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December 17, 1982

Strictly Confidential (FR) Class I FOMC

MONETARY POLICY ALTERNATIVES

Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

December 17, 1982

MONETARY POLICY ALTERNATIVES

Recent developments

(1) Following an 8-1/4 percent annual rate of expansion in October, M2 growth accelerated to near an 11-3/4 percent rate in November. However, M2 expansion slowed considerably in late November and the first half of December, so far as can be judged from available data, as growth in its nontransactions component was weaker than anticipated. This slowing brought M2 growth into line with, indeed a bit below, the path for this aggregate consistent with the FOMC's 9-1/2 percent growth rate objective for the September-to-December period.

(2) While growth in the total of nontransaction accounts seems to have slowed in recent weeks, expansion of savings deposits remained generally strong. This has been accompanied by strength in NOW accounts (and also demand deposits), suggesting that the public has been positioning itself in anticipation of the availability of new deposit accounts in mid-December and early January. Such positioning would appear to have contributed to a greater than expected expansion of M1 in late November and the first part of December, with November growth at almost a 17 percent annual rate and December possibly also double digit (currently estimated at around an 11 percent rate.)

(3) Given the level of M2 now estimated for the fourth quarter, growth over the QIV '81 to QIV '82 period is likely to run about 9-3/4 percent, compared to the 6 to 9 percent range set by the Committee. This growth, which is a little higher than registered in 1981, implies a 5-1/2 percent drop in M2 velocity over the year, the largest four-quarter decline in the postwar period. As for M1, growth from QIV '81 to QIV '82 will

KEY MONETARY POLICY AGGREGATES
(Seasonally adjusted, annual rates of growth)

| | 1982 | | | | Year 1982 | | Year 1981 | | |
|--------------------------------------|------|------|--------------------|---------------------|---------------------|----------------------|----------------|----------------------|--|
| | Oct. | Nov. | Dec. ^{4/} | Sept. to Dec. | Q4 to Q4 | Year over Year | Q4 to Q4 | Year over Year | |
| Money and Credit Aggregates | | | | | | | | | |
| M1 | 20.6 | 16.9 | 10.9 | 16.3 | 8.6 | 6.5 | 5.0 | 7.0 | |
| M2 | 8.2 | 11.7 | 4.5 | 8.2 | 9.7 ^{5/} | 9.8 | 9.5 | 9.8 | |
| (Nontransaction component) | 4.4 | 10.1 | 2.4 | 5.6 | 10.1 | 10.8 | 11.0 | 10.7 | |
| M3 | 9.2 | 9.2 | 0.2 | 6.2 | 10.3 ^{5/} | 10.5 | 11.4 | 11.6 | |
| Bank Credit | 6.8 | 1.5 | n.a. | n.a. | 7.1 ^{6/7/} | 8.2 ^{7/} | 8.8 | 9.6 | |
| Reserve Measures^{1/} | | | | | | | | | |
| Nonborrowed Reserves ^{2/} | 24.4 | 15.0 | n.a. | n.a. | n.a. | n.a. | 6.8 | 6.9 | |
| Total Reserves | 9.4 | 17.7 | 6.9 | 11.4 | 6.9 | 4.9 | 4.3 | 6.5 | |
| Monetary base | 6.8 | 6.6 | 6.9 | 6.8 | 7.6 | 6.4 | 4.9 | 6.8 | |
| Memo: (Millions of dollars) | | | | | | | | | |
| Adjustment borrowing ^{3/} | 337 | 433 | 387 ^{8/} | -- | -- | -- | -- | -- | |
| Excess reserves | 404 | 407 | 450 ^{8/} | -- | -- | -- | -- | -- | |

^{1/} Growth rates of reserve measures are adjusted to remove the effects of discontinuities resulting from phased changes in reserve ratios under the Monetary Control Act.

^{2/} Nonborrowed reserves include special borrowing and other extended credit from the Federal Reserve.

^{3/} Includes seasonal borrowing.

^{4/} Projected from partial data.

^{5/} Tax exempt money market mutual funds, which are not now included in the money stock, began expanding rapidly early this year. If such balances were to be included in the money stock, growth in M2 and M3 would be boosted in 1982 by .4 and .5 percentage points, respectively, on a Q4 to Q4 basis.

^{6/} Measured from December-January base.

^{7/} Includes data through November.

^{8/} Through the first two statement weeks of December.

probably be about 8-1/2 percent, well above the Committee's longer-run range of 2-1/2 to 5-1/2 percent. The income velocity of M1 declined by 4-1/2 percent over the year, also a postwar record.

(4) Bank credit growth weakened further in November, when outstanding business loans (and also total loans) contracted. With core deposit flows more than adequate relative to credit demands, banks have let large CDs run off. This, together with the weakness of institution-only money funds, has contributed to restraining M3 growth to around a 9-1/4 percent annual rate in November and to a considerably slower pace in December. For the year M3 growth would be about 10-1/4 percent, compared to the FOMC's longer-run range of 6-1/2 to 9-1/2 percent.

(5) Nonborrowed and total reserves expanded at about 15 and 18 percent annual rates respectively in November, reflecting the strength of transactions balances. However, the monetary base expanded at a moderate 6-1/2 percent annual rate, as currency growth was unusually slow. The level of borrowing implied by the intermeeting nonborrowed reserves path was \$250 million initially, but most recently the level of implied borrowing fell to \$230 million in reflection of the slowing of M2 growth late in the intermeeting period.^{1/} In the statement week ending December 15, however, actual adjustment and seasonal borrowing came to \$514 million, as a shortfall in reserves on the last day of the statement week and unusually strong bank demand for excess reserves led to over \$3 billion of borrowing on Wednesday.

