes will enable the Banks to provide services to depository institutions more efficiently and securely.

Interim guidelines for offering net settlement services to large-dollar funds transfer networks were issued in March 1984 along with a request for public comment on proposals to reduce risk in the payment system. The Board was expected to act on this proposal in 1985.

Based on the interim guidelines, same-day finality for settlement entries for BankWire's Cash Wire service was approved. In addition, approval was granted to provide same-day net settlement services to the California Bankers Clearing House Association, which will begin offering large-dollar transfers during 1985. Net settlement services, based on next-day finality, were also approved for three automated teller machine networks.

Coin and Currency Services

On December 31, 1983, the Federal Reserve's limited cash transportation subsidy was eliminated, except for locations outside the contiguous 48 states. By the end of 1984, 8 Reserve Banks decided to cease contracting directly for transportation of currency and coin and instead assist depository institutions in making arrangements at lower cost.

Coin wrapping service was offered by five Reserve Banks in 1984. In addition, 4 Reserve Banks offered special cash packaging and acceptance of later orders for cash.

Total costs for the cash services, including the PSAF, were $25.9 million. Revenues exceeded costs by $0.3 million.

Over the past three years, the Federal Reserve has embarked on a rigorous program to improve the quality of the nation's currency. During the first quarter of 1984, installation of the full complement of high-speed processing machines was completed, allowing note-by-note inspection of all currency deposits according to Federal Reserve standards. These actions, coupled with increased production and issuance of new currency, have significantly improved the quality of currency in circulation.

Definitive Securities and Noncash Collection Services

Several improvements to securities services were introduced during 1984. In noncash, the enhancements included a mixed-deposit product and improved credit availability. Definitive safekeeping was improved by a Systemwide expansion of the reregistration service, and a safekeeping service for mortgage-backed securities.

The fee schedules for the securities

service did not change during 1984. However, on November 15, the Board requested comment on a new fee structure for definitive safekeeping and noncash collection services, which would introduce a registration fee, permit a higher charge for safekeeping of coupon-bearing securities, and establish a fee for noncash return items.

The Reserve Banks maintained 151.4 thousand issues of definitive securities in their vaults and processed over 4.3 million noncash collection transactions in 1984. The total cost of these services, including the PSAF, was approximately $24.5 million, reflecting an increase of 4.2 percent. Total revenues were approximately $23.0 million. The volume of definitive safekeeping continued to decline while that of noncash collection increased.

Book-Entry Securities

During 1984, the U.S. Treasury directed the Federal Reserve to treat the transfer of U.S. government securities as a service the Federal Reserve provides as fiscal agent for the Treasury rather than as a priced service. Accordingly, the Treasury will establish the fees to be charged depository institutions for transferring these securities. The Treasury proposed new fees for transferring these securities in December. In addition, the Board requested public comment in December on a proposed fee for the accounting transactions associated with the securities transfer.

During 1984, on-line book-entry transfers totaled 5.7 million, a 13.0 percent increase over 1983. The book-entry securities service incurred costs, including the PSAF, of $27.1 million; total revenues were approximately $29.2 million.

Federal Reserve Float

Federal Reserve float fell from a daily average of $1.5 billion in 1983 to a daily average of $400 million in 1984. The Federal Reserve implemented a program in April 1984 to eliminate the midweek closing float arising from its check collection. The cost of float associated with the collection of coupons and noncash items was recovered beginning in May. The recovery of delayed-file float from ACH operations was phased in during 1984. The only Federal Reserve float remaining to be priced includes small amounts of float associated with ACH return items and holidays, which was to be included in the cost base for this service beginning in January 1985.

Administrative Matters

On August 16, 1984, two papers on the payment system and priced services were published by the Board of Governors. One paper, "The Federal Reserve in the Payments System," details the rationale for the Federal Reserve's role in the payment mechanism, the cost-recovery objectives in providing priced services, and the procedures for deciding whether to offer new services or enhancements to existing ones. The second paper, "Standards Related to Priced Services Activities of the Federal Reserve Banks," discusses standards for avoiding conflicts or the appearance of conflicts between the Federal Reserve's role as a provider of services and its role as a supervisor, regulator, and lender.

In November, the Board approved a PSAF of $61.1 million for 1985. This figure represents an increase of $2.3 million, or approximately 4 percent, from the approved PSAF of $58.8 million for 1984.

Examination

The Board's Division of Federal Reserve Bank Operations examined the 12 Reserve Banks and their 25 branches during 1984, 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, and furnished copies of these reports to the Committee. The procedures that were followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made annually.

Income and Expenses

The accompanying table summarizes the income, expenses, and distribution of net earnings of the Federal Reserve Banks for 1984 and 1983.

Current income of $18,069 million in 1984 was 12.5 percent higher than that in 1983. The principal changes in earnings were increases of $1,537 million on the System's holdings of U.S. government obligations and of $437 million on loans, and a reduction of $57 million on assets denominated in foreign currencies.

Total expenses amounted to $1,185 million ($984 million for operating expenses, $119 million for earnings credits granted to depository institutions, and $82 million for assessment for expenditures by the Board of Governors). The cost of Federal Reserve currency amounted to $163 million. Income from financial services was $575 million.

The profit and loss account showed a net deduction of $413 million, due primarily to a $455 million loss on assets denominated in foreign currencies, which was related almost entirely to revaluation of these assets to market exchange rates. There was a

Income, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1984 and 1983[1]

Thousands of dollars

Item	1984	1983
Current income	18,068,820	16,068,362
Current expenses	1,102,444	1,023,678
Operating expenses	983,731	951,919
Earnings credits granted	118,713	71,759
Current net income	16,966,376	15,044,684
Net deduction from current net income	412,943	400,366
Assessments by the Board of Governors	244,722	223,686
For expenditures of Board	82,116	71,551
For cost of Federal Reserve currency	162,606	152,135
Net income before payments to U.S. Treasury	16,308,711	14,420,631
Dividends paid	92,620	85,152
Payments to U.S. Treasury (interest on Federal Reserve notes)	16,054,095	14,228,816
Transferred to surplus	161,996	106,663

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

net gain of $49 million on sales of U.S. government obligations. Statutory dividends to member banks totaled $93 million, $7 million more than in 1983. 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 $16,054 million for the year, compared with $14,229 million in 1983. 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 1984 is shown in table 7, in the Statistical Tables section of this REPORT, and a condensed historical statement appears in table 8. A detailed statement of assessments and expenditures of the Board of Governors appears next, in the Financial Statements section of this REPORT.

Federal Reserve Bank Premises

During 1984, the Federal Reserve Bank of Kansas City sold its surplus real estate property, and the Board of Governors authorized construction of a new building for the Omaha Branch of the Federal Reserve Bank of Kansas City and for the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

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 for years 1982, 1983, and 1984.

Average daily holdings of securities and loans during 1984 amounted to $165,002 million, an increase of $12,476 million over 1983. Holdings of U.S. government securities increased $9,818 million, loans increased $2,688 million, and acceptances decreased $30 million.

Securities and Loans of Federal Reserve Banks, 1982–84

Millions of dollars, except as noted

Item and year	Total	U.S. government securities[1]	Loans	Acceptances
Average daily holdings[2]				
1982	140,968	139,772	1,047	149
1983	152,526	151,429	1,038	59
1984	165,002	161,247	3,726	29
Earnings				
1982	15,631	15,493	120	18
1983	15,250	15,150	94	6
1984	17,080	16,688	389	3
Average interest rate (percent)				
1982	11.09	11.08	11.49	12.08
1983	10.00	10.00	9.05	10.17
1984	10.35	10.35	10.44	10.94

[1] Includes federal agency obligations.

[2] Based on holdings at opening of business.

From 1983 to 1984, the average rate of interest on all types of holdings increased: on U.S. government securities, from 10.00 to 10.35 percent; on loans, from 9.05 to 10.44 percent; and on acceptances, from 10.17 to 10.94 percent.

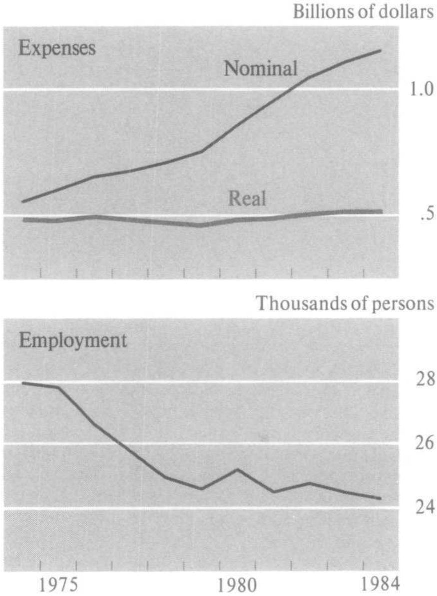
Volume of Operations

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 1981-84.

Expenses, Employment, and Productivity

In its ANNUAL REPORT, the Board of Governors of the Federal Reserve System has traditionally provided details on expenses for the previous calendar year. This section of the REPORT presents, for the first time, information on the budget that the Board of Governors has approved for the current budget year. In addition, it describes Federal Reserve expenses, employment, and productivity for the years 1974 to 1984 to provide a better basis for comparison of System expenses over time. Most of the information has been available from other sources, including Federal Reserve Planning and Control System reports and memoranda on the budget for the coming year released at public Board meetings. However, it is hoped that providing the information in a convenient and consolidated form will foster better understanding of the Federal Reserve's stewardship of public funds.[1]

Total Employment and Expenses



Overall Trends

Although there were substantial year-to-year variations over the 1974–84 period as a whole, as the accompanying chart shows, expenses grew at an average annual rate of only 0.7 percent in real terms.[2] Over the decade, the average number of full-time employees declined 3,671, or 13 percent.

The variations in the rate at which expenses grew reflected important developments affecting the Federal Reserve System. The 1974–79 period was characterized by improvements in efficiency resulting from automation at the Federal Reserve Banks and at the Board of Governors and by a multiyear cost control program. In real terms, costs actually declined from 1977 through 1979. However, the implementation of the Monetary Control Act (MCA) in 1980 resulted in significant transitional costs in the

[1] Throughout this section, all data in constant dollars are deflated by the GNP implicit price deflator (1972 = 100). (See the historical table on expenses, pages 202–03, top.)

All data cover the expenses of the Federal Reserve Banks and of the Board of Governors combined. The data are derived from two separate accounting systems. The Reserve Bank accounting system classifies expenses into four major service lines. For consistency, the expenses of the Board of Governors were allocated into the same categories. (See the table on 1984 expenses by Bank and by category, pages 202–03, bottom.)

[2] This percentage change excludes currency costs for reasons noted later.

Total Expenses of the Federal Reserve System, Nominal and Real[1]

Millions of dollars, except as noted

Year	Reserve Banks[2]		Board[3]	
	Nominal	Real	Nominal	Real
1974	519.0	450.9	31.6	27.4
1975	562.1	447.2	36.0	28.6
1976	609.6	460.8	40.4	30.5
1977	626.9	447.8	45.6	32.6
1978	654.6	435.2	49.5	32.9
1979	693.9	424.7	53.9	32.9
1980	792.8	444.4	60.4	33.9
1981	886.1	453.0	62.4	31.9
1982	973.6	469.4	67.9	32.7
1983	1,028.5	477.7	72.2	33.5
1984	1,067.8	478.0	77.9	34.9
MEMO				
Average annual growth, 1974–84 (percent)	7.5	.6	9.4	2.4
1985 budget[5]	1,122.3	484.2	82.1	35.4
Percent change, 1985 budget from 1984 actual	5.1	1.3	5.4	1.6

[1] Data for the Reserve Banks and the Board of Governors are derived from two separate accounting systems. Total System expenses are defined as Reserve Bank expenses presented in the PACS, including depreciation; operating expenses of the Board of Governors and estimated depreciation; and Federal Reserve currency costs. Constant-dollar data were calculated using the GNP implicit price deflator (1972 = 100).

[2] Any differences between total expenses as reported elsewhere in this ANNUAL REPORT and total expenses as shown in this table are due to the exclusion of cost of earnings credits in the PACS reports and minor timing adjustments, or to the netting of minor receipts against expenses in the PACS reports while other parts of the ANNUAL REPORT list gross receipts and expenses.

[3] Under the Board's current budgeting and accounting procedures all items purchased are expensed in the year they are received. Because this procedure

Summary of PACS Expenses, by Major Program, 1984 Annual[1]

Federal Reserve Bank	Monetary and economic policy		U.S. Treasury and other government agencies	
	Total cost (dollars)	Percent change from 1983	Total cost (dollars)	Percent change from 1983
Boston	6,065,791	−1.25	6,663,841	1.66
New York	29,408,963	3.33	28,897,593	2.89
Philadelphia	5,578,334	−2.27	9,647,593	31.61
Cleveland	4,826,793	4.36	8,193,675	.35
Richmond	5,312,852	3.52	8,076,408	6.32
Atlanta	7,790,894	7.19	9,276,697	5.96
Chicago	8,902,115	−3.33	16,160,109	7.28
St. Louis	5,343,559	−16.06	6,920,153	7.80
Minneapolis	4,426,928	−12.93	4,530,964	−.74
Kansas City	5,750,423	−.42	7,098,289	6.28
Dallas	5,487,053	−2.09	6,286,475	.14
San Francisco	10,457,292	−5.52	14,555,538	−1.41
Total, all Reserve Banks	**99,350,997**	**−1.09**	**126,307,335**	**5.03**

[1] Does not include reimbursements. The PACS classifies expenses into four major service lines and by object of expense. The PACS reports are published for each quarter and for the year as a whole. A

Total Expenses of the Federal Reserve System, Nominal and Real[1]—Continued

Total, Banks and Board			Federal Reserve currency[4]		Total System expenses		
Nominal	Real	Percent change, real	Nominal	Real	Nominal	Real	Percent change, real
550.6	478.4	.....	30.2	26.2	580.8	504.6	.....
598.1	475.8	-.5	37.2	29.6	635.2	505.3	.1
650.0	491.3	3.3	48.8	36.9	698.8	528.2	4.5
672.5	480.4	-2.2	55.0	39.3	727.5	519.6	-1.6
704.1	468.1	-2.5	60.1	39.9	764.2	507.4	-2.3
747.8	457.6	-2.2	68.4	41.9	816.2	499.5	-1.6
853.2	478.2	4.5	73.1	41.0	926.3	519.2	3.9
948.5	484.9	1.4	82.9	42.4	1,031.4	527.3	1.5
1,041.5	502.2	3.5	98.4	47.4	1,139.9	549.6	4.2
1,100.7	511.2	1.8	152.1	70.6	1,252.8	581.9	5.9
1,145.7	512.8	.3	162.6	72.8	1,308.3	585.6	.6
7.6	.7	.....	18.3	10.7	8.5	1.5	.....
1,204.4	519.6	.....	174.2	75.2	1,378.6	594.8	.....
5.1	1.3	.....	7.2	3.3	5.4	1.6	.....

can distort the trend in operating expenses when large capital items (buildings and computers) are involved, the Board's operating budget shows these items separately from operating expenses. In the treatment here, an estimated depreciation schedule was developed for the Board's acquisitions of large capital items over the decade 1974–84. These items include constructing the Martin Building, renovating the Eccles Building, and purchasing and upgrading computer systems.

4. As a result of an accounting change in 1983, $30.4 million of currency costs in earlier years were recognized in 1983. Beginning in 1983, currency costs include the full cost of equipment purchased by the Bureau of Engraving and Printing in the year of purchase. This equipment is expected to benefit the Federal Reserve over future periods.

5. An increase of 3.75 percent in the GNP implicit price deflator was assumed for deflating the 1985 budget numbers.

Summary of PACS Expenses, by Major Program, 1984 Annual[1]—Continued

Financial institutions and the public		Supervision and regulation		Total, all expenses	
Total cost (dollars)	Percent change from 1983	Total cost (dollars)	Percent change from 1983	Total cost (dollars)	Percent change from 1983
44,585,138	5.52	7,095,682	4.90	64,410,454	4.37
131,867,580	4.12	27,329,387	5.00	217,503,494	3.96
33,005,392	1.34	7,139,647	9.68	55,371,009	6.24
39,919,191	1.36	7,929,922	5.57	60,869,580	1.98
59,489,170	5.29	8,925,775	4.17	81,804,270	5.15
66,637,670	5.04	10,871,674	8.42	94,576,935	5.69
85,844,370	-1.62	20,101,910	10.12	131,008,648	.94
36,220,805	3.67	6,020,654	-1.01	54,505,189	1.30
36,721,921	7.23	7,919,024	8.87	53,598,872	4.75
44,226,168	1.21	11,358,924	8.56	68,433,674	2.73
44,168,682	3.50	9,304,226	14.58	65,246,377	4.10
78,766,913	8.94	16,693,522	2.75	120,473,276	5.32
701,453,000	**3.78**	**140,690,347**	**6.71**	**1,067,801,679**	**3.82**

Detailed Report, a Detailed Report of System Projects, and a Summary Report are available.

monetary and economic policy area and increased expenses for the supervision and regulation function. The MCA also had a profound impact on the Federal Reserve as a provider of services because it required the System to price explicitly the services it offers to depository institutions and to permit all depository institutions access to Federal Reserve services.

Federal Reserve expenses fall into three broad categories: expenses of the Board of Governors, expenses of the Reserve Banks, and the cost of Federal Reserve currency. For 1974–84, the Reserve Banks accounted for about 84 percent of total expenses, the Board for about 7 percent, and Federal Reserve currency for 9 percent. Currency costs are segregated because they are not readily controlled by the Federal Reserve.

Planning, Budgeting, Monitoring, and Control

The Federal Reserve has a very thorough budget process for both the Reserve Banks and the Board of Governors, supported by a detailed management information system. The budget process involves a number of steps. The Federal Reserve's Planning and Control System (PACS) facilitates the process by providing historical data that are finely disaggregated as to the levels of activity, productivity, and expenses in different functions performed by the Banks. Initial guidelines for the budget are based on analyses and projections of expected workloads in each area of Federal Reserve responsibility by each Reserve Bank and by the Board of Governors. After an intensive review process involving senior officials and boards of directors of the Reserve Banks, staff of the Board of Governors, and committees of the Governors, budget proposals are presented to the full Board for its review at meetings that are open to the public. The memoranda distributed for those meetings, containing the budget proposals, are also available to the public. The Federal Reserve's budget plans for 1985 are discussed later.

Planning and Control System

The PACS is an accounting and management information system for Federal Reserve Bank activities. The accounting and performance measures in the PACS provide the fundamental information needed for the pricing of Bank services and are also useful tools for instilling discipline and a healthy sense of competition among the Banks. The General Accounting Office and a national accounting firm have analyzed the use of the PACS for Reserve Bank price-setting and agree with this approach.[3]

The PACS generates data on expenses of each Reserve Bank office, by activity and by object of expense (for example, salaries, materials and supplies, equipment, travel, and other), and on productivity and quality of output of each Bank. The table on the bottom of pages 202–03 presents summary PACS data on 1984 Bank expenses by major program.

[3] U.S. General Accounting Office, *An Examination of Concerns Expressed about the Federal Reserve's Pricing of Check Clearing Activities,* Report to the Chairman, Senate Committee on Banking, Housing, and Urban Affairs, by the Comptroller General of the United States, January 14, 1985, GAO/GGD-85-9; and Arthur Andersen & Co., *Federal Reserve System: Report on Priced Services Activities* (Arthur Andersen, forthcoming, 1985).

Accounting Conventions

The Federal Reserve System uses the calendar year as its fiscal year rather than the federal government's October-to-September fiscal year. The accounting practices followed by the Federal Reserve Banks more closely resemble the generally accepted accounting principles (GAAP) used in the private sector than those used by the federal government. A primary deviation from the federal government practice is that all acquisitions of major assets are capitalized and depreciated rather than expensed. The accounting profession usually requires the use of GAAP, particularly by organizations that must cost and price products.

In contrast to the Reserve Banks, the Board of Governors, through 1984, fully expensed purchases of major capital items. However, the Board is now making the transition to the GAAP approach.

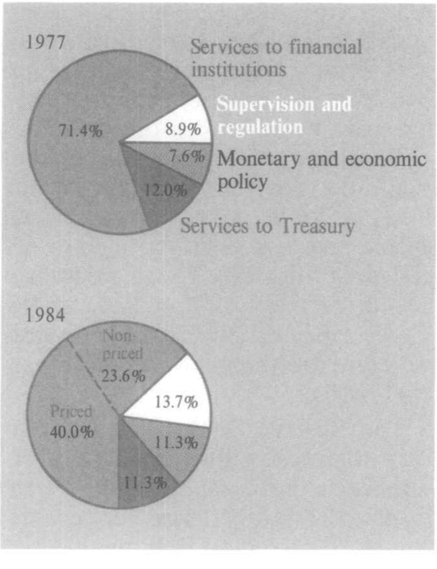
Audit Controls

Extensive audit procedures assure the integrity of the financial controls and information systems used by the Federal Reserve System. Each Reserve Bank has its own general auditor and an internal audit staff, who are responsible for continual monitoring of financial and operating activities and report directly to the Bank's board of directors. In addition, each year the Board of Governors sends its teams to examine all the Reserve Banks and to evaluate various functions. These procedures afford an independent review of both financial integrity and managerial efficiency. With the exception of its monetary policy responsibilities, on which it reports directly to the Congress twice each year, the Federal Reserve is also subject to audit by the General Accounting Office. In addition, the Board itself is audited each year by a national accounting firm. The financial statements for 1984 follow this section.

