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Strictly Confidential (FR) Class I FOMC

February 1, 1980

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

February 1, 1980

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Recent developments

(1) M-1 expanded at about a 1½ percent annual rate in January, well below the lower end of the range of growth targeted by the FOMC for the December to March period. Currency growth rebounded sharply in January, but outstanding demand deposits declined slightly. Reflecting the weak advance of M-1, M-2 increased at only about a 5¼ percent annual rate in January, also well under the December to March growth rate targeted by the FOMC. Deposit growth at thrift institutions dropped off a bit in January, and M-3 increased at only about a 4½ percent annual rate.

	September to December	January	December to March Targeted
Monetary aggregates			
Old Definitions 1/			
M-1	3.1	1.6	4 to 5
M-2	6.8	5.2	7
M-3	6.1	4.6	--
New Definitions 2/			
M-1A	4.4	4.8	--
M-1B	4.7	5.9	--
M-2	6.5	8.3	--
M-3	7.8	8.4	--

1/ Based on old seasonal adjustment factors.
2/ Based on revised seasonal adjustment factors.

(2) As can be seen in the lower panel of the table on the previous page, M-1A is estimated to have increased at an annual rate of about 4¾ percent in January, considerably more rapidly than old M-1. This difference is attributable in part to the use of revised seasonal adjustment factors in the calculation of the new measures,[1/] and in part to the exclusion of deposits due to foreign commercial banks and official institutions from M-1A (these deposits declined in January).

(3) Seasonally adjusted annual growth rates in the family of reserve measures that originally appeared consistent with monetary targets adopted by the FOMC at the January meeting are shown below for the December to March period and for the month of January, along with actual results for last month. As may be seen, growth in nonborrowed reserves--while rapid--was considerably less than targeted. Banks' demand for borrowing turned

	Targeted growth rates		Actual
	December to March	January	January
Nonborrowed reserves	6.7	18.4	10.6
Total reserves	2.1	3.8	4.0
Monetary base	8.1	10.8	9.8

out to be much larger than the $1 billion initially assumed following the January Committee meeting, and borrowing averaged $1.4 billion during the three statement weeks ending January 30. As a result, the decline in borrowing from December to January was less than anticipated. Growth in total reserves and the monetary base was about on target. In late January and early February, though, total reserves have tended to fall below target,

1/ The revised seasonals are estimated to have raised January growth of M-1A by about one percentage point. Impacts of the seasonal revision on growth rates for other months are shown in appendix I.

despite a higher than anticipated level of excess reserves, reflecting in part a weakening in required reserves (as a result of deposit weakness two weeks earlier) and in part misses in projections of market factors affecting reserves. Comparisons of reserve paths (seasonally unadjusted) for the four-week interval covering the weeks ending January 16 to February 6 with actual developments are shown in appendices IIA and IIB.

(4) The federal funds rate has drifted downward since the previous Committee meeting, from a weekly average of 13.94 percent in the week of January 9 to an average of 13.55 percent in the most recent complete statement week. On the other hand, with the Treasury continuing to issue large amounts of bills for cash, Treasury bill rates advanced about ¼ to ½ percentage point since the last Committee meeting. Private short-term rates were unchanged to a bit lower in the 3-month area, but rose 20 to 25 basis points in the 6-month area as market expectations of future declines in interest rates weakened.

(5) In longer-term markets, yields on corporate and Treasury bonds remained under upward pressure throughout January--after having increased in December--and are presently about ¾ to 1 percentage point above levels prevailing at the time of the January FOMC meeting. Inflationary expectations have apparently intensified in response to international tensions and the prospects of stronger defense spending. The residential mortgage market remained quite tight in January, although there are a few indications of easing from the exceptionally taut conditions in the latter part of the fourth quarter. For example, reports from some sectors of the country indicate that thrift institutions have liberalized commitment policies.

(6) Foreign exchange markets have been quiet since the last Committee meeting, and the dollar has been generally firm. The weighted-average exchange value of the dollar rose a bit over 1 percent, reflecting advances against all major currencies other than sterling and the Canadian dollar.

. However, U.S. authorities purchased more than $400 million of DM

and used these funds to repay swap drawings.

(7) The table on the next page shows seasonally adjusted annual rates of change, in percent, for selected monetary and financial flows over various time periods.

	1977 1/	1978 1/	1979 1/	Past Six Months Jan. '80 over July '79	Past Three Months Jan. '80 over Oct. '79	Past Month Jan. '80 over Dec. '79
Nonborrowed reserves	3.8	5.3	3.3	10.8	16.3	10.6
Total reserves	5.2	6.0	4.7	10.8	8.3	4.1
Monetary base	8.4	9.0	7.8	10.2	7.9	9.8
Redefined Concepts of Money						
M-1A (Currency plus demand deposits 3/)	7.7	7.1	5.7	5.4	5.4	4.8
M-1B (M-1A plus other checkable deposits)	8.1	8.2	7.7	6.1	5.9	5.9
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Euro-dollars)	10.9	8.2	8.8	7.9	7.2	8.3
M-3 (M-2 plus large time deposits and term RP's)	12.3	11.1	9.2	9.6	7.5	8.4
Bank Credit						
Loans and investment of all commercial banks 3/	10.9	13.6	11.4	n.a.	n.a.	n.a.
Managed Liabilities of Banks (Monthly average change in billions)						
Large CD's	0.9	1.9	-0.2	1.8 5/	1.4 5/	1.0 5/
Eurodollars	-0.2	0.5	1.9	0.5 5/	-2.0 5/	-6.3 5/
Other borrowings 4/	1.0	1.3	0.8	0.0 5/	-2.2 5/	-1.0 5/
Memo						
Nonbank commercial paper	0.2	0.3	0.9	n.a.	n.a.	n.a.

1/ December to December
2/ Other than interbank and U.S. Government.
3/ Includes loans sold to affiliates and branches.
4/ Primarily federal funds purchases and securities sold under agreements to repurchase.
5/ Latest month December 1979.
NOTE: All items are based on averages of daily figures, except for data on total loans and investments of commercial banks, commercial paper, and thrift institutions--which are derived from either end-of-month or Wednesday statement date figures. Growth rates for reserve measures in this and subsequent tables are adjusted to remove the effect of discontinuities from breaks in the series when reserve requirements are changed.