(6) Reflecting two further 1/2 percentage point cuts in the discount rate to a level of 8-1/2 percent, the federal funds rate has

^{1/} See Appendix I for intermeeting reserve path adjustments.

fallen to the 8-1/2 to 9 percent area in recent days compared to around 9-1/2 percent through the previous intermeeting period. Other short-term interest rates generally have dropped 35 to 75 basis points on balance since mid-November. Bond yields, however, are a little higher on balance over the intermeeting period, reflecting unusually heavy borrowing by businesses and governments. Yields in primary mortgage markets edged down further in response to earlier declines in bond rates, and activity in these markets continued to show signs of reviving.

(7) The weighted-average value of the dollar has depreciated by 4 percent since the November FOMC meeting, mainly in association with heightened market awareness of the growing U.S. trade and current account deficits. Bilateral dollar exchange rates have shown divergent movements, with the yen strengthening more than the mark against the dollar, while the pound weakened.

Prospective developments

(8) The specification of policy alternatives for the Committee over the period immediately ahead is complicated by the uncertainties surrounding the behavior of the monetary aggregates in the transition period to the new deposit instruments authorized by the DIDC. Uncertainties appear greatest with respect to M1. The behavior of M1 over the next three months, and over the year, will depend considerably on how depository institutions price and advertise the new accounts, as well as on how the public's management of cash balances is influenced by interest rates and convenience factors in managing one or several accounts. At one extreme, super-NOW accounts, available beginning January 5, could receive the great bulk of shifting funds, causing M1 to rise sharply. At the other extreme, money market deposit accounts (MMDAs), available since December 14, could dominate, retarding M1 growth sharply. We have tentatively assumed that, on balance flows into super-NOWs from non-M1 sources will tend to be greater than flows out of M1 into MMDAs, with an upward impact on M1 growth over the first three months. However, there is also a distinct possibility that the net flows of funds will work to depress M1 growth.^{1/}

(9) Uncertainties surrounding M2 may be less than M1 because much of the shifting of funds in response to the availability of the new accounts will represent a redistribution of funds among the component assets of M2. However, M2 is by no means free of uncertainties in the transition because of the unknown degree to which funds will shift out of market instruments into the newly authorized deposits. We have assumed that such shifts in the first quarter (when much of the adjustment to the new accounts

^{1/} A detailed discussion of possible effects on the various monetary aggregates over the first three months of 1983 and for the year as a whole are given in Appendix III.

may take place) will increase M2 growth on the order of 3 percentage points at an annual rate and that the impact for the year may be on the order of 1-1/2 percentage points--with relatively wide margins of error around those estimates. M3 growth would probably be less affected than M2 by shifts, as banks tend to reduce issuance of large CDs in response to the availability of additional funds through MMDAs and super-NOWs.

(10) Alternative specifications for policy in the first quarter are based on an underlying growth of M2 (abstracting from shifts) consistent with the FOMC's tentative 6 to 9 percent range for 1983. However, all of the alternatives, as shown in the table below, involve actual M2 growth above the longer-run range in the first three months of the year, assuming that shifts into M2 develop in the dimension noted in the previous paragraph. M2 should move closer to, or perhaps within, its tentative longer-run range as the year progresses, as shifts abate and the underlying demand for liquidity remains below last year's exceptional pace relative to GNP. (More detailed data for the alternatives are shown in the table and charts on the next few pages. The quarterly interest rate path consistent with the staff's GNP projection is contained in Appendix II.)

| | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> |
|---------------------------|---------------|---------------|---------------|
| Growth from Dec. to March | | | |
| M2 | 12 | 11 | 10 |
| M3 | 8-1/2 | 8 | 7-1/2 |
| Federal funds rate range | 5 to 9 | 6 to 10 | 7 to 11 |

(11) While the specifications of alternative B call for an observed 11 percent assumed rate of growth in M2 over the next three months, such growth, given our preliminary estimate of shifts from market instruments,

