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January 30, 1981

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# **MONETARY AGGREGATES AND MONEY MARKET CONDITIONS**

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Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

January 30, 1981

MONETARY AGGREGATES AND  
MONEY MARKET CONDITIONS

Recent developments

(1) Rather than posting a small increase as expected at the time of the last FOMC meeting, the narrow monetary aggregates fell sharply in December. In the early weeks of January, actual M-1A and M-1B were considerably affected by shifts into NOW accounts, which were much larger than anticipated. Other checkable deposits (OCD) in January--the first month of nationwide NOW accounts--appear to be increasing by about \$16 $\frac{1}{2}$  billion, some \$13 billion more than expected at the time of the last Committee meeting.<sup>1/</sup> Surveys of commercial banks and inspection of reported data suggest that in early January four-fifths of the net OCD growth came from demand deposits rather than the two-thirds previously estimated. Adding back that proportion of OCD growth to M-1A, and reducing M-1B by estimated shifts from other assets to OCD, provide an estimate of the "adjusted" growth in these aggregates, that is, growth as if nationwide NOWs had not occurred. This adjusted growth can then be compared with the target paths that were specified to abstract from NOW account shifts. As shown by the first two rows of each panel in the table on the next page, the rebound in "adjusted" growth of M-1A and M-1B in January still left these aggregates well below target path levels.<sup>2/</sup>

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<sup>1/</sup> About 85 percent of the growth in OCD occurred at commercial banks, mainly in the first two weeks of the month.

<sup>2/</sup> All monetary aggregates data in this Bluebook reflect benchmark adjustments, as described in Appendix I.

MONETARY AGGREGATES  
(December-January)

|                               | Levels<br>(\$ billion) |                          | Growth Rates<br>(SAAR) |                          |                               |
|-------------------------------|------------------------|--------------------------|------------------------|--------------------------|-------------------------------|
|                               | <u>Dec.</u>            | <u>Jan.<sup>1/</sup></u> | <u>Dec.</u>            | <u>Jan.<sup>1/</sup></u> | <u>Dec.-Jan.<sup>1/</sup></u> |
| <u>M-1A</u>                   |                        |                          |                        |                          |                               |
| Target Path <sup>2/</sup>     | 388.8                  | 390.2                    | 1.2                    | 4.3                      | 2.8                           |
| Adjusted Actual <sup>2/</sup> | 384.8                  | 386.9                    | -11.1                  | 6.5                      | -2.3                          |
| Actual                        | 384.8                  | 373.8                    | -11.1                  | -34.3                    | -22.6                         |
| <u>M-1B</u>                   |                        |                          |                        |                          |                               |
| Target Path <sup>2/</sup>     | 416.1                  | 417.7                    | 3.2                    | 4.6                      | 3.9                           |
| Adjusted Actual <sup>2/</sup> | 411.9                  | 414.2                    | -9.0                   | 6.7                      | -1.2                          |
| Actual                        | 411.9                  | 417.5                    | -9.0                   | 16.3                     | 3.6                           |

1/ January partially estimated

2/ Abstracting from impact of nationwide NOW's

(2) M-2 growth accelerated considerably in January, as M-1B strengthened and as money market mutual funds, whose posted yields came to exceed market rates, increased by a record amount. However, growth in M-2 for the December-January period was at only about a 5½ percent annual rate, less than expected at the time of the last meeting. Total credit growth at large banks appears to have been strong in the early weeks of January, but business loans at these institutions grew at the lowest rate since July. Although nonfinancial businesses in January relied considerably more on the commercial paper market as the spread between the paper and prime rate widened further, total short-term borrowing by these firms appears to have moderated; on the other hand, their capital market financing increased from the depressed levels of recent months.

(3) Growth in nonborrowed reserves was substantial over the past two months. About two-thirds of the expansion was offset by a decline

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1/ That is, adding back to savings accounts the proportion of OCD assumed to have reflected shifts from savings accounts.

in adjustment borrowing, despite the continuation generally of a wide spread of the federal funds rate over even the surcharge discount rate; total reserves and the monetary base grew much less than nonborrowed reserves. Excess reserves remained higher than expected over the past

Recent Growth in Reserve Aggregates  
(SAAR)

|                                       | <u>November</u> <sup>1/</sup> | <u>December</u> | <u>January</u>          |
|---------------------------------------|-------------------------------|-----------------|-------------------------|
| Nonborrowed reserves                  | -5.1                          | 13.4            | 16.5 <sup>2/</sup>      |
| Total reserves                        | 18.1                          | 1.6             | 6.4                     |
| Monetary base                         | 7.3                           | 4.9             | 4.0                     |
| Memo: (\$ million)                    |                               |                 |                         |
| Average level of adjustment borrowing | \$2,059                       | \$1,690         | \$1,362 <sup>2/3/</sup> |
| Average level of excess reserves      | \$498                         | \$552           | \$617 <sup>3/</sup>     |

1/ Excludes reserves required in association with reduction of weekend reserve avoidance activities.

2/ Includes in nonborrowed reserves and excludes from adjustment borrowings \$1½ billion of special borrowing for one day by one bank in association with transfers of funds to Iran.

3/ Includes data through January 28.

several weeks.<sup>1/</sup> The persistently large excess reserve levels are somewhat puzzling, but appear to be related to implementation of the Monetary Control Act. The larger excess reserve holdings have been concentrated at member banks, with no indications of a concentration in particular Districts or by size of institution. Only a very small part of the higher excess reserves that emerged beginning in November was held by nonmember commercial banks and thrifts.

1/ Targeted paths were adjusted to reflect the increased demands for excess reserves, as well as other factors affecting the multiplier. See Appendix II for reserve targets and adjustments.

(4) In the first three weeks of January, despite the further decline in adjustment borrowing, the federal funds rate remained high, trading generally in the 19 to 20 percent zone. More recently, the funds rate has been in the 17 to 19 percent area, even as borrowing ran markedly above earlier levels. Short-term rates fluctuated considerably over the intermeeting period, responding to published money stock data and other economic news. On balance, money market yields are  $2\frac{1}{2}$  to 4 percentage points below their highs in mid-December prior to the last FOMC meeting.

(5) Bond yields have moved in a pattern similar to short rates in recent weeks and are currently  $\frac{1}{2}$  to 1 percentage point below their December highs. Corporate bond issuance has recovered from the low November-December level. The Treasury has continued to raise substantial amounts of new money with coupon offerings--\$11 $\frac{1}{2}$  billion over the past two months. In the February mid-quarter financing just announced, the Treasury will raise another \$3 $\frac{1}{2}$  billion. Mortgage commitment rates have changed little since mid-December, remaining around 14-7/8 percent.

(6) The dollar has risen more than 4 percentage points on a weighted average basis since the last FOMC meeting, with most of the increase in the last week; small declines against sterling and the yen were more than offset by rises against continental European currencies. Developments surrounding the Iranian settlement appeared to have little net effect on exchange markets.

U.S. authorities sold \$1.3 billion in official intervention over the period.

(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.

|   | 1978 <sup>1/</sup> | 1979 <sup>1/</sup> | 1980 <sup>1/</sup> | Dec. '80<br>over<br>Sept. '80 | Jan. '81<br>over<br>Dec. '80 |
|---|--------------------|--------------------|--------------------|-------------------------------|------------------------------|
| Nonborrowed reserves  | 6.3                | 0.3                | 7.8                | 10.8                          | 15.0                         |
| Total reserves  | 6.2                | 2.6                | 7.1                | 14.3                          | 6.4                          |
| Monetary base   | 9.2                | 7.8                | 8.5                | 8.9                           | 4.0                          |
| <u>Concepts of Money</u>  |                    |                    |                    |                               |                              |
| M-1A (Currency plus demand deposits) <sup>2/</sup>  | 7.4                | 5.0                | 5.0                | 1.5                           | -34.3<br>(6.5) <sup>5/</sup> |
| M-1B (M-1A plus other checkable deposits)   | 8.2                | 7.7                | 7.3                | 3.3                           | 16.3<br>(6.7) <sup>5/</sup>  |
| M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Eurodollars) | 8.4                | 9.0                | 9.8                | 7.3                           | 8.4                          |
| M-3 (M-2 plus large time deposits and term RP's)  | 11.3               | 9.8                | 10.0               | 11.5                          | 14.1                         |
| <u>Bank Credit</u>  |                    |                    |                    |                               |                              |
| Loans and investments of all commercial banks <sup>3/</sup>   | 13.5               | 12.3               | 7.9                | 14.2                          | n.a.                         |
| <u>Managed Liabilities of Banks</u><br>(Monthly average change in billions)   |                    |                    |                    |                               |                              |
| Large time deposits   | 4.2                | 1.6                | 1.8                | 4.6                           | 9.9                          |
| Eurodollars   | 0.6                | 2.1                | -2.0               | -0.7                          | n.a.                         |
| Other borrowings <sup>4/</sup>  | 1.4                | 1.3                | n.a.               | n.a.                          | n.a.                         |

<sup>1/</sup> QIV to QIV.

<sup>2/</sup> Other than interbank and U.S. Government.

<sup>3/</sup> Includes loans sold to affiliates and branches.

<sup>4/</sup> Primarily federal funds purchases and securities sold under agreements to repurchase.

<sup>5/</sup> Adjusted for nationwide NOW accounts.

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 data 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.