Proposed targets for the year 1980

(8) At the Committee's preliminary discussion in January of targets for the monetary aggregates for the year 1980 (QIV '79 to QIV '80), preferences generally appeared to be encompassed by a narrow range of 4½ to 5½ percent growth for M-1A. Against that background, the three alternative 1980 targets shown below for Committee decision at the February meeting are indexed by M-1A growth rates in ranges centering on 5½ percent (alt. I), 5 percent (alt. II), and 4½ percent (alt. III).1/

	Alt. I	Alt. II	Alt. III	Growth in 1979
M-1A	4 to 7	3½ to 6½	3 to 6	5.5 (6.8)2/
M-1B	4½ to 7½	4 to 7	3½ to 6½	8.0
M-2	6½ to 9½	6 to 9	5½ to 8½	8.8
M-3	7 to 10	6½ to 9½	6 to 9	9.5
Bank Credit	6½ to 9½	6 to 9	5½ to 8½	12.2

(9) The table on p. 7 shows (in the first line of each panel) key economic variables from the GNP projection in the green book, along with expected changes in income velocity of M-1A and in the federal funds rate, for 1980 and 1981. This projection assumes growth in M-1A at the 5 percent mid-point of the alternative II range. As may be seen, a modest decline in the federal funds rate is expected in the course of 1980, while the velocity of M-1A is projected to increase by about 2 percent. Such an increase, while below the long-run trend, is still more rapid than has generally occurred in past periods of declining interest rates and weakening economic activity. Thus, the basic projection assumes

1/ For comparative purposes, and in final farewell to the old money measures, the mid-point growth rates for Alt. II are reconciled with prospective growth in the old definitions for 1980 in appendix III.

2/ Number in parenthesis represents rate of increase after adding back the amount of demand deposits estimated to have shifted to ATS and New York State NOW accounts.

Economic Projections for
5% M-1A Growth Under
Alternative Fiscal Assumptions

	1980	1981
Nominal GNP (% Change, Q4/Q4)		
Greenbook	7.0	9.0
High Defense	8.0	10.0
Tax Cut	7.5	9.5
Real GNP (% Change, Q4/Q4)		
Greenbook	-2.2	0.6
High Defense	-1.4	1.0
Tax Cut	-1.7	1.7
Implicit GNP Deflator (% Change, Q4/Q4)		
Greenbook	9.3	8.4
High Defense	9.5	9.0
Tax Cut	9.3	7.9
Unemployment Rate (%, Q4 Level)		
Greenbook	7.7	8.7
High Defense	7.3	8.3
Tax Cut	7.6	8.0
M-1A Velocity (% Change, Q4/Q4)		
Greenbook	2.0	4.0
High Defense	3.0	5.0
Tax Cut	2.5	4.5
Federal funds rate (%, Q4 Level)		
Greenbook	12¾	13
High Defense	13½	14¼
Tax Cut	13	13¾

NOTE: The High Defense projection assumes that defense purchases (NIA basis) exceed those reflected in the greenbook projection by $10 billion in 1980 and $20 billion in 1981. The Tax Cut projection assumes a $10 billion cut in personal taxes in mid-1980; $10 billion cut in corporate taxes in mid-1980; and a $13 billion cut in social security taxes at the beginning of 1981, through rollbacks of scheduled rate and base increases.

a greater than usual desire on the part of the public to economize on cash--an assumption that seems reasonable in the current environment of strong inflationary expectations, high nominal interest rates, and growing public awareness of alternatives to cash.

(10) The table on the preceding page does not show differences in economic projections resulting from ½ point changes in assumptions about M-1A growth. These differences would be small--e.g. about ¼ percentage point in the price level and just a shade more on the unemployment rate by the end of 1981--and well within our range of projection error. The table does show, however, impacts of alternative fiscal policies, given growth in M-1A of around 5 percent. These are summarized in the second and third lines of each panel and will be described in the chart show at the February meeting.

(11) All of the alternative monetary growth rates for 1980 would involve a slowing from rates of growth in 1979. In the case of M-1A measured growth in 1979 was 5½ percent, but after adding back the estimated amount of outstanding demand deposits transferred into ATS and New York State NOW accounts, growth of M-1A in an economic sense was probably around 6¾ percent last year. Thus, as compared with the latter figure, even the mid-point of the proposed M-1A range for alternative I (the easiest alternative proposed) would involve a substantial decline in growth over the year ahead, though the upper end of that range would be above last year's growth.

(12) In this context, it should be noted that the proposed targets assume that further shifts out of existing demand deposits into ATS accounts and New York State NOW accounts will be negligible. Toward

the end of last year, such shifts appear to have faded to around .2 of a percentage point (at an annual rate) per month. However, to the extent that significant shifts do tend to occur this year, any growth rate for M-1A adopted by the Committee would be less restraining than would otherwise be the case.[1/] The most likely occasion for large-scale shifts out of existing demand deposits into interest-bearing transactions accounts in the year ahead would be early enactment of legislation authorizing nationwide NOW accounts. In that case, M-1A growth would tend to decline as demand deposits around the country shifted into NOW accounts, and M-1B growth would accelerate as savings deposits (not included in M-1B) also shifted into NOW accounts. In developing alternatives for the Committee, we have not assumed nationwide NOW accounts.

(13) M-2 targets for 1980 assume the continued rapid expansion of money market mutual funds and money market certificates and also that the new 2½-year floating ceiling certificate captures some funds that would otherwise have been lodged in instruments not included in the aggregate. M-3 is projected to grow only slightly more rapidly than M-2 in 1980, mainly because moderating credit demands are expected to hold down issuance of large time deposits at banks and thrift institutions.

Shorter-run targets

(14) Shown below are three alternative targets for the monetary aggregates over the December to March period, with suggested continuations through the second quarter. Also shown are proposed intermeeting federal funds rate ranges and implied growth rates for the aggregates in the two-month January to March period that are consistent with the basic three-month

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1/ Any shifts from demand to ATS or other checkable deposits would, of course, be captured in M-1B.