Alternative Levels and Growth Rates for Key Monetary Aggregates

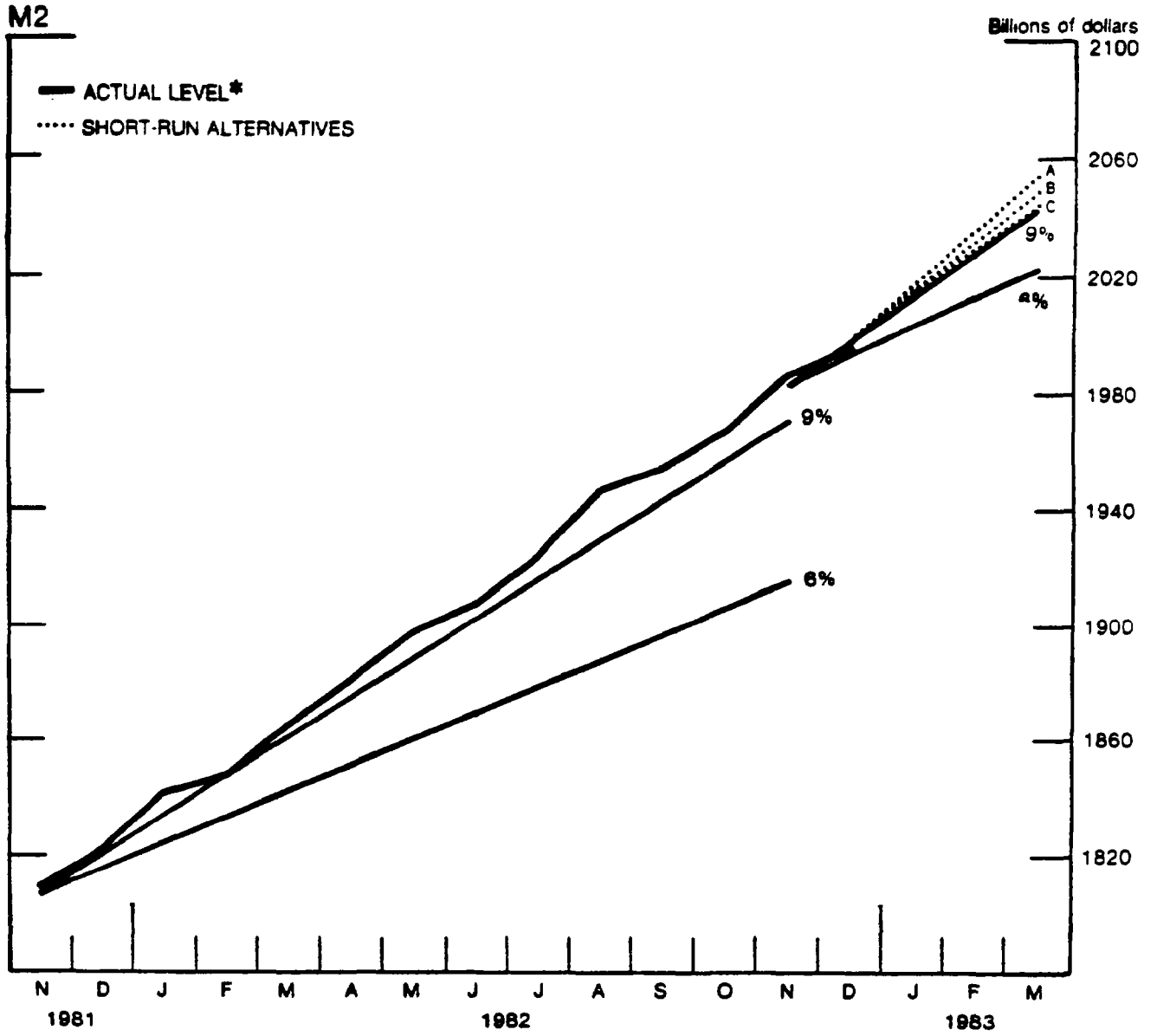
| | <u>M2</u> | | | <u>M3</u> | | | <u>M1^{1/}</u> | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------------|---------------|---------------|
| | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> | <u>Alt. A</u> | <u>Alt. B</u> | <u>Alt. C</u> |
| 1982--October | 1967.7 | 1967.7 | 1967.7 | 2381.6 | 2381.6 | 2381.6 | 468.4 | 468.4 | 468.4 |
| November | 1986.9 | 1986.9 | 1986.9 | 2399.9 | 2399.9 | 2399.9 | 475.0 | 475.0 | 475.0 |
| December | 1994.3 | 1994.3 | 1994.3 | 2400.3 | 2400.3 | 2400.3 | 479.3 | 479.3 | 479.3 |
| 1983--January | 2016.7 | 2014.5 | 2012.6 | 2417.0 | 2415.6 | 2414.2 | 485.9 | 485.1 | 484.3 |
| February | 2035.4 | 2031.7 | 2028.4 | 2434.1 | 2432.0 | 2429.7 | 488.9 | 487.3 | 485.7 |
| March | 2054.1 | 2048.8 | 2044.2 | 2451.3 | 2448.3 | 2445.3 | 491.3 | 488.9 | 486.5 |
| Growth Rates | | | | | | | | | |
| <u>Monthly</u> | | | | | | | | | |
| 1982--October | 8.2 | 8.2 | 8.2 | 9.2 | 9.2 | 9.2 | 20.6 | 20.6 | 20.6 |
| November | 11.7 | 11.7 | 11.7 | 9.2 | 9.2 | 9.2 | 16.9 | 16.9 | 16.9 |
| December | 4.5 | 4.5 | 4.5 | 0.2 | 0.2 | 0.2 | 10.9 | 10.9 | 10.9 |
| 1983--January | 13.4 | 12.2 | 11.0 | 8.3 | 7.6 | 6.9 | 16.5 | 14.5 | 12.5 |
| February | 11.1 | 10.2 | 9.4 | 8.5 | 8.1 | 7.7 | 7.4 | 5.4 | 3.5 |
| March | 11.0 | 10.1 | 9.3 | 8.5 | 8.0 | 7.7 | 5.9 | 3.9 | 2.0 |
| Dec. to March | 12.0 | 10.9 | 10.0 | 8.5 | 8.0 | 7.5 | 10.0 | 8.0 | 6.0 |
| Growth Rates | | | | | | | | | |
| <u>Quarterly Average</u> | | | | | | | | | |
| 1982--Q1 | 9.8 | 9.8 | 9.8 | 8.7 | 8.7 | 8.7 | 10.4 | 10.4 | 10.4 |
| Q2 | 9.5 | 9.5 | 9.5 | 10.7 | 10.7 | 10.7 | 3.3 | 3.3 | 3.3 |
| Q3 | 9.7 | 9.7 | 9.7 | 12.1 | 12.1 | 12.1 | 3.5 | 3.5 | 3.5 |
| Q4 | 8.6 | 8.6 | 8.6 | 8.1 | 8.1 | 8.1 | 16.2 | 16.2 | 16.2 |
| 1983--Q1 | 10.6 | 9.8 | 9.1 | 6.7 | 6.4 | 6.0 | 12.2 | 10.9 | 9.5 |

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^{1/} For purposes of constructing this table, we have assumed that growth of M1 will be boosted by 3 percentage points at an annual rate in the December to March period as a result of shifts related to the new money market accounts. As discussed in Appendix III, the staff believes that the actual shifts could have an effect on M1 growth of from -4 to +10 percentage points at an annual rate over this period.