Alternative Longer-Run Targets

(8) The December Bluebook contained a discussion of alternative longer-run monetary strategies for the 1981-83 period, and their implications for economic activity and prices. Against that background, this Bluebook focuses on possible alternative growth ranges for 1981 (QIV '80 to QIV '81) which must be reported to Congress in February. Various ranges that might be considered are shown in the table below, where the ranges abstract from impacts of shifts during the year into NOW accounts (to be discussed in paragraph 11).

|             | Target ranges for 1980 | Tentative target ranges for 1981 announced in July | Alternative target ranges for 1981 |           | Memo: Actual growth in 1980 |
|-------------|------------------------|--|------------------------------------|-----------|-----------------------------|
|             |                        |  | I                                  | II        |                             |
| M-1A        | 3½ to 6                | 3 to 5½  | 3 to 5½                            | 2½ to 5   | 5.0 <sup>1/</sup>           |
| M-1B        | 4 to 6½                | 3½ to 6  | 3½ to 6                            | 3 to 5½   | 7.3 <sup>1/</sup>           |
| M-2         | 6 to 9                 | 5½ to 8½   | 7 to 10                            | 6¾ to 9¾  | 9.8                         |
| M-3         | 6½ to 9½               | 6½ to 9½   | 7½ to 10½                          | 7¾ to 10¾ | 10.0                        |
| Bank Credit | 6 to 9                 | 6 to 9   | 6½ to 9½                           | 6¾ to 9¾  | 7.9                         |

<sup>1/</sup> M-1A and M-1B growth in 1980 was affected by shifts from demand and savings accounts to ATS/NOW accounts. The staff estimates that as a result of larger-than-anticipated shifts actual M-1A growth was reduced by about 1½ percentage points more, and M-1B increased by about ½ percentage point more, than had been assumed at the time the 1980 targets were established. Adjusting for the effects of these unanticipated shifts, growth in M-1A and M-1B last year would be about 6½ and 6¾ percent respectively.

(9) The tentative target ranges for 1981 adopted by the Committee in July, shown in the second column of the table, incorporate one-half percentage point reductions in the announced 1980 ranges for M-1A, M-1B, and M-2. Alternative I also involves ½ percentage point reductions in the ranges for 1981 for M-1A and M-1B, but presents higher ranges for the broader



aggregates than tentatively adopted. These higher ranges reflect the staff's current estimates of growth rates consistent with the M-1A and M-1B targets and associated GNP and interest rate projections. Alternative II specifies a one percentage point reduction from 1980 in target ranges for M-1A and M-1B as well as associated estimates of consistent growth ranges for the other aggregates.

(10) Alternative I underlies the staff's GNP projection for the current year. It implies the continuation of considerable restraint on economic activity, with real output projected to show little change over 1981; the rate of price increase is expected to decelerate in the course of the year (though for the year as a whole remaining near the 1980 pace). Interest rate levels that might be associated with that alternative are shown in the table below, which assumes that nominal GNP over the year expands by about 9½ percent.<sup>1/</sup>

Projected Interest Rates for 1981  
Associated with Alternative I  
(Quarterly Averages, Except as Noted)

|                    | <u>Dec.-Jan.</u> | <u>QI</u> | <u>QII</u> | <u>QIII</u> | <u>QIV</u> |
|--------------------|------------------|-----------|------------|-------------|------------|
| Federal funds rate | 19½              | 18½       | 16½        | 18          | 18½        |
| 3-month bill rate  | 15               | 15        | 14         | 15½         | 16½        |
| Corporate bonds    | 14½              | 14        | 13-7/8     | 14-1/8      | 14½        |
| Mortgage rate      | 14½              | 14-7/8    | 14-7/8     | 15          | 15-1/8     |

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<sup>1/</sup> According to the Board's quarterly econometric model, alternative I implies around a 2½ percentage point downward shift in money demand. On the other hand, a modification of this model to include the effects of changing cash management techniques induced by high market rates of interest, suggests a slight upward shift in money demand associated with the staff's GNP and interest rate projections.

(11) The longer-run alternatives presented in paragraph (8) abstract from the impact of nationwide NOW accounts, which will, of course, depress actual M-1A growth and inflate M-1B expansion. Implied ranges for the actual growth in the narrow aggregates under alternatives I and II that take account of the expected amount of shifting into NOW accounts are shown in the table below; shifts would not affect M-2 and M-3 to any significant extent. The size of NOW-account distortion depends on the assumed growth in

QIV '80 to QIV '81 Alternative Targets  
(Including the effect of ATS/NOW Accounts Shifts)

|      | <u>Alt. I</u> | <u>Alt. II</u> |
|------|---------------|----------------|
| M-1A | -4½ to -2     | -5 to -2½      |
| M-1B | 6 to 8½       | 5½ to 8        |

OCD and is also highly sensitive to the proportion of shifts from demand deposits and other assets, mainly savings accounts. In the December Bluebook, the staff had assumed that the midpoint of the range of likely growth in OCD over 1981 was about \$23 billion and that about two-thirds of the growth of OCD would represent shifts from demand deposits and one-third shifts from other assets. In view of the very large inflows into NOW accounts during January, the staff has raised the midpoint of the range of likely growth in OCDs to about \$40 billion (on the assumption that about half of the shift for the year has already taken place). In addition, the staff now assumes that, by early spring, the proportion of NOW growth representing shifts from demand deposits will be gradually reduced from the 4/5 estimated for January to the 2/3 originally assumed; this reflects an expectation that the bulk of large demand deposit holders will have shifted by the end of the first quarter. Given these assumptions, the actual growth ranges for M-1A and M-1B over 1981 consistent with those that abstract from shifts to OCD should be about

7½ percentage points lower for M-1A and 2½ percentage points higher for M-1B. As additional information becomes available about the extent and sources of NOW account growth, adjustments will be made to keep the actual ranges consistent with the "effective" targets set by the Committee.

Short-run alternatives

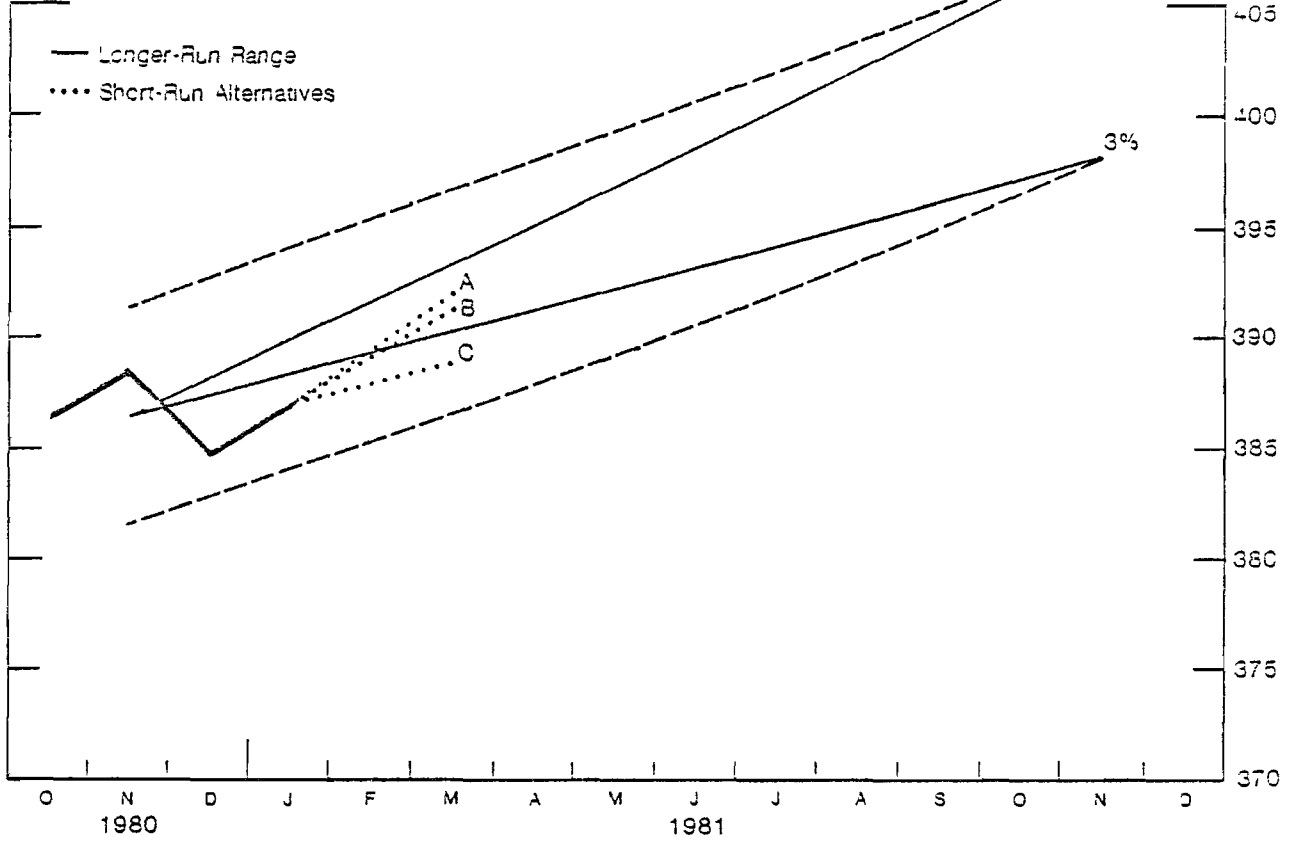
(12) Alternative policy approaches to the first three months of the year are shown below for Committee consideration. Growth rates for M-1A and M-1B are specified abstracting from the impact of nationwide NOW accounts. Actual growth rates that would be consistent with these targets will of course depend on flows into NOW accounts. The staff's current estimates of such actual measured growth are shown in parentheses in the table on pp. 10 and 11, which also contains additional and more detailed data on the various aggregates.

|  | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> |
|--|---------------|---------------|---------------|
| Growth from December to March            |               |               |               |
| M-1A                                     | 7½            | 6¾            | 4½            |
| M-1B                                     | 7½            | 6¾            | 4¾            |
| M-2                                      | 8¾            | 8½            | 8             |
| Implied growth for January-March         |               |               |               |
| M-1A                                     | 8             | 6¾            | 3             |
| M-1B                                     | 7¾            | 6½            | 3¾            |
| M-2                                      | 8¾            | 8½            | 7½            |
| Intermeeting federal funds<br>rate range |               |               |               |
|  | 14 to 20      | 15 to 21      | 16 to 22      |