System Expenses by Program

The paired pie chart shows the distribution of Federal Reserve expenses by major service line in 1977 and 1984. The year 1977 is used as the base period because it is the first year for which the PACS data on expenses by service line are available. The most notable change over the period is that expenses for services to financial institutions and the public declined from approximately 70 percent of the total in 1977 to about 60 percent in 1984. After the MCA was implemented, the priced-services component of Federal Reserve activities declined

Federal Reserve System Expenses, by Major Program



from an estimated one-half of total expenses to about two-fifths. At the same time, the shares of expenses devoted to monetary and economic policy and to supervision and regulation increased.

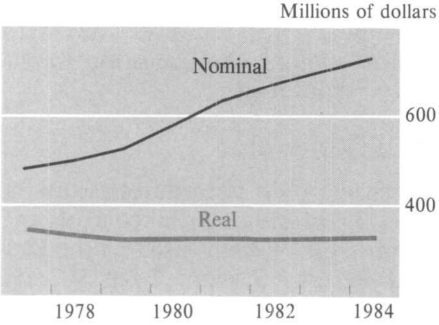
Services to Financial Institutions and the Public

Before passage of the MCA, about 5,400 banks, many of them larger institutions, were eligible for Federal Reserve services. More than 17,000 depository institutions now use Federal Reserve services. The objectives of the pricing provisions of the MCA were to improve efficiency in the payments system through enhanced competition while assuring that an adequate level of payments services was available nationwide. The MCA also required that, over the long run, fees be established so as to cover all the direct and indirect costs of providing the services, including the cost of float and an allocation of imputed costs—the taxes that would have been paid and the return on capital that would have been required had the services been furnished by a private business firm. Adjustments for these imputed costs are made with the PSAF, the private sector adjustment factor.

Beginning in 1981 and throughout 1982, the demand for some of the Reserve Banks' services, commercial check processing in particular, declined significantly. The initial impact of the decline was that Federal Reserve expenses for priced services were greater than the income generated by fees.

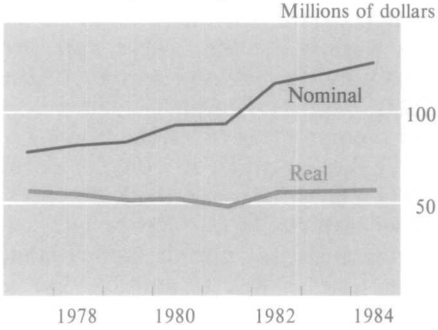
The Reserve Banks began almost immediately to adjust resources to reduce costs. For example, employment in priced and nonpriced services declined 1.4 percent in 1981 and 9.6 percent in 1982. In commercial check collection alone, employment declined 833 over the two years. Adjustments to fixed costs took longer, but by 1983 they were well under way. Prices were also raised. Beginning in 1983, an imputed cost for Federal Reserve float was also included as a component of total costs.[4] By 1984, the market test of pricing required by the MCA was being met for priced services in the aggregate, as all costs including float and the PSAF were fully recovered. Total expenses in this program, including priced and nonpriced services, decreased in real terms at an average annual rate of 0.7 percent between 1977 and 1984 (see the chart).

Expenses for Services to Financial Institutions



[4] Float, which develops primarily in the process of collecting commercial checks, is created when the Federal Reserve credits a payee institution for its deposits before it debits the account of the payor institution. In effect, float is an interest-free loan from the Federal Reserve. Before 1983, float was not priced but instead was reduced through improvements in operations. Starting in 1983, the cost of float calculated on the basis of the federal funds rate has been included in the prices of Federal Reserve services or priced implicitly.

Expenses for Services to
U.S. Treasury and Agencies



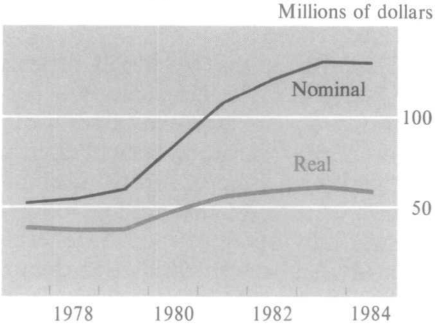
Services to the Treasury and Other Government Agencies

One of the responsibilities the Congress gave to the Federal Reserve was to act as fiscal agent of the United States. In this role the Federal Reserve provides a number of services to the Treasury and other government agencies; for example, the Federal Reserve issues and redeems their securities. Through an electronic book-entry system, the Reserve Banks also maintain records for these securities. Other services are provided, such as redeeming and destroying food stamps for the Department of Agriculture. As the chart indicates, from 1977 to 1984 the year-to-year changes in expenses varied greatly; to some extent these variations resulted from fluctuations in the purchases of Treasury securities by the public and from procedural changes requested by the Treasury. Over the period as a whole, expenses in real dollars were flat. Employment fell 206, or 10.3 percent, between 1977 and 1984.

Monetary and Economic Policy

Expenses for monetary and economic policy had the second-fastest rate of increase among Federal Reserve functions over the past seven years, growing at an average annual rate of 6.6 percent in real terms. As the chart indicates, the bulk of this increase occurred between 1981 and 1983. Approximately 40 percent of direct costs in this area are for data collection and preparation. In large part the substantial growth in expenses resulted from an increase in the number of institutions reporting data on reservable liabilities, from about 5,400 before passage of the MCA in 1980 to more than 24,000 in 1984. The upward trend in expenses for monetary and economic policy began to moderate in 1982. More than half of the relatively small increase for 1983 was attributable to the cost of implementing contemporaneous reserve requirements, a change made to improve monetary control. In 1984, expenses declined slightly.

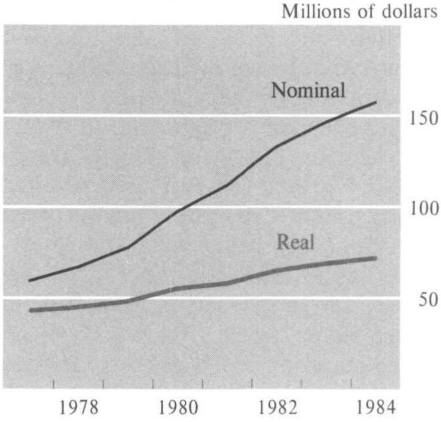
Expenses for Monetary and
Economic Policy



Supervision and Regulation

Supervision and regulation has been the fastest-growing area of Federal Reserve expenses over the past seven years, increasing at an average annual rate of 7.4 percent in real terms (see the chart). Much of this rise was accounted for by a heavier workload. For example, the number of inspec-

Expenses for Supervision and Regulation



tions of bank holding companies increased at an average annual rate of 17.4 percent over the period. Similarly, the number of bank holding company applications per year more than doubled, as did the number of financial institutions monitored. The number of cease-and-desist orders issued per year tripled.

This rise in the workload reflects the rise in bank holding company formations, a more intensive supervisory effort, the accelerating pace of change in the financial sector following elimination of interest rate ceilings on deposits, and deregulation in general. The MCA also contributed to the increase in expenses for supervision and regulation by expanding the monitoring of reserve accounts. Legislation such as the International Banking Act, the Community Reinvestment Act, and the Financial Institutions Regulatory and Interest Rate Control Act also added to the Federal Reserve's responsibilities.

Productivity

Using the data generated by the PACS, the Federal Reserve has developed several measures of the relative efficiency of the various operations of the Reserve Banks. These data are also publicly available as part of the PACS reports. Productivity measures for the operating functions of the Reserve Banks, which account for about 70 percent of Reserve Bank expenses, have been available since the late seventies and thus permit comparisons over time as well as among Reserve Banks. An aggregate unit cost index, comprising more than 20 activities with measurable outputs, may be the best overall measure of operating efficiency. This statistic is a weighted index and accordingly is affected to a greater degree by developments in the larger operating units—especially commercial check operations, the largest.

The accompanying table shows the pattern of year-to-year changes in the aggregate physical volume of Reserve Bank operations, as well as aggregate unit costs adjusted for inflation. As the table indicates, aggregate volumes in the services to financial institutions were lower in 1981 and 1982, after passage of the MCA and the imposi-

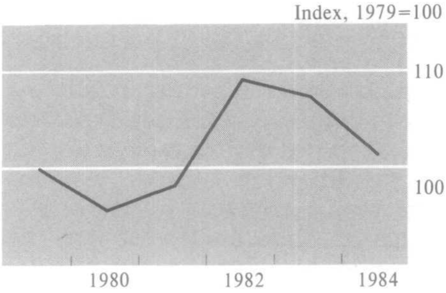
Aggregate Volume and Real Aggregate Unit Cost of Activities of the Federal Reserve Banks

Year	Aggregate physical volume		Real aggregate unit cost[1]	
	Index (1979 = 100)	Percent change from previous year	Index (1979 = 100)	Percent change from previous year
1979	100.00	.....	100.00	.....
1980	108.41	8.4	95.65	−4.3
1981	104.92	−3.2	98.27	2.8
1982	98.07	−6.5	109.33	11.3
1983	102.02	4.0	107.50	−1.7
1984	108.82	6.7	101.51	−5.6

[1] Nominal aggregate unit costs were deflated with the GNP implicit price deflator (1972 = 100).

tion of pricing. Although resources were adjusted, unit costs rose somewhat in 1981 and markedly in 1982 (see the chart), largely because of the difficulty of reducing fixed costs in the short run. However, over 1983 and 1984, as a result of heavier volumes as well as of resource adjustment, unit costs showed a significant improvement, a pattern that is expected to continue in 1985.

Index of Real Aggregate Unit Cost



The Budget for 1985

The Board of Governors approved 1985 operating budgets for the Board in late November 1984 and for the Reserve Banks in early December, totaling approximately $1.2 billion. At that time, only estimated, and not actual, expenses for 1984 were available. Based on the estimated expenses, the percentage increase approved by the Board was 4.2 percent for the System as a whole. Since then, data on actual 1984 expenses have become available, and they indicate that expenses were about 1 percent below the 1984 estimate.

The approved 1985 budget was compiled on the basis of the resources necessary to provide the level of services projected for the coming year and took into account expected gains in efficiency for 1985. In practice, the Federal Reserve continually seeks opportunities for cost savings. Efforts will therefore be made to keep 1985 expenses no more than 4.2 percent higher than actual 1984 expenses and, in the absence of unplanned initiatives or unexpected increases in workloads, should prove successful. This budgeted increase encompasses all Federal Reserve services, priced and nonpriced, provided by both the Reserve Banks and the Board of Governors, excluding currency. The accompanying table shows expenses in 1984 by service line, the budget approved for 1985, and the implied percentage increase.

Within this overall increase the budgeted growth in expenses varies significantly among functions. For example, expenses for monetary and economic policy are budgeted to increase no more than $1.5 million in 1985. This continues the reductions in the growth of expenses for this func-

Expenses of the Federal Reserve System, 1984 Actual and 1985 Budget[1]

Millions of dollars, except as noted

Expense category	1984	1985	Implied change (percent)
Monetary and economic policy	130.2	131.7	1.1
Services to the Treasury and other government agencies	129.4	140.6	8.6
Services to financial institutions	728.2	757.9	4.1
Supervision and regulation	158.1	174.4	10.3
Total expenses	**1,145.7**	**1,204.4**	**5.1**

[1] These data are for the expenses of the Reserve Banks and the Board of Governors excluding currency costs. As discussed in text note 1, the data are derived from two separate accounting systems, and the expenses of the Board were allocated into the four PACS service lines to permit comparability over time. The expenses of the Board of Governors account for 7 percent of the total.

tion that started in 1984, after the cost bulges resulting from the implementation of the MCA and contemporaneous reserve requirements had been absorbed. As explained earlier, the largest single component of costs in this area is for data collection and preparation.

Expenses for services to the U.S. Treasury and other government agencies are expected to rise $11.2 million. More than two-thirds of the rise is accounted for by a new computerized system of recordkeeping for Treasury securities held by individuals. This book-entry approach is already used for Treasury securities held by institutions, and its extension to individuals is expected to yield substantial savings to the Treasury. It will also improve service to individuals buying Treasury securities and eliminate the need for safekeeping of actual paper instruments.

Expenses for services to financial institutions and the public are budgeted to increase no more than $29.7 million. Approximately two-thirds of these expenses are for priced services, which are budgeted to rise 4.4 percent. It is expected that, just as in 1984, all costs associated with priced services, including the cost of float and the PSAF, will be recovered. Expenses in the nonpriced component of services to financial institutions and the public are budgeted to increase about 3.4 percent, principally because of the growing volume of currency and coin handled by the Reserve Banks and the rise in postal costs.

The largest percentage increase in the 1985 budget is for supervision and regulation. The workload in this area has expanded dramatically as a result of the difficulties of many commercial banks; however, no increase in employment is anticipated for this function. Much of the growth is for expanded computer capability to permit more efficient and complete monitoring of banks.

Board of Governors

Financial Statements

The financial statements of the Board for the years 1984 and 1983 were examined by Price Waterhouse, independent public accountants.

Report of Independent Accountants

To the Board of Governors of the
Federal Reserve System

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses and of changes in financial position present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1984 and 1983, and the results of its operations and the changes in its financial position and its fund balances for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were 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.

Price Waterhouse

Washington, D.C.
February 22, 1985

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

	As of December 31	
ASSETS	1984	1983
OPERATING FUND		
Cash	$ 10,297,732	$ 5,842,333
Receivables (Note 1)	461,264	1,124,235
Stockroom and cafeteria inventories at lower of cost (first-in, first-out) or market	371,434	266,428
Noncurrent assets (Note 1)	1,230,060	167,695
Total operating fund	12,360,490	7,400,691
PROPERTY FUND, at cost (Note 1)		
Land and improvements	1,301,314	1,301,314
Buildings	61,452,867	61,212,084
Furniture and equipment	12,047,384	9,083,750
Computer equipment	13,111,904	6,845,572
Total property fund	87,913,469	78,442,720
Total assets	$100,273,959	$ 85,843,411
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
Liabilities		
Accounts payable	$ 6,355,224	$ 3,182,826
Accrued payroll and related taxes	1,912,794	1,586,436
Accrued annual leave	3,664,308	3,358,022
Other liabilities	233,253	304,811
	12,165,579	8,432,095
Fund balance (Note 1)		
Balance, beginning of year	(1,031,404)	(3,443,136)
Revenues over expenses	1,226,315	2,411,732
Balance, end of year	194,911	(1,031,404)
Commitments and contingencies (Note 3)		
Total operating fund	12,360,490	7,400,691
PROPERTY FUND (Note 1)		
Fund balance		
Balance, beginning of year	78,442,720	77,839,910
Additions—at cost	9,661,456	732,392
Disposals—at cost	(190,707)	(129,582)
Total property fund	87,913,469	78,442,720
Total liabilities and fund balances	$100,273,959	$ 85,843,411

The accompanying notes are an integral part of these statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES

	For the years ended December 31	
	1984	1983
BOARD OPERATING REVENUES (Note 1)		
Assessments levied on Federal Reserve Banks for Board operating expenses	$ 82,115,700	$ 71,551,000
Other revenues		
Sale of publications	1,131,472	1,110,591
Miscellaneous	624,264	454,383
Total other revenues	1,755,736	1,564,974
Total operating revenues	83,871,436	73,115,974
FUNDED BOARD OPERATING EXPENSES (Note 1)		
Salaries	50,825,351	47,069,895
Retirement and insurance contributions (Note 2)	5,969,776	7,662,084
Travel	2,071,769	1,900,557
Contractual services	2,042,945	2,022,552
Printing and binding	2,309,346	1,576,019
Heat, light and power	1,310,682	1,289,483
Equipment, office space and other rentals	2,040,887	1,554,318
Telephone and telegraph	1,496,158	1,266,092
Repairs and maintenance	1,519,417	1,169,404
Postage	1,077,300	856,768
Stationery, office and other supplies	1,168,282	715,588
Cafeteria operations, net	549,330	520,812
Professional fees	285,491	296,192
Books and subscriptions	352,301	278,526
Subsidies and contributions (Note 4)	772,167	702,823
Tuition, registration and membership fees	450,292	408,991
Other	234,421	398,395
Property additions (Note 1)	7,862,920	732,392
Total funded operating expenses	82,338,835	70,420,891
BOARD OPERATING REVENUES OVER FUNDED OPERATING EXPENSES	1,532,601	2,695,083
Unfunded accrued annual leave	306,286	283,351
BOARD OPERATING REVENUES OVER TOTAL OPERATING EXPENSES	1,226,315	2,411,732
ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES ON BEHALF OF FEDERAL RESERVE BANKS (Note 1)		
Expenditures for currency costs		
Issuance and redemption of Federal Reserve notes	160,807,874	128,215,054
Property additions	1,798,536	0
	162,606,410	128,215,054
Less assessments levied on Federal Reserve Banks for currency costs	162,606,410	128,215,054
	0	0
REVENUES OVER EXPENSES	$ 1,226,315	$ 2,411,732

The accompanying notes are an integral part of these statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the years ended December 31	
	1984	1983
SOURCES OF CASH		
Board operating revenues	$ 83,871,436	$ 73,115,974
Assessments levied on Federal Reserve Banks for currency costs	162,606,410	128,215,054
Decrease (increase) in receivables	662,971	(542,223)
Increase (decrease) in accounts payable	3,172,398	(170,525)
Increase in accrued payroll and related taxes	326,358	120,418
Increase in accrued annual leave liability	306,286	283,351
Total sources	250,945,859	201,022,049
USES OF CASH		
Funded Board operating expenses	82,338,835	70,420,891
Unfunded accrued annual leave expense	306,286	283,351
Expenditures for currency costs	162,606,410	128,215,054
Increase in inventories	105,006	8,933
Increase in noncurrent assets	1,062,365	145,103
Decrease in other liabilities	71,558	720,189
Total uses	246,490,460	199,793,521
INCREASE IN CASH	4,455,399	1,228,528
CASH BALANCE, beginning of year	5,842,333	4,613,805
CASH BALANCE, end of year	$ 10,297,732	$ 5,842,333

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984 AND 1983

(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.

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.

Noncurrent Assets—Advance payments on property acquisitions are recognized as assets in the Operating Fund. Upon completion, the acquisition is charged to operations and capitalized in the Property Fund as described above.

Receivables—The Board coordinates various special projects and incurs various costs 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.

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.

(2) Retirement Plans

There are two major retirement plans for employees of the Board. Staff members employed by the Board prior to January 1, 1984 who did not come directly from positions in the federal government are covered by the Board Plan. Employees who held previous positions in the federal government prior to January 1, 1984 and immediately prior to their employment by the Board are covered by the Civil Service Plan. Employees hired subsequent to January 1, 1984 who did not hold federal government positions prior to that date participate in the Bank Retirement Plan. Almost all employees are covered by either the Board Plan or the Civil Service Plan.

Employee contributions are the same percentage of salary under both the Board Plan and the Civil Service Plan. Benefits are similar under both plans. 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 payment for the 1983 amendment to retirees' benefits was $875,000. There was no COLA supplement assessed in 1984.

Employees of the Board may also 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.

Board contributions to the retirement plans and the Thrift Plan totaled approximately $3,040,000 in 1984 and $5,517,000 in 1983.

As of January 1, 1984 and 1983 (the dates of the most recent actuarial valuations), the accumulated plan benefits for the Federal Reserve Board Plan, including those arising from COLA supplements, were as follows:

	As of January 1	
	1984	1983
Actuarial present value of accumulated plan benefits		
Vested	$56,197,000	$51,237,000
Nonvested	3,552,000	3,118,000
	$59,749,000	$54,355,000

The assumed rate of return used in determining the present value of accumulated plan benefits was 9.0 percent in 1984 and 9.5 percent in 1983.

As of January 1, 1984 and 1983, 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, 1984, fixed future rental commitments were approximately $1,350,000 for 1985.

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 1984 and 1983, the Board paid $114,000 and $88,000, respectively, in assessments for operating expenses of the Council. These amounts are included in subsidies and contributions for 1984 and 1983.

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.