Chart 1
Actual and Targeted M2

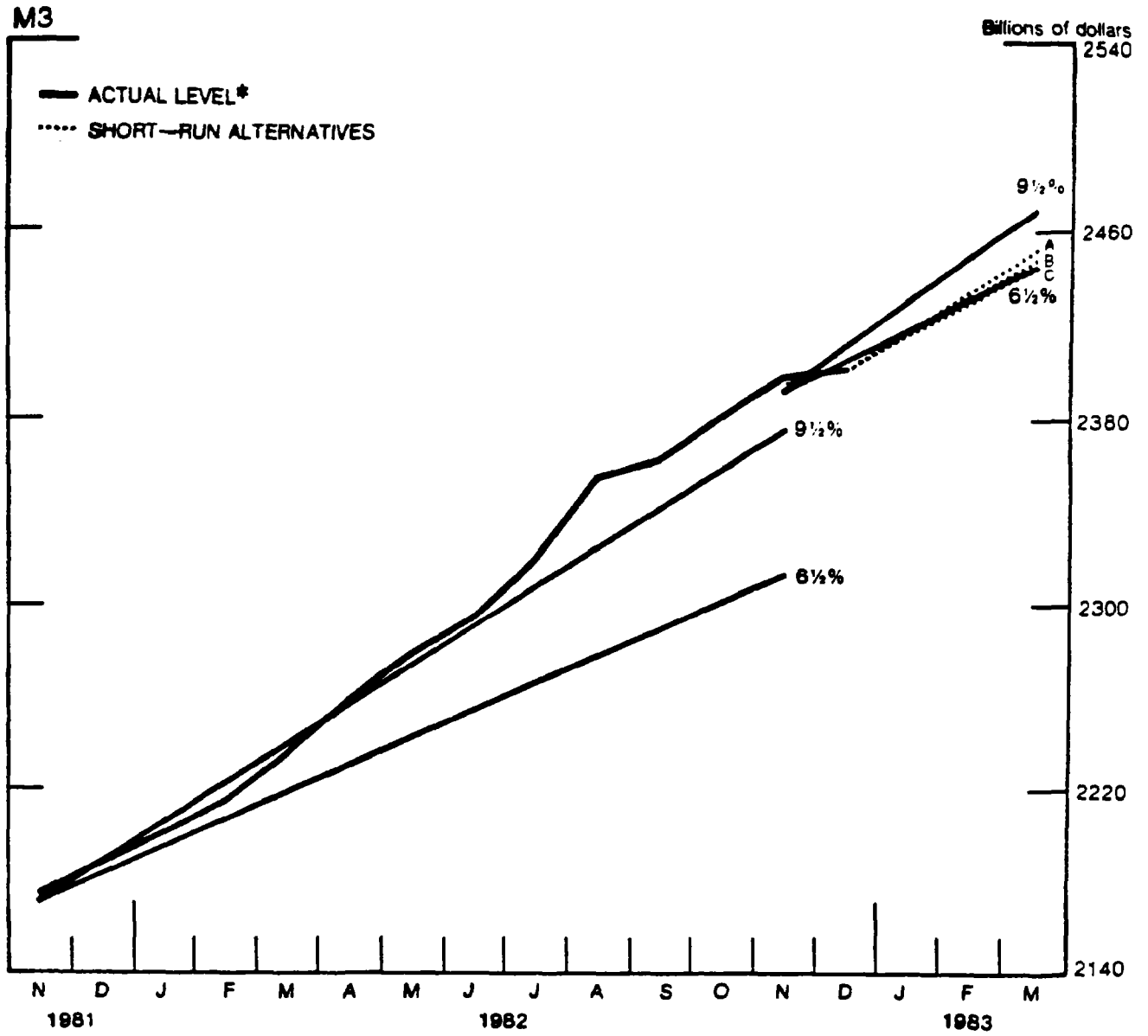
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* December 1982 level is projected.

Chart 2
Actual and Targeted M3

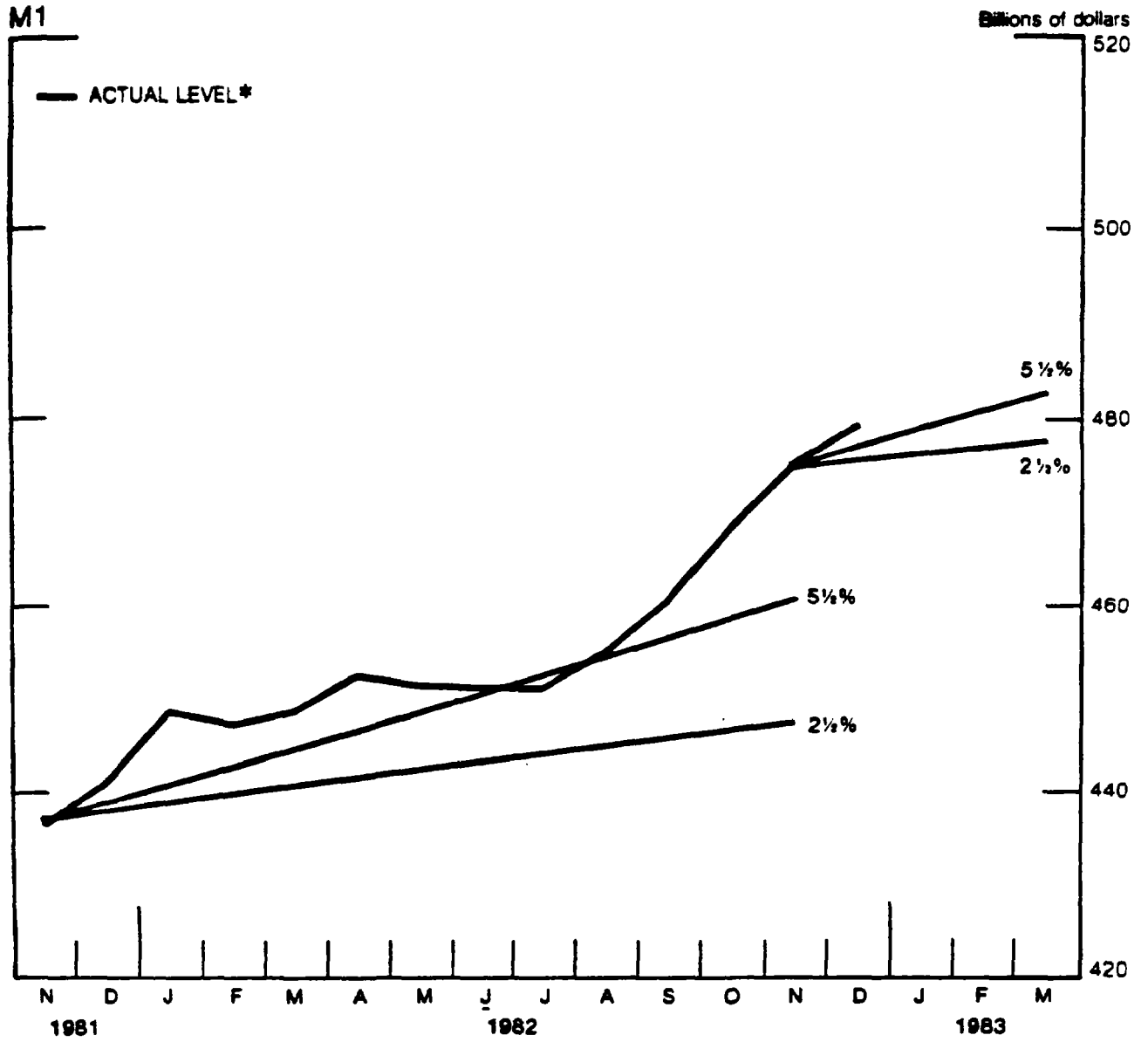
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*December 1982 level is projected