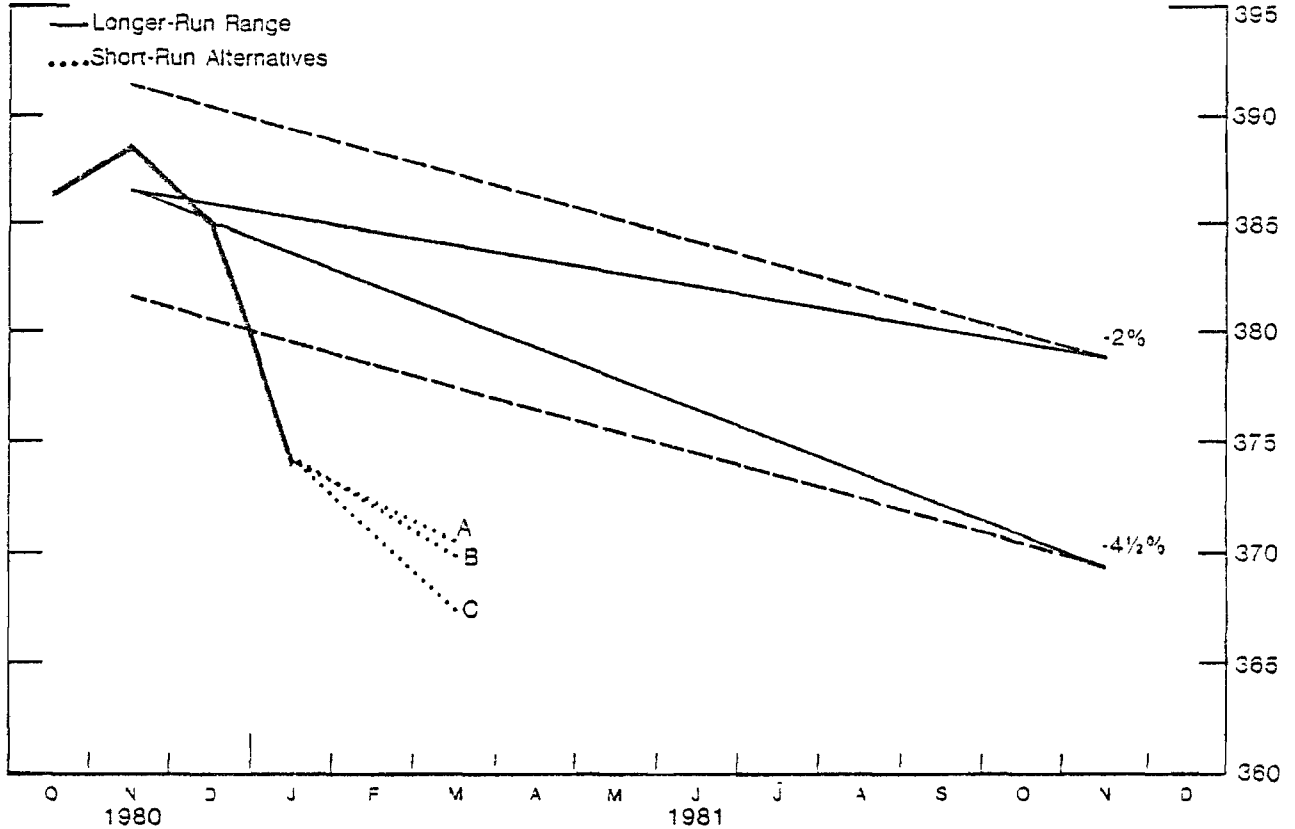
(13) As shown in the upper panel of charts 1 and 2 on the following pages, alternative A is based on growth in M-1A and M-1B at a rate that would bring the level of these aggregates by March to the midpoints of their tentative longer-run ranges adopted in July. This implies growth in M-1B