December to March objective. Alternative B is indexed by growth in M-1A of 4½ percent from December to March, and, for all practical purposes, can be considered to be equivalent to the 4½ percent M-1 target for that period adopted at the last meeting. (Similar data for M-3 are shown, along with more detailed information on all the aggregates, in the tables on pp. 11 and 12.)

		Alt. A	Alt. B	Alt. C
M-1A	Dec./Mar.	5	4½	4
	Mar./June	6	5½	4½
M-1B	Dec./Mar.	5½	5¼	4¾
	Mar./June	6½	6	5
M-2	Dec./Mar.	6¾	6½	6¼
	Mar./June	7¼	7	6¾
Intermeeting federal funds rate range		11 to 15½	11½ to 15½	11½ to 16
Memo:				
Implied growth Jan./Mar.				
M-1A		5	4¼	3½
M-1B		5½	4¾	4¼
M-2		6	5¾	5¼

(15) If the Committee chose to continue the policy adopted at the previous meeting with respect to M-1, it would imply growth in M-1A from January (as a base) to the end of the quarter of about 4¼ percent at an annual rate--given the 4¾ percent annual rate of growth of M-1A in January (which incorporates revised seasonal factors). The staff expects that a consistent growth in M-1B and M-2 would be 5¼ and 6½ percent, respectively, over the first quarter as a whole, and 4¾ and 5¾ percent for the remaining two months of the quarter. This assumes: (a) that interest-bearing checkable deposits expand at about the pace of the previous three months; (b) that a substantial outflow of savings deposits

Alternative Levels and Growth Rates for Key Monetary Aggregates

	M-1A			M-1B		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1979 December	371.5	371.5	371.5	387.7	387.7	387.7
1980 January	373.0	373.0	373.0	389.6	389.6	389.6
February	374.6	374.4	374.2	391.4	391.2	391.0
March	376.1	375.7	375.3	393.1	392.7	392.3
Growth Rates Monthly						
1980 January	4.8	4.8	4.8	5.9	5.9	5.9
February	5.1	4.5	3.9	5.5	4.9	4.3
March	4.8	4.2	3.5	5.2	4.6	4.0
Dec. '79-Mar. '80	5.0	4.5	4.0	5.6	5.2	4.7
Mar. '80-Jan. '80	6.0	5.5	4.5	6.4	5.9	4.9
Quarterly Average						
1980 QI	5¾	5	5	6	5¾	5½
QII	4¾	4½	4¼	5¼	5	4¾
QIII	4¾	5	5¼	5	5½	5¾
QIV	4¾	5	5	5	5¼	5½
Annual						
1979 QIV to 1980 QIV	5	5	5	5½	5½	5½

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

	M-2			M-3		
	Alt. A	Alt. B	Alt. C	Alt. A	Alt. B	Alt. C
1979 December	1523.9	1523.9	1523.9	1772.1	1772.1	1772.1
1980 January	1534.4	1534.4	1534.4	1784.5	1784.5	1784.5
February	1540.7	1540.4	1539.8	1795.0	1794.2	1793.7
March	1549.8	1549.2	1548.0	1806.4	1804.8	1803.8
Growth Rates						
Monthly						
1980 January	8.3	8.3	8.3	8.4	8.4	8.4
February	4.9	4.7	4.2	7.1	6.5	6.2
March	7.1	6.9	6.4	7.6	7.1	6.8
Dec. '79-Mar. '80	6.8	6.6	6.3	7.7	7.4	7.2
Mar. '80-June '80	7.3	7.1	6.8	9.0	8.8	8.5
Quarterly Average						
1980 QI	7	7	6¾	7½	7½	7¼
QII	7	6¾	6¾	8½	8¼	8
QIII	7¼	7¼	7½	7¾	8	8¼
QIV	8½	8¼	8¼	7¾	7¾	8
Annual						
1979 QIV to 1980 QIV	7½	7½	7½	8	8	8

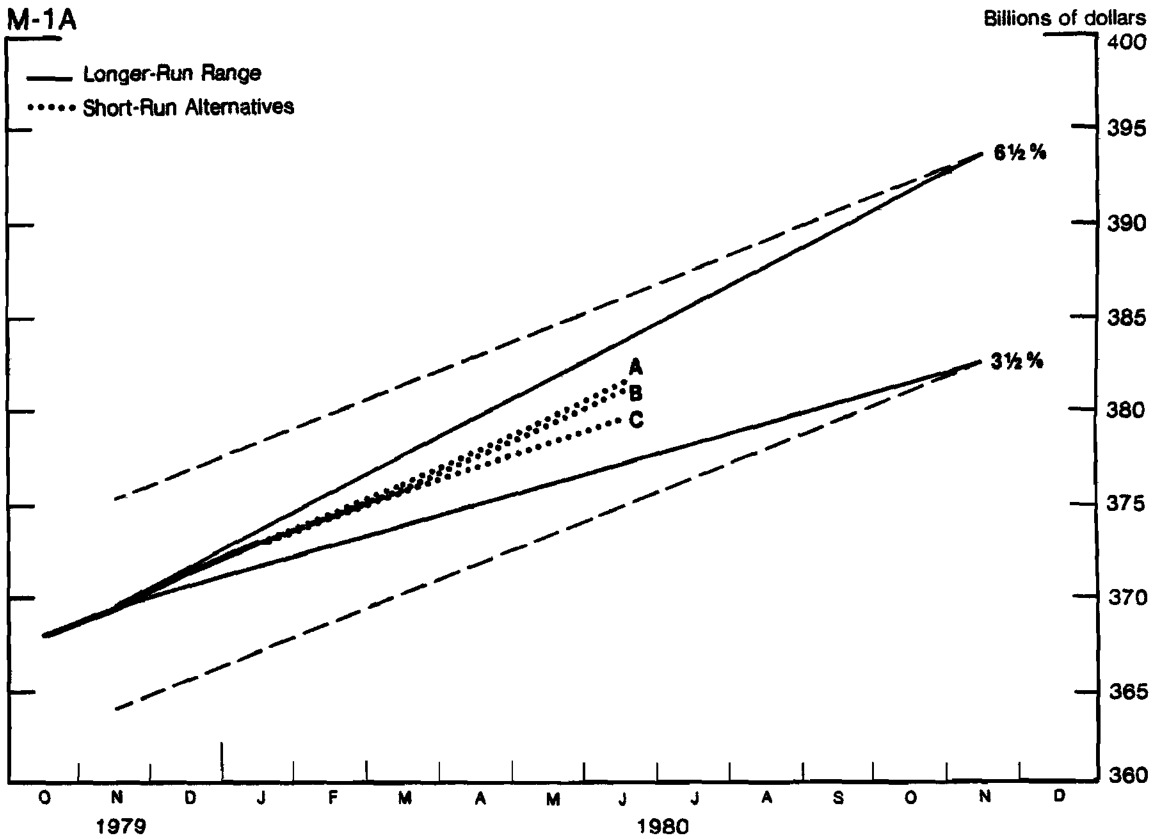
continues at banks and thrift institutions; (c) that growth in small time deposits speeds up from the pace of recent weeks; and (d) that growth in money market funds slows from the very rapid rate of January, reverting to the pace of late last year. The monetary base might be expected to grow at an annual rate of 5¾ from January to March, but total reserves may show little change (assuming some decline in excess reserves and relatively little expansion in member bank deposits).