Chart 3
Actual and Targeted M1

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* December 1982 level is projected

would represent a substantial slowing from 1982's pace in underlying M2 expansion (abstracting from the impact of shifts associated with the new accounts). Such a slowing would appear to be consistent with little change in short-term interest rates from current levels despite an expected acceleration in the rate of growth of nominal GNP. M2 balances grew unusually rapidly relative to GNP in 1982, and we would anticipate an abatement of such liquidity demands in the course of 1983 as economic activity begins to rise and consumer and business confidence is restored.

(12) It would appear that alternative B would be consistent with a federal funds rate around the current 8-1/2 percent discount rate, or edging down further, and other market interest rates generally little changed. The 3-month Treasury bill rate may continue in a 7-1/2 to 8 percent range, with private rates running about 1/2 to 3/4 of a percentage point higher; however, a failure of the economy to show generalized signs of a revival in aggregate demand--as the market might infer from weak retail sales and similar incoming data for December, should that develop--could well lead to anticipatory rate declines. The prime loan rate could drop somewhat from its current 11-1/2 percent level, given its spread over prevailing open market rates. Mortgage rates might come under some further downward pressure if inflows into the new accounts at thrifts induce these institutions to step up their new commitment activity.

(13) The growth of credit to domestic nonfinancial sectors is likely to moderate a little over coming months, although continuing to outpace the increase in GNP. The slowing in credit expansion is expected to be concentrated in the state and local sector, where borrowers have advanced their offerings in anticipation of registration requirements after year-end. Consumer installment loan growth also may slow, reflecting

the shift in auto purchases to the current quarter to take advantage of concessionary loan rates. Treasury borrowing is expected to remain close to the rapid fourth-quarter pace in order to finance the massive federal deficit. In mortgage markets, lending should continue to recover, stimulated by the declines in interest rates since mid-year. Overall business financing needs may be a little higher in the first quarter than in the fourth. With bond rates expected to stay close to current levels, business borrowing in long-term markets should remain quite strong, as corporations continue to attempt to strengthen balance sheet structures; bank business loans probably will continue to be fairly weak.

(14) Total reserve growth at about a 6-1/2 percent annual rate over the December '82 to March '83 period would probably be consistent with the M2 and M3 specifications of alternative B. The relation of reserves to M2 is more uncertain than usual, however, because of the wide range of possible shifts of funds into or out of deposit accounts included in M1, which bear sizable reserve requirements. If more funds than expected move into super-NOW accounts, a larger growth in total reserves would be consistent with any given growth of M2--and vice versa if more funds than anticipated move out of M1 into MMDAs. For purposes of an initial estimate of total reserves, we have assumed M1 growth from December to March at about an 8 percent rate on the assumption, noted earlier, that shifts into super-NOWs dominate shifts from M1 into MMDAs. We would anticipate non-borrowed reserve growth under alternative B at about 8 percent over the next three months, assuming borrowing from the discount window in the neighborhood of \$250 million.

(15) Alternative A calls for a more rapid expansion in aggregates during the first quarter of the year. It would accommodate a rise in M2 at about a 12 percent annual rate (including assumed shifts). Such an approach may make it a bit more difficult than under alternative B to keep M2 growth over the year as a whole within its longer-run target range. Since alternative A would probably be associated with a drop in short-term rates over the near-term--typified by federal funds falling to around 7-1/2 percent and a 3-month Treasury bill to around 6-3/4--it is possible that a fairly substantial reversal of interest rates as the year 1983 progresses may be required under this alternative to restrain M2 growth to its longer-term range (assuming that economic activity improved in the course of the year).

(16) Total reserves might increase at a 9-1/2 percent annual rate over the first three months of the year under alternative A and nonborrowed reserves at a 12-1/2 percent annual rate, assuming adjustment borrowing of around \$100 million or so. The discount rate would come under further downward pressure. The further easing in short-term markets contemplated by this alternative may be associated with additional declines in longer-term rates, particularly if signs of economic recovery remained weak or scattered and if a revival of upward price and wage pressures was not apparent. On the other hand, signs of an easing in reserve availability, particularly against a backdrop of continued relatively rapid money growth, might intensify inflationary concerns, exerting upward pressure on bond yields.

(17) Alternative C involves slower growth in the monetary aggregates than alternatives A or B, with M2 growth specified at 10 percent

over the first quarter. This would probably require restraining total reserve growth to about a 4 percent annual rate, and nonborrowed reserve growth by even more to a one percent rate. Borrowing would probably be around \$700 million.