### Actual and Tentatively Targeted M-1A

Abstracting from NOW Accounts Impact

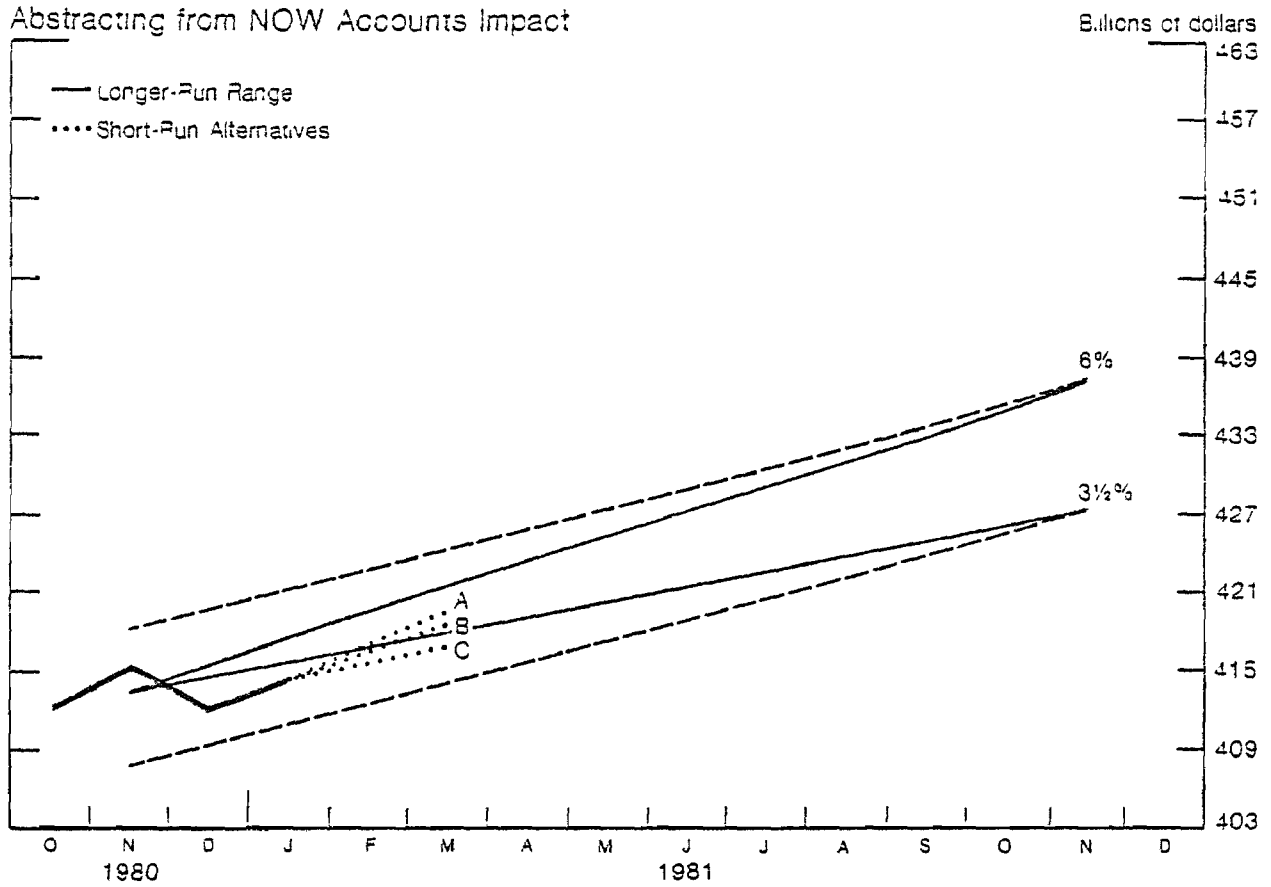


Including Assumed NOW Accounts Impact

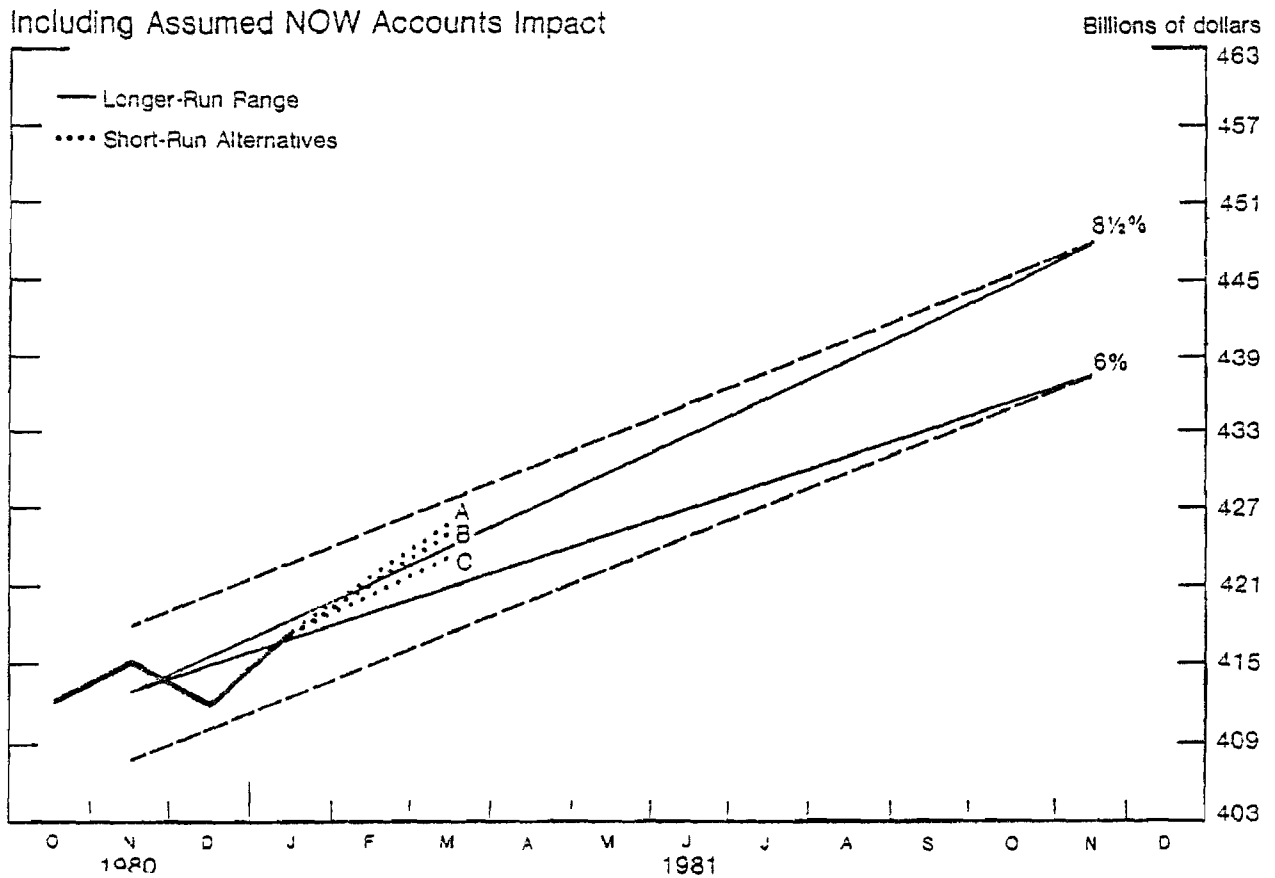


### Actual and Tentatively Targeted M-1B

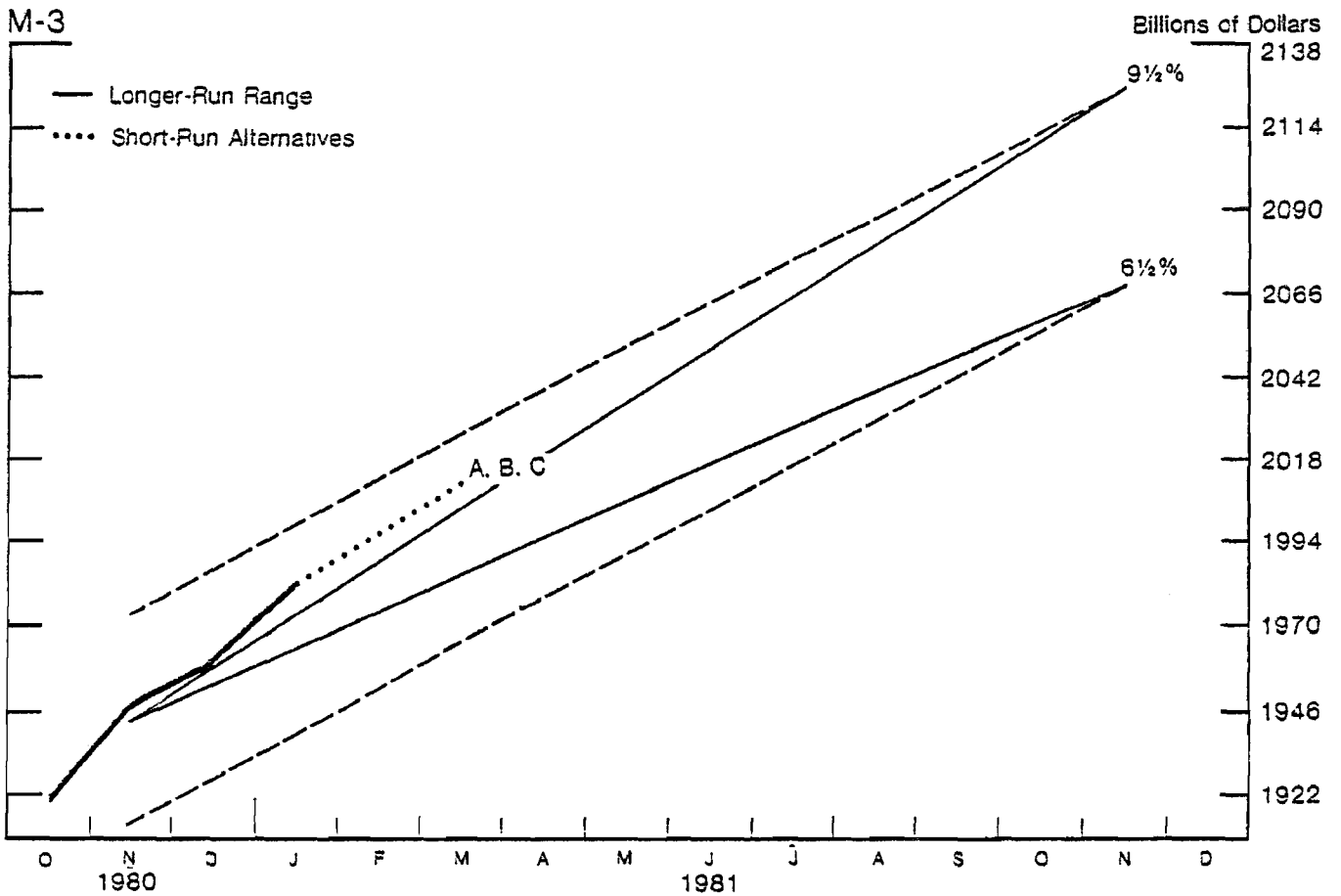
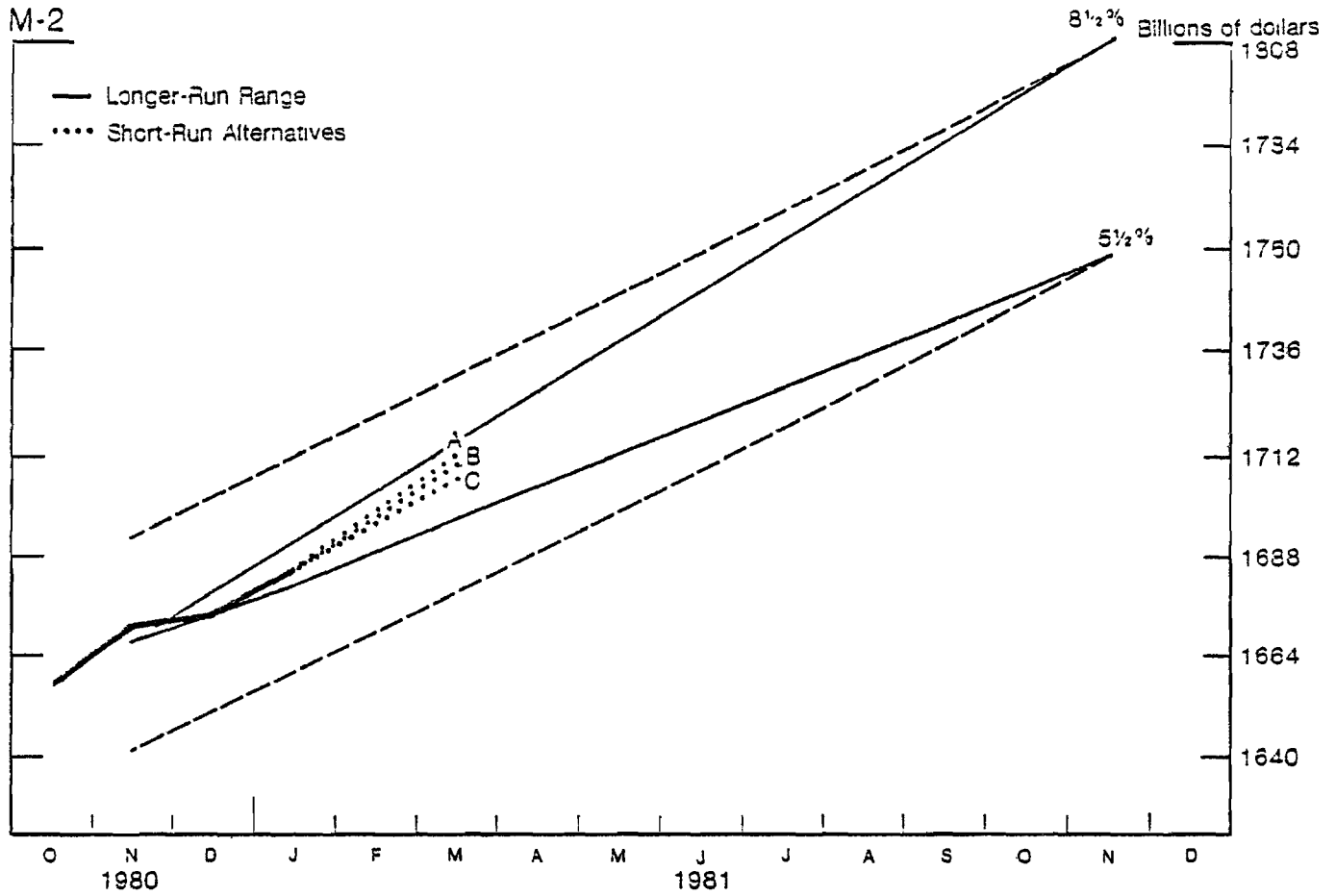
Abstracting from NOW Accounts Impact



Including Assumed NOW Accounts Impact



# Actual and Tentatively Targeted M-2 and M-3



Alternative Levels and Growth Rates for Key Monetary Aggregates

|                          | <u>M-1A</u>   |               |               | <u>M-1B</u>   |               |               |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                          | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> |
| 1981--January            | 386.9         | 386.9         | 386.9         | 414.2         | 414.2         | 414.2         |
| February                 | 389.6         | 389.3         | 388.3         | 417.1         | 416.8         | 415.8         |
| March                    | 392.0         | 391.3         | 388.9         | 419.5         | 418.8         | 416.8         |
| <u>Growth Rates</u>      |               |               |               |               |               |               |
| <u>Monthly</u>           |               |               |               |               |               |               |
| 1981--February           | 8.4           | 7.4           | 4.3           | 8.4           | 7.5           | 4.6           |
|                          | (-10.6)       | (-11.6)       | (-14.8)       | (14.1)        | (13.2)        | (10.3)        |
| March                    | 7.4           | 6.2           | 1.9           | 6.9           | 5.8           | 2.9           |
|                          | (0.0)         | (-1.3)        | (-5.9)        | (9.9)         | (8.8)         | (6.0)         |
| December '80 -           |               |               |               |               |               |               |
| March '81                | 7.5           | 6.8           | 4.3           | 7.4           | 6.7           | 4.8           |
|                          | (-14.9)       | (-15.6)       | (-18.1)       | (13.6)        | (12.9)        | (11.0)        |
| January '81 -            |               |               |               |               |               |               |
| March '81                | 7.9           | 6.8           | 3.1           | 7.7           | 6.6           | 3.8           |
|                          | (-5.3)        | (-6.4)        | (-10.2)       | (12.1)        | (11.1)        | (8.2)         |
| <u>Quarterly Average</u> |               |               |               |               |               |               |
| 1980--QIV                | 8.1           | 8.1           | 8.1           | 10.8          | 10.8          | 10.8          |
| 1981--QI                 | 3.1           | 2.8           | 1.6           | 3.8           | 3.5           | 2.5           |
|                          | (-15.5)       | (-15.7)       | (-17.0)       | (8.6)         | (8.3)         | (7.4)         |

NOTE: Growth rates shown in parentheses include the assumed NOW accounts impact.