Statistical Tables

1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1984

Thousands of dollars

Assets

Gold certificate account				11,095,585
Special drawing rights certificate account				4,618,000
Coin				435,521
Loans and securities				
Loans to depository institutions			3,576,668	
Acceptances held under repurchase agreement			0	
Federal agency obligations				
Bought outright			8,389,326	
Held under repurchase agreement			387,840	
U.S. government securities				
Bought outright				
Bills	71,035,355			
Notes	65,236,849			
Bonds	22,950,964			
Total bought outright		159,223,168		
Held under repurchase agreement		1,626,895		
Total U.S. government securities			160,850,063	
Total loans and securities				173,203,897
Cash items in process of collection				
Transit items			5,497,747	
Other cash items			1,340,178	
Total cash items in process of collection				6,837,925
Bank premises				
Land			104,001	
Buildings (including vaults)		413,180		
Building machinery and equipment		151,361		
Construction account		62,938		
Total bank premises		627,479		
Less depreciation allowance		163,286	464,193	
Bank premises, net				568,194
Other assets				
Furniture and equipment		389,915		
Less depreciation		163,366		
Total furniture and equipment, net			226,549	
Denominated in foreign currencies[1]			3,596,544	
Interest accrued			2,474,623	
Premium on securities			420,990	
Due from Federal Deposit Insurance Corporation			3,942,667	
Overdrafts			528,520	
Prepaid expenses			28,302	
Suspense account			432,575	
Real estate acquired for banking-house purposes			5,657	
All other			108,020	
Total other assets				11,764,446
Total assets				208,523,568

1.—Continued

LIABILITIES		
Federal Reserve notes		
Outstanding (issued to Federal Reserve Banks)	193,867,452	
Less held by Federal Reserve Banks	25,540,111	
Total Federal Reserve notes, net		**168,327,340**
Deposits		
Depository institutions		**21,818,357**
U.S. Treasury—general account		**5,316,147**
Foreign—official accounts		**253,252**
Other deposits		
Collected funds due to other Federal Reserve Banks	0	
Officers' and certified checks	55,501	
International organizations	236,977	
All other[2]	571,395	
Total other deposits		**863,873**
Deferred availability cash items		**5,992,225**
Other liabilities		
Unearned discount	0	
Discount on securities	2,578,449	
Sundry items payable	39,598	
Suspense account	64,026	
All other	18,085	
Total other liabilities		**2,700,158**
Total liabilities		**205,271,352**
CAPITAL ACCOUNTS		
Capital paid in		**1,626,108**
Surplus		**1,626,108**
Other capital accounts[3]		**0**
Total liabilities and capital accounts		**208,523,568**

[1] Of this amount, $871.7 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.

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1984 and 1983

Millions of dollars

Item	Total		Boston	
	1984	1983	1984	1983
ASSETS				
Gold certificate account	11,096	11,121	599	927
Special drawing rights certificate account	4,618	4,618	241	241
Coin	436	415	23	20
Loans				
To depository institutions	3,577	918	26	14
Other	0	0	0	0
Acceptances held under repurchase agreements	0	418	0	0
Federal agency obligations				
Bought outright	8,389	8,645	422	406
Held under repurchase agreements	388	208	0	0
U.S. government securities				
Bought outright[1]	159,223	150,558	8,013	7,062
Held under repurchase agreements	1,627	1,384	0	0
Total loans and securities	**173,204**	**162,131**	**8,461**	**7,482**
Cash items in process of collection	6,837	11,562	205	405
Bank premises	568	547	95	96
Other assets				
Denominated in foreign currencies[2]	3,597	3,687	97	95
All other	8,167	4,494	168	153
Interdistrict Settlement Account	0	0	+1,431	+702
Total assets	**208,523**	**198,575**	**11,320**	**10,121**
LIABILITIES				
Federal Reserve notes	168,327	157,097	9,960	8,961
Deposits				
Depository institutions	21,818	21,446	932	614
U.S. Treasury—General account	5,316	3,661	0	0
Foreign—Official accounts	253	191	4	4
Other	865	831	25	19
Total deposits	**28,252**	**26,129**	**961**	**637**
Deferred-availability cash items	5,992	9,957	177	333
Other liabilities and accrued dividends[3]	2,700	2,462	132	110
Total liabilities	**205,271**	**195,645**	**11,230**	**10,041**
CAPITAL ACCOUNTS				
Capital paid in	1,626	1,465	45	40
Surplus	1,626	1,465	45	40
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**208,523**	**198,575**	**11,320**	**10,121**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	193,867	178,875	11,539	10,082
LESS: Held by Bank[4]	25,540	21,778	1,579	1,121
Federal Reserve notes, net[5]	168,327	157,097	9,960	8,961
Collateral for Federal Reserve notes[6]				
Gold certificate account	11,096	11,121	....	....
Special drawing rights certificate account	4,618	4,618	....	....
Other eligible assets	0	0	....	....
U.S. government and agency securities	152,613	141,358	....	....
Total collateral	**168,327**	**157,097**	....	....

For notes see end of table.

2.—Continued

New York		Philadelphia		Cleveland		Richmond	
1984	1983	1984	1983	1984	1983	1984	1983
3,357	3,058	515	541	617	659	969	913
1,335	1,335	225	225	302	302	408	408
18	24	12	18	35	37	61	53
78	124	91	158	1	29	234	200
0	0	0	0	0	0	0	0
0	418	0	0	0	0	0	0
2,816	2,831	282	288	465	512	699	718
388	208	0	0	0	0	0	0
53,453	49,294	5,349	5,023	8,816	8,920	13,270	12,502
1,627	1,384	0	0	0	0	0	0
58,362	**54,259**	**5,722**	**5,469**	**9,282**	**9,461**	**14,203**	**13,420**
725	1,362	203	374	193	314	242	1,806
26	25	49	50	28	27	103	105
878	900	176	162	248	269	183	195
1,112	1,329	111	113	174	203	280	270
−2,008	+448	−218	+146	+707	−694	+1,104	−72
63,805	**62,740**	**6,795**	**7,098**	**11,586**	**10,578**	**17,553**	**17,098**
51,096	49,474	5,687	5,856	10,125	8,831	15,428	13,762
4,392	6,228	726	732	883	1,094	1,413	1,214
5,316	3,661	0	0	0	0	0	0
140	77	7	7	10	11	8	8
480	513	15	13	24	23	63	40
10,328	**10,479**	**748**	**752**	**917**	**1,128**	**1,484**	**1,262**
688	1,215	111	268	189	275	265	1,730
899	858	89	80	147	142	216	196
63,011	**62,026**	**6,635**	**6,956**	**11,378**	**10,376**	**17,393**	**16,950**
397	357	80	71	104	101	80	74
397	357	80	71	104	101	80	74
0	0	0	0	0	0	0	0
63,805	**62,740**	**6,795**	**7,098**	**11,586**	**10,578**	**17,553**	**17,098**
55,639	52,817	8,004	8,163	11,082	9,721	17,501	15,565
4,543	3,343	2,317	2,307	957	890	2,073	1,803
51,096	49,474	5,687	5,856	10,125	8,831	15,428	13,762
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1984 and 1983—Continued

Millions of dollars

Item	Atlanta		Chicago	
	1984	1983	1984	1983
ASSETS				
Gold certificate account	360	371	1,510	1,504
Special drawing rights certificate account	161	161	646	646
Coin	50	42	26	24
Loans				
To depository institutions	38	10	2,969	95
Other	0	0	0	0
Acceptances held under repurchase agreements	0	0	0	0
Federal agency obligations				
Bought outright	199	210	1,145	1,191
Held under repurchase agreements	0	0	0	0
U.S. government securities				
Bought outright[1]	3,782	3,651	21,738	20,748
Held under repurchase agreements	0	0	0	0
Total loans and securities	**4,019**	**3,871**	**25,852**	**22,034**
Cash items in process of collection	541	1,210	593	1,054
Bank premises	39	34	21	20
Other assets				
Denominated in foreign currencies[2]	299	295	471	502
All other	138	100	4,375	544[7]
Interdistrict Settlement Account	+2,277	+35	−5,427	+91
Total assets	**7,884**	**6,119**	**28,067**	**26,419**
LIABILITIES				
Federal Reserve notes	5,217	3,156	23,873	22,425
Deposits				
Depository institutions	1,738	1,559	2,797	2,341
U.S. Treasury—General account	0	0	0	0
Foreign—Official accounts	12	12	20	21
Other	6	7	113	97
Total deposits	**1,756**	**1,578**	**2,930**	**2,459**
Deferred-availability cash items	546	1,074	446	822
Other liabilities and accrued dividends[3]	97	67	362	329
Total liabilities	**7,616**	**5,875**	**27,611**	**26,035**
CAPITAL ACCOUNTS				
Capital paid in	134	122	228	192
Surplus	134	122	228	192
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**7,884**	**6,119**	**28,067**	**26,419**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	7,897	5,746	25,469	24,572
LESS: Held by Bank[4]	2,681	2,590	1,596	2,147
Federal Reserve notes, net[5]	5,216	3,156	23,873	22,425

[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

2.—Continued

St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
1984	1983	1984	1983	1984	1983	1984	1983	1984	1983
357	468	160	143	608	605	726	750	1,318	1,182
170	170	61	61	241	241	310	310	518	518
24	22	16	20	43	46	34	28	94	81
34	93	7	49	52	53	23	70	24	23
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
241	245	113	106	400	444	531	598	1,076	1,096
0	0	0	0	0	0	0	0	0	0
4,568	4,267	2,144	1,843	7,588	7,739	10,086	10,417	20,416	19,092
0	0	0	0	0	0	0	0	0	0
4,843	**4,605**	**2,264**	**1,998**	**8,040**	**8,236**	**10,640**	**11,085**	**21,516**	**20,211**
688	678	421	469	1,520	1,310	814	1,101	692	1,479
17	16	25	25	36	25	19	18	110	106
97	103	126	133	166	170	266	254	590	609
106	125	52	84	151	172	778	933	726	468
+357	−97	−84	+329	−228	−915	+720	−1,247	+1,369	+1,274
6,659	**6,090**	**3,041**	**3,262**	**10,577**	**9,890**	**14,307**	**13,232**	**26,929**	**25,928**
5,245	4,873	2,065	2,296	7,775	7,589	10,807	9,944	21,049	19,930
576	475	451	394	1,017	801	2,480	1,985	4,413	4,009
0	0	0	0	0	0	0	0	0	0
4	4	5	5	7	7	11	10	25	25
13	15	5	3	28	20	35	29	58	52
593	**494**	**461**	**402**	**1,052**	**828**	**2,526**	**2,024**	**4,496**	**4,086**
653	579	363	431	1,485	1,214	552	885	517	1,131
76	64	44	31	117	123	164	163	357	299
6,567	**6,010**	**2,933**	**3,160**	**10,429**	**9,754**	**14,049**	**13,016**	**26,419**	**25,426**
46	40	54	51	74	68	129	108	255	241
46	40	54	51	74	68	129	108	255	241
0	0	0	0	0	0	0	0	0	0
6,659	**6,090**	**3,041**	**3,262**	**10,577**	**9,890**	**14,307**	**13,232**	**26,929**	**25,928**
6,475	5,787	2,585	2,800	10,806	9,810	12,640	11,763	24,230	22,049
1,230	914	520	504	3,030	2,221	1,833	1,819	3,181	2,119
5,245	4,873	2,065	2,296	7,776	7,589	10,807	9,944	21,049	19,930

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 1984 in tables 1 and 2 may differ because of rounding or closing adjustments, which are not included in table 2.

3. Federal Reserve Open Market Transactions, 1984

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. GOVERNMENT SECURITIES				
Outright transactions (excluding matched transactions)				
Treasury bills				
Gross purchases	0	368	3,159	3,283
Gross sales	1,967	828	0	0
Exchange	0	0	0	0
Redemptions	1,300	600	0	3,283
Others within 1 year				
Gross purchases	0	0	0	198
Gross sales	0	0	0	0
Maturity shift	573	2,488	1,012	347
Exchange	−1,530	−4,574	0	−2,223
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	0	0	808
Gross sales	0	0	0	0
Maturity shift	−487	−2,488	−1,012	−273
Exchange	1,530	2,861	0	2,223
5 to 10 years				
Gross purchases	0	0	0	200
Gross sales	300	0	0	0
Maturity shift	−86	97	0	−75
Exchange	0	1,000	0	0
Over 10 years				
Gross purchases	0	0	0	277
Gross sales	0	0	0	0
Maturity shift	0	−97	0	0
Exchange	0	713	0	0
All maturities				
Gross purchases	0	368	3,159	1,484
Gross sales	2,267	828	0	0
Redemptions	1,300	600	0	0
Matched transactions				
Gross sales	54,833	55,656	66,827	72,293
Gross purchases	58,096	47,310	73,634	71,754
Repurchase agreements				
Gross purchases	14,245	0	4,996	15,313
Gross sales	15,629	0	4,996	8,220
Net change in U.S. government securities	−1,688	−9,407	9,966	11,321
FEDERAL AGENCY OBLIGATIONS				
Outright transactions				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Redemptions	40	38	10	2
Repurchase agreements				
Gross purchases	931	0	609	1,247
Gross sales	1,139	0	609	820
Net change in federal agency obligations	−248	−38	−10	424
BANKERS ACCEPTANCES				
Repurchase agreements, net	−418	0	0	305
Total net change in System Open Market Account	**−2,354**	**−9,444**	**9,956**	**12,050**

*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.

3.—Continued

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
610	801	0	187	3,249	507	4,463	3,410	20,036
2,003	0	897	1,491	71	1,300	0	0	8,557
0	0	0	0	0	0	0	0	0
2,200	801	600	800	0	2,200	0	0	7,700
0	0	0	0	600	0	146	182	1,126
0	0	0	0	0	0	0	0	0
2,739	1,069	428	3,811	872	896	1,348	771	16,354
-1,807	0	-2,606	-2,274	0	-1,497	-3,363	-966	-20,840
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	830	0	1,638
0	0	0	0	0	0	0	0	0
-2,279	-1,069	-345	-3,811	-872	-896	-594	-771	-13,709
1,150	0	2,606	1,443	0	1,497	1,763	966	16,039
0	0	0	0	0	0	335	0	536
0	0	0	0	0	0	0	0	300
-383	0	-83	52	0	0	-1,893	0	-2,371
400	0	0	500	0	0	850	0	2,750
0	0	0	0	0	0	164	0	441
0	0	0	0	0	0	0	0	0
-77	0	0	-52	0	0	-49	0	-275
257	0	0	332	0	0	750	0	2,052
610	801	0	0	3,849	507	5,938	3,591	23,476
2,003	0	897	187	71	1,300	0	0	7,553
2,200	0	600	800	0	2,200	0	0	7,700
79,313	61,017	81,799	79,087	52,893	89,689	51,904	63,674	808,986
79,608	61,331	81,143	78,842	55,776	85,884	55,516	61,537	810,432
8,267	23,298	14,830	4,992	26,040	0	12,063	3,888	139,441
12,199	26,460	14,830	166	30,867	0	12,063	2,261	139,019
-7,228	-2,047	-2,154	2,478	1,835	-6,798	9,549	3,080	8,908
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
40	15	1	5	1	14	90	0	256
616	1,819	958	381	3,743	0	698	506	1,205
744	2,117	958	12	4,112	0	698	119	817
-169	-313	-1	364	-370	-14	-90	388	132
122	-426	0	0	0	0	0	0	-418
-7,275	**-2,786**	**-2,155**	**2,842**	**1,465**	**-6,811**	**9,459**	**3,468**	**6,116**

4. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1982–84

Millions of dollars

Description	December 31			Increase or decrease (–)	
	1984	1983	1982	1984	1983
U.S. government securities—Total	**160,850**	**151,942**	**139,312**	**8,908**	**12,630**
1–15 days[1]	4,255	2,700	4,396	1,555	–1,696
16–90 days	37,396	38,248	31,088	–852	7,160
91 days to 1 year	47,795	45,475	40,057	2,320	5,418
1–5 years	37,072	34,021	35,102	3,051	–1,081
5–10 years	14,100	13,485	12,095	615	1,390
Over 10 years	20,233	18,014	16,574	2,219	1,440
Held outright[2]					
Treasury bills	71,035	65,811	54,426	5,224	11,385
Treasury notes	65,237	63,934	62,626	1,303	1,308
Treasury bonds	22,951	20,814	18,556	2,137	2,258
Held under RPs	1,627	1,384	3,704	243	–2,320
Federal agency obligations—Total	**8,777**	**8,853**	**9,525**	–76	–672
1–15 days	575	386	730	189	–344
16–90 days	521	597	564	–76	33
91 days to 1 year	1,665	1,937	1,954	–272	–17
1–5 years	4,350	4,196	4,780	154	–584
5–10 years	1,267	1,333	979	–66	354
Over 10 years	399	403	518	–4	–115
Held outright					
Banks for Cooperatives	21	21	21	0	0
Federal Farm Credit Banks	2,363	2,420	2,174	–57	246
Federal Home Loan Banks	2,260	2,272	2,494	–12	–222
Federal Home Loan Mortgage Corporation	0	5	5	–5	0
Federal Intermediate Credit Banks	50	50	50	0	0
Federal Land Banks	350	350	613	0	–263
Farmers Home Administration	147	147	147	0	0
Federal National Mortgage Association	2,962	3,144	3,198	–182	–54
Government National Mortgage Association—PCs	67	67	67	0	0
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	388	208	588	180	–380

[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, 1984

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number		Annual salaries (dollars)	Number	Annual salaries (dollars)
				Full-time	Part-time			
Boston	134,800	54	3,106,700	1,246	203	29,811,563	1,504	33,053,063
New York	176,100	160	10,719,250	3,839	70	92,753,791	4,070	103,649,141
Philadelphia	116,600	48	2,804,875	1,027	73	22,683,406	1,149	25,604,881
Cleveland	116,600	52	2,736,000	1,262	56	25,517,378	1,371	28,369,978
Richmond	117,800	76	4,029,600	1,759	150	33,107,203	1,986	37,254,603
Atlanta	113,400	67	3,654,900	1,930	65	38,525,720	2,063	42,294,020
Chicago	139,400	82	4,447,700	2,659	156	55,972,380	2,898	60,559,480
St. Louis	116,600	41	2,322,880	1,161	91	22,854,298	1,294	25,293,778
Minneapolis	119,900	42	2,215,000	998	3	19,492,660	1,044	21,827,560
Kansas City	116,600	55	3,196,000	1,494	51	29,765,569	1,601	33,078,169
Dallas	114,500	56	3,123,100	1,367	32	28,200,152	1,456	31,437,752
San Francisco	148,200	89	5,083,870	2,121	77	49,210,233	2,288	54,442,303
Total	**1,530,500**	**822**	**47,439,875**	**20,863**	**1,027**	**447,894,353**	**22,724**	**496,864,728**

6. Bank Premises of Federal Reserve Banks and Branches, December 31, 1984

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	22,036,681	79,998,721	5,425,128	107,460,530	94,563,035	....
Annex	27,840	89,202	44,538	161,580	136,073	....
NEW YORK	3,454,482	12,297,183	21,502,271	37,253,936	21,320,316	....
Annex	477,863	1,136,219	745,855	2,359,936	862,710	....
Buffalo	887,844	2,747,267	2,265,037	5,900,149	3,401,419	....
PHILADELPHIA	1,876,601	52,349,570	5,903,704	60,129,874	49,135,072	....
CLEVELAND	1,074,281	6,179,625	4,669,862	11,923,768	4,639,900	1,224,363
Cincinnati	1,997,249	13,767,977	7,528,477	23,293,703	15,249,278	....
Pittsburgh	1,658,376	5,420,031	3,120,196	10,198,603	7,750,369	....
RICHMOND	3,912,575	55,995,385	14,314,313	74,222,273	62,302,258	....
Annex	522,733	3,725,466	3,513,044	7,761,243	4,016,916	....
Baltimore	3,880,302	33,378,389	0	37,258,691	35,674,844	....
Charlotte	347,071	1,185,567	946,943	2,479,581	1,231,967	1,675,934
ATLANTA	1,202,255	12,079,196	3,558,580	16,840,032	11,939,186	....
Birmingham	2,361,450	2,059,056	1,046,244	5,466,750	3,707,605	608,243
Jacksonville	164,004	1,706,794	778,381	2,649,179	804,239	951,793
Annex	107,925	76,236	15,843	200,003	152,777	....
Miami	3,607,531	11,917,166	2,105,071	17,629,768	16,126,399	....
Nashville	592,342	1,474,678	1,287,430	3,354,451	1,583,444	....
New Orleans	3,087,693	2,782,415	1,476,257	7,346,366	4,962,228	283,753
CHICAGO	4,511,942	16,435,691	12,126,176	33,073,809	17,360,451	....
Annex	53,066	302,249	136,878	492,193	429,068	....
Detroit	797,734	3,087,377	2,004,896	5,890,007	3,603,651	....
ST. LOUIS	700,378	7,175,421	4,368,080	12,243,879	6,140,334	....
Little Rock	1,148,492	2,067,898	1,038,246	4,254,636	2,844,540	....
Louisville	700,075	3,157,524	1,131,238	4,988,836	2,628,398	....
Memphis	1,135,623	4,216,382	2,126,755	7,478,760	5,251,145	....
MINNEAPOLIS	1,394,384	26,664,805	7,692,189	35,751,378	25,093,538	....
Helena	289,619	104,184	61,906	455,709	330,134	....
KANSAS CITY	6,782,325	15,917,338	7,747,829	30,447,493	24,656,058	434,135
Denver	2,997,746	3,358,838	2,610,017	8,966,600	6,095,614	....
Oklahoma City	646,386	2,380,435	1,672,442	4,699,262	3,235,960	....
Omaha	1,030,226	1,550,902	817,215	3,398,342	1,780,879	479,076
DALLAS	3,729,268	5,183,058	3,737,706	12,650,031	9,321,193	....
El Paso	262,477	1,169,031	393,301	1,824,809	1,515,096	....
Houston	2,049,064	2,544,255	898,037	5,491,356	5,019,754	....
San Antonio	449,813	2,240,339	574,346	3,264,499	2,714,849	....
SAN FRANCISCO	15,513,567	67,881,351	16,367,410	99,762,327	94,934,746	....
Los Angeles	5,569,229	4,536,078	2,478,371	12,583,678	9,137,248	....
Portland	207,381	1,680,899	649,432	2,537,711	1,985,136	....
Salt Lake City	480,222	1,978,438	1,092,951	3,551,611	2,419,677	....
Seattle	274,772	2,119,057	1,388,582	3,782,410	2,136,155	....
Total	**104,000,886**	**476,117,689**	**151,361,177**	**731,479,752**	**568,193,659**	**5,657,296**

[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 because of rounding.