(18) Under those conditions, the federal funds rate might be expected to rise to a level about a percentage point over the present discount rate. With funds around 9-1/2 percent, or possibly a bit higher, the 3-month bill rate could move up to the 8-1/2 to 9 percent area, and private short-term rates of similar maturity to the 9 to 10 percent range. Bond rates are likely to increase in sympathy, though their rise would be moderated by substantial postponements of corporate and state and local issues. Further declines in the exchange value of the dollar may be moderated, at least in the short run, under this alternative. It is possible, that the increase in short- and also long-term rates would not be sustainable over a long period, however. The greater borrowing costs for businesses and in the mortgage market, in conjunction with possible adverse effects on business and consumer psychology from a turn-about in credit conditions while confidence was still fragile, could damp economic activity and private credit demand significantly.

Directive language

(19) Given below are suggested operational paragraphs for the directive, with proposed deletions of language adopted on November 16 shown in strike-through form. The suggested language (with bracketed options) makes an effort to provide sufficient operating flexibility in light of the considerable uncertainties about deposit shifts in the period immediately ahead, while still retaining a directive structure keyed to monetary aggregates.

Specification of the behavior of M1 over the ~~balance-of-the~~ year MONTHS AHEAD remains subject to substantial uncertainty because of special circumstances in connection with ~~the-reinvestment-of-funds from-maturing-all-savers-certificates-and~~ the public's response to the new account DEPOSIT ACCOUNTS AVAILABLE AT DEPOSITORY INSTITUTIONS ~~directly-competitive-with-money-market-funds-mandated-by-recent~~ legislation. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the ~~current~~ COMING quarter. THE INSTITUTIONAL CHANGES ALSO ADD A DEGREE OF UNCERTAINTY TO THE BEHAVIOR OF THE BROADER MONETARY AGGREGATES.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves ~~needed-for-an-orderly-and-sustained-flow of-money-and-credit,~~ consistent with growth of M2 ~~(and-M3)~~ of around 9-1/2 ___ percent at an annual rate, AND OF M3 AT ABOUT A ___ PERCENT RATE, from ~~September-to~~ December TO MARCH. ~~Somewhat-slower-growth, bringing-those-aggregates-around-the-upper-part-of-the-ranges-set for-the-year,would-be-acceptable-and-desirable-in-a-context~~

~~of declining interest rates, --Should economic and financial~~
~~uncertainties lead to exceptional liquidity demands; somewhat~~
~~more rapid growth in the broader aggregates would be tolerated:~~
THESE SPECIFICATIONS TAKE INTO ACCOUNT THE LIKELIHOOD THAT GROWTH
IN THE BROADER AGGREGATES, AND PARTICULARLY M2, WILL BE TEMPORARILY
AUGMENTED BY [AROUND ____ PERCENTAGE POINTS AT AN ANNUAL RATE BY]
INFLOWS INTO THE NEW MONEY MARKET ACCOUNTS FROM SOURCES OUTSIDE
OF THAT AGGREGATE. IN THIS CONTEXT, THE COMMITTEE INDICATED THAT
VARIATIONS AROUND THE SPECIFIED GROWTH RATES WOULD BE ACCEPTABLE
IN LIGHT OF INCOMING INFORMATION RELATED TO THE IMPACT OF THE NEW
ACCOUNTS [AND TO UNDERLYING DEMANDS FOR LIQUIDITY]. The Chairman
may call for Committee consultation if it appears to the Manager
for Domestic Operations that pursuit of the monetary objectives
and related reserve paths during the period before the next meet-
ing is likely to be associated with a federal funds rate persistently
outside a range of 6-to-10 ____ TO ____ percent.

(20) The preceding language is designed to accommodate a relatively
high number for M2 growth so as to encompass a sizable expected shift into M2
as a result of the new accounts. If the Committee wished to specify a lower
number for M2 growth, and did not wish to refer specifically to a "shift
adjusted" growth rate, the following language might be considered for the
second of the two operational paragraphs.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed-for-an-orderly-and-sustained-flow of-money-and-credit; consistent with growth of M2 (and-M3) of around 9-1/2 ___ percent at an annual rate, AND OF M3 AT ABOUT A ___ PERCENT RATE, from September-to December TO MARCH. Somewhat-slower-growth; bringing-these-aggregates-around-the-upper-part-of-the-ranges-set for-the-year;-would-be-acceptable-and-desirable-in-a-context-of declining-interest-rates;--Should-economic-and-financial-uncertainties lead-to-exceptional-liquidity-demands;-somewhat-more-rapid-growth-in the-broader-aggregates-would-be-tolerated, THE COMMITTEE INDICATED THAT GREATER GROWTH WOULD BE ACCEPTABLE IF THERE WERE EVIDENCE OF SUBSTANTIAL SHIFTS OF FUNDS INTO BROADER AGGREGATES BECAUSE OF THE NEW MONEY MARKET ACCOUNTS [OR SIGNS OF EXCEPTIONAL LIQUIDITY DEMANDS]. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6-to-10 ___ TO ___ percent.

Appendix I

RESERVES TARGETS AND RELATED MEASURES
INTERMEETING PERIOD

(Millions of dollars; not seasonally adjusted)

| Date Reserves Path Constructed | Reserves Targets for Intermeeting Period (average for period) | | Projection of Reserves Demanded (average for period) | | | Implied Adjustment Borrowing | |
|-----------------------------------|--|-------------------------------------|--|-----------------------------|---------------------------|---------------------------------|--|
| | Total Reserves (1) | Non- borrowed Reserves (2) | Total Reserves (3) | Required Reserves (4) | Excess Reserves (5) | Average for Period (6) | For Remaining Statement Weeks of Intermeeting Period ^{1/} (7) |

5-Week Period: November 24 to December 22

| | | | | | | | |
|-------------|----------------------|------------------------|--------|--------|-----|-----|-----|
| November 19 | 41,331 | 41,081 | 41,331 | 41,031 | 300 | 250 | 250 |
| 26 | 41,412 ^{2/} | 41,161 ^{2/} | 41,462 | 41,152 | 310 | 301 | 306 |
| December 3 | 41,464 ^{3/} | 41,188 ^{3/4/} | 41,477 | 41,123 | 355 | 289 | 242 |
| 10 | 41,591 ^{5/} | 41,315 ^{5/} | 41,601 | 41,244 | 357 | 286 | 230 |
| 17 | 41,617 ^{6/} | 41,341 ^{6/} | 41,684 | 41,277 | 407 | 343 | 230 |

^{1/} Represents borrowing in remaining statement weeks (as intermeeting period progresses) implied by each weekly updating of the 5-week average nonborrowed reserves path. The movement in implied borrowing represents deviations in total reserves from target as well as any compensation for misses in nonborrowed reserves from target in earlier weeks of the intermeeting period.