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

|                             | <u>M-2</u>    |               |               | <u>M-3</u>    |               |               |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                             | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> |
| 1981--January               | 1686.3        | 1686.3        | 1686.3        | 1982.5        | 1982.5        | 1982.5        |
| February                    | 1699.1        | 1698.7        | 1697.5        | 1999.3        | 1999.0        | 1998.0        |
| March                       | 1711.0        | 1710.0        | 1707.6        | 2011.2        | 2010.4        | 2008.4        |
| <u>Growth Rates</u>         |               |               |               |               |               |               |
| <u>Monthly</u>              |               |               |               |               |               |               |
| 1981--February              | 9.1           | 8.8           | 8.0           | 10.2          | 10.0          | 9.4           |
| March                       | 8.4           | 8.0           | 7.1           | 7.1           | 6.8           | 6.2           |
| December '80 -<br>March '81 | 8.7           | 8.5           | 7.9           | 10.5          | 10.4          | 10.0          |
| January '81 -<br>March '81  | 8.8           | 8.4           | 7.6           | 8.7           | 8.4           | 7.8           |
| <u>Quarterly Average</u>    |               |               |               |               |               |               |
| 1980--QIV                   | 9.2           | 9.2           | 9.2           | 11.7          | 11.7          | 11.7          |
| 1981--QI                    | 7.6           | 7.4           | 7.1           | 11.4          | 11.3          | 11.1          |



over the first three months of the year at about a  $7\frac{1}{2}$  percent annual rate, given the shortfall that developed in December. Alternative B achieves the midpoint of the alternative II longer-run path by March, and implies growth in M-1B at a  $6\frac{1}{2}$  percent annual rate over the first three months of the year.<sup>1/</sup> Alternative C accepts the December shortfall, at least for the first quarter, and specifies from that lower base the same growth rate in the narrow aggregates over the first three months of the year that had been adopted by the Committee at its December meeting. This alternative implies relatively slow growth in February and March, as shown in last column of the middle panel of the table on page 9.<sup>2/</sup>

(14) We have assumed that funds will flow into OCD at a progressively slower pace in February and March--increasing about  $\$1\frac{1}{2}$  billion and \$750 million per week in those months, respectively. (In the first week of January OCD increased by about  $\$9\frac{1}{2}$  billion, but in the last week of the month such accounts are estimated to have risen only about  $\$2\frac{1}{2}$  billion.) On these assumptions actual growth in M-1A would be reduced by about  $13\frac{1}{2}$  percentage points over February and March and M-1B growth would be increased by about  $4\frac{1}{2}$  percentage points. This would mean, for instance, that under alternative A actual M-1A

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1/ Under alternatives A and B, M-1A would grow at the same rates as M-1B over the December to March period. This seeming anomaly (whereby M-1B does not grow  $\frac{1}{2}$  percentage point faster than M-1A) is simply the arithmetic result of the particular relationships of these aggregates in December 1980 to their QIV '80 averages.

2/ All of the short-run alternatives imply a March level of M-1B that is lower than would have been attained if this aggregate had grown in December at the 3.2 percent rate projected at the time of the December FOMC meeting (instead of declining 9 percent) and then at a  $4\frac{1}{2}$  percent annual rate targeted for the first three months of 1981. Growth of M-1B in February and March would have to be about  $9\frac{1}{2}$  percent at an annual rate to attain the March level implicit in the Committee's December decision.

would decline at a  $5\frac{1}{2}$  percent annual rate, and actual M-1B increase at a 12 percent rate. As can be seen in the lower panels of charts 1 and 2, the relatively large degree of shifting in the early months of 1981 results in a temporary deviation of actual M-1A and M-1B growth from their expected ranges for the year.

(15) Under all three alternatives, the growth of M-2 over the first quarter would offset the December shortfall and leave this aggregate in March at a level in the middle to upper part of the Committee's tentative long-run growth range for 1981. (See the upper panel of chart 3.) Growth in the non-transactions component of M-2 over the next two months is expected to be buoyed by the growth of money market funds, which is projected to be relatively strong as MMMF yields remain high in comparison to market rates. Growth of bank credit and, consequently, the issuance of large CDs is expected to moderate in the months ahead from the recent very rapid pace, contributing to some deceleration of M-3 expansion in February and March. Nonetheless, as shown in the lower panel of chart 3, owing to the relatively high current level of M-3, such growth will leave this aggregate in March above the upper end of the tentative longer-run range under all of the short-run alternatives.

(16) All of the alternatives imply a substantial slowing in growth of the transactions-related aggregates on a quarterly average basis in the first three months of 1981. For example, implied quarterly average growth in M-1B ranges from a high of  $3\frac{1}{2}$  percent under alternative A to a low of  $2\frac{1}{2}$  percent under alternative C. This suggests substantial monetary restraint against a projected expansion in nominal GNP for the quarter at an annual rate of more than 13 percent. The sizable implied velocity increases

would indicate little room for further short-term interest rate declines. Under alternative A, rates might be near, or perhaps a bit below, current levels over the balance of the quarter. Alternative B might involve somewhat higher interest rates, while alternative C seems quite likely to entail an increase in interest rates over the balance of the quarter. Of course, great uncertainty attaches to these interest rate projections, with market reaction to the forthcoming economic program of the new Administration likely to be a critical factor in near-term rate movements.

(17) The aggregate specifications of alternative A would appear to involve growth in total reserves at a  $1\frac{1}{2}$  percent annual rate from January to March, and, as noted earlier, only a small decline, if any, in the funds rate from the recent trading range of 17 to 19 percent. While an average level of borrowing at the discount window of about  $\$1\frac{1}{2}$  billion might be associated with attainment of the alternative A specifications, borrowing demands have been erratic recently--with the funds rate first staying high as borrowing declined and then falling as borrowing rose. Over the next two months total reserve growth under alternative B would be only  $\frac{1}{2}$  percent at an annual rate and reserves would decline at a 3 percent annual rate under alternative C. Under both alternatives relatively more reserves would be expected to be provided through borrowing at the discount window, given the current discount rate structure and assuming that these alternatives involve some upward short-term interest rate pressure. Under alternative B, borrowing might be  $\$1\frac{1}{2}$  billion, or a little less, and under alternative C  $\$1\frac{1}{2}$  billion or a little more.

(18) Credit demands over the months immediately ahead are expected to remain substantial. Business credit demands are projected to be well

maintained; however, relative to the fourth quarter of last year, more of the borrowing may be shifted to bond markets with less occurring at banks. But should interest rates again begin rising, business firms could once more postpone capital market financing and temporarily increase reliance on banks and the commercial paper market. The market will also have to absorb a sizable amount of new Treasury issues for cash over the next two months (perhaps \$8½ billion of new bills and \$10 billion of intermediate-term bonds) before the seasonal swing to budget surplus in the second quarter.

(19) Given these credit demands, longer-term bond yields are not likely to decline significantly over the weeks ahead. And there could be some increase if short-term rates were to rise in consequence of restraint on reserve growth in line with short-run money targets. Any rise in bond rates under such conditions may be limited if borrowers backed away from the market in anticipation of more receptive conditions later. Reactions to the Administrations' forthcoming economic program will also strongly influence longer-term rates. The possibility of a significant rise in longer-term rates cannot be discounted if tax cuts are in prospect without accompanying near-term expenditure cutbacks, but a rally in markets may develop if convincing signs of a move to fiscal restraint emerge or if evidence of economic weakness begins to cumulate.

(20) Should market rates remain near current levels, or even fall slightly, conventional home mortgage rates likely would remain around 15 percent; if market rates were to move back toward the recent peak levels, however, mortgage rates could well move significantly higher. In any event, housing activity and mortgage credit flows would be expected to moderate in the current quarter from the pace of the fourth quarter of 1980.

Commitment activity at S&Ls declined over the final months of last year, and it is expected that continuation of the high mortgage rates recently attained will cut further into housing demand. At the same time, the willingness of thrift institutions to extend new mortgage commitments probably will be limited by their concern about the cost and size of prospective deposit flows. The severe pressure on earnings margins of the thrift institutions would continue even if market interest rates were to drop appreciably in the next several months; the higher average cost of funds created by recent rollovers of MMCs has effectively ensured aggregate losses for S&Ls and MSBs in the first half.

Directive language

(21) Given below is a suggested operational paragraph for the directive. The language calls for expansion of reserve aggregates consistent with desired rates of monetary growth over the three-month period from December to March. The language used in December to specify the federal funds rate constraint is retained. The specifications adopted at the December meeting are shown in strike-through form.