(16) Given a GNP projection in which the economy is not as weak as earlier anticipated, alternative B may be accompanied by little change in the funds rate over the next few weeks. Under such circumstances, there may be little if any reduction in the demand for borrowing under alternative B from around the $1¼ billion average level of January. On that assumption, nonborrowed reserves, like total reserves, would change little from January to March.

(17) The easing of money and credit demands in the second quarter, when the economy is projected to weaken more substantially than in the first, enhances the probability of some decline of interest rates at that time, particularly if the Committee were to opt for the slight acceleration in M-1A growth over the March to June period to the 5½ percent annual rate proposed in alternative B. Such growth would bring M-1A by June to around the mid-point of a 3½ to 6½ percent target band for 1980. The charts on the next two pages show actual growth rates in all of the monetary aggregates through January, and projected growth rates based on the proposed short-run alternatives, in relation to longer-run targets for

Chart 1

Actual and Targeted M-1A and M-1B



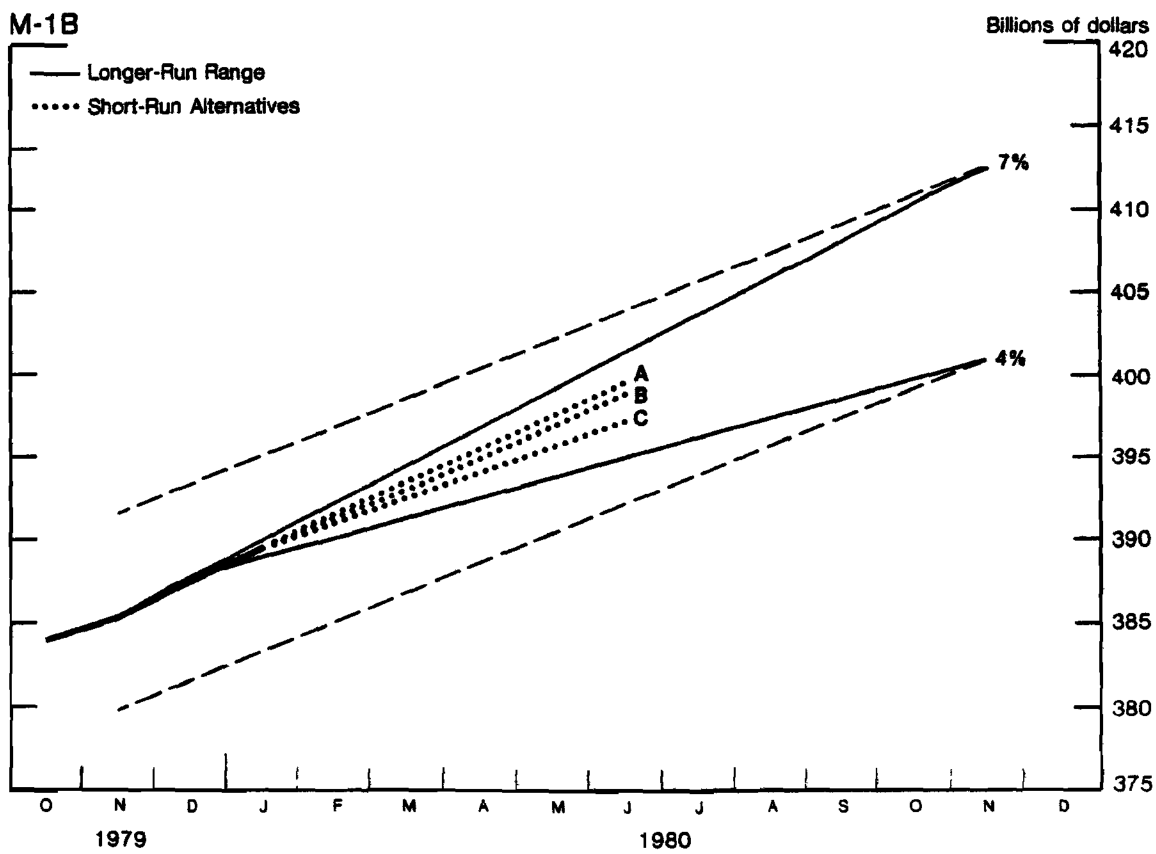


Chart 2

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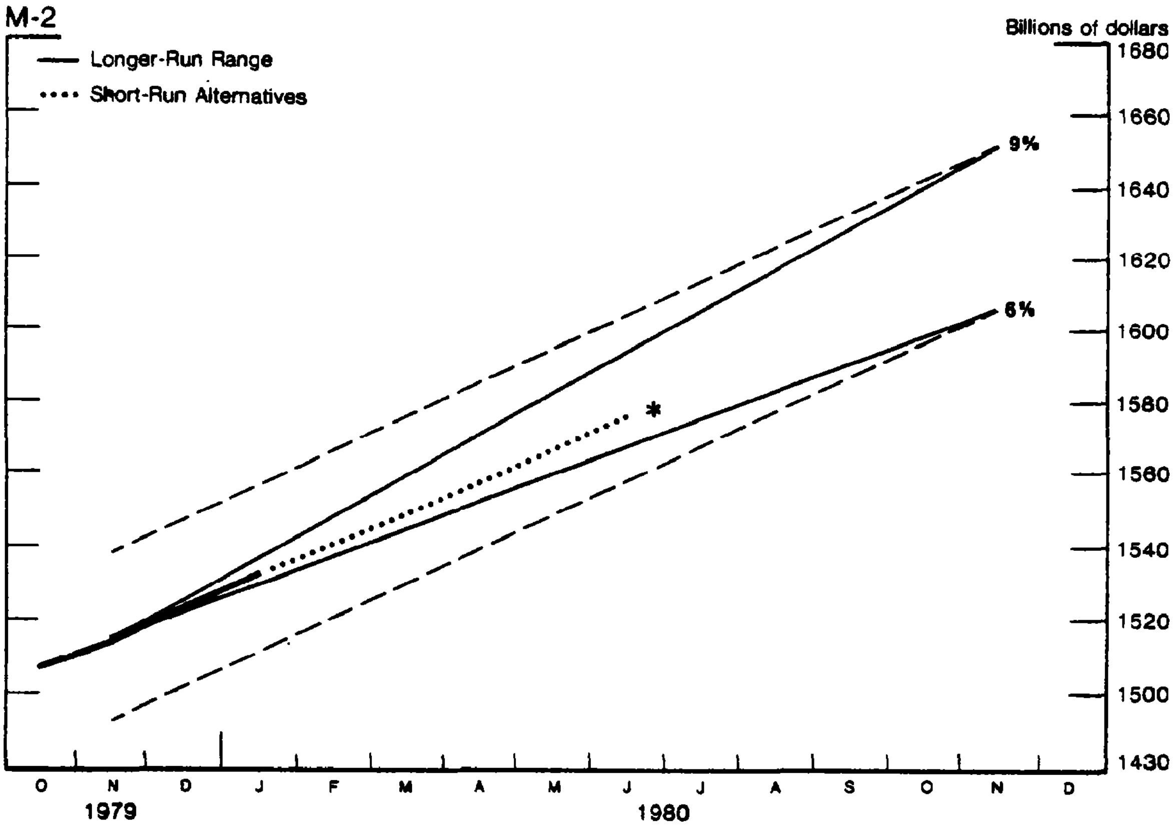
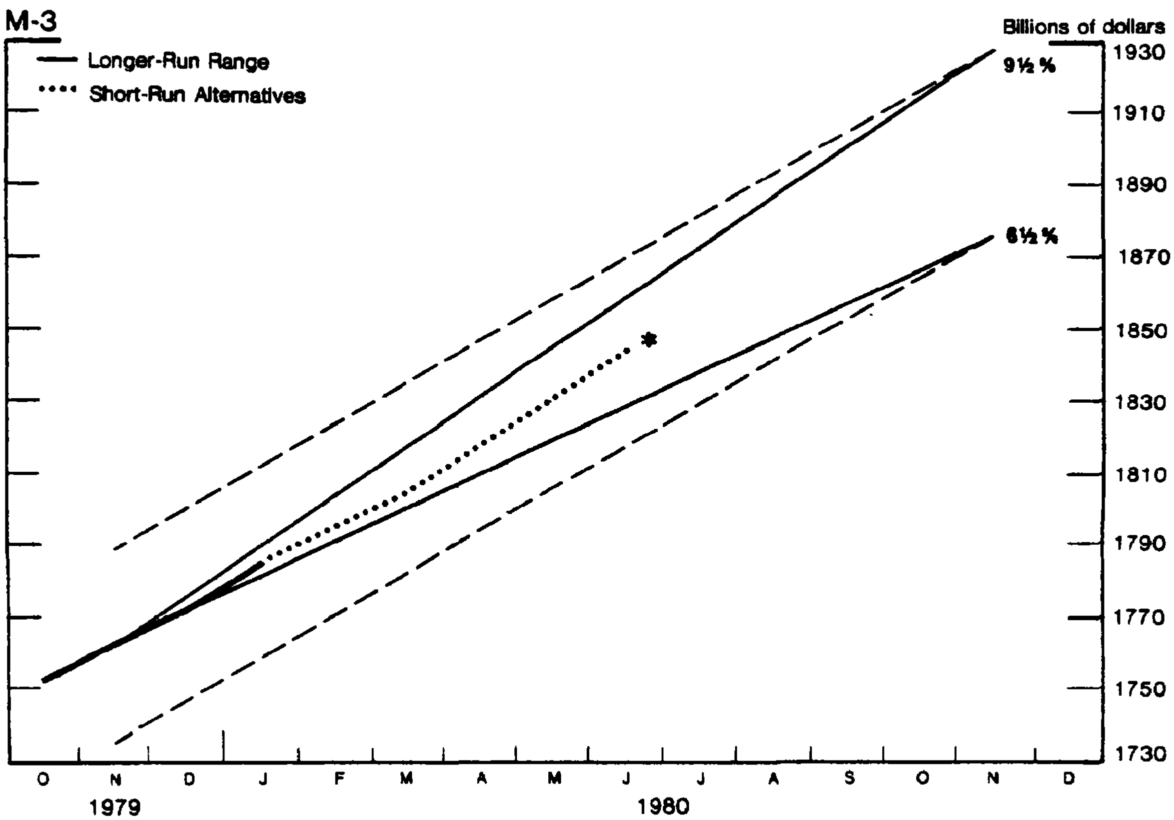
Actual and Targeted M-2 and M-3





*Note: A, B, and C alternatives are indistinguishable on these scales.