7. Income and Expenses of Federal Reserve Banks, 1984

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
Current Income					
Loans	569,454,090	2,992,223	25,320,840	4,041,838	2,863,929
Acceptances	3,172,267	0	3,172,267	0	0
U.S. government securities	16,687,547,370	818,709,617	5,611,130,704	556,858,451	939,311,393
Foreign currencies	217,120,423	5,852,322	52,977,868	10,589,082	15,021,379
Priced services	574,657,724	32,534,754	94,789,616	22,250,414	34,310,795
All other	16,868,868	603,030	8,238,052	308,593	459,292
Total	**18,068,820,742**	**860,691,946**	**5,795,629,347**	**594,048,378**	**991,966,788**
Current Expenses					
Salaries and other personnel expenses	528,986,996	32,924,974	112,612,715	26,655,216	30,369,048
Retirement and other benefits	135,503,252	8,388,077	26,404,887	7,151,568	7,674,876
Fees	13,533,932	1,680,330	1,099,441	521,886	695,050
Travel	17,961,143	921,384	2,306,933	762,099	1,419,412
Postage and other shipping costs	88,985,428	3,407,776	12,275,193	4,437,909	6,015,719
Communications	15,265,528	1,117,670	3,481,208	674,009	599,966
Materials and supplies	41,473,019	2,165,530	8,305,759	2,238,968	2,634,368
Building expenses					
Taxes on real estate	20,075,936	3,290,180	3,317,520	1,484,083	1,029,193
Property depreciation	20,587,884	2,402,725	2,003,770	1,601,756	1,111,014
Utilities	22,991,681	2,489,268	4,185,088	2,248,578	1,440,752
Rent	12,037,417	542,131	7,225,136	42,364	227,926
Other	12,202,719	731,603	2,805,293	1,036,245	522,579
Equipment					
Purchases	1,851,777	308,753	0	89,421	105,335
Rentals	50,533,451	1,843,190	10,895,390	1,077,822	4,246,128
Depreciation	51,439,122	3,618,109	8,795,575	1,978,419	2,135,690
Repairs and maintenance	29,334,360	1,642,099	5,375,662	1,617,056	1,042,770
Cost of earnings credits	118,713,401	6,127,836	13,246,506	7,570,566	9,195,430
All other	34,016,409	2,395,387	5,310,042	1,619,190	2,475,093
Shared costs, net [1]	0	(1,007,542)	3,384,632	1,781,324	(522,544)
Recoveries	(26,260,736)	(4,343,603)	(2,271,925)	(1,600,092)	(2,158,475)
Expenses capitalized [2]	(2,717,494)	(107,587)	(8,826)	(46,840)	(194,315)
Total	**1,186,515,224**	**70,538,290**	**230,749,999**	**62,941,547**	**70,065,015**
Reimbursements	84,070,770	3,849,213	19,476,211	6,649,876	5,419,238
Net expenses	1,102,444,454	66,689,077	211,273,788	56,291,671	64,645,777

For notes see end of table.

7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
8,647,599	3,898,170	420,195,830	5,252,164	4,426,817	12,946,555	72,422,393	6,445,732
0	0	0	0	0	0	0	0
1,382,870,087	397,090,907	2,274,308,368	474,799,584	217,452,114	810,508,947	1,081,772,637	2,122,734,561
11,093,209	17,989,221	28,492,952	5,872,289	7,609,268	9,987,631	16,017,143	35,618,059
47,747,216	61,537,755	75,114,542	28,680,466	32,794,448	40,900,239	40,471,202	63,526,277
597,345	1,303,932	1,537,193	415,144	440,635	186,027	914,431	1,865,194
1,450,955,456	**481,819,985**	**2,799,648,885**	**515,019,647**	**262,723,282**	**874,529,399**	**1,211,597,806**	**2,230,189,823**
38,258,920	44,315,421	66,982,769	26,817,273	25,022,564	34,918,519	32,584,847	57,524,730
10,270,905	12,057,629	17,976,564	7,187,507	6,054,331	8,939,705	7,844,838	15,552,365
464,065	5,545,097	1,018,621	408,244	450,113	506,690	500,861	643,534
1,407,339	1,633,247	2,426,200	805,973	960,842	1,356,168	1,412,913	2,548,633
8,193,051	9,337,306	9,121,445	5,548,164	4,819,280	6,697,003	6,944,020	12,188,562
924,500	1,702,488	1,513,354	636,714	981,909	1,097,079	893,644	1,642,987
3,733,283	3,862,926	4,837,324	2,679,050	1,684,336	3,042,158	2,698,448	3,590,869
1,718,536	1,092,518	2,567,776	419,559	2,159,889	582,796	762,274	1,651,611
3,581,355	1,211,421	1,020,976	618,954	1,040,619	1,170,441	981,634	3,843,219
1,928,771	1,807,351	2,396,460	1,188,533	892,450	1,206,486	1,251,100	1,956,843
388,241	139,936	2,101,313	312,392	95,750	68,541	703,728	189,960
1,232,344	791,384	1,784,952	554,100	602,879	563,624	516,516	1,061,200
135,379	149,261	363,561	7,689	381,743	70,462	122,308	117,865
2,617,414	6,295,521	8,178,116	1,547,347	2,336,506	1,849,934	4,358,779	5,287,304
4,477,081	3,211,859	6,612,616	2,643,597	2,671,698	3,870,729	3,646,049	7,777,699
2,600,400	2,353,080	4,657,716	1,490,917	1,158,352	2,205,518	1,850,690	3,340,100
10,051,640	12,044,659	28,128,051	5,616,758	6,940,570	6,965,562	4,027,239	8,798,584
2,241,831	2,813,584	5,331,887	1,480,337	1,654,011	1,599,153	2,249,271	4,846,623
1,229,613	(2,262,777)	(4,947,210)	1,483,307	1,488,538	460,241	(1,942,238)	854,656
(3,329,197)	(1,300,523)	(2,220,803)	(1,266,804)	(807,936)	(1,050,929)	(1,841,074	(4,069,375)
(269,886)	(179,794)	(715,210)	(57,729)	(48,278)	(720,658)	(292,242)	(76,128)
91,855,585	**106,621,594**	**159,136,478**	**60,121,882**	**60,540,166**	**75,399,222**	**69,273,605**	**129,271,841**
5,936,868	5,999,419	10,217,470	5,438,394	2,720,419	4,892,820	4,491,190	8,979,652
85,918,717	100,622,175	148,919,008	54,683,488	57,819,747	70,506,402	64,782,415	120,292,189

7. Income and Expenses of Federal Reserve Banks, 1984—Continued

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net income	16,966,376,291	794,002,869	5,584,355,558	537,756,707	927,321,012
Additions to current net income					
Profits on sales of U.S. government securities	48,553,022	2,373,213	16,151,134	1,629,400	2,779,521
All other	1,727,427	7,321	35,685	8,589	7,161
Total additions	50,280,449	2,380,534	16,186,819	1,637,989	2,786,682
Deductions from current net income					
Losses on foreign currency transactions[3]	454,815,437	12,280,017	110,974,967	22,285,956	31,382,265
All other	8,408,168	298,466	1,563,927	359,990	395,929
Total deductions	463,223,605	12,578,483	112,538,893	22,645,946	31,778,194
Net additions to or deductions (−) from current net income	(412,943,156)	(10,197,949)	(96,352,074)	(21,007,957)	(28,991,512)
Assessments by Board					
Board expenditures[4]	82,115,700	2,262,400	20,162,400	4,027,500	5,637,400
Cost of Federal Reserve currency	162,606,410	9,275,070	51,208,986	6,061,479	9,140,757
Net income before payments to U.S. Treasury	16,308,711,024	772,267,450	5,416,632,098	506,659,771	883,551,343
Dividends paid	92,620,450	2,584,234	22,886,593	4,661,077	6,177,578
Payments to U.S. Treasury (interest on Federal Reserve notes)	16,054,094,674	764,647,616	5,354,672,255	493,029,544	874,781,466
Transferred to surplus	161,995,900	5,035,600	39,073,250	8,969,150	2,592,300
Surplus, January 1	1,464,112,300	39,762,950	357,436,550	70,972,850	101,367,350
Surplus, December 31	1,626,108,200	44,798,550	396,509,800	79,942,000	103,959,650

[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] This item includes $437.1 million of unrealized net losses related to revaluation of assets denominated in foreign currencies to market exchange rates.

[4] For additional details, see the last three pages of this section "Board of Governors, Financial Statements" in this REPORT.

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

7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1,365,036,740	381,197,810	2,650,729,877	460,336,159	204,903,537	804,022,997	1,146,815,392	2,109,897,634
3,945,945	1,166,694	6,671,023	1,388,237	628,054	2,401,263	3,211,095	6,207,443
9,125	8,073	5,568	6,938	6,423	5,531	5,509	1,621,503
3,955,070	1,174,767	6,676,591	1,395,175	634,477	2,406,793	3,216,605	7,828,946
23,195,587	37,749,681	59,580,822	12,280,017	15,918,540	20,921,510	33,656,342	74,589,732
434,807	428,530	720,164	452,135	308,389	491,728	889,429	2,064,674
23,630,394	38,178,212	60,300,986	12,732,152	16,226,929	21,413,238	34,545,771	76,654,406
(19,675,324)	(37,003,445)	(53,624,395)	(11,336,977)	(15,592,453)	(19,006,445)	(31,329,166)	(68,825,460)
4,149,300	6,826,100	10,649,600	2,245,400	2,837,200	3,809,800	6,102,700	13,405,900
14,244,645	3,266,601	23,211,089	5,044,375	2,376,981	7,855,190	10,292,337	20,628,900
1,326,967,471	334,101,663	2,563,244,793	441,709,407	184,096,903	773,351,562	1,099,091,188	2,007,037,374
4,554,218	7,686,605	12,142,373	2,524,330	3,193,417	4,262,060	7,132,217	14,815,749
1,316,216,852	313,799,808	2,515,374,820	433,359,978	177,120,936	763,255,503	1,070,312,421	1,977,523,475
6,196,400	12,615,250	35,727,600	5,825,100	3,782,550	5,834,000	21,646,550	14,698,150
74,164,050	121,540,950	191,885,000	40,122,000	50,521,400	67,897,900	107,649,600	240,791,700
80,360,450	134,156,200	227,612,600	45,947,100	54,303,950	73,731,900	129,296,150	255,489,850

8. Income and Expenses of Federal Reserve Banks, 1914–84

Dollars

Period, or Federal Reserve Bank	Current income	Operating expenses	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Federal Reserve currency costs
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.

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

8. Income and Expenses of Federal Reserve Banks, 1914–84—Continued

Dollars

Period, or Federal Reserve Bank	Current income	Operating expenses	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Federal Reserve currency costs
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
1984	18,068,820,742	1,102,444,454	−412,943,156	82,115,700	162,606,410
Total, 1914-84	**165,754,530,513**	**13,104,353,183**	**−2,557,978,042**	**930,019,208**	**1,278,072,960**
Aggregate for each Bank, 1914–84					
Boston	7,819,991,458	879,405,669	−86,256,694	35,217,086	72,954,853
New York	45,978,546,848	2,716,767,933	−597,007,852	242,686,386	278,191,104
Philadelphia	7,517,813,495	693,025,220	−115,317,905	46,086,418	69,619,291
Cleveland	12,117,275,849	909,690,939	−211,505,329	77,911,390	81,637,337
Richmond	12,812,854,971	1,020,098,298	−145,703,307	48,170,776	124,828,097
Atlanta	6,902,593,170	1,075,340,514	−195,986,473	65,562,760	94,563,130
Chicago	25,548,252,195	1,732,348,230	−399,082,850	134,697,672	179,995,862
St. Louis	6,064,380,771	721,977,318	−87,113,971	29,658,172	53,517,288
Minneapolis	3,160,435,003	570,517,900	−80,241,853	26,818,015	24,964,194
Kansas City	7,291,674,595	813,084,072	−114,238,672	39,496,809	65,418,028
Dallas	9,110,437,738	706,602,253	−166,186,838	54,342,973	75,077,878
San Francisco	21,430,274,422	1,265,494,835	−359,336,300	129,370,751	157,305,898
Total	**165,754,530,513**	**13,104,353,183**	**−2,557,978,042**	**930,019,208**	**1,278,072,960**

[1] The $1,754,780,399 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 $1,626,108,200 on Dec. 31, 1984.

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

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	....	106,663,100
92,620,451	....	....	16,054,094,674	....	161,995,900
1,704,298,484	**149,138,300**	**2,188,893**	**144,273,704,707**	**−3,657**	**1,754,780,399**[1]
74,503,215	7,111,395	280,843	6,609,232,916	135,411	54,893,375
469,716,748	68,006,262	369,116	41,172,468,487	−433,412	433,766,371
95,541,932	5,558,901	722,406	6,397,378,540	290,661	94,272,222
149,306,170	4,842,447	82,930	10,565,115,773	−9,906	117,193,443
84,412,982	6,200,189	172,493	11,297,100,087	−71,517	86,240,258
107,774,551	8,950,561	79,264	5,214,907,685	5,491	139,422,740
237,844,171	25,313,526	151,045	22,595,865,803	11,682	242,941,354
55,466,231	2,755,629	7,464	5,062,844,488	−26,515	51,066,728
46,181,289	5,202,900	55,615	2,348,207,204	64,874	58,181,163
70,441,856	6,939,100	64,213	6,104,128,669	−8,674	77,871,850
94,033,901	560,049	102,083	7,879,902,795	55,337	133,573,628
219,075,438	7,697,341	101,421	19,026,552,261	−17,089	265,357,267
1,704,298,484	**149,138,300**	**2,188,893**	**144,273,704,707**	**−3,657**	**1,754,780,399**[1]

9. Revenue and Expenses of Priced Services at Federal Reserve Banks, 1984 and 1983

Millions of dollars

Item	Total		Service			
			Commercial check collection		Wire transfer and net settlement	
	1984	1983	1984	1983	1984	1983
Revenue[1]	697.0	581.1	529.6	436.7	75.2	67.2
Expenses[1]	602.3	533.6	450.2	393.6	61.1	57.1
Net revenue	94.7	47.5	79.5	43.1	14.1	10.1
Private sector adjustment[2]	75.3	59.1	57.4	44.5	10.6	8.2
Net revenue after private sector adjustment	19.4	(11.6)	22.1	(1.4)	3.5	1.9
MEMO: Net revenue after private sector adjustment, with allowance for ACH and cash transportation programs[3,4]	26.3	(1.9)	....	....	....	....

[1] Total System revenue for 1984 and 1983 respectively comprises $574.7 million and $496.2 million of income from fees for services, and $122.3 million and $84.9 million of income related to clearing balances established by depository institutions. Total System expenses include $118.7 million and $71.8 million of earnings credits granted to depository institutions on clearing balances.

Check collection expense includes float costs for 1984 and 1983. Commercial ACH, book-entry securities, and definitive safekeeping and noncash collection expenses include float costs for 1984.

[2] 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.

[3] The Board established an incentive pricing program for the commercial ACH service that provides

9.—Continued

Service							
Commercial ACH[3]		Definitive safekeeping and noncash collection		Book-entry securities		Cash services[4]	
1984	1983	1984	1983	1984	1983	1984	1983
13.8	7.7	23.0	19.1	29.2	21.8	26.2	28.7
19.7	14.5	22.7	20.8	23.2	18.0	25.4	29.7
(5.9)	(6.8)	0.3	(1.7)	6.0	3.8	0.7	(1.0)
1.2	0.7	1.8	2.7	3.9	2.5	0.5	0.4
(7.1)	(7.5)	(1.5)	(4.4)	2.1	1.3	0.3	(1.4)
(0.1)	0.6	....	....	....	....	....	0.2

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 60 percent and 40 percent of expenses plus the private sector adjustment for 1984 and 1983 respectively.

4. 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.

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 activity of the Banks.

10. Operations in Principal Departments of Federal Reserve Banks, 1981-84

Operation	1984	1983	1982	1981
Millions of pieces (except as noted)				
Loans (thousands)	33	22	24	36
Currency received and counted	13,422	11,464	10,679	10,277
Currency verified and destroyed	5,329	4,403	4,147	3,510
Coin received and counted	19,201	17,712	16,859	17,023
Checks handled				
U.S. government checks	598	612	655	683
Postal money orders	135	115	126	126
All other[1]	16,538	15,900	15,178	15,880
Issues, redemptions, and exchanges of U.S. government securities	168	168	156	188
Transfer of funds[2]	68	62	58	54
Food stamps redeemed	2,536	2,684	2,565	2,625
Millions of dollars				
Loans	852,777	214,190	184,997	236,532
Currency received and counted	183,419	141,684	128,803	117,901
Currency verified and destroyed	50,164	36,224	31,258	24,912
Coin received and counted	3,624	2,795	2,714	3,184
Checks handled				
U.S. government checks	529,895	552,493	628,639	611,403
Postal money orders	9,085	7,854	6,645	6,030
All other	10,409,542	10,694,906	8,722,369	9,454,638
Issues, redemptions, and exchanges of U.S. government securities	50,327,014	51,352,275	26,550,780	12,728,458
Transfer of funds	158,672,244	143,177,719	121,239,371	93,968,246
Food stamps redeemed	9,941	10,861	9,869	9,547

[1] The 1982, 1983, and 1984 volumes reflect the number of other checks handled, whether individually or in pre-sorted bundles. In 1981, the number of items in pre-sorted bundles was not reported; therefore, the 1981 volume includes pre-sorted bundles counted as one item. The 1984, 1983, and 1982 figures include 1.36 million, 1.25 million, and 0.9 million checks respectively that were handled by more than one Reserve Bank. Comparable data are not available for 1981.

[2] Includes the volume processed at both sending and receiving offices of Federal Reserve Banks. The number of priced wire transfers in 1984 was 42 million, and in 1983, 38 million.

11. Federal Reserve Bank Interest Rates, December 31, 1984

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	8	8	9	10
New York	↑	↑	↑	↑
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas	↓	↓	↓	↓
San Francisco	8	8	9	10

[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. As an alternative, for loans outstanding for more than 150 days, a Federal Reserve Bank may charge a flexible rate that takes into account rates on market sources of funds, but in no case will the rate charged be less than the basic rate plus one percentage point. Where credit provided to a particular depository institution is anticipated to be outstanding for an unusually prolonged period and in relatively large amounts, the time period in which each rate under this structure is applied may be shortened. See section 201.3(b)(2) of Regulation A.

12. Reserve Requirements of Depository Institutions[1]

Percent of deposits

Type of deposit, and deposit interval	Member bank requirements before implementation of the Monetary Control Act	
	Percent	Effective date
Net demand[2]		
$0 million–$2 million	7	12/30/76
$2 million–$10 million	9½	12/30/76
$10 million–$100 million	11¾	12/30/76
$100 million–$400 million	12¾	12/30/76
Over $400 million	16¼	12/30/76
Time and savings[2,3]		
Savings	3	3/16/67
Time[4]		
$0 million–$5 million, by maturity		
30–179 days	3	3/16/84
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75
Over $5 million, by maturity		
30–179 days	6	12/12/74
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75

[1] Reserve requirements in effect on Dec. 31, 1984. For information regarding previous reserve requirements, see earlier editions of the ANNUAL REPORT and of the *Federal Reserve Bulletin.* Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge act corporations.