In the short-run the Committee seeks behavior of reserve aggregates ~~associated~~ CONSISTENT with growth of M-1A, M-1B, and M-2 ~~over-the-first-quarter~~ FROM DECEMBER TO MARCH AT ANNUAL RATES OF \_\_\_ PERCENT, \_\_\_ PERCENT, AND \_\_\_ PERCENT RESPECTIVELY, ABSTRACTING FROM THE IMPACT OF FLOWS INTO NOW ACCOUNTS ~~along-a-path-consistent with-the-ranges-for-growth-in-1981-contemplated-earlier,-which will-be-reviewed-in-February-1981.--These-ranges,-abstracting-from the-effects-of-deposits-shifts-connected-with-the-introduction-of-NOW accounts-on-a-nationwide-basis,-imply-growth-in-these-aggregates centered-on-4-percent,-4-percent,-and-7-percent-respectively. It is recognized that the-introduction-of SHIFTS INTO NOW-and-ATS SUCH accounts nationwide-at-the-beginning-of-1981-is-likely-to-widen-the discrepancy-between~~ WILL CONTINUE TO DISTORT MEASURED growth in M-1A and M-1B to an UNPREDICTABLE extent, ~~that-cannot-now-be-accurately estimated,~~ and operational reserve paths will be developed in the light of evaluation of those ~~differences-as-they-emerge~~ DISTORTIONS. ~~in-the-light-of-the-rapid-growth-of-monetary-and-credit-aggregates in-recent-months,-some-shortfalls-in-growth-would-be-acceptable-in-the near-term-if-they-developed-in-the-context-of-reduced-pressures-in~~

the money market. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of ~~15-20-20~~ \_\_\_ TO \_\_\_ percent are likely to be inconsistent with the monetary and related reserve paths, 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

### Money Stock Benchmarks

During the intermeeting period money stock measures and related data were benchmarked to the December 1979 and March 1980 call reports. In addition, daily deposits data from all nonmember commercial banks with total deposits greater than \$15 million as of December 1979 were incorporated into the series.<sup>1/</sup> These nonmember banks have been reporting daily deposits data since November of last year in conjunction with the implementation of the Monetary Control Act of 1980. This revision also includes revised estimates of deposits at credit unions and other minor deposit items at all thrift institutions. In addition, the revision incorporates benchmarks for overnight and term RR's and the "L" series--M-3 plus other liquid assets--has been revised back to late 1969 to incorporate new estimates of term Eurodollar assets of U.S. nonbank holders.

The benchmark adjustments had only minor impact on the levels of M-1A and M-1B. The level of M-1A was raised \$100 million in December 1979 and lowered \$900 million in April of 1980. By the end of 1980 the downward adjustment was only \$500 million. Benchmark adjustments raised the level of M-1B about \$500 million at the end of 1979 and about \$1.0 billion at the end of 1980. The M-1B adjustment reflects faster growth in the other checkable deposits component (NOW/ATS and share draft deposits at credit unions).

The net adjustments to M-2 and M-3 were somewhat larger, on average. The level of M-2 was raised roughly \$500 million in late 1979 and nearly \$5.0 billion in late 1980. M-3 was unchanged in late 1979, but by the end

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<sup>1/</sup> Deposits of nonmember banks with less than \$15 million in total deposits will continue to be estimated from call report data until data from quarterly reporting, which began with the week ending January 21, are available. Data from these reports are not expected until mid-February, however.



of 1980 the level of the series had gradually been raised over \$6.5 billion. The major factors contributing to these upward adjustments were revised estimates of RP components based on March call report data. In addition, the net adjustments reflect stronger savings deposits and weaker small-time deposits. M-3 also reflects a downward revision in the large time deposits at banks component. The average level of the "L" series was raised substantially in 1980 reflecting the adjustments to M-3 plus a \$12 billion increase in the term Eurodollar component. As indicated, the Eurodollar adjustments were carried back to late 1969 with the amounts added decreasing over time. These adjustments reflect Eurodollar CDs held in custody by banks in London for the account of banks in the U.S. which are beneficially owned by nonbank U.S. residents.

Table I-A shows the impact of the benchmark adjustments on M-1A and M-1B growth rates. As the table shows the impacts on growth rates were minimal for the year as a whole. M-1A for the year 1980 was about unchanged and M-1B growth was raised less than 1/4 of a percentage point. The growth patterns over the year were modified slightly. The revised series show a bit less growth in the first half of 1980 and slightly faster growth in the second half of the year. Changes in monthly growth rates were generally small with the largest change in M-1A growth occurring in April of last year.

Table I-B shows M-2 and M-3 growth rates on an old and a revised basis. For these series the impacts of the benchmark adjustments were also small.

TABLE I-A

COMPARISON OF OLD AND REVISED M1-A AND M1-B GROWTH RATES  
(percent annual rate)

|                             | <u>M1-A</u> |                | <u>M1-B</u> |                |       |
|-----------------------------|-------------|----------------|-------------|----------------|-------|
|                             | <u>Old</u>  | <u>Revised</u> | <u>Old</u>  | <u>Revised</u> |       |
| <u>Annual</u> <sup>1/</sup> |             |                |             |                |       |
| 1979                        | 5.0         | 5.0            | 7.6         | 7.7            |       |
| 1980                        | 5.1         | 5.0            | 7.1         | 7.3            |       |
| <u>Quarterly Average</u>    |             |                |             |                |       |
| 1980                        | QI          | 4.8            | 4.6         | 5.9            | 5.8   |
|                             | QII         | -3.9           | -4.4        | -2.4           | -2.6  |
|                             | QIII        | 11.0           | 11.5        | 13.5           | 14.6  |
|                             | QIV         | 8.4            | 8.1         | 10.9           | 10.8  |
| <u>Monthly</u>              |             |                |             |                |       |
| 1980                        | January     | 3.6            | 2.6         | 5.3            | 4.3   |
|                             | February    | 9.4            | 9.4         | 9.9            | 9.6   |
|                             | March       | -1.9           | -1.9        | -0.3           | 0.0   |
|                             | April       | -17.7          | -20.0       | -14.1          | -15.6 |
|                             | May         | 0.7            | 1.3         | -1.2           | -0.6  |
|                             | June        | 11.4           | 12.4        | 14.6           | 16.2  |
|                             | July        | 7.8            | 8.4         | 11.1           | 12.9  |
|                             | August      | 19.3           | 19.3        | 21.6           | 21.8  |
|                             | September   | 12.6           | 12.3        | 15.8           | 15.8  |
|                             | October     | 9.4            | 9.1         | 11.5           | 11.3  |
|                             | November    | 6.8            | 6.5         | 9.3            | 8.7   |
|                             | December    | -11.1          | -11.1       | -9.0           | -9.0  |

<sup>1/</sup> QIV average to QIV average.

TABLE I-3

COMPARISON OF OLD AND REVISED M-2 AND M-3  
(percent annual rate)

|                             |           | M-2        |                | M-3        |                |
|-----------------------------|-----------|------------|----------------|------------|----------------|
|                             |           | <u>Old</u> | <u>Revised</u> | <u>Old</u> | <u>Revised</u> |
| <u>Annual</u> <sup>1/</sup> |           |            |                |            |                |
| 1979                        |           | 8.9        | 9.0            | 9.8        | 9.8            |
| 1980                        |           | 9.6        | 9.8            | 9.7        | 10.0           |
| <u>Quarterly Average</u>    |           |            |                |            |                |
| 1980                        | QI        | 7.2        | 7.3            | 7.8        | 8.0            |
|                             | QII       | 5.5        | 5.6            | 5.7        | 5.8            |
|                             | QIII      | 15.5       | 16.0           | 12.6       | 13.0           |
|                             | QIV       | 9.0        | 9.2            | 11.3       | 11.7           |
| <u>Monthly</u>              |           |            |                |            |                |
| 1980                        | January   | 7.1        | 6.8            | 7.7        | 7.5            |
|                             | February  | 9.5        | 10.1           | 11.8       | 12.6           |
|                             | March     | 5.0        | 5.4            | 4.4        | 5.1            |
|                             | April     | -2.5       | -3.2           | 0.0        | -0.7           |
|                             | May       | 9.4        | 10.3           | 8.7        | 9.1            |
|                             | June      | 18.1       | 18.3           | 13.4       | 13.5           |
|                             | July      | 18.2       | 18.8           | 13.5       | 14.0           |
|                             | August    | 14.5       | 14.9           | 13.6       | 14.0           |
|                             | September | 8.6        | 8.7            | 9.2        | 9.6            |
|                             | October   | 8.8        | 8.8            | 10.4       | 10.8           |
|                             | November  | 10.4       | 10.4           | 14.8       | 15.2           |
|                             | December  | 1.8        | 2.7            | 8.3        | 8.2            |

<sup>1/</sup> QIV average over QIV average.

Appendix II

RESERVE TARGETS AND RELATED MEASURES  
Intermeeting Period  
(\$ millions, not seasonally adjusted)

| <u>As of</u>                  | <u>Targets for<br/>4-Week Averages<br/>Dec. 24 to Jan. 14</u> |  | <u>Projections for 4-week Averages</u> |                                     |                                   |  |
|-------------------------------|---|--|--|-------------------------------------|-----------------------------------|--|
|                               | <u>Total<br/>Reserves</u><br>(1)                              | <u>Non-<br/>borrowed<br/>Reserves</u><br>(2) | <u>Total<br/>Reserves</u><br>(3)       | <u>Required<br/>Reserves</u><br>(4) | <u>Excess<br/>Reserves</u><br>(5) | <u>Adjustment<br/>Borrowing</u><br>(3)-(2) |
| December 19<br>(FOMC Meeting) | 40,948  | 39,448                                       | 40,948                                 | 40,548                              | 400                               | 1,500                                      |
| December 26                   | 41,048 <sup>1/</sup>  | 39,548 <sup>1/</sup>                         | 40,991                                 | 40,509                              | 482                               | 1,443                                      |
| January 2                     | 41,148 <sup>2/</sup>  | 39,648 <sup>2/</sup>                         | 40,971                                 | 40,446                              | 525                               | 1,323                                      |
| January 9                     | 41,338 <sup>3/</sup>  | 39,838 <sup>3/</sup>                         | 41,168                                 | 40,529                              | 639                               | 1,330                                      |
|                               | <u>Targets for<br/>3-Week Averages<br/>Jan. 21 to Feb. 4</u>  |  | <u>Projections for 3-week Averages</u> |                                     |                                   |  |
| January 16                    | 42,041  | 40,541                                       | 41,740                                 | 41,240                              | 500                               | 1,199                                      |
| January 23                    | 41,841 <sup>4/</sup>  | 40,341 <sup>4/</sup>                         | 41,509                                 | 40,964                              | 545                               | 1,168                                      |
| January 30                    | 41,841  | 40,061 <sup>5/</sup>                         | 41,427                                 | 40,939                              | 488                               | 1,366                                      |

- <sup>1/</sup> Total and nonborrowed reserves path adjusted upward by \$100 million on December 26, 1980 to account for changes in multiplier relationships.
- <sup>2/</sup> Total and nonborrowed reserves path adjusted upward by \$100 million on January 2, 1981 to account for changes in multiplier relationships.
- <sup>3/</sup> On January 9, 1981 total and nonborrowed reserves path adjusted upward by \$190 million to account for further changes in multiplier relationships.
- <sup>4/</sup> Total and nonborrowed reserves path adjusted downward by \$200 million on January 23, 1981 to account for changes in multiplier relationships.
- <sup>5/</sup> Adjusted downward to reflect the large unexpected rise in demand for borrowing in the week ending January 28.