1980. These longer-run targets are taken for these purposes to be those of longer-run alternative II.[1/]

(18) Unusually large personal income tax refunds projected to begin late this winter may pose a special problem for setting monetary targets over the next few months.[2/] In the past, these refunds have often added temporarily to growth in monetary aggregates, and to the volatility of transactions balances. Impacts are quite uncertain, however, depending on how quickly returns are filed and processed and also on the nature of the public's response to receipt of the funds. If the flow of refunds turns out as projected, it is possible that growth of M-1A in the months from February to April could be 1 to 3 percentage points higher, with offsetting effects in the ensuing three months. But given the uncertainty of impacts on the aggregates, no special adjustment was made to the money supply objectives presented in this blue book. However, in framing its policy and in guiding the Manager, the Committee may wish to recognize that M-1A and other aggregates might tend to expand more than targeted over the next few months because of a transitory factor whose impact cannot be readily quantified in advance.

(19) Alternative A would call for a more rapid increase in money targets for the current and next quarter, implying a step-up in M-1A growth from January to March to about a 5½ percent rate, with more rapid expansion in the second quarter. The monetary base and total reserves over the next two months might be expected to grow at annual rates of 6 and 1 percent

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1/ The longer-run targets are shown in the usual cone shape and also as channels of constant width equal to the dollar range in the fourth quarter of 1980.

2/ Such refunds expanded by about $2 billion per year during the previous four years, but are expected to rise by as much as $12 billion more in 1980 as compared with the previous year.

respectively under such a policy. This somewhat greater reserve supply would tend to be associated with some downward pressure on money market rates, with the federal funds rate possibly declining to the 13 percent area over the next few weeks. With an unchanged discount rate, the lower funds rate might be consistent with member bank borrowing of around $1 billion. On that assumption nonborrowed reserves would expand at about a 2½ percent annual rate over the last two months of the current quarter.

(20) The more rapid rate of growth in money of alternative A would, as shown in the charts following page 13, cause aggregates growth to rise by March to levels above the mid-point paths of alternative II; by June the aggregates would be further above mid-point paths. Thus, if monetary growth over 1980 is to be kept around the mid-point of the alternative II range, reserve supply would have to be more restrained in the second half of the year--with the federal funds rate probably rising at a time when the economy is projected to be weakening even further.

(21) Alternative C contemplates a reduction in money targets for the current quarter to a 4 percent annual rate, as indexed by M-1A. This would probably lead to some rise in the funds rate over the next few weeks unless the economy weakens more than projected. Growth of the monetary base would probably be at an annual rate of 5 percent, while total reserves are likely to decline slightly. Initially assuming a level of borrowing of about $1.5 billion, nonborrowed reserves would decline at about a 6 percent annual rate over the January to March period. As shown in the charts, alternative C implies that the money stock will be below mid-point paths in March and further below them in June. Consequently,

in order to achieve longer-run targets, policy would have to be more expansive in the second half of the year, leading to more substantial downward pressures on short rates at that time than under alternative B.

(22) A rise or fall in short-term rates could prompt some sympathetic movement in bond yields, but developments in the bond market are likely to be more influenced by incoming evidence on inflation prospects and by international events. Even if bond yields were to move somewhat higher, mortgage rates would be unlikely to rise significantly, given the already slack demand for residential mortgage loans at current rate levels; a retracing of recent bond rate increases would reinforce the tendency apparent in the mortgage market of late toward some easing of lending terms.

(23) Under any of the alternatives, bank credit growth is likely to be stronger over the first quarter than the unusually low 3 percent rate of the final quarter of 1979. Business loan growth appears to have picked up recently at large banks. And over the first quarter as a whole, the external needs for funds by businesses are expected to rise, including the need to finance enlarged tax payments. Thus, banks over the next few months may become more active in issuing managed liabilities than they were in the fourth quarter.

Directive language

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

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate OF ABOUT _____ ~~between 4 and 5~~ percent for ~~M-1~~ M-1A and ~~on the order of 7~~ ____ percent for ~~M-2~~, M-1B, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~11½ to 15½~~ ____ TO ____ percent.

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

Appendix I

Impact of Seasonal Factor Changes and
Redefinition on Growth Rates
of Narrow Money Stock Measures
(percent annual rate)

1979				Estimated difference due to:	
Quarterly[1/]	Old M-1	New M-1A	Difference M-1A less M-1	Changes in Seasonal Factors	Redefinition
QI	-1.7	0.3	2.0	1.1	0.9
QII	11.4	9.5	-1.9	-1.3	-0.6
QIII	9.6	8.0	-1.6	-2.1	0.5
QIV	3.1	4.4	1.3	2.6	-1.3
Monthly					
January	-4.3	-5.1	-0.8	1.7	-2.5
February	-2.7	-0.3	2.4	0.9	1.5
March	2.0	6.5	4.5	0.7	3.8
April	18.3	14.7	-3.6	-5.5	1.9
May	0.7	-0.3	-1.0	2.1	-3.1
June	15.1	14.1	-1.0	-0.5	-0.5
July	10.4	9.7	-0.7	-0.9	0.2
August	6.7	7.3	0.6	-1.2	1.8
September	11.5	6.9	-4.6	-4.1	-0.5
October	2.5	2.0	-0.5	-0.5	0.0
November	1.3	5.2	3.9	4.3	-0.4
December	5.4	6.2	0.8	4.0	-3.2
1980					
January	1.6	4.8	3.2	1.0	2.2

1/ Last month of quarter to last month of quarter.

February 1, 1980

Appendix II-A

Comparison of Actual Level of Reserves to Their Path
(Millions of dollars, not seasonally adjusted)

	Average Level January 16 to February 6 1/ (inclusive)
Monetary Base	
Original path	155,655
Actual	155,313
Deviation	-342
Total Reserves	
Original path	45,155
Actual	45,071
Deviation	-84
Nonborrowed Reserves	
Original Path	44,155
Actual	43,835
Deviation	-320
Member Bank Borrowings	
Original path	1,000
Actual	1,236
Deviation	236
Excess Reserves	
Original path	250
Actual	367
Deviation	117

1/ Week of February 6 is estimated, of course, and assumes the following: excess reserves of $300 million, borrowing $700 million and nonborrowed reserves of 42,958 million.