[2] Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements were gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

The Federal Reserve Act as amended through 1978 specified different ranges of requirements for reserve city banks and for other banks. Reserve cities were designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank. 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 banks having net demand deposits of $400 million or less were considered to have the character of business of banks outside of reserve cities and were permitted to maintain reserves at ratios set for banks not in reserve cities.

Effective Aug. 24, 1978, the Regulation M reserve requirements on net balances due from domestic banks to their foreign branches and on deposits that foreign branches lend to U.S. residents were reduced to zero from 4 percent and 1 percent respectively. The Regulation D reserve requirement of borrowings from unrelated banks abroad was also reduced to zero from 4 percent.

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.

[3] Negotiable order of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts were subject to the same requirements as savings deposits.

The average reserve requirement on savings and other time deposits before implementation of the Monetary Control Act had to be at least 3 percent, the minimum specified by law.

[4] Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was imposed on large time deposits of $100,000 or more, obligations of affiliates, and ineligible acceptances. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

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 (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.

[5] 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

12.—Continued

Type of deposit, and deposit interval[5]	Depository institution requirements after implementation of the Monetary Control Act[6]	
	Percent	Effective date
Net transaction accounts[7,8]		
$0–$28.9 million	3	12/29/83
Over $28.9 million	12	12/29/83
Nonpersonal time deposits[9]		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

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. Effective with the reserve maintenance period beginning Jan. 12, 1984, 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 NOW accounts (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.

6. 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 of about three years was completed on Feb. 2, 1984. 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.

7. 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).

8. The Monetary Control Act of 1980 requires that the amount 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 Dec. 31, 1981, the amount was increased accordingly from $25 million to $26 million; effective Dec. 30, 1982, to $26.3 million; and effective Dec. 29, 1983, to $28.9 million.

9. 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.

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, 1984		In effect Dec. 31, 1984	
	Percent	Effective date	Percent	Effective date
Savings	5½	1/1/84	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[2]	([3])	12/14/82	([3])	12/14/82
Time accounts				
7-31 days of less than $2,500[4]	5½	1/1/84	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,* and the *Annual Report of the Federal Deposit Insurance Corporation.*

[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.

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.

15. Principal Assets and Liabilities, and Number of Insured Commercial Banks, by Class of Bank, June 30, 1984 and 1983[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, 1984[2]				
Loans and investments, total	1,548,718	1,117,595	893,757	223,839	431,123
Loans					
Gross	1,175,615	881,645	704,499	177,146	293,969
Net	1,158,552	870,315	695,603	174,712	288,237
Investments	373,104	235,950	189,258	46,692	137,153
U.S. government securities	242,171	148,480	120,670	27,809	93,692
Other	130,932	87,471	68,588	18,883	43,462
Cash assets, total	193,913	149,564	114,044	35,520	44,349
Deposits, total	1,525,923	1,077,397	866,419	210,979	448,526
Interbank	53,147	48,594	32,046	16,548	4,553
Other transaction	438,790	318,159	250,026	68,133	120,631
Other nontransaction	1,033,986	710,644	584,347	126,297	323,342
Total equity capital	144,312	104,648	81,674	22,973	39,665
Number of banks	14,416	5,847	4,795	1,052	8,569
	June 30, 1983				
Loans and investments, total	1,431,343	1,033,782	804,897	228,885	397,561
Loans					
Gross	1,042,088	783,238	608,499	174,739	258,850
Net	1,024,513	771,644	599,546	172,098	252,869
Investments	389,255	250,544	196,399	54,146	138,711
U.S. government securities	227,722	139,599	110,815	28,784	88,123
Other[3]	161,533	110,946	85,584	25,362	50,588
Cash assets, total	207,854	163,118	121,834	41,284	44,736
Deposits, total	1,436,727	1,016,269	801,605	214,664	420,457
Interbank	72,409	67,569	44,000	23,569	4,840
Other demand	325,851	243,271	184,441	58,830	82,580
Other time and savings	1,038,467	705,429	573,164	132,265	333,038
Total equity capital	133,550	96,099	74,425	21,674	37,452
Number of banks	14,465	5,724	4,683	1,041	8,741

[1] All insured commercial banks in the United States.

[2] Effective Mar. 31, 1984, the report of condition for commercial banks was substantially revised. These revisions are reflected in the data for June 30, 1984 (top tier of this table).

[3] Includes trading accounts for banks with assets of less than $100 million.

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

16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–84, and Month-End 1984

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate account	Treasury currency outstanding[5]
	U.S. government securities			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright	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.

16.—Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings[6]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Required clearing balances	Other Federal Reserve liabilities and capital[3]	Member bank reserves[7]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[8]	Required[9]	Excess[9]
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

16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–84, and Month-End 1984—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate account	Treasury currency outstanding[5]
	U.S. government securities[10]			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright[11]	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	1,605	418	8,728	172,464	11,121	4,618	15,732
1984	169,627	167,612	2,015	3,577	833	0	12,347	186,384	11,096	4,618	16,415
1984											
Jan.	158,859	158,859	0	418	846	0	9,102	169,225	11,120	4,618	15,782
Feb.	149,415	149,415	0	1,020	3,193	0	8,343	161,971	11,116	4,618	15,841
Mar.	159,372	159,372	0	896	787	0	9,113	170,168	11,111	4,618	15,922
Apr.	171,116	163,598	7,518	907	609	305	9,746	182,683	11,109	4,618	15,987
May	163,720	160,260	3,460	2,832	588	426	8,187	175,753	11,104	4,618	16,053
June	161,360	161,360	0	4,760	−655	0	9,586	175,051	11,100	4,618	16,111
July	159,204	159,204	0	7,238	671	0	9,014	176,127	11,098	4,618	16,145
Aug.	162,046	156,850	5,196	8,276	326	0	8,290	178,938	11,098	4,618	16,195
Sept.	163,511	163,511	0	6,633	289	0	12,208	182,641	11,097	4,618	16,237
Oct.	156,699	156,699	0	5,060	658	0	12,475	174,892	11,096	4,618	16,295
Nov.	166,159	166,159	0	5,073	−16	0	11,175	182,391	11,096	4,618	16,359
Dec.	169,627	167,612	2,015	3,577	833	0	12,347	186,384	11,096	4,618	16,415

[1] Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin,* vol. 47 (February 1961), p. 164.

[2] Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

[3] 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.

[4] Before Jan. 30, 1934, data include gold held in Federal Reserve Banks and in circulation.

[5] 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.*

[6] 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.

[7] Beginning November 1979, includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks. Beginning Nov. 13, 1980, includes reserves of all depository institutions.

[8] Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.

[9] 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.

[10] Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase

16.—Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings[6]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Required clearing balances	Other Federal Reserve liabilities and capital[3]	Member bank reserves[7]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[8]	Required[9]	Excess[9,12]
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
171,935	479	3,661	191	851	0	1,013	5,392	20,413	17,821	39,179	-945
183,793	513	5,316	253	867	0	1,126	5,952	20,693	n.a.	n.a.	n.a.
166,501	492	7,153	252	410	0	1,047	5,625	19,263	n.a.	n.a.	n.a.
167,206	484	3,226	247	498	0	1,070	5,555	15,260	n.a.	n.a.	n.a.
168,750	523	3,684	221	562	0	1,133	5,912	21,034	n.a.	n.a.	n.a.
170,345	547	16,729	345	324	0	1,136	6,391	18,579	n.a.	n.a.	n.a.
173,803	534	4,855	295	416	0	1,148	5,939	20,538	n.a.	n.a.	n.a.
175,069	523	4,397	237	432	0	1,148	5,971	19,104	n.a.	n.a.	n.a.
175,606	497	3,972	215	309	0	1,158	6,035	20,197	n.a.	n.a.	n.a.
176,827	465	4,029	242	413	0	1,147	6,140	21,586	n.a.	n.a.	n.a.
175,340	465	8,514	206	383	0	1,139	6,073	22,473	n.a.	n.a.	n.a.
176,300	482	3,791	270	321	0	1,132	5,997	18,608	n.a.	n.a.	n.a.
179,510	500	2,216	392	447	0	1,254	6,347	23,798	n.a.	n.a.	n.a.
183,793	513	5,316	253	867	0	1,126	5,952	20,693	n.a.	n.a.	n.a.

agreements and beginning Sept. 29, 1971, federal agency issues bought outright.

11. *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.

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.

17. Changes in Number of Banking Offices in the United States, 1984^p

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Banks, Dec. 31, 1983	**15,399**	**15,025**	**5,806**	**4,753**	**1,053**	**8,655**	**564**[1]	**277**	**97**
Changes during 1984									
New banks	592	590	310	262	48	193	87	2	......
Ceased banking operation	−13	−13	−3	−3	......	−1	−9	......	......
Suspensions	......	......	......	......	......	......	......	......	......
Placed in receivership	......	......	......	......	......	......	......	......	......
Banks converted into branches	−418	−418	−152	−128	−24	−204	−62	......	......
Other	−64	−51	5	4	1	−92	36	−10	−1
Interclass changes									
Nonmember to national	......	......	32	32	......	−32	......	......	......
Nonmember to state member	......	......	1	......	1	−1	......	......	......
State member to national	......	......	......	3	−3	......	......	......	......
State member to nonmember	......	......	−7	......	−7	7	......	......	......
National to state member	......	......	......	−4	4	......	......	......	......
National to nonmember	......	......	−7	−7	......	7	......	......	......
National to noninsured national	......	......	−2	−2	......	......	2	......	......
Savings and loan assns. to insured mutual	......	......	......	......	......	......	......	2	......
Insured mutual to federal mutual	......	......	......	......	......	......	......	−4	......
Net change	**97**	**108**	**177**	**157**	**20**	**−123**	**54**	**−10**	**−1**
Dec. 31, 1984	**15,496**	**15,133**	**5,983**	**4,910**	**1,073**	**8,532**	**618**	**267**	**96**

17.—Continued

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Branches and additional offices, Dec. 31, 1983[2] ...	**43,128**	**40,808**	**26,038**	**21,222**	**4,816**	**14,666**	**104**	**2,088**	**232**
Changes during 1984									
De novo	1,162	1,125	539	419	34	90	0	4	0
Banks converted	418	418	152	128	24	204	62	......	......
Discontinued	−1,124	−1,065	−726	−628	−98	−339	0	−57	−2
Sale of branch	......	3	−42	−13	−29	45	......	−3	......
Interclass changes[4]									
Nonmember to national	......	......	......	......	......	......	......	......	......
Nonmember to state member	......	......	......	......	......	......	......	......	......
State member to national	......	......	......	......	......	......	......	......	......
State memeber to nonmember	......	......	......	......	......	......	......	......	......
National to state member	......	......	......	......	......	......	......	......	......
National to nonmember	......	......	......	......	......	......	......	......	......
Noninsured to insured mutual	......	......	......	......	......	......	......	......	......
Insured mutual to federal mutual	......	......	......	......	......	......	......	......	......
Insured nonmember to insured mutual	......	......	......	......	......	......	......	......	......
Other[4]	434	484	737	858	−35	332	−89	−18	1
Net change	**890**	**965**	**660**	**764**	**−104**	**332**	**−27**	**−74**	**−1**
Dec. 31, 1984[2]	**44,018**	**41,773**	**26,698**	**21,986**	**4,712**	**14,998**	**77**	**2,014**	**231**
Banking facilities Dec. 31, 1983[3]	**146**	**146**	**114**	**103**	**11**	**32**	......	......	......
Changes during 1984									
Established	2	2	2	2	......	......	......	......	......
Discontinued	−3	−3	−3	−3	......	......	......	......	......
Net change	**−1**	**−1**	**−1**	**−1**	......	......	......	......	......
Dec. 31, 1984[3]	**145**	**145**	**113**	**102**	**11**	**32**	......	......	......

[1] As of Dec. 31, 1984, includes 14 state member noninsured and 2 noninsured national trust companies.

[2] Figures exclude banking facilities.

[3] Data include facilities provided at military and other government establishments through arrangements made by the Treasury.

[4] Interclass changes included in "Other" category.

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Note. Final data will be available in the *Annual Statistical Digest, 1984* to be published in late 1985.

18. Mergers, Consolidations, and Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1984

European American Bank & Trust Company, New York, New York, ***to acquire the assets and assume the deposit liabilities*** **of two branches of Bankers Trust Company, New York, New York**

Summary Report by the Attorney General (11/10/83)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (1/17/84)

European American Bank & Trust Company (Applicant), with assets of $6 billion, proposes to acquire two branches (Branches) of Bankers Trust Company. Assets at Branches amount to $46 million.

The relevant market in the proposal is the Metropolitan New York area, where Applicant ranks twelfth among commercial banking organizations, with 2 percent of area deposits. Since Branches hold less than 1 percent of market deposits, the acquisition would have no significant effect on competition.

The banking factors are consistent with approval. With respect to the convenience and needs factors, Applicant indicates that following the acquisition customers of Branches will have a greater variety of savings and checking accounts, some at lower service fees.

Banco de Ponce, Ponce, Puerto Rico, ***to acquire the assets and assume the deposit liabilities*** **of a branch of Dollar-Dry Dock Savings Bank of New York, New York, New York**

Summary Report by the Attorney General (12/23/83)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (1/26/84)

Banco de Ponce (Applicant), with assets of $1.6 billion, proposes to acquire a branch (Branch) of Dollar-Dry Dock Savings Bank of New York. Deposits at Branch amount to $68 million.

The relevant market in the proposal is the Metropolitan New York area, in which Branch is located and in which Applicant maintains eleven offices with deposits of $170 million. The acquisition would not have a significant effect on competition because Applicant would have a small share of area deposits.

The banking factors and convenience and needs considerations are consistent with approval.

Central Trust Company, Rochester, New York, ***to acquire certain assets and assume certain liabilities*** **of two branches of Genesee County Bank, Le Roy, New York**

Summary Report by the Attorney General (1/13/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Secretary of the Board of Governors (1/26/84)

Central Trust Company (Applicant), with assets of $483 million, proposes to acquire two branches of Genesee County Bank. Together the Branches have deposits of $17 million.

The relevant market in the proposal is the Batavia market, in which Applicant holds the smallest share (3.4 percent) of the deposits held by six banking organizations. Following the acquisition, Applicant's share of that market would increase to 7.2 percent. The acquisition would not have a significant effect on competition.

The convenience and needs factors, as well as the financial factors, are consistent with approval.

United Virginia Bank, Richmond, Virginia, ***to acquire the assets and assume the liabilities*** **of the Waynesboro Branch of Bank of Virginia, Richmond, Virginia**

Summary Report by the Attorney General (1/13/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Secretary of the Board of Governors (2/7/84)

United Virginia Bank (Applicant), with assets of $5 billion, proposes to acquire the Waynesboro Branch (Branch) of Bank of Virginia. Branch has deposits of $4 million.

Applicant ranks fourth among nine banks in the Augusta County market, with 11.4 percent

18.—Continued

of area deposits. If the proposed acquisition took place, Applicant would continue to rank fourth and would increase its share of market deposits to 12.2 percent. The proposal would have no significant effect on competition.

Applicant plans to offer new or enhanced services at Branch. The proposal would have a positive effect on the convenience and needs of customers of Branch.

The financial and managerial resources of Applicant are satisfactory, and the banking factors are consistent with approval.

Central Trust Company, Rochester, New York, ***to acquire certain assets and assume certain liabilities*** **of the Oakfield Branch of Liberty National Bank, Buffalo, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/3/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2/14/84)

Central Trust Company (Applicant), with assets of $483 million, proposes to acquire the Oakfield Branch (Branch) of Liberty National Bank. Branch has deposits of $18 million.

The relevant market in the proposal is the Batavia market, in which Applicant holds the smallest share (3.4 percent) of bank deposits held by six banking organizations. Following the acquisition, Applicant's share of the market would increase to 9.3 percent. The acquisition would not have a significant effect on competition.

The satisfactory condition of Applicant would not be altered by the acquisition. With respect to the convenience and needs factors, Applicant is more active than Liberty National Bank in offering student loans and would provide lower cost trust services than are currently offered through Branch.

First Virginia Bank-Colonial, Richmond, Virginia, ***to merge with*** **The Women's Bank, Richmond, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (3/9/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (3/22/84)

First Virginia Bank-Colonial (Applicant), with assets of $117 million, proposes to merge The Women's Bank (Bank), with assets of $20 million. Applicant is a subsidiary of First Virginia Banks, Inc., Richmond, which is the fifth largest commercial banking organization in Virginia, with 8.3 percent of deposits at banking offices in the state. Applicant ranks seventh in the Richmond market, with 3.3 percent of area deposits. If the proposed merger were consummated, Applicant would not alter its market rank; however, its share of market deposits would rise to 3.7 percent. The proposal would have no significant effect on competition.

The satisfactory condition of Applicant would not be altered by the acquisition. The convenience and needs factors are consistent with approval.

St. Ansgar State Bank, St. Ansgar, Iowa, ***to merge with*** **Stacyville Savings Bank, Stacyville, Iowa**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/17/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4/12/84)

St. Ansgar State Bank (Applicant), with assets of $42 million, proposes to merge Stacyville Savings Bank (Bank), with assets of $11 million.

Applicant and Bank compete in the highly concentrated Mitchell County banking market. Applicant is the second largest of six banks in the market, controlling 26.3 percent of total commercial bank deposits. Bank is the fifth largest bank in the market, with 6.7 percent of such deposits. Upon consummation of this proposal, Applicant would become the largest commercial bank in the market and would control 33.0 percent of market deposits.

Although consummation would result in the elimination of existing competition, the Board has considered several factors that mitigate the competitive effects of the proposal: Mitchell County is a sparsely populated area that has experienced a significant decline in population.

18. Mergers, Consolidations, and Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1984—Continued

The county has a lower population-per-bank ratio than either its neighboring counties or the state average, and fewer residents per bank office than the state average and all but one of its neighboring counties. Bank, with total deposits of only $9.3 million, is also among the smallest depository institutions in the state and in its banking market. Moreover, Bank has experienced a low rate of growth since its establishment in 1911. In addition, Bank's share of deposits in the Mitchell County banking market has slowly declined from 8.6 percent in 1973, to 7.5 percent in 1978, and to 6.7 percent in 1983. Comparative data regarding Bank's mix of products and services likewise indicates that Bank has not been an active competitive factor in the market.

Consequently, the Board has determined that, in view of the record and in the particular context of a declining market containing a relatively large number of banks and the proposed merger of a small, relatively noncompetitive organization, consummation of this proposal would not have a significant adverse effect on existing competition. Thus, competitive effects are consistent with approval.

The financial and managerial resources of Applicant and Bank are regarded as generally satisfactory and their prospects appear favorable. Accordingly, considerations relating to banking factors are consistent with approval.

The proposed transaction would enhance the quantity and quality of services offered by Bank. Bank would increase its weekly hours of operation by 72 percent and would add new or enhanced services, including the offering of individual retirement accounts as well as the expanding of credit programs and financial services developed especially for local agricultural and commercial operations. Thus, considerations relating to the convenience and needs of the community to be served are consistent with approval and outweigh any adverse effects of the transaction.

County Bank and Trust, Santa Cruz, California, ***to acquire certain assets and assume substantially all of the liabilities*** **of National Bank of Carmel, Carmel, California**

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 National Bank of Carmel.

Basis for Approval by the Federal Reserve Bank (5/11/84)

County Bank and Trust (Applicant), with assets of $403 million, proposes to acquire National Bank of Carmel (Bank), with assets of $66 million.

In view of the financial condition of Bank, the Comptroller of the Currency has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Commerce Union Bank, Nashville, Tennessee, ***to merge with*** **Liberty Bank, Brentwood, Tennessee**

Summary Report by the Attorney General (6/8/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (6/19/84)

Commerce Union Bank (Applicant), with assets of $1.6 billion, proposes to merge with Liberty Bank, with assets of $24 million. Applicant is a subsidiary of Commerce Union Corporation, Nashville (Commerce Union), which ranks fourth among banking organizations in the state.

The relevant market in this proposal is the Nashville market, in which Applicant ranks third among twenty-four banking organizations, with 22.3 percent of market deposits. If the proposed merger took place, Applicant would continue to rank third in the market and would increase its share of market deposits to 22.7 percent. Eight savings and loan associations hold market deposits that amount to 21.9 percent of combined deposits of banks and savings and loan associations. The proposal would not have a significantly adverse effect on competition. Further, the convenience and needs factors and banking factors are consistent with approval.

18.—Continued

Bank of Virginia, Richmond, Virginia, ***to merge with*** **The Bank of Montross, Montross, Virginia**

Summary Report by the Attorney General (6/22/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (7/2/84)

Bank of Virginia (Applicant), with assets of $3.8 billion, proposes to merge The Bank of Montross (Bank), with assets of $38 million.