TABLE I  
SELECTED INTEREST RATES  
(Percent)

STRICTLY CONFIDENTIAL (FR)  
CLASS II- FOUR

| Period        | Short-term       |                |         |       |                            |                        |                       | Long-term                              |        |        |                       |              |                                 |                     |                  |                          |
|---------------|------------------|----------------|---------|-------|----------------------------|------------------------|-----------------------|--|--------|--------|-----------------------|--------------|---------------------------------|---------------------|------------------|--------------------------|
|               | Federal<br>funds | Treasury Bills |         |       | CDs<br>Secondary<br>Market | Comm.<br>Paper<br>3-mo | Bank<br>Prime<br>Rate | U.S. Govt. Constant<br>Maturity Yields |        |        | Corp. -Aaa<br>Utility |              | Muni-<br>cipal<br>Bond<br>Buyer | Home Mortgage       |                  |                          |
|               |                  | Market         | Auction | 6-mo  |                            |                        |                       | 1-yr                                   | 3-yr   | 10-yr  | 30-yr                 | New<br>Issue |                                 | Recently<br>Offered | Primary<br>Conv. | Secondary<br>FHA<br>Auc. |
|               | (1)              | (2)            | (3)     | (4)   | (5)                        | (6)                    | (7)                   | (8)                                    | (9)    | (10)   | (11)                  | (12)         | (13)                            | (14)                | (15)             | (16)                     |
| 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                     |
| 1980--High    | 19.83            | 16.73          | 14.39   | 15.70 | 20.58                      | 19.74                  | 21.50                 | 14.29                                  | 13.36  | 12.91  | 14.51                 | 15.03        | 10.56                           | 16.35               | 15.91            | 14.17                    |
| Low           | 8.68             | 6.49           | 7.18    | 6.66  | 8.17                       | 7.97                   | 11.00                 | 8.61                                   | 9.51   | 9.54   | 10.53                 | 10.79        | 7.11                            | 12.18               | 12.28            | 10.73                    |
| 1979--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                    |
| 1980--Jan.    | 13.82            | 12.00          | 10.96   | 11.85 | 13.39                      | 13.04                  | 15.25                 | 10.88                                  | 10.80  | 10.60  | 11.73                 | 11.77        | 7.35                            | 12.88               | 12.91            | 11.94                    |
| Feb.          | 14.13            | 12.86          | 12.46   | 12.72 | 14.30                      | 13.78                  | 15.63                 | 12.84                                  | 12.41  | 12.13  | 13.57                 | 13.35        | 8.16                            | 13.01               | 14.49            | 11.18                    |
| Mar.          | 17.19            | 15.20          | 14.03   | 15.10 | 17.57                      | 16.81                  | 18.31                 | 14.05                                  | 12.75  | 12.34  | 14.00                 | 13.90        | 9.17                            | 15.28               | 15.64            | 13.79                    |
| Apr.          | 17.61            | 13.20          | 11.97   | 13.62 | 16.14                      | 15.78                  | 19.77                 | 12.02                                  | 11.47  | 11.40  | 12.90                 | 12.91        | 8.63                            | 16.33               | 14.61            | 12.64                    |
| May           | 10.98            | 8.58           | 8.66    | 9.15  | 9.79                       | 9.49                   | 16.57                 | 9.44                                   | 10.18  | 10.36  | 11.51                 | 11.64        | 7.59                            | 14.26               | 12.88            | 11.30                    |
| June          | 9.47             | 7.07           | 7.54    | 7.22  | 8.49                       | 8.27                   | 12.63                 | 8.92                                   | 9.78   | 9.81   | 10.96                 | 11.00        | 7.63                            | 12.71               | 12.35            | 11.07                    |
| July          | 9.03             | 8.06           | 8.00    | 8.10  | 8.65                       | 8.41                   | 11.48                 | 9.27                                   | 10.25  | 10.24  | 11.60                 | 11.41        | 8.12                            | 12.19               | 12.66            | 11.53                    |
| Aug.          | 9.61             | 9.13           | 9.39    | 9.44  | 9.91                       | 9.57                   | 11.12                 | 10.63                                  | 11.10  | 11.00  | 12.32                 | 12.31        | 8.67                            | 12.56               | 13.92            | 12.36                    |
| Sept.         | 10.87            | 10.27          | 10.48   | 10.55 | 11.29                      | 10.97                  | 12.23                 | 11.57                                  | 11.51  | 11.34  | 12.74                 | 12.72        | 8.94                            | 13.20               | 14.77            | 12.84                    |
| Oct.          | 12.81            | 11.62          | 11.30   | 11.57 | 12.94                      | 12.52                  | 13.79                 | 12.01                                  | 11.75  | 11.59  | 13.18                 | 13.13        | 9.11                            | 13.79               | 14.95            | 12.91                    |
| Nov.          | 15.85r           | 13.73          | 12.66   | 13.61 | 15.60                      | 15.18                  | 16.06                 | 13.31                                  | 12.68  | 12.37  | 13.85                 | 13.91        | 9.56                            | 14.21               | 15.51            | 13.55                    |
| Dec.          | 18.90            | 15.49          | 13.23   | 14.77 | 18.65                      | 18.07                  | 20.35                 | 13.65                                  | 12.84  | 12.40  | 14.51                 | 14.39p       | 10.11                           | 14.79               | 15.21            | 13.62                    |
| 1980--Nov. 5  | 13.99            | 12.96          | 12.41   | 13.27 | 14.43                      | 13.81                  | 14.50                 | 13.07                                  | 12.50  | 12.27  | --                    | 11.97        | 9.64                            | 14.08               | --               | 13.42                    |
| 12            | 14.65            | 11.30          | 12.32   | 13.23 | 15.17                      | 14.80                  | 15.50                 | 13.18                                  | 12.74  | 12.54  | --                    | 13.72        | 9.50                            | 14.18               | 15.57            | 13.61                    |
| 19            | 15.22            | 13.62          | 12.48   | 13.92 | 15.37                      | 14.85                  | 15.82                 | 13.16                                  | 12.67  | 12.35  | 13.85                 | 13.91        | 9.50                            | 14.28               | --               | 13.67                    |
| 26            | 17.43            | 14.21          | 13.03   | 14.03 | 16.54                      | 16.04                  | 17.00                 | 13.52                                  | 12.71  | 12.29  | --                    | 14.02        | 9.61                            | 14.28               | 15.49            | 13.49                    |
| Dec. 3        | 17.72            | 14.67          | 13.43   | 14.55 | 17.34                      | 16.81                  | 17.96                 | 13.74                                  | 12.88  | 12.44  | --                    | 14.16        | 9.84                            | 14.43               | --               | 13.75                    |
| 10            | 18.82            | 16.17          | 13.59   | 15.07 | 18.73                      | 18.02                  | 19.07                 | 13.93                                  | 12.98  | 12.53  | 14.51                 | 15.03        | 10.42                           | 14.81               | 15.50            | 13.79                    |
| 17            | 19.83            | 16.73          | 13.89   | 15.42 | 20.58                      | 19.74                  | 20.29                 | 14.27                                  | 13.36  | 12.91  | --                    | 14.25        | 10.56                           | 14.95               | --               | 14.01                    |
| 24            | 19.44            | 15.03          | 12.80   | 14.03 | 18.53                      | 18.32                  | 21.43                 | 13.35                                  | 12.55  | 12.09  | --                    | 14.20        | 9.99                            | 14.95               | 14.92            | 13.24                    |
| 31            | 18.45            | 14.26          | 12.32   | 13.41 | 17.21                      | 16.60                  | 21.50                 | 12.80                                  | 12.32  | 11.91  | --                    | 14.15        | 9.76                            | 14.95               | --               | 13.31                    |
| 1981--Jan. 7  | 20.06            | 14.06          | 12.15   | 13.18 | 16.34                      | 15.63                  | 20.64                 | 12.55                                  | 12.27  | 11.81  | 14.05                 | 14.10        | 9.49                            | 14.80               | 14.89            | 13.18                    |
| 14            | 19.64            | 15.10          | 12.56   | 14.23 | 17.19                      | 16.69                  | 20.07                 | 12.98                                  | 12.49  | 12.05  | 14.07                 | 14.17        | 9.57                            | 14.85               | --               | 13.50                    |
| 21            | 19.35            | 15.44          | 12.77   | 14.47 | 17.74                      | 17.17                  | 20.00                 | 13.12                                  | 12.61  | 12.21  | 14.29                 | 14.33        | 9.68                            | 14.85               | 14.84            | 13.62                    |
| 28            | 18.12            | 15.41          | 12.90   | 14.12 | 17.47                      | 16.84                  | 20.00                 | 13.26                                  | 12.78  | 12.35  | 13.95p                | 14.11p       | 9.91                            | n.a.                | --               | 13.71                    |
| Daily--Jan 22 | 19.05            | 15.72          | 13.24   | --    | 17.93                      | 17.25                  | 20.00                 | 13.47                                  | 12.87  | 12.46  | --                    | --           | --                              | --                  | --               | --                       |
| 29            | 16.85p           | 14.87          | 12.67   | --    | 16.80                      | 16.34                  | 20.00                 | 13.18p                                 | 12.79p | 12.37p | --                    | --           | --                              | --                  | --               | --                       |

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 auction 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. The FHA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; beginning July 7, 1980, figures exclude graduated payment mortgages. GMA 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.