Total and nonborrowed reserves paths adjusted upward by \$80 million due to changes affecting the reserves multiplier.

^{3/} Total and nonborrowed reserves paths adjusted upward by \$53 million due to changes affecting the Reserves multiplier.

^{4/} Nonborrowed reserves path adjusted downward by \$26 million to take account of the increased demand for borrowing in the week of December 1.

^{5/} Total and nonborrowed reserves paths adjusted upward by \$127 million, reflecting multiplier adjustments, and other adjustments in light of unanticipated strength in borrowings in earlier weeks of the intermeeting period, and disparate behavior in the monetary aggregates.

^{6/} Total and nonborrowed reserves paths adjusted upward by \$26 million, reflecting multiplier adjustments, and other adjustments in light of unanticipated strength in borrowings in earlier weeks of the intermeeting period, and disparate behavior in the monetary aggregates.

Appendix II

Interest Rates Consistent with the Greenbook Projection

(quarterly averages in percent)

| | <u>Federal funds</u> | <u>3-month Treasury bill</u> | <u>Aaa Utility</u> | <u>Fixed Rate Mortgage Commitment</u> |
|------------------|--------------------------|----------------------------------|------------------------|---|
| 1982 Q3 (actual) | 11.01 | 9.32 | 14.55 | 16.17 |
| Q4 | 9-1/4 | 8 | 12-1/8 | 14 |
| 1983 Q1 | 8 | 7-1/4 | 11-3/4 | 13-1/4 |
| Q2 | 8 | 7-1/4 | 11-1/2 | 13 |
| Q3 | 8 | 7-1/2 | 11-1/2 | 12-3/4 |
| Q4 | 8 | 7-1/2 | 11-1/2 | 12-3/4 |

APPENDIX III

EFFECTS OF THE MONEY MARKET DEPOSIT ACCOUNT AND SUPER-NOW ACCOUNT ON GROWTH OF THE MONETARY AGGREGATES

Growth of the monetary aggregates may be affected considerably in 1983 by the process of deposit rate deregulation. Commercial banks and thrift institutions already are issuing the new money market deposit account (MMDA) and can begin offering the Super NOW account on January 5, 1983.¹ The impact of these two innovations on the various monetary aggregates is potentially sizable and difficult to predict. There is a large pool of liquid assets that could be shifted, perhaps in a short period of time. The allocation of funds among various instruments will depend, of course, on the price and nonprice features of the accounts and depositors' responses to these features. In addition, the importance of the new accounts for the behavior of the monetary aggregates will be influenced by the level of market rates.

The staff estimates that by the end of 1983, MMDA balances could be between \$170 and \$330 billion and Super NOWs could total between \$60 and \$120 billion. However, most of these balances will reflect shifts that would be internal to the various aggregates. This appendix focuses only on shifts in asset holdings that affect the growth of the aggregates, and thus ignores the bulk of the transfers that will occur, such as shifts from savings to MMDAs.

1. In addition, this coming March, the Depository Institutions Deregulation Committee (DIDC) will consider authorizing interest-bearing checking for businesses by modifying the MMDA rules to allow unlimited transfers for such deposit holders. Moreover, during 1983 the DIDC will review proposals to deregulate interest ceilings on all deposit accounts.

I. EFFECT ON M1 OF THE MMDA AND SUPER NOW

It is unclear at this point whether the combined effect of the new accounts will be to raise or to lower M1. The MMDA, which presumably will be in M2 but not M1, will draw funds from demand deposits and other checkable deposits, while the Super NOW likely will attract nontransaction balances and boost M1 growth.

To estimate the volume of business transaction balances that might be expected to shift to the MMDA, the staff assumed that this account would be used as a cash-management device that allows a depositor to more closely match the timing of deposits and redemptions.¹ Staff analysis concerning business accounts suggest that holders of transaction accounts with average balances of \$12,500 or more could benefit from the MMDA as a cash-management device, and that such holders could reduce average transaction balances by perhaps 20 percent.² Information on the distribution of commercial demand deposit balances by size of account suggests that about three-fourths of the balances are in accounts of \$12,500 or

1. The MMDA also might generally depress M1 since the account allows checks and other third party transfers and, thus, funds in MMDA would not have to go through a demand deposit or NOW account to complete a transaction.

2. The number of deposits to business demand accounts is estimated to average about nine per month. The MMDA allows for up to six automatic transfers per month. However, some of these transfers likely would substitute for the nine deposits that would be made in any case, and, thus, the net increase in the number of deposits would be less than six. Assuming that expenditures are made at a constant rate and that the number of deposits is distributed evenly over a month, and if the MMDA allows a representative business depositor to increase the average deposits per month by 2 or 3, his transaction balance could be reduced by about one fifth. A depositor would have to have a transaction account with an average balance of \$12,500 or more in order for 20 percent of the total to equal the minimum of \$2,500 required for the MMDA.

more.¹ Applying this fraction to the projected level of nonhousehold demand deposits for the fourth quarter of 1983 results in an estimate \$125 billion that would be owned by nonhousehold depositors that might use MMDAs for cash-management purposes. If the MMDA allowed depositors to pare their balances by 20 percent, this could mean a \$25 billion reduction in M1. However, since flexible cash-management tools already exist that these depositors have not chosen to use, the staff thinks that only a fraction, say 10 percent to 20 percent or \$3 to \$5 billion, of the \$25 billion would actually shift as a result of the introduction of the MMDA (see top row, table 1).