February 1, 1980

Appendix II-B

Deviations in Uses of Total Reserves from Expectations
(Millions of dollars, not seasonally adjusted)

	January 16 to February 6 (inclusive)
A. Deviation of total reserves from original path	-84
B. Deviation of excess reserves from original path	117
C. Deviation of required reserves from original path	-201
D. Member bank required reserves by type:	
M-1 type deposits 1/	-157
Time and savings deposits included in M-2	7
Large negotiable CDs	26
Domestic net interbank demand deposits	-84
U.S. Government demand deposits	8
Marginal reserves	-1
E. Implied effect on reserves of deviations in nonreservable money components from expectations.	
Nonmember bank demand deposits	0
Nonmember bank time and savings deposits	-5
Currency	13

1/ Derived as residual.

Appendix III

RECONCILIATION TABLE
(billions of dollars)

	Average Level QIV 1979	Alt. II Dollar Change in 1980	Alt. II Growth Rate
Old M-1			
Less Foreign Deposits	380.8	19.2	5.0
Equals New M-1A	269.7	18.5	5.0
Plus Other Checkable Deposits	15.9	2.5	
Equals New M-1B	385.6	21.0	5.4
Old M-2	948.2	59.8	6.3
Plus Deposits at Thrifts	667.9	45.2	
Equals Old M-3	1616.1	105.0	6.5
Less large time deposits at all institutions in old M-3	153.1	29.2	
Less foreign demand deposits in old M-3	11.1	0.7	
Plus overnight RP's and Eurodollars	24.5	4.0	
Plus money market mutual fund shares	40.3	34.7	
Plus demand deposits at MSB's	1.2	0.1	
Less new M-2 consolidation	2.7	0.3	
Equals New M-2	1515.2	113.6	7.5
Plus large time deposits at banks and thrift institutions 1/	216.6	27.5	
Plus term RP's at banks and S&L's	30.2	0.9	
Equals New M-3	1762.1	142.0	8.0

1/ Excluding large time deposits held by money market mutual funds.

TABLE 1
SELECTED INTEREST RATES
(percent)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
FEBRUARY 1, 1980

	Short-Term							Long-Term								
	Federal funds	Treasury Bills			CDs Secondary Market	Comm. Paper 3-mo*	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp.-Aaa Utility		Muni-cipal Bond Buyer	Home Mortgages		
		Market		Auction										Primary Conv.	Secondary Market	
		3-mo	1-yr	6-mo	3-mo			3-yr	10-yr	30-yr	New Issue	Recently Offered			FNMA Auc.	GNMA Sec.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1978--High	10.25	9.30	9.62	9.58	10.96	10.52	11.57	9.58	9.13	8.95	9.30	9.54	6.67	10.38	10.60	9.68
Low	6.58	6.16	6.55	6.42	6.76	6.68	7.75	7.38	7.81	8.06	8.61	8.48	5.58	8.98	9.13	8.43
1979--High	15.61	12.60	11.89	12.65	14.53	14.26	15.75	11.68	10.87	10.42	11.50	11.45	7.38	12.90	13.29	11.77
Low	9.93	8.85	8.64	8.87	9.84	9.66	11.50	8.76	8.79	8.82	9.40	9.39	6.08	10.38	10.42	9.51
1978--Dec.	10.03	9.08	9.44	9.40	10.72	10.37	11.55	9.33	9.01	8.88	9.28	9.41	6.51	10.35	10.50	9.38
1979--Jan.	10.07	9.35	9.54	9.50	10.51	10.25	11.75	9.50	9.10	8.94	9.54	9.51	6.47	10.39	10.70	9.67
Feb.	10.06	9.32	9.39	9.35	10.19	9.95	11.75	9.29	9.10	9.00	9.53	9.56	6.31	10.41	10.54	9.67
Mar.	10.09	9.48	9.38	9.46	10.13	9.90	11.75	9.38	9.12	9.03	9.62	9.62	6.33	10.43	10.43	9.70
Apr.	10.01	9.46	9.28	9.50	10.06	9.85	11.75	9.43	9.18	9.09	9.70	9.74	6.29	10.50	10.59	9.78
May	10.24	9.61	9.27	9.53	10.16	9.95	11.75	9.42	9.25	9.19	9.83	9.84	6.25	10.69	10.84	9.89
June	10.29	9.06	8.81	9.06	9.95	9.76	11.65	8.95	8.91	8.92	9.50	9.50	6.13	11.04	10.77	9.75
July	10.47	9.24	8.87	9.19	10.11	9.87	11.54	8.94	8.95	8.93	9.58	9.53	6.13	11.09	10.66	9.77
Aug.	10.94	9.52	9.16	9.45	10.71	10.43	11.91	9.14	9.03	8.98	9.48	9.49	6.20	11.09	10.67	9.90
Sept.	11.43	10.26	9.89	10.13	11.89	11.63	12.90	9.69	9.33	9.17	9.93	9.87	6.52	11.30	11.09	10.31
Oct.	13.77	11.70	11.23	11.34	13.66	13.23	14.39	10.95	10.30	9.85	10.97	10.91	7.08	11.64	12.52	11.25
Nov.	13.18	11.79	11.22	11.86	13.90	13.57	15.55	11.18	10.65	10.30	11.42	11.36	7.30	12.83	12.75	11.57
Dec.	13.78	12.04	10.92	11.85	13.43	13.24	15.30	10.71	10.39	10.12	11.25	11.33	7.22	12.90	12.49	11.35
1979--Nov. 7	13.77	12.16	11.74	12.09	14.53	14.26	15.25	11.66	10.87	10.42	11.50	11.45	7.27	12.85	--	11.73
14	13.30	12.11	11.31	11.95	14.28	14.09	15.46	11.28	10.76	10.39	11.50	11.41	7.31	12.80	12.93	11.51
21	13.10	11.87	11.27	12.04	14.06	13.58	15.71	11.28	10.74	10.38	11.45	11.38	7.38	12.80	--	11.69
28	12.46	11.22	10.75	11.02	13.14	12.90	15.75	10.76	10.37	10.11	11.20	11.17	7.26	12.90	12.57	11.36
Dec. 5	13.77	11.58	10.88	11.77	13.06	12.70	15.54	10.66	10.35	10.06	11.22	11.16	7.17	12.90	--	11.29
12	13.79	12.11	10.97	11.77	13.26	12.96	15.29	10.71	10.35	10.09	11.28	11.37	7.26	12.90	12.42	11.18
19	13.90	12.21	10.95	12.00	13.82	13.69	15.25	10.76	10.41	10.15	--	11.35	7.22	12.90	--	11.49
26	13.49	12.01	10.86	11.85	13.36	13.35	15.25	10.69	10.43	10.17	--	11.39	7.23	12.90	12.55	11.39
1980--Jan. 2	14.04	12.03	10.88	11.88	13.42	13.20	15.25	10.70	10.43	10.17	--	11.42	7.32	12.85	--	11.39
9	13.94	11.92	10.91	11.86	13.47	13.10	15.25	10.73	10.61	10.31	11.51	11.54	7.30	12.90	12.70	11.63
16	13.91	11.75	10.76	11.78	13.35	12.95	15.25	10.74	10.64	10.37	11.61	11.69	7.28	12.87	--	11.51
23	13.77	12.08	10.94	11.89	13.36	13.02	15.25	10.86	10.83	10.64	12.08	12.11	7.33	12.89	13.11	11.92
30	13.54	12.21	11.19	11.85	13.40	13.06	15.25	11.14	11.13	11.03	--	12.29p	7.52	n.a.	--	12.10
Daily--Jan. 24	13.89	12.17	11.11	--	13.37	13.01	15.25	10.97	11.01	10.87	--	--	--	--	--	--
31	13.40p	12.00	11.17	--	13.29	13.04	15.25	11.17p	11.13p	11.09p	--	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 10 are statement week averages of daily data. Weekly data in column 4 are average rates set in the auctions of 6-month bills that will be issued on the Thursday following the end of the statement week. For column 11, the weekly date is the mid-point of the calendar week over which data are averaged. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. Column 15 gives FNMA auction data for Monday preceding the end of the statement week. Column 16 is a 1-day quote for Monday preceding the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