Two of Bank's three offices are in the Westmoreland County market, where Bank ranks second among three banks, with 32.3 percent of area deposits. The remaining office is in the Richmond County market, where Bank, one of only two banks operating in this market, holds the smaller (14.2 percent) share of deposits. Because Applicant does not currently operate an office in either of the markets served by Bank, the instant proposal would have no significant effect on competition.

Following the merger, Applicant proposes to provide additional services to Bank's customers, including access to its branches throughout the state. The convenience and needs factors and financial factors are consistent with approval.

Central Bank, Miami, Florida, ***to acquire the assets and assume the deposit liabilities*** **of two branches of Pan American Bank, N.A., Miami, Florida**

Summary Report by the Attorney General (7/27/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (8/9/84)

Central Bank (Applicant), a proposed new bank, proposes to acquire two branches (Branches) of Pan American Bank, N.A. Deposits at Branches amount to $29 million.

Branches are in the Miami–Fort Lauderdale banking market, where together 64 banking organizations control deposits of $13.6 billion. The instant proposal would introduce a new competitor to the market, with the continuing bank ranking fifty-second and holding less than 1 percent of bank deposits. The proposed transaction should have a positive effect on competition.

The convenience and needs factors and financial factors are consistent with approval.

The Potters Bank and Trust Company, East Liverpool, Ohio, ***to acquire the assets and assume the liabilities*** **of three branches of BancOhio National Bank, Columbus, Ohio**

Summary Report by the Attorney General (8/3/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (8/14/84)

The Potters Bank and Trust Company (Applicant), with assets of $42 million, proposes to acquire three branches (Branches) of BancOhio National Bank. Branches have $20 million in deposits.

Branches are in the Salem banking market, where they rank seventh among ten commercial banking organizations, with 6.3 percent of market deposits. Because Applicant is not now represented in this market, the proposal would have no significant effect on competition.

The convenience and needs factors and financial factors are consistent with approval.

Ohio Citizens Bank, Toledo, Ohio, ***to acquire the assets and assume the liabilities*** **of three branches of BancOhio National Bank, Columbus, Ohio**

Summary Report by the Attorney General (8/24/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (9/6/84)

Ohio Citizens Bank (Applicant), with assets of $672 million, proposes to acquire three branches (Branches) of BancOhio National Bank. Branches have deposits of $42 million. The relevant market in this proposal is the Toledo market, in which Applicant ranks third among nineteen banking organizations, with 18.1 percent of commercial bank deposits. If the proposed transaction took place, Applicant

18. Mergers, Consolidations, and Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1984—Continued

would rank second and would hold 19.7 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.

Norstar Bank of Long Island, Hempstead, New York, *to merge with* Bank of Long Island, N.A., East Islip, New York

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/14/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/12/84)

Norstar Bank of Long Island (Applicant), with assets of $866 million, proposes to merge Bank of Long Island, N.A. (Bank), with assets of $96 million.

Applicant is a subsidiary of Norstar Bancorp Inc., Albany (Norstar), which currently controls 0.5 percent of commercial bank deposits in the Metropolitan New York banking market. If the proposed merger were consummated, Norstar would control 0.6 percent of commercial bank deposits in that market. Clearly, the proposal would have no significant competitive effects.

Applicant and its parent are in satisfactory financial condition, and the proposed merger would not alter that condition.

Capital Bank of Carlsbad, Carlsbad, California, *to acquire the assets and assume the deposit liabilities* of the Carlsbad Branch of Union Bank, Los Angeles, California

SUMMARY REPORT BY THE ATTORNEY GENERAL (8/24/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/18/84)

Capital Bank of Carlsbad (Applicant), a newly organized bank, proposes to acquire the Carlsbad Branch (Branch) of Union Bank. Deposits at Branch amount to $4 million.

Applicant is a subsidiary of Crown Bancorp, Coronado, which is not currently represented in the Oceanside-Vista Metropolitan banking market, where Applicant would rank seventeenth among banking organizations following the acquisition of Branch. Union Bank would continue to be represented in the Oceanside-Vista Metropolitan market. The proposal would have no significant effect on competition.

The financial factors and convenience and needs factors are consistent with approval.

Citizens Bank and Trust Co., Jeffersonville, Indiana, *to merge with* The Clark County State Bank, Jeffersonville, Indiana

SUMMARY REPORT BY THE ATTORNEY GENERAL (6/8/84)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10/25/84)

Citizens Bank and Trust Co. (Applicant), with assets of $166 million, proposes to merge with The Clark County State Bank (Bank), with assets of $96 million.

Offices of Applicant and Bank are in Clark County, Indiana, which is directly across the Ohio River from Louisville, Kentucky. Within the Louisville Kentucky Ranally Metro area, Applicant is the fifth largest of twenty-five commercial banking organizations, controlling approximately 2.5 percent of the total commercial bank deposits. Bank ranks as the market's ninth largest commercial banking organization and holds approximately 1.5 percent of the total commercial bank deposits. Upon consummation of the proposed merger, Applicant would remain the market's fifth largest commercial banking organization and would control about 4.0 percent of the total commercial bank deposits. Eight thrift institutions, also in this market, control 27.6 percent of the total deposits in commercial banks and thrift institutions. The proposed merger would have no significant effect on competition.

The financial and managerial resources of Applicant, Bank, and their respective parents are regarded as satisfactory, and their future prospects appear favorable. As a result, considerations relating to banking factors are consistent with approval. Although no new banking services would be introduced, the customers of

18.—Continued

Applicant and Bank would benefit from a greater selection of branch locations and from the introduction of automatic teller machines. Thus, considerations relating to the convenience and needs of the community to be served are consistent with approval.

M&I Marshall & Ilsley Bank, Milwaukee, Wisconsin, *to merge with* Milwaukee County Bank, West Allis, Wisconsin

Summary Report by the Attorney General (8/31/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Board of Governors (11/13/84)

M&I Marshall & Ilsley Bank (Applicant), with assets of $1.5 billion, proposes to merge Milwaukee County Bank (Bank), with assets of $137 million. Applicant is a subsidiary of Marshall & Ilsley Corporation, Milwaukee, Wisconsin (Corporation), which is the second largest commercial banking organization in Wisconsin, holding 9.1 percent of the state's commercial bank deposits.

Applicant and Bank compete in the Milwaukee banking market, which is served by 48 commercial banking organizations. Corporation's six other commercial banking subsidiaries in the market, together with Applicant, control 15.8 percent of market deposits. Upon consummation of the proposal, Corporation would control 17.2 percent of market deposits. The proposed transaction would not be significantly adverse to competition.

The financial and managerial resources of Applicant, Corporation, and Bank are considered to be satisfactory and their future prospects appear favorable. Considerations relating to the convenience and needs of the community to be served are also consistent with approval.

Norstar Bank of Upstate New York, Albany, New York, *to merge with* Taconic Valley Bank, Berlin, New York

Summary Report by the Attorney General (10/19/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (11/27/84)

Norstar Bank of Upstate New York (Applicant), with assets of $1.3 billion, proposes to merge Taconic Valley Bank (Bank), with assets of $33 million.

The relevant market in this proposal is the Albany banking market, where Applicant holds 25.6 percent of the total market deposits held by eighteen commercial banking organizations. If the merger took place, Applicant would increase its holdings of market deposits to 26.6 percent. Thrift institutions provide a substantial amount of competition to commercial banks in this market. There would be no significant effect on competition.

With respect to the convenience and needs factors, Applicant plans to offer a higher lending limit at the offices now operated by Bank.

The financial condition of Applicant and Bank is satisfactory, and the condition of the resulting bank would be satisfactory.

Union Bank and Trust Company, Ottumwa, Iowa, *to acquire the assets and assume the liabilities* of The First National Bank of Eldon, Eldon, Iowa

Summary Report by the Attorney General (12/10/84)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (12/10/84)

Union Bank and Trust Company (Applicant), with assets of $135 million, proposes to acquire certain assets and assume substantially all the liabilities of The First National Bank of Eldon (Bank), with assets of $8 million.

In view of the financial condition of Bank, the Comptroller of the Currency has recommended expeditious action by the Federal Reserve System to prevent the failure of Bank. Thus, it was requested that reports about competitive factors be furnished within ten days.

Applicant ranks first among five banks in the Wapello County banking market, with 46 percent of market deposits. If the proposed acquisition were consummated, Applicant's share of market deposits would rise to 49 per-

18. Mergers, Consolidations, and Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1984—Continued

cent. Three savings and loan associations also operate in this market.

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
Security Trust Company of Rochester, Rochester, New York	895	1-24-84
Merger		
The Bank of Auburn, Auburn, New York	99	
First Bank and Trust Company of Corning, Corning, New York	73	
First Bank and Trust Company of Ithaca, Ithaca, New York	99	
Genesee Country Bank, Le Roy, New York	85	
The State Bank of Seneca Falls, Seneca Falls, New York	40	
Glen Bank and Trust Company, Watkins Glen, New York	33	
First Trust Union Bank, Wellsville, New York	275	
Old Kent Bank and Trust Company, Grand Rapids, Michigan	1,983	1-27-84
Merger		
Old Kent Bank of Grandville, Grandville, Michigan	7	
Old Kent Bank of Wyoming, Wyoming, Michigan	12	
Farmers & Merchants Bank, Timberville, Virginia	([2])	3-1-84
Merger		
Farmers & Merchants Bank of Rockingham, Timberville, Virginia	48	
First Virginia Bank-Falls Church, Virginia	1,044	5-1-84
Merger		
First Virginia Bank-Northern Neck, Colonial Beach, Virginia	75	
The Merrill Trust Company, Bangor, Maine	435	5-11-84
Merger		
Federal Trust Company, Waterville, Maine	107	
Pacific State Bank, Lincoln City, Oregon	12	5-18-84
Merger		
Newport State Bank, Newport, Oregon	6	

18.—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
State Bank of Albany, Albany, New York	1,149	6-13-84
Merger		
The Mohawk National Bank, Schenectady, New York	166	
M&I American Bank & Trust Company, Racine, Wisconsin	76	7-9-84
Merger		
M&I Bank of Mount Pleasant, Racine, Wisconsin	23	
Central Fidelity Bank, Richmond, Virginia	1,595	7-20-84
Merger		
Central Fidelity Bank, N.A., Southwest, Abingdon, Virginia	93	
First Virginia Bank-New Bank, Norfolk, Virginia	([2])	8-31-84
Merger		
First Virginia Bank of Tidewater, Norfolk, Virginia	243	
The Citizens Bank, Oneonta, Alabama	45	10-12-84
Merger		
First Citizens Bank of Etowah, Glencoe, Alabama	21	
Princeton Bank, Princeton, New Jersey	395	10-17-84
Merger		
The Bank of New Jersey, Camden, New Jersey	713	
First Virginia Bank Roanoke-West, Roanoke, Virginia	151	10-29-84
Merger		
First Virginia Bank of the Southwest, Christiansburg, Virginia	71	
Maumee Valley National Bank, Defiance, Ohio	165	11-20-84
Merger		
The Toledo Trust Company, Toledo, Ohio	1,676	
The Fifth Third Bank, Cincinnati, Ohio	1,610	11-23-84
Merger		
The First-Mason Bank, Mason, Ohio	44	
Valley Bank and Trust Company, Salt Lake City, Utah	564	11-26-84
Merger		
Heber City Office of Valley Thrift and Loan, Salt Lake City, Utah	4	
Central Fidelity Bank, Richmond, Virginia	1,595	12-7-84
Merger		
Central Fidelity Bank, Christiansburg, Christiansburg, Virginia	66	

[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.

18. Mergers, Consolidations, and Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1984—Continued

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
RCB Interim Bank, Osgood, Indiana	(2)	1-12-84
Merger		
The Ripley County Bank, Osgood, Indiana	51	
Citizens Interim Bank of New Haven, New Haven, Missouri	(2)	1-13-84
Merger		
Citizens Bank of New Haven, New Haven, Missouri	29	
The Old White Bank, Inc., Greenbrier, West Virginia	(2)	1-24-84
Merger		
Bank of White Sulphur Springs, Greenbrier, West Virginia	38	
First Virginia Bank-Hanover, Ashland, Virginia	(2)	1-26-84
Merger		
Hanover National Bank, Ashland, Virginia	54	
Broward Interim Bank, Lauderdale Lakes, Florida	(2)	2-9-84
Merger		
Broward Bank, Lauderdale Lakes, Florida	42	
First Virginia Bank-Citizens, Clintwood, Virginia	(2)	2-10-84
Merger		
Virginia Citizens Bank, Clintwood, Virginia	28	
FBTC Bank, Connersville, Indiana	(2)	2-13-84
Merger		
Fayette Bank and Trust Company, Connersville, Indiana	68	
HANCO Bank of Florida, Plantation, Florida	(2)	3-28-84
Merger		
Hanover Bank of Florida, Plantation, Florida	35	
The Interim Crogham Colonial Bank, Fremont, Ohio	(2)	4-2-84
Merger		
The Crogham Colonial Bank, Fremont, Ohio	137	

18.—Continued

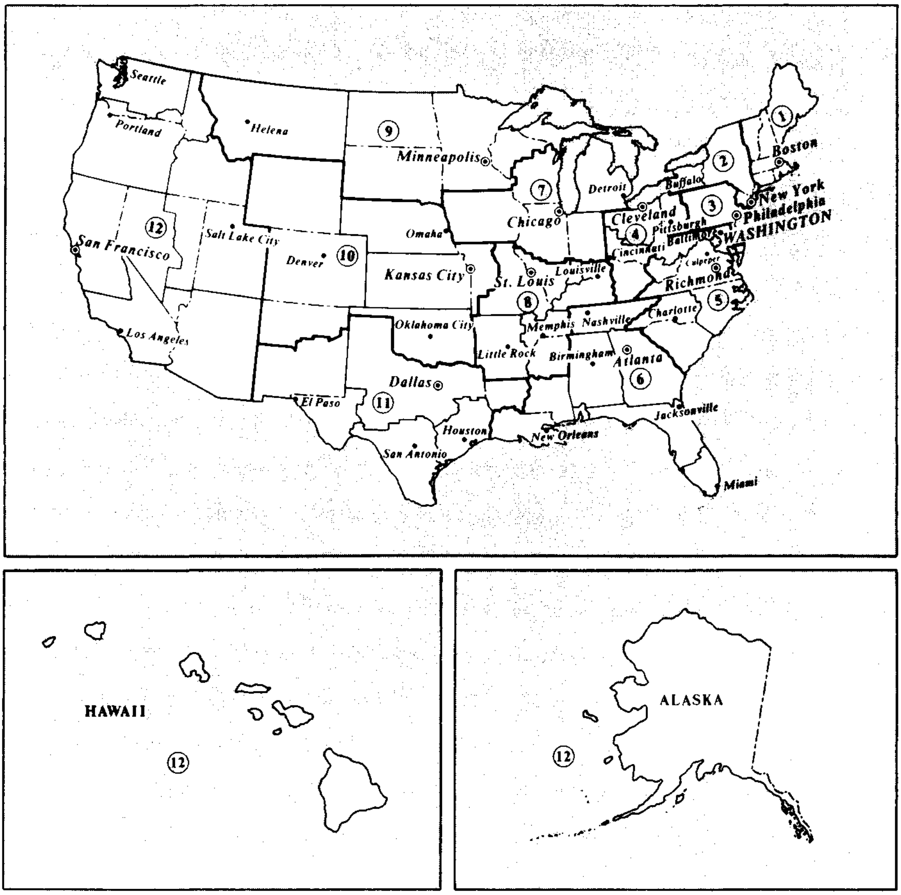
Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
First American Interim Bank of Pelham, Pelham, Alabama	([2])	4-16-84
Merger		
First American Bank of Pelham, Pelham, Alabama	10	
Sylvania Interim Bank, Sylvania, Ohio	([2])	11-13-84
Merger		
The Sylvania Savings Bank Company, Sylvania, Ohio	259	
Petersburg Interim Bank, Petersburg, Virginia	([2])	11-15-84
Merger		
The Community Bank, Petersburg, Virginia	17	
P.B.T. Bank, East Liverpool, Ohio	([2])	11-16-84
Merger		
The Potters Bank and Trust Company, East Liverpool, Ohio	46	

[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.

The Federal Reserve System

Boundaries of Federal Reserve Districts and their Branch Territories


Seattle
Portland
Helena
9
Minneapolis
12
San Francisco
Salt Lake City
Los Angeles
Denver
10
Omaha
Kansas City
Oklahoma City
Dallas
11
El Paso
Houston
San Antonio
7
Chicago
Detroit
St. Louis
8
Louisville
Memphis
Little Rock
Nashville
Birmingham
Atlanta
6
New Orleans
Jacksonville
Miami
Cleveland
4
Pittsburgh
Cincinnati
Buffalo
2
3
1
Boston
New York
Philadelphia
Baltimore
WASHINGTON
Culpeper
Richmond
5
Charlotte
HAWAII
12
ALASKA
12

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

Federal Reserve Directories and Meetings

Board of Governors of the Federal Reserve System

December 31, 1984

	Term expires
Paul A. Volcker of New Jersey, *Chairman*[1]	January 31, 1992
Preston Martin of California, *Vice Chairman*[1]	January 31, 1996
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
Martha R. Seger of Michigan	January 31, 1998

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*
Annette Fribourg, *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*
William R. Jones, *Assistant Staff Director*
Stephen R. Malphrus, *Assistant Staff Director*
Edward T. Mulrenin, *Assistant Staff Director*
Portia W. Thompson, *Equal Employment Opportunity Programs Officer*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

Theodore E. Allison, *Staff Director*
Joseph W. Daniels, Sr., *Adviser, Federal Reserve System, 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*
Jared J. Enzler, *Associate Director*
Eleanor J. Stockwell, *Associate Director*
David E. Lindsey, *Deputy Associate 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.

DIVISION OF RESEARCH AND STATISTICS—Continued

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, *Staff Adviser*

Larry J. Promisel, *Senior Associate Director*

Charles J. Siegman, *Senior Associate Director*

Dale W. Henderson, *Associate Director*

Peter Hooper III, *Assistant Director*

David H. Howard, *Assistant Director*

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*

William E. Pascoe III, *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*

Frederick M. Struble, *Associate Director*

Herbert A. Biern, *Assistant Director*

Anthony Cornyn, *Assistant Director*

Jack M. Egertson, *Assistant Director*

Robert S. Plotkin, *Assistant Director*

Stephen C. Schemering, *Assistant Director*

Richard Spillenkothen, *Assistant Director*

Sidney M. Sussan, *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

Robert E. Frazier, *Director*

Walter W. Kreimann, *Associate Director*

George Mark Lopez, *Assistant 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*

Richard J. Manasseri, *Assistant Director*

Elizabeth B. Riggs, *Assistant Director*

William C. Schneider, Jr., *Assistant Director*

Robert J. Zemel, *Assistant Director*

[2] On loan from the Federal Reserve Bank of Richmond (Baltimore Branch).

Federal Open Market Committee

Members

Paul A. Volcker, *Chairman,* Board of Governors

Anthony M. Solomon, *Vice Chairman,* elected by Federal Reserve Bank of New York

Edward G. Boehne, elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond

Robert H. Boykin, elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas

E. Gerald Corrigan, elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco

Lyle E. Gramley, Board of Governors

Karen N. Horn, elected by Federal Reserve Banks of Cleveland and Chicago

Preston Martin, Board of Governors

J. Charles Partee, Board of Governors

Emmett J. Rice, Board of Governors

Martha R. Seger, 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)

Joseph E. Burns,
Associate Economist

John M. Davis,
Associate Economist

Richard G. Davis,
Associate Economist

Donald L. Kohn,
Associate Economist

Richard W. Lang,
Associate Economist

David E. Lindsey,
Associate Economist

Michael J. Prell,
Associate Economist

Charles J. Siegman,
Associate Economist

Gary H. Stern,
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 1984, the Federal Open Market Committee held eight regularly scheduled meetings. (See "Record of Policy Actions of the Federal Open Market Committee" in this Report.)

Federal Advisory Council

December 31, 1984

Members

District No. 1—ROBERT L. NEWELL, *Chairman and Chief Executive Officer,* Connecticut National Bank, Hartford, Connecticut

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—GEORGE A. BUTLER, *Chairman and President,* First Pennsylvania Bank, N.A., Philadelphia, Pennsylvania

District No. 4—JOHN G. MCCOY, *Vice Chairman and Chief Executive Officer,* Banc One Corporation, Columbus, Ohio

District No. 5—VINCENT C. BURKE, JR., *Director,* Riggs National Bank and Riggs National Corporation, Washington, D.C.