TABLE 2  
NET CHANGES IN SYSTEM HOLDINGS OF SECURITIES<sup>1/</sup>  
(Millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC

|                                 | Treasury<br>Bills Net<br>Change <sup>2/</sup> | Treasury Coupons<br>Net Purchases <sup>3/</sup> |                     |        |         |       | Federal Agencies<br>Net Purchases <sup>4/</sup> |       |        |         |       | Net Change<br>Outright<br>Holdings<br>Total <sup>5/</sup> | Net<br>RPs<br><sup>6/</sup> |
|---------------------------------|---|---|---------------------|--------|---------|-------|---|-------|--------|---------|-------|---|-----------------------------|
|                                 |   | Within<br>1-year                                | 1 - 5               | 5 - 10 | Over 10 | Total | Within<br>1-year                                | 1 - 5 | 5 - 10 | Over 10 | Total |   |                             |
| 976                             | 863   | 472   | 3,025               | 1,048  | 642     | 5,187 | 105   | 469   | 203    | 114     | 891   | 6,227   | 3,607                       |
| 977                             | 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   | 10,790  | -2,597                      |
| 1980                            | -3,052  | 912   | 2,138               | 703    | 811     | 4,564 | 217   | 398   | 29     | 24      | 668   | 2,035   | 2,462                       |
| 1979--Qtr. IV                   | 4,164   | 118   | 1,101               | 81     | 51      | 1,351 | --  | --    | --     | --      | --    | 4,839 <sup>2/</sup>                                       | -3,801                      |
| 1980--Qtr. I                    | -2,945  | 292   | 355 <sup>8/</sup>   | 107    | 81      | 836   | --  | --    | --     | --      | --    | -2,114  | 362                         |
| II                              | 3,249   | 110 <sup>8/</sup>                               | 1,516 <sup>8/</sup> | 359    | 410     | 2,395 | 217   | 398   | 29     | 24      | 668   | 6,307   | 2,373                       |
| III                             | -3,298  | 137   | 541                 | 236    | 320     | 1,234 | --  | --    | --     | --      | --    | -2,157  | -1,381                      |
| IV                              | -58   | 100   | --                  | --     | --      | 100   | --  | --    | --     | --      | --    | 1   | 1,107                       |
| 1980--July                      | -3,214  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -3,216  | -1,307                      |
| Aug.                            | -47   | 137   | 541                 | 236    | 320     | 1,234 | --  | --    | --     | --      | --    | 1,187   | -985                        |
| Sept.                           | -37   | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -128  | 911                         |
| Oct.                            | -241  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -261  | 1,267                       |
| Nov.                            | -1,100  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -1,100  | 332                         |
| Dec.                            | 1,282   | 100   | --                  | --     | --      | 100   | --  | --    | --     | --      | --    | 1,360   | -492                        |
| 1980--Nov. 5                    | --  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | --  | -116                        |
| 12                              | -1,100  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -1,100  | -1,812                      |
| 19                              | --  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | --  | 3,207                       |
| 26                              | --  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | --  | -853                        |
| Dec. 3                          | --  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -9  | -6,677                      |
| 10                              | 321   | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | 309   | -6                          |
| 17                              | 1,010   | 100   | --                  | --     | --      | 100   | --  | --    | --     | --      | --    | 1,110   | 6,738                       |
| 24                              | --  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | --  | -4,531                      |
| 31                              | -49   | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -49   | 4,370                       |
| 1981--Jan. 7                    | -268  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -268  | -5,031                      |
| 14                              | -98   | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -98   | 4,339                       |
| 21                              | 723   | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | 723   | -8,482                      |
| 28                              | -2,477  | --  | --                  | --     | --      | --    | --  | --    | --     | --      | --    | -2,477  | 3,802                       |
| LEVEL--Jan. 28<br>(in billions) | 44.9  | 12.7  | 34.5                | 13.4   | 15.0    | 75.6  | 2.4   | 4.6   | 1.1    | 0.7     | 8.7   | 129.2   | -5.3                        |

<sup>1/</sup> Change from end-of-period to end-of-period.

<sup>2/</sup> Outright transactions in market and with foreign accounts, and redemptions (-) in bill auctions.

<sup>3/</sup> 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.

<sup>4/</sup> Outright transactions in market and with foreign accounts only. Excludes redemptions and maturity shifts.

<sup>5/</sup> In addition to the net purchases of securities, also reflect changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions (-) of agency and Treasury coupon issues.

<sup>6/</sup> Includes changes in RPs (+), matched sale-purchase transactions (-), and matched purchase-sale transactions (+).

<sup>7/</sup> On October 1, 1979, \$668 million of maturing 2- and 4-year notes were exchanged for 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.

<sup>8/</sup> Maturing 2-year notes were exchanged on June 2, 1980, for special 2-year bills. At their maturity the bills were exchanged for new 2-year notes.

TABLE 3  
SECURITY DEALER POSITIONS AND BANK POSITIONS  
(Millions of Dollars)

STRICTLY CONFIDENTIAL (1R)  
CLASS II - FONG

|              | U.S. Govt. Security Dealer Positions |               | Underwriting Syndicate Positions |                 | Excess** Reserves | Member Bank Reserve Positions |          |         |            |
|--------------|--------------------------------------|---------------|----------------------------------|-----------------|-------------------|-------------------------------|----------|---------|------------|
|              | Bills                                | Coupon Issues | Corporate Bonds                  | Municipal Bonds |                   | Borrowing at FRR**            |          |         |            |
|              |                                      |               |                                  |                 |                   | Total                         | Seasonal | Special | Adjustment |
| 1979--High   | 8,091                                | 902           | 281                              | 404             | 726               | 2,960                         | 207      |         | 2,866      |
| Low          | 138                                  | -2,569        | 0                                | 53              | -122              | 628                           | 93       |         | 510        |
| 1980--High   | 8,838                                | 2,263         | 299                              | 466             | 1,080p            | 3,439                         | 177      | 816     | 3,298      |
| Low          | 1,972                                | -1,482        | 0                                | 22              | -228p             | 215                           | 5p       | 0       | 12         |
| 1979--Dec.   | 5,760                                | -1,901        | 34                               | 164             | 441               | 1,473                         | 81       |         | 1,390      |
| 1980--Jan.   | 4,380                                | -944          | 42                               | 117             | 251               | 1,241                         | 74       |         | 1,167      |
| Feb.         | 2,937                                | -212          | 3                                | 87              | 211               | 1,644                         | 97       |         | 1,558      |
| Mar.         | 2,964                                | -659          | 37                               | 59              | 186               | 2,823                         | 150      | 99      | 2,575      |
| Apr.         | 7,838                                | 167           | 48                               | 89              | 197               | 2,455                         | 155      | 552     | 1,748      |
| May          | 4,008                                | 1,372         | 69                               | 138             | 178               | 1,018                         | 63       | 743     | 212        |
| June         | 3,724                                | 1,429         | 112                              | 264             | 203               | 379                           | 12       | 307     | 61         |
| July         | 4,581                                | 634           | 154                              | 310             | 284               | 395                           | 6        | 253     | 116        |
| Aug.         | 5,108                                | 798           | 91                               | 153             | 302               | 658                           | 9        | 241     | 408        |
| Sept.        | 3,681                                | -416          | 24                               | 171             | 256               | 1,311                         | 25       | 91      | 1,196      |
| Oct.         | 2,447                                | 143           | 14                               | 114             | 206p              | 1,310                         | 66       | 0       | 1,244      |
| Nov.         | 3,047                                | 149           | 17                               | 57              | 498p              | 2,059p                        | 97p      | 0       | 1,964p     |
| Dec.         | 4,287                                | 20            | 4                                | 70              | 552p              | 1,690p                        | 116p     |         | 1,574p     |
| 1980--Nov. 5 | 2,694                                | -128          | 0                                | 31              | 567p              | 1,878p                        | 72p      | 0       | 1,806p     |
| 12           | 3,072                                | 1,005         | 68                               | 28              | 404p              | 2,067p                        | 92p      | 0       | 1,975p     |
| 19           | 3,833                                | 181           | 0                                | 146             | 504p              | 1,979p                        | 95p      | 0       | 1,884p     |
| 26           | 2,231                                | -400          | 0                                | 22              | 317p              | 2,215p                        | 115p     | 0       | 2,100p     |
| Dec. 3       | 3,501                                | 13            | 9                                | 77              | 881p              | 2,142p                        | 108p     | 0       | 2,034p     |
| 10           | 4,018                                | 485           | 4                                | 113             | 262p              | 1,780p                        | 111p     | 0       | 1,675p     |
| 17           | 3,880                                | -1,011        | 4                                | 65              | 502p              | 1,505p                        | 1240     | 0       | 1,381p     |
| 24           | 4,108                                | 288           | 0                                | 23              | 809p              | 1,649p                        | 119p     | 0       | 1,530p     |
| 31           | 5,862                                | 496           | 0                                | 23              | 496p              | 1,627p                        | 115p     | 0       | 1,512p     |
| 1981--Jan. 7 | n.a.                                 | n.a.          | 25                               | 127             | 664p              | 1,117p                        | 112p     | 0       | 1,005p     |
| 14           | n.a.                                 | n.a.          | 16                               | 56              | 741p              | 1,332p                        | 105p     | 0       | 1,227p     |
| 21           | n.a.                                 | n.a.          | 0                                | 65              | 507p              | 1,419p                        | 123p     | 214p    | 1,082p     |
| 28           | n.a.                                 | n.a.          | 5p                               | 69p             | 562p              | 1,792p                        | 137p     | 0       | 1,663p     |

NOTE: Government security dealer trading positions are on a commitment basis. Trading positions, which exclude Treasury securities financed by repurchase agreements maturing in 16 days or more, are indicators of holdings available for sale over the near term. Underwriting syndicate positions consist of issues in syndicate, excluding trading positions. Weekly data are daily averages for statement weeks, except for corporate and municipal issues in syndicate, which are Friday figures.

\* Strictly Confidential.

\*\* Monthly averages for excess reserves and borrowing are weighted averages of statement week figures.