* 90-119 day maturity prior to November 1979

TABLE 2
NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES 1/
(millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC
FEBRUARY 1, 1980

	Treasury Bills Net Change 2/	Treasury Coupons Net Purchases 3/					Federal Agencies Net Purchases 4/					Net Change Outright Holdings Total 5/	Net RPs 6/
		Within 1 year	1 - 5	5 - 10	Over 10	Total	Within 1 year	1 - 5	5 - 10	Over 10	Total		
1975	-468	337	3,284	1,510	1,070	6,202	191	824	460	138	1,613	7,267	1,272
1976	863	472	3,025	1,048	642	5,187	105	469	203	114	891	6,227	3,607
1977	4,361	517	2,833	758	553	4,660	--	792	428	213	1,433	10,035	-2,892
1978	870	1,184	4,188	1,526	1,063	7,962	-47	45	104	24	127	8,724	-1,774
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1978--Qtr. IV	-5,072	212	1,135	250	247	1,844	--	--	--	--	--	-3,283	-2,130
1979--Qtr. I	-3,750	48	426	134	93	700	-170	-229	--	--	-399	-882 7/	680
Qtr. II	465	42	640	--	--	682	110	258	2	--	371	-1,795 8/	2,542
Qtr. III	5,363	395	1,289	309	310	2,302	191	288	3	--	482	8,129	-2,019
Qtr. IV	4,164	118	1,101	81	51	1,351	--	--	--	--	--	4,839	-3,801
1979--July	2,252	218	237	96	142	693	191	288	3	--	482	3,427	-1,665
Aug.	1,712	57	699	140	81	976	--	--	--	--	--	2,687	-2,279
Sept.	1,399	120	354	73	87	634	--	--	--	--	--	2,015	1,922
Oct.	-219	28	703	--	--	731	--	--	--	--	--	-159 9/	-2,499
Nov.	2,297	--	--	--	--	--	--	--	--	--	--	2,297	2,078
Dec.	2,086	90	398	81	51	620	--	--	--		--	2,701	-3,380
1979--Nov. 7	-198	--	--	--	--	--	--	--	--	--	--	-198	-2,903
14	1,937	--	--	--	--	--	--	--	--	--	--	1,937	-643
21	--	--	--	--	--	--	--	--	--	--	--	--	1,667
28	359	--	--	--	--	--	--	--	--	--	--	359	1,066
Dec. 5	122	--	--	--	--	--	--	--	--	--	--	122	-1,125
12	--	90	398	81	51	620	--	--	--	--	--	615	455
19	301	--	--	--	--	--	--	--	--	--	--	301	-1,426
26	1,379	--	--	--	--	--	--	--	--	--	--	1,379	-2,978
1980--Jan. 2	484	--	--	--	--	--	--	--	--	--	--	484	7,200
9	-200	--	--	--	--	--	--	--	--	--	--	-200	-3,432
16	-1,272	--	--	--	--	--	--	--	--	--	--	-1,272	-1,593
23	-639	--	--	--	--	--	--	--	--	--	--	-639	5,709
30	-400	--	--	--	--	--	--	--	--	--	--	-400	-6,966
LEVEL--Jan. 30 (in billions)	47.5	17.7	27.9	12.8	12.7	71.0	1.9	4.2	1.4	.7	8.2	126.8	-6.1

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

Corrected
2/4/80

Appendix III

RECONCILIATION TABLE
(billions of dollars)

	Average Level QIV 1979	Alt. II Dollar Change in 1980	Alt. II Growth Rate
Old M-1	380.8	19.2	5.0
Less Foreign Deposits	11.1	0.7	
Equals New M-1A	369.7	18.5	5.0
Plus Other Checkable Deposits	15.9	2.5	
Equals New M-1B	385.6	21.0	5.4
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Less large time deposits at all institutions in old M-3	153.1	29.2	
Less foreign demand deposits in old M-3	11.1	0.7	
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Plus money market mutual fund shares	40.3	34.7	
Plus demand deposits at MSB's	1.2	0.1	
Less new M-2 consolidation	2.7	0.3	
Equals New M-2	1515.2	113.6	7.5
Plus large time deposits at banks and thrift institutions 1/	216.6	27.5	
Plus term RP's at banks and S&L's	30.2	0.9	
Equals New M-3	1762.1	142.0	8.0

1/ Excluding large time deposits held by money market mutual funds.