District No. 6—PHILIP F. SEARLE, *Chairman of the Board,* Sun Banks, Inc., Orlando, Florida

District No. 7—BARRY F. SULLIVAN, *Chairman and Chief Executive Officer,* First Chicago Corporation and The First National Bank of Chicago, Chicago, Illinois

District No. 8—WILLIAM H. BOWEN, *Chairman of the Board, President, and Chief Executive Officer,* First Commercial Bank, N.A., Little Rock, Arkansas

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, *Chairman of the Board, President, and Chief Executive Officer,* United Banks of Colorado, Inc., Denver, Colorado

District No. 11—NAT S. ROGERS, *Chairman of the Board,* First City Bancorporation of Texas, Inc., Houston, Texas

District No. 12—JOSEPH J. PINOLA, *Chairman and Chief Executive Officer,* First Interstate Bancorp, Los Angeles, California

Officers

JOHN G. MCCOY, *President*
JOSEPH J. PINOLA, *Vice President*
HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Associate Secretary*

Directors

VINCENT C. BURKE, JR.
N. BERNE HART
LEWIS T. PRESTON

Meetings of the Federal Advisory Council were held on February 2-3, May 3-4, September 6-7, and November 1-2, 1984. The Board of Governors met with the council on February 3, May 4, September 7, and November 2, 1984. 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 with and advise the Board on all matters within the jurisdiction of the Board.

Consumer Advisory Council

December 31, 1984

Members

RACHEL G. BRATT, *Assistant Professor,* Department of Urban and Environmental Policy, Tufts University, Medford, Massachusetts

GERALD R. CHRISTENSEN, *Chairman of the Board and President,* First Federal Savings and Loan Association, Salt Lake City, Utah

THOMAS L. CLARK, JR., *Deputy Superintendent of Banks,* New York State Banking Department, New York, New York

JEAN A. CROCKETT, *Professor of Finance,* Wharton Graduate School, University of Pennsylvania, Philadelphia, Pennsylvania

MEREDITH FERNSTROM, *Senior Vice President,* Office of Public Responsibility, American Express Company, New York, New York

ALLEN J. FISHBEIN, *Director,* Neighborhood Revitalization Project, Center for Community Change, Washington, D.C.

E.C.A. FORSBERG, SR., *President,* First Family Financial Services, Atlanta, Georgia

STEVEN M. GEARY, *Associate General Counsel,* Missouri Division of Finance, Jefferson City, Missouri

RICHARD F. HALLIBURTON, *Deputy Director,* Legal Aid of Western Missouri, Kansas City, Missouri

CHARLES C. HOLT, *Professor of Management,* University of Texas at Austin, Austin, Texas

HARRY N. JACKSON, *Vice President, Credit,* Dayton Hudson Corporation, Minneapolis, Minnesota

KENNETH V. LARKIN, *Director of Development,* Earl Warren Legal Institute, Boalt School of Law, University of California at Berkeley, Berkeley, California

TIMOTHY D. MARRINAN, *Senior Corporate Counsel,* First Bank System, Inc., Minneapolis, Minnesota

FREDERICK H. MILLER, *Professor of Law,* University of Oklahoma, Norman, Oklahoma

MARGARET M. MURPHY, *Associate Professor and Director,* Columbia Center, Johns Hopkins University, Columbia, Maryland

ROBERT F. MURPHY, *President,* General Motors Acceptance Corporation, Detroit, Michigan

WILLARD P. OGBURN, *Deputy Director,* National Consumer Law Center, Boston, Massachusetts

LAWRENCE S. OKINAGA, *Partner,* Carlsmith, Carlsmith, Wichman & Case, Honolulu, Hawaii

ELVA QUIJANO, *Vice President and Executive Professional Officer,* Republic Bank of San Antonio, San Antonio, Texas

JANET J. RATHE, *Executive Committee Member,* Oregon Consumer League, Portland, Oregon

GLENDA G. SLOANE, *Director,* Housing and Community Development, Center for National Policy Review, Catholic University School of Law, Washington, D.C.

HENRY J. SOMMER, *Supervising Attorney,* Community Legal Services, Inc., Philadelphia, Pennsylvania

WINNIE F. TAYLOR, *Visiting Professor of Law,* Hastings College of Law, San Francisco, California

MICHAEL M. VAN BUSKIRK, *Assistant Vice President, Corporate Affairs,* Banc One Corporation, Columbus, Ohio

CLINTON WARNE, *President,* Consumers League of Ohio, Cleveland, Ohio

FREDERICK T. WEIMER, *General Assistant to the Vice President and General Credit Manager,* Sears, Roebuck and Co., Chicago, Illinois

MERVIN WINSTON, *President,* Metropolitan Economic Development Association, Minneapolis, Minnesota

Officers

WILLARD P. OGBURN, *Chairman*

TIMOTHY D. MARRINAN, *Vice Chairman*

Meetings of the Consumer Advisory Council with members of the Board of Governors were held on March 14–15, July 18–19, and October 24–26, 1984. 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.

Thrift Institutions Advisory Council

December 31, 1984

Members

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

J. MICHAEL CORNWALL, *Chairman of the Board and Chief Executive Officer,* First Texas Savings Association, Dallas, Texas

RICHARD H. DIEHL, *Chairman of the Board and Chief Executive Officer,* Home Savings of America, Los Angeles, California

JOHN R. EPPINGER, *President and Chief Executive Officer,* MainLine Federal Savings and Loan Association, Villanova, Pennsylvania

NORMAN M. JONES, *President,* Metropolitan Federal Savings and Loan Association, Fargo, North Dakota

ROBERT R. MASTERTON, *President,* The One Maine Savings Bank, Portland, Maine

JOHN T. MORGAN, *Chairman and Chief Executive Officer,* American Savings Bank of New York, New York, New York

FRED A. PARKER, *President,* Heritage Federal Savings and Loan Association, Monroe, North Carolina

SARAH R. WALLACE, *President,* First Federal Savings and Loan Association of Newark, Newark, Ohio

Officers

THOMAS R. BOMAR, *President*

RICHARD H. DIEHL, *Vice President*

The members of the Thrift Institutions Advisory Council met with the Board of Governors on February 23, May 23, September 20, and November 15, 1984. 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.

Officers of Federal Reserve Banks, Branches, and Offices

December 31, 1984[1]

BANK,	Chairman[2]	President	Vice President
branch, or office	Deputy Chairman	First Vice President	in charge of branch
BOSTON[3]	Robert P. Henderson	Frank E. Morris	
	Thomas I. Atkins	Robert W. Eisenmenger	
NEW YORK[3]	John Brademas	Anthony M. Solomon	
	Gertrude G. Michelson	Thomas M. Timlen	
Buffalo	M. Jane Dickman		John T. Keane
PHILADELPHIA	Robert M. Landis	Edward G. Boehne	
	Nevius M. Curtis	Richard L. Smoot	
CLEVELAND[3]	William H. Knoell	Karen N. Horn	
	E. Mandell de Windt	William H. Hendricks	
Cincinnati	Robert E. Boni		Charles A. Cerino[4]
Pittsburgh	Milton G. Hulme, Jr.		Harold J. Swart[4]
RICHMOND[3]	William S. Lee	Robert P. Black	
	Leroy T. Canoles, Jr.	Jimmie R. Monhollon	
Baltimore	Robert L. Tate		Robert D. McTeer, Jr.[4]
Charlotte	Henry Ponder		Albert D. Tinkelenberg[4]
Culpeper[5]			John G. Stoides[4]
ATLANTA	John H. Weitnauer, Jr.	Robert P. Forrestal	
	Bradley Currey, Jr.	Jack Guynn	
Birmingham	Martha A. McInnis		Fred R. Herr
Jacksonville	Jerome P. Keuper		James D. Hawkins
Miami	Sue McCourt Cobb		Patrick K. Barron
Nashville	C. Warren Neel		Jeffrey J. Wells
New Orleans	Sharon A. Perlis		Henry H. Bourgaux
CHICAGO[3]	Stanton R. Cook	Silas Keehn	
	Edward F. Brabec	Daniel M. Doyle	
Detroit	Russell G. Mawby		Roby L. Sloan[4]
ST. LOUIS	W.L. Hadley Griffin	Theodore H. Roberts	
	Mary P. Holt	Joseph P. Garbarini	
Little Rock	Sheffield Nelson		John F. Breen
Louisville	Sister Eileen M. Egan		James E. Conrad
Memphis	Patricia W. Shaw		Paul I. Black, Jr.
MINNEAPOLIS	William G. Phillips	E. Gerald Corrigan	
	John B. Davis, Jr.	Thomas E. Gainor	
Helena	Ernest B. Corrick		Robert F. McNellis

BANK,	Chairman[2]	President	Vice President
branch, or office	Deputy Chairman	First Vice President	in charge of branch
KANSAS CITY	Doris M. Drury	Roger Guffey	
	Irvine O. Hockaday, Jr.	Henry R. Czerwinski	
Denver	James E. Nielson		Wayne W. Martin[4]
Oklahoma City	Patience Latting		William G. Evans
Omaha	Robert G. Lueder		Robert D. Hamilton
DALLAS	Robert D. Rogers	Robert H. Boykin	
	John V. James	William H. Wallace	
El Paso	Mary Carmen Saucedo		Joel L. Koonce, Jr.
Houston	Paul N. Howell		J.Z. Rowe[4]
San Antonio	Lawrence L. Crum		Thomas H. Robertson
SAN FRANCISCO	Caroline L. Ahmanson	John J. Balles	
	Alan C. Furth	Richard T. Griffith	
Los Angeles	Bruce M. Schwaegler		Richard C. Dunn[4]
Portland	Paul E. Bragdon		Angelo S. Carella
Salt Lake City	Wendell J. Ashton		A. Grant Holman[4]
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, 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 Oriskany, 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 the 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 May 31–June 1 and December 5–6, 1984.

The Executive Committee of the Conference of Chairmen during 1984 comprised William G. Phillips, Chairman, William H. Knoell, Vice Chairman, and Stanton R. Cook, member.

On December 6, 1984, William H. Knoell was elected Chairman of the conference and of its Executive Committee to serve for the succeeding year; Robert D. Rogers was elected Vice Chairman of the conference and a member of the Executive Committee; and Alan C. Furth was elected as the other member of the Executive Committee.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into the Conference of Presidents that meets periodically to consider matters of common interest and to consult with and advise the Board of Governors. On September 16, 1983, E. Gerald Corrigan, President of the Federal Reserve Bank of Minneapolis, was elected Chairman, and Robert H. Boykin, President of the Federal Reserve Bank of Dallas, was elected Vice Chairman of the conference for 1984. Kathleen J. Balkman of the Federal Reserve Bank of Minneapolis was appointed Secretary, and Lyne H. Carter of the Federal Reserve Bank of Dallas was appointed 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 September 26, 1983, Thomas E. Gainor, First Vice President of the Federal Reserve Bank of Minneapolis, was elected Chairman, and William H. Wallace, First Vice President of the Federal Reserve Bank of Dallas, was elected Vice Chairman of the conference for 1984. Kathleen J. Balkman of the Federal Reserve Bank of Minneapolis was appointed Secretary, and Lyne H. Carter of the Federal Reserve Bank of Dallas was appointed Assistant Secretary.

Directors

The following list of directors of Federal Reserve Banks and Branches shows the class of directorship, the principal business affiliation, and the date the term expires for each director. Each Reserve Bank has nine members on its board of directors: three Class A and three Class B directors, who are elected by the stockholding member banks, and three Class C directors, who are appointed by the Board of Governors of the Federal Reserve System. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

Class A directors represent the stockholding member banks in each Federal Reserve District. Class B and Class C directors represent the public and are chosen with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers; they may not be officers, directors, or employees of any bank; in addition, Class C directors may not be stockholders of any bank.

For the election of Class A and Class B directors, the Board of Governors classifies the member banks of each Federal Reserve District into three groups, according to capitalization. Each group then elects one Class A and one Class B director. The Board of Governors designates one Class C director as chairman of the board of directors and Federal Reserve Agent of each District Bank, and another as deputy chairman.

Federal Reserve Branches have either five or seven directors, a majority of whom are appointed by the parent Reserve Bank; the others are appointed by the Board of Governors. One of the directors appointed by the Board is designated annually as chairman of the board of that Branch in a manner the Federal Reserve Bank prescribes.

In the following list, note 1 denotes a chairman of the board; note 2, a deputy chairman; and note 3, a director whose service began in 1984.

A list of the current directors appears each spring in the *Federal Reserve Bulletin.*

District 1—BOSTON

Class A

		Term expires Dec. 31
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
William S. Edgerly[3]	Chairman and President, State Street Bank and Trust Company, Boston, Massachusetts	1986

Class B

George N. Hatsopoulos	Chairman of the Board and President, Thermo Electron Corporation, Waltham, Massachusetts	1984
Matina S. Horner	President, Radcliffe College, Cambridge, Massachusetts	1985
Joseph A. Baute	Chairman and Chief Executive Officer, Markem Corporation, Keene, New Hampshire	1986

Class C

Robert P. Henderson[1]	Vice Chairman of the Board, Greylock Management Corporation, Boston, Massachusetts	1984
Thomas I. Atkins[2]	Attorney, Brooklyn, New York	1985
Michael J. Harrington	Harrington Company, Peabody, Massachusetts	1986

District 2—NEW YORK

Class A

Robert A. Rough	President, The National Bank of Sussex County, Branchville, New Jersey	1984
Alfred Brittain III	Chairman of the Board, Bankers Trust Company, New York, New York	1985
T. Joseph Semrod[3]	Chairman of the Board, United Jersey Bank, Hackensack, New Jersey	1986

Class B

Edward L. Hennessy, Jr.	Chairman of the Board, Allied Corporation, Morristown, New Jersey	1984
William S. Cook	President and Chief Executive Officer, Union Pacific Corporation, New York, New York	1985
John R. Opel	Chairman and Chief Executive Officer, International Business Machines Corporation, Armonk, New York	1986

Class C

Gertrude G. Michelson[2]	Senior Vice President, R.H. Macy & Company, Inc., New York, New York	1984

		Term expires Dec. 31
John Brademas[1]	President, New York University, New York, New York	1985
Clifton R. Wharton, Jr.	Chancellor, State University of New York System, Albany, New York	1986

BUFFALO BRANCH

Appointed by Federal Reserve Bank

Edward W. Duffy	Chairman of the Executive Committee, Marine Midland Bank, N.A., Buffalo, New York	1984
William Balderston III[3]	President and Chief Executive Officer, Chase Lincoln First Bank, N.A., Rochester, New York	1985
Donald I. Wickham	President, Tri-Way Farms, Inc., Stanley, New York	1985
Herbert Fort[3]	President, The Bath National Bank, Bath, New York	1986

Appointed by Board of Governors

George L. Wessel	President, Buffalo AFL/CIO Council, Buffalo, New York	1984
M. Jane Dickman[1]	Partner, Touche Ross & Co., Buffalo, New York	1985
Laval S. Wilson[3]	Superintendent of Schools, Rochester City School District, Rochester, New York	1986

District 3—PHILADELPHIA

Class A

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
John H. Walther[3]	Chairman of the Board, New Jersey National Bank, Trenton, New Jersey	1986

Class B

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
Carl E. Singley[3]	Dean and Professor of Law, Temple University Law School, Philadelphia, Pennsylvania	1986

Class C

George E. Bartol III	Chairman of the Board, Hunt Manufacturing Company, Philadelphia, Pennsylvania	1984

		Term expires Dec. 31
Nevius M. Curtis[2]	President and Chief Executive Officer, Delmarva Power & Light Company, Wilmington, Delaware	1985
Robert M. Landis[1]	Partner, Dechert, Price & Rhoads, Philadelphia, Pennsylvania	1986

District 4—CLEVELAND

Class A

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
J. David Barnes	Chairman of the Board and Chief Executive Officer, Mellon Bank, Pittsburgh, Pennsylvania	1986

Class B

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
John R. Hall[3]	Chairman and Chief Executive Officer, Ashland Oil, Inc., Ashland, Kentucky	1986

Class C

E. Mandell de Windt[2]	Chairman of the Board, Eaton Corporation, Cleveland, Ohio	1984
Lewis R. Smoot, Sr.[3]	President and Chief Executive Officer, The Sherman R. Smoot Company, Columbus, Ohio	1985
William H. Knoell[1]	President and Chief Executive Officer, Cyclops Corporation, Pittsburgh, Pennsylvania	1986

CINCINNATI BRANCH

Appointed by Federal Reserve Bank

Sherrill Cleland	President, Marietta College, Marietta, Ohio	1984
Richard J. Fitton	President and Chief Executive Officer, First National Bank of Southwestern Ohio, Hamilton, Ohio	1984
Clement L. Buenger	President and Chief Executive Officer, The Fifth Third Bank, Cincinnati, Ohio	1985
Vernon J. Cole[3]	Executive Vice President and Chief Executive Officer, Harlan National Bank, Harlan, Kentucky	1986

Appointed by Board of Governors

		Term expires Dec. 31
Don Ross	Owner, Dunreath Farm, Lexington, Kentucky	1984
Sister Grace Marie Hiltz	President, Sisters of Charity Health Care Systems, Inc., Cincinnati, Ohio	1985
Robert E. Boni[1,3]	President and Chief Operating Officer, Armco Inc., Middletown, Ohio	1986

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank

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
G.R. Rendle[3]	President and Chief Executive Officer, Gallatin National Bank, Uniontown, Pennsylvania	1986

Appointed by Board of Governors

Milton A. Washington[3]	President and Chief Executive Officer, Allegheny Housing Rehabilitation Corporation, Pittsburgh, Pennsylvania	1984
Robert S. Kaplan	Professor, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania	1985
Milton G. Hulme, Jr.[1]	President and Chief Executive Officer, Mine Safety Appliances Company, Pittsburgh, Pennsylvania	1986

District 5—RICHMOND

Class A

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 Spring National Bank and Savings Institution, Sandy Spring, Maryland	1985
Robert S. Chiles, Sr.[3]	President and Chief Executive Officer, Greensboro National Bank, Greensboro, North Carolina	1986

Class B

Paul G. Miller	Director, Commercial Credit Company, Baltimore, Maryland	1984
George Dean Johnson, Jr.[3]	Partner, Johnson, Smith, Hibbard, Cleveland, Wildman and Dennis, Spartanburg, South Carolina	1985

		Term expires Dec. 31
Thomas B. Cookerly[3]	President, Broadcast Division, Allbritton Communications, Washington, D.C.	1986

Class C

William S. Lee[1]	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
Leroy T. Canoles, Jr.[2,3]	President, Kaufman and Canoles, Norfolk, Virginia	1986

BALTIMORE BRANCH

Appointed by Federal Reserve Bank

Pearl C. Brackett	Deputy Manager (retired), Baltimore Regional Chapter of the American Red Cross, Baltimore, Maryland	1984
Howard I. Scaggs	Chairman of the Board, American National Building and Loan Association, Baltimore, Maryland	1985
Hugh D. Shires	Senior Vice President (retired), First National Bank of Maryland, Cumberland, Maryland	1985
Charles W. Hoff III[3]	President and Chief Executive Officer, Farmers and Mechanics National Bank, Frederick, Maryland	1986

Appointed by Board of Governors

Thomas H. Maddux	Independent business advisor, Timonium, Maryland	1984
Edward H. Covell	President, The Covell Company, Easton, Maryland	1985
Robert L. Tate[1]	Chairman, Tate Industries, Baltimore, Maryland	1986

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank

Hugh M. Chapman	Chairman of the Board and Chief Executive Officer, The Citizens and Southern National Bank of South Carolina, Columbia, South Carolina	1984
J. Donald Collier	President and Chief Executive Officer, First National Bank in Orangeburg, Orangeburg, South Carolina	1985
John G. Medlin, Jr.	President and Chief Executive Officer, Wachovia Bank and Trust Company, N.A., Winston-Salem, North Carolina	1985
John A. Hardin[3]	Chairman of the Board and President, First Federal Savings and Loan Association, Rock Hill, South Carolina	1986

Appointed by Board of Governors		*Term expires Dec. 31*
Henry Ponder[1]	President, Fisk University, Nashville, Tennessee	1984
G. Alex Bernhardt	President, Bernhardt Industries, Lenoir, North Carolina	1985
Wallace J. Jorgenson	President, Jefferson-Pilot Broadcasting Co., Charlotte, North Carolina	1986

District 6—ATLANTA

Class A		
Guy W. Botts	Senior Partner, Culverhouse, Botts, Mills & Cone, Jacksonville, Florida	1984
Dan B. Andrews	President, First National Bank, Dickson, Tennessee	1985
Mary W. Walker[3]	President, The National Bank of Walton County, Monroe, Georgia	1986
Class B		
Horatio C. Thompson	President, Horatio Thompson Investments, Inc., Baton Rouge, Louisiana	1984
Bernard F. Sliger	President, Florida State University, Tallahassee, Florida	1985
Harold B. Blach, Jr.	President, Blach's Inc., Birmingham, Alabama	1986
Class C		
Jane C. Cousins	President and Chief Executive Officer, Merrill Lynch Realty/Cousins, Miami, Florida	1984
John H. Weitnauer, Jr.[1]	Chairman and Chief Executive Officer, Richway, Atlanta, Georgia	1985
Bradley Currey, Jr.[2,3]	President, Rock-Tenn Company, Norcross, Georgia	1986

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank		
William M. Schroeder	Chairman and President, Central State Bank, Calera, Alabama	1984
G. Mack Dove	President, AAA Cooper Transportation Co., Dothan, Alabama	1985
Grady Gillam	Chairman, The American National Bank, Gadsden, Alabama	1985
Charles L. Peery[3]	Chairman, The First National Bank of Florence, Florence, Alabama	1986
Appointed by Board of Governors		
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Co., Birmingham, Alabama	1984

		Term expires Dec. 31
Martha A. McInnis[1]	Executive Vice President, EnviroSouth, Inc., Montgomery, Alabama	1985
Samuel R. Hill, Jr.	President, University of Alabama in Birmingham, Birmingham, Alabama	1986

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank

Lewis A. Doman	President, The Citizens and Peoples National Bank, Pensacola, Florida	1984
George C. Boone, Jr.	President and Chief Executive Officer, Security First Federal Savings and Loan Association, Daytona Beach, Florida	1985
E.F. Keen, Jr.	Vice Chairman, NCNB Bancorporation, Bradenton, Florida	1985
John D. Uible[3]	Chairman and Chief Executive Officer, Florida National Banks of Florida, Inc., Jacksonville, Florida	1986

Appointed by Board of Governors

Jerome P. Keuper[1]	President, Florida Institute of Technology, Melbourne, Florida	1984
E. William Nash, Jr.	President of South Central Operations, The Prudential Insurance Company, Jacksonville, Florida	1985
JoAnn Doke Smith[3]	Co-owner, Smith Brothers, Micanopy, Florida	1986

MIAMI BRANCH

Appointed by Federal Reserve Bank

Robert D. Rapaport[3]	Principal, The Rapaport Companies, 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
Robert L. Kester[3]	Chairman, Florida Coast Banks, Inc., Pompano Beach, Florida	1986

Appointed by Board of Governors

Roy Vandegrift, Jr.	President, Roy Van, Inc., Pahokee, Florida	1984
Sue McCourt Cobb[1]	Attorney, Greenberg, Traurig, Askew, Hoffman, Lipoff, Rosen, and Quentel, P.A., Miami, Florida	1985
Eugene E. Cohen	Chief Financial Officer and Treasurer, Howard Hughes Medical Institute, Coconut Grove, Florida	1986

NASHVILLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Michael T. Christian	President and Chief Executive Officer, Commerce Union Bank of Greeneville, Greeneville, Tennessee	1984
Samuel H. Howard	Vice President and Treasurer, Hospital Corporation of America, Nashville, Tennessee	1985
Owen G. Shell, Jr.	President and Chief Executive Officer, First American National Bank of Nashville, N.A., Nashville, Tennessee	1985
Robert W. Jones[3]	Chairman and President, First National Bank, McMinnville, Tennessee	1986

Appointed by Board of Governors

C. Warren Neel[1]	Dean, College of Business Administration, The University of Tennessee, Knoxville, Tennessee	1984
Condon S. Bush	President, Bush Brothers & Company, Dandridge, Tennessee	1985
Patsy R. Williams[3]	Partner, Rhyne Lumber Company, Newport, Tennessee	1986

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank

Jerry W. Brents	Lafayette, Louisiana	1984
Philip K. Livingston	Vice Chairman, President, and Chief Executive Officer, Citizens National Bank, Hammond, Louisiana	1985
Tom Burkett Scott, Jr.	President and Chief Executive Officer, Unifirst Bank for Savings, F.A., Jackson, Mississippi	1985
Carl E. Jones, Jr.[3]	President, Chairman, and Chief Executive Officer, Merchants National Bank of Mobile, Mobile, Alabama	1986

Appointed by Board of Governors

Roosevelt Steptoe	Professor of Economics, Southern University, Baton Rouge, Louisiana	1984
Sharon A. Perlis[1]	President, Sharon A. Perlis Law Corporation, Metairie, Louisiana	1985
Leslie B. Lampton	President, Ergon, Inc., Jackson, Mississippi	1986

District 7—CHICAGO

Class A

Charles M. Bliss	Chairman of the Board and Chief Executive Officer (retired), Harris Trust and Savings Bank, Chicago, Illinois	1984

		Term expires Dec. 31
Patrick E. McNarny	President, First National Bank of Logansport, Logansport, Indiana	1985
Ollie Jay Tomson	President, The Citizens National Bank of Charles City, Charles City, Iowa	1986
Class B		
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1984
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1985
Leon T. Kendall	Chairman and Chief Executive Officer, Mortgage Guaranty Insurance Corp., Milwaukee, Wisconsin	1986
Class C		
Edward F. Brabec[2]	President, Federation of Labor and Industrial Union Council, Chicago, Illinois	1984
Stanton R. Cook[1]	President, Tribune Company, Chicago, Illinois	1985
Robert J. Day[3]	President and Chief Operating Officer, United States Gypsum Company, Chicago, Illinois	1986

DETROIT BRANCH

Appointed by Federal Reserve Bank		
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
Ronald D. Story[3]	President, The Ionia County National Bank of Ionia, Ionia, Michigan	1986
Appointed by Board of Governors		
Robert E. Brewer	Executive Vice President of Finance, K Mart Corporation, Troy, Michigan	1984
Russell G. Mawby[1]	President and Trustee, W.K. Kellogg Foundation, Battle Creek, Michigan	1985
Karl D. Gregory	Professor, and Management and Economic Consultant, School of Economics and Management, Oakland University, Rochester, Michigan	1986

District 8—ST. LOUIS

Class A		
George M. Ryrie	President, First National Bank & Trust Co., Alton, Illinois	1984

		Term expires Dec. 31
Donald L. Hunt	President, First National Bank, Marissa, Illinois	1985
Clarence C. Barksdale	Chairman and President, Centerre Bank, N.A., St. Louis, Missouri	1986
Class B		
Jesse M. Shaver	Consultant, Allis-Chalmers Corporation, Louisville, Kentucky	1984
Robert J. Sweeney	President and Chief Executive Officer, Murphy Oil Corporation, El Dorado, Arkansas	1985
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tennessee	1986
Class C		
W.L. Hadley Griffin[1]	Chairman of the Board, Brown Group, Inc., St. Louis, Missouri	1984
Robert L. Virgil, Jr.	Dean, School of Business, Washington University, St. Louis, Missouri	1985
Mary P. Holt[2]	President, Clothes Horse, Little Rock, Arkansas	1986

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank		
Wilbur P. Gulley, Jr.	Chairman of the Board and Chief Executive Officer, Savers Federal Savings and Loan Association, Little Rock, Arkansas	1984
Gordon E. Parker	President, First Commercial Corporation, Little Rock, Arkansas	1984
D. Eugene Fortson	Chairman and Chief Executive Officer, Worthen Bank and Trust Company, N.A., Little Rock, Arkansas	1985
William H. Kennedy, Jr.	Chairman of the Board, National Bank of Commerce of Pine Bluff, Pine Bluff, Arkansas	1986
Appointed by Board of Governors		
Sheffield Nelson[1]	Chairman of the Board and Chief Executive Officer, Arkla, Inc., Little Rock, Arkansas.	1984
Shirley J. Pine	Professor, Department of Communicative Disorders, University of Arkansas at Little Rock, Little Rock, Arkansas	1985
Richard V. Warner	Group Vice President, Wood Products Group, Potlatch Corporation, Warren, Arkansas	1986

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank		
John E. Darnell, Jr.	Chairman of the Board, The Owensboro National Bank, Owensboro, Kentucky	1984

		Term expires Dec. 31
R.I. Kerr, Jr.	President, Chairman of the Board, and Chief Executive Officer, Great Financial Federal, Louisville, Kentucky	1984
Allan S. Hanks	President, Anderson National Bank, Lawrenceburg, Kentucky	1985
Frank B. Hower, Jr.	Chairman and Chief Executive Officer, Liberty National Bank and Trust Company of Louisville, Louisville, Kentucky	1986

Appointed by Board of Governors

Sister Eileen M. Egan[1]	President, Spalding College, Louisville, Kentucky	1984
Henry F. Frigon	President, BATUS, Inc., Louisville, Kentucky	1985
William C. Ballard, Jr.	Executive Vice President, Finance and Administration, Humana, Inc., Louisville, Kentucky	1986

MEMPHIS BRANCH

Appointed by Federal Reserve Bank

Edgar H. Bailey	Chairman and Chief Executive Officer, 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
Wayne W. Pyeatt	President, Memphis Fire Insurance Company, Memphis, Tennessee	1986

Appointed by Board of Governors

G. Rives Neblett	Attorney, Neblett, Bobo, Chapman & Heaton, Shelby, Mississippi	1984
Patricia W. Shaw[1]	President and Chief Executive Officer, Universal Life Insurance Company, Memphis, Tennessee	1985
Donald B. Weis	President, Tamak Transportation Corporation, West Memphis, Arkansas	1986

District 9—MINNEAPOLIS

Class A

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
Burton P. Allen, Jr.[3]	President, First National Bank, Milaca, Minnestoa	1986

Class B

		Term expires Dec. 31
William L. Mathers	President, Mathers Land Company, Inc., Miles City, Montana	1984
Richard L. Falconer	District Manager, Northwestern Bell, Bismarck, North Dakota	1985
Harold F. Zigmund	Chairman, Blandin Paper Company, Grand Rapids, Minnestoa	1986

Class C

		Term expires Dec. 31
William G. Phillips[1]	Chairman and Chief Executive Officer (retired), International Multifoods, Minneapolis, Minnesota	1984
Sister Generose Gervais	Administrator, Saint Mary's Hospital, Rochester, Minnesota	1985
John B. Davis, Jr.[2]	Interim Executive Director, Children's Theatre Company and School, Minneapolis, Minnesota	1986

HELENA BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Harry W. Newlon	President, First National Bank in Bozeman, Bozeman, Montana	1984
Seabrook Pates	President and Chief Executive Officer, Midland Implement Co., Inc., Billings, Montana	1984
Roger H. Ulrich	President, First State Bank, Malta, Montana	1985

Appointed by Board of Governors

		Term expires Dec. 31
Ernest B. Corrick[1]	Vice President and General Manager, Champion International Corporation, Timberlands-Rocky Mountain Operation, Missoula, Montana	1984
Gene J. Etchart	Past President, Hinsdale Livestock Company, Glasgow, Montana	1985

District 10—KANSAS CITY

Class A

		Term expires Dec. 31
John D. Woods	Chairman and Chief Executive Officer, Omaha National Bank, Omaha, Nebraska	1984
Howard K. Loomis	President, The Peoples Bank, Pratt, Kansas	1985
Wayne D. Angell	Chairman of the Board, The First State Bank of Pleasanton, Pleasanton, Kansas	1986

Class B

		Term expires Dec. 31
Duane C. Acker	President, Kansas State University, Manhattan, Kansas	1984
Charles C. Gates	Chairman and President, Gates Corporation, Denver, Colorado	1985

		Term expires Dec. 31
Richard D. Harrison[3]	Chairman and Chief Executive Officer, Fleming Companies, Inc., Oklahoma City, Oklahoma	1986

Class C

Doris M. Drury[1]	Professor of Economics, University of Denver, Englewood, Colorado	1984
Irvine O. Hockaday, Jr.[2,3]	Executive Vice President and Member of the Office of the Chairman, Hallmark Cards, Inc., Kansas City, Missouri	1985
John F. Anderson	President (retired), Farmland Industries, Inc., Liberty, Missouri	1986

DENVER BRANCH

Appointed by Federal Reserve Bank

Donald D. Hoffman	Chairman and Chief Executive Officer, Central Bank of Denver, Denver, Colorado	1984
George S. Jenks	President and Chief Executive Officer, Sunwest Financial Services, Inc., Albuquerque, New Mexico	1985
Kenneth C. Naramore	Chairman of the Board and Chief Executive Officer, Stockmen's Bank & Trust Company, Gillette, Wyoming	1986
Roger L. Reisher[3]	Co-Chairman, FirstBank Holding Company of Colorado, Lakewood, Colorado	1986

Appointed by Board of Governors

James E. Nielson[1]	President and Chief Executive Officer, JN Incorporated, Cody, Wyoming	1984
Anthony W. Williams[3]	President, Williams, Turner & Holmes, P.C., Grand Junction, Colorado	1985
Ralph F. Cox	Executive Vice President, Atlantic Richfield Company, Denver, Colorado	1986

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank

William O. Alexander	President and Chief Executive Officer, Continental Federal Savings & Loan Association, Oklahoma City, Oklahoma	1984
Marcus R. Tower	Vice Chairman of the Board and Chairman of the Credit Policy Committee, Bank of Oklahoma, N.A., Tulsa, Oklahoma	1984
William H. Crawford	President and Chief Executive Officer, First National Bank and Trust Company, Frederick, Oklahoma	1985

Appointed by Board of Governors

John F. Snodgrass[3]	President and Trustee, Samuel Roberts Noble Foundation, Inc., Ardmore, Oklahoma	1984
Patience S. Latting[1,3]	Oklahoma City, Oklahoma	1985

OMAHA BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Donald J. Murphy	Director, Norwest Bank Omaha, N.A., Omaha, Nebraska	1984
William W. Cook, Jr.	President, The Beatrice National Bank and Trust Company, Beatrice, Nebraska	1985
Charles H. Thorne[3]	Chairman of the Board and Chief Executive Officer, First Federal Savings and Loan Association of Lincoln, Lincoln, Nebraska	1985
Appointed by Board of Governors		
Robert G. Lueder[1]	Chairman of the Board, Lueder Construction Company, Omaha, Nebraska	1984
Kenneth L. Morrison	President, Morrison-Quirk Grain Corporation, Hastings, Nebraska	1985

District 11—DALLAS

Class A		
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
Miles D. Wilson	Chairman of the Board and Chief Executive Officer, First National Bank, Bellville, Texas	1986
Class B		
J. Wayland Bennett	Charles C. Thompson 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
Kent Gilbreath	Associate Dean, Hankamer School of Business, Baylor University, Waco, Texas	1986
Class C		
Bobby R. Inman[3]	President and Chief Executive Officer, MCC, Austin, Texas	1984
Robert D. Rogers[1]	President and Chief Executive Officer, Texas Industries, Inc., Dallas, Texas	1985
John V. James[2]	Chairman of the Executive Committee, Dresser Industries, Inc., Dallas, Texas	1986

EL PASO BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
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
Vacant		1985
David L. Stone	President, Portales National Bank, Portales, New Mexico	1986

Appointed by Board of Governors

		Term expires Dec. 31
Mary Carmen Saucedo[1]	Associate Superintendent, Central Area Office, El Paso Independent School District, El Paso, Texas	1984
Peyton Yates[3]	President, Yates Drilling Company, Artesia, New Mexico	1985
John Sibley[3]	President, Delaware Mountain Enterprises, Carlsbad, New Mexico	1986

HOUSTON BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Ralph E. David	Chairman and Chief Executive Officer, The First Freeport National Bank, Freeport, Texas	1984
Thomas B. McDade	Vice Chairman, Texas Commerce Bancshares, Inc., Houston, Texas	1984
Will E. Wilson	Chairman of the Executive Committee, First City National Bank, Beaumont, Texas.	1985
Marcella D. Perry[3]	President and Chief Executive Officer, Heights Savings Association, Houston, Texas	1986

Appointed by Board of Governors

		Term expires Dec. 31
George V. Smith, Sr.	President, Smith Pipe Companies, Inc., Houston, Texas	1984
Robert T. Sakowitz	Chairman and President, Sakowitz, Inc., Houston, Texas	1985
Paul N. Howell[1]	Chairman and Chief Executive Officer, Howell Corporation, Houston, Texas	1986

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Joe D. Barbee	President and Chief Executive Officer, Barbee-Neuhaus Implement Company, Weslaco, Texas	1984
Charles E. Cheever, Jr.	Chairman of the Board, Broadway National Bank, San Antonio, Texas	1984

		Term expires Dec. 31
George Brannies	Chairman of the Board and President, Mason National Bank, Mason, Texas	1985
C. Ivan Wilson[3]	Chairman and Chief Executive Officer, First City Bank of Corpus Christi, Corpus Christi, Texas	1986

Appointed by Board of Governors

Carlos A. Zuniga	Partner, Laredo Freight Services, Inc., Laredo, Texas	1984
Robert F. McDermott	Chairman of the Board and President, United Services Automobile Association, San Antonio, Texas	1985
Lawrence L. Crum[1]	Professor of Banking and Finance, University of Texas at Austin, Austin, Texas	1986

District 12—SAN FRANCISCO

Class A

Vacant		1984
Spencer F. Eccles	Chairman, President, and Chief Executive Officer, First Security Corporation, Salt Lake City, Utah	1985
Rayburn S. Dezember[3]	Chairman, Central Pacific Corporation, and Chairman, American National Bank, Bakersfield, California	1986

Class B

George H. Weyerhaeuser	President and Chief Executive Officer, Weyerhaeuser Company, Tacoma, Washington	1984
Togo W. Tanaka	Chairman, Gramercy Enterprises, Inc., Los Angeles, California	1985
John C. Hampton[3]	Chairman and President, Willamina Lumber Company, Portland, Oregon	1986

Class C

Alan C. Furth[2]	Vice Chairman, Santa Fe Southern Pacific Corporation and President, Southern Pacific Company, San Francisco, California	1984
Caroline L. Ahmanson[1]	Chairman of the Board, Caroline Leonetti, Ltd., Hollywood, California	1985
Fred W. Andrew	Chairman, President, and Chief Executive Officer, Superior Farming Company, Bakersfield, California	1986

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank

Robert R. Dockson	Chairman, CalFed, Inc., Los Angeles, California	1984

		Term expires Dec. 31
Bram Goldsmith	Chairman and Chief Executive Officer, City National Bank, Beverly Hills, California	1985
William L. Tooley	Managing Partner, Tooley and Company, Los Angeles, California	1985
Harvey J. Mitchell[3]	President and Chief Executive Officer, Escondido National Bank, Escondido, California	1986

Appointed by Board of Governors

Bruce M. Schwaegler[1]	President, Bullock's-Bullock's Wilshire, Los Angeles, California	1984
Thomas R. Brown, Jr.	Chairman of the Board, Burr-Brown Corporation, Tucson, Arizona	1985
Lola M. McAlpin-Grant	Attorney, Inglewood, California	1986

PORTLAND BRANCH

Appointed by Federal Reserve Bank

John A. Elorriaga	Chairman and Chief Executive Officer, United States National Bank of Oregon, Portland, Oregon	1984
Jack W. Gustavel	President and Chief Executive Officer, The First National Bank of North Idaho, Coeur d'Alene, Idaho	1984
Herman C. Bradley, Jr.	President and Chief Executive Officer, Tri-County Banking Company, Junction City, Oregon	1985
William S. Naito	Vice President, Norcrest China Company, Portland, Oregon	1986

Appointed by Board of Governors

Carolyn S. Chambers	President, Chambers Cable Co., Inc., Eugene, Oregon	1984
G. Johnny Parks	Northwest Regional Director, International Longshoremen's & Warehousemen's Union, Portland, Oregon	1985
Paul E. Bragdon[1,3]	President, Reed College, Portland, Oregon	1986

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank

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 and Moore Financial Group, Boise, Idaho	1985
Albert C. Gianoli	President and Chairman of the Board, First National Bank of Ely, Ely, Nevada	1986

Appointed by Board of Governors		*Term expires Dec. 31*
Wendell J. Ashton[1]	Publisher, Deseret News, Salt Lake City, Utah	1984
David A. Nimkin	Executive Director, Salt Lake Neighborhood Housing Services, Inc., Salt Lake City, Utah	1985
Robert N. Pratt[3]	President, White River Shale Oil Corp., Salt Lake City, Utah	1986

SEATTLE BRANCH

Appointed by Federal Reserve Bank		
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 of the Board, Puget Sound National Bank, Tacoma, Washington	1985
Lonnie G. Bailey	Executive Vice President and Chief Operating Officer, Farmers & Merchants Bank of Rockford, Spokane, Washington	1986

Appointed by Board of Governors		
John W. Ellis[1]	President and Chief Executive Officer, Puget Sound Power & Light Company, Bellevue, Washington	1984
Byron I. Mallott	President and Chief Executive Officer, Sealaska Corporation, Juneau, Alaska	1985
Carol A. Birkholz[3]	Managing Partner, Laventhol and Horwath, Seattle, Washington	1986

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