Similar incentives for using the MMDA exist for household demand deposit holders. However, with the availability of a Super NOW account, it is even more unlikely that households would view the MMDA as a cash-management device. Using the same approach for households as businesses--but assuming that with the option of the Super NOW only 5 to 10 percent of the household demand balances that could be shifted actually would shift to MMDAs--it is estimated that no more than \$1 to \$2 billion would be diverted from household demand deposits to MMDAs (see second row, table 1).

The MMDA would be a particularly attractive substitute for those OCD balances held for savings or precautionary motives. Data used to shift-adjust M1 in 1981 indicate that perhaps one fourth of OCDs were transferred from non-transaction balances. Assuming that the proportion of savings to transaction balances is uniform across all OCD accounts, only those accounts with at least \$10,000 would have sufficient savings balances to meet the minimum required balance on the MMDA. Since assets

1. Estimates of the distribution of deposits by size of accounts are based in part on Functional Cost Analysis data.

Table 1
Flow Impacts for M1
for 1983

(\$ billions)

| Source | Total Outstanding Nov. 1982 | Projected total Outstanding Q4 1983 ¹ | Shifts out of M1 to MMDAs | | Shifts into M1 to Super NOWs | |
|--------------------------------------|-----------------------------------|---|---------------------------------|------------|------------------------------------|-----------|
| | | | Low | High | Low | High |
| Nonhousehold demand deposits | 167.0 ^e | 168 | -3 | -5 | | |
| Household demand deposits | 71.0 ^e | 72 | -1 | -2 | | |
| OCD | 100.5 | 115 | -6 | -12 | | |
| Savings | 362.2 | 345 | | | 3 | 15 |
| Short-term small-time deposits | 508.2 | 550 | | | 5 | 11 |
| MMMF (GP/BD) ² | 185.8 | 225 | | | 2 | 5 |
| Other market instruments | n.a. | n.a. | | | 1 | 3 |
| Total | | | -10 | -19 | 11 | 34 |

n.a.—not applicable.

e—estimated.

1. Projected levels for Q4 1983 in the absence of the MMDA and the Super NOW.

2. General purpose and broker dealer money market mutual funds.

could be consolidated to open an MMDA, it is assumed that savings in OCD accounts of \$7,500 or more could shift. We estimate that 70 percent of OCD balances are in accounts of \$7,500; if one fourth of these balances represent savings, a maximum of \$20 billion of OCD balances could shift to MMDAs. Depending on the difference in rates offered on the Super NOW and the MMDA, staff judges that one fourth to one half of those deposits, or \$5 to \$10 billion, could move out of M1. In addition, perhaps \$1 to \$2 billion could be shifted from the transaction portion of OCDs, reflecting the use of the MMDA as a cash-management tool.

M1 would be boosted by depositors combining their transaction balances and liquid assets in a Super NOW in order to meet minimum balance requirements and to obtain the convenience of a single high-yielding account. The liquid assets most likely to be shifted to Super NOWs--and hence to add to M1 growth--are savings deposits, short-term small-denomination time deposits, and general purpose and broker dealer money fund shares. It is estimated that over 80 percent of savings deposit are in accounts of \$2,500 or more.¹ Since savings can be combined with other assets in Super NOWs, perhaps as much as 85 to 90 percent the savings balances, or \$300 billion, should be viewed as a potential source of Super NOWs. However, since most of such balances are presumed to be held for savings purposes, they are more likely to shift to MMDA's and hence, the shifts affecting M1 shown in table 1 assume that only one to five percent of the \$300 billion would shift to Super NOWs.²

1. Estimates are based on results from surveys of depository institutions.
2. In the case of conventional NOW accounts, it is estimated that about three percent of savings shifted to NOWs in 1981.

Even with the small proportion of savings deposits estimated to shift to Super NOWs, the large amount of "eligible" savings balances makes them the largest single source of increase to M1 shown in table 1.

If rates on Super NOWs are close to other short-term rates on average, time-deposit and money fund share holders would also likely choose to shift some of their resources to the Super NOW, probably relatively less than in the case of savings accounts. Consequently, staff assumed that about one to two percent of short-term small-denomination time deposits and general purpose and broker dealer money fund shares would shift to Super NOWs.

II. EFFECT ON M2 OF THE MMDA AND THE SUPER NOW

The uncertainty associated with growth of M2 in 1983 should be somewhat less than in the case for M1, since much of the shifting of funds to both the MMDA and the Super NOW is expected to be internal to M2. Even so, the range for the estimated effect on M2 is still fairly wide, in part owing to uncertainty concerning the size of the flows from market and market-type instruments to the new accounts. The MMDA, for example, could substitute for large CDs or term RPs and Eurodollars because the new instrument permits depository institutions to offer market-rate deposits with immediately available funds and time deposits with maturities as short as one day.¹ The projected flows from large

1. Currently, all MMDAs--regardless of the size of account or whether there is a specific term to maturity--are reported as savings deposits. It has been proposed that data for MMDAs issued with fixed maturities of seven days or more and with denominations of \$100,000 or more be collected weekly from large commercial banks, and that such data be used to estimate MMDAs that are very similar to large CDs. These estimates could be used to interpret movements in M2 and M3, or to exclude from M2, but not M3, MMDAs that represent M3-type assets.

CDs to MMDA in table 2 assume that about one tenth to one fourth of commercial bank large CDs estimated to have maturities of 14 to 30 days would shift, but only one to five percent of the other large CDs. The exact distribution of term RPs and term Eurodollars by maturity is not known, but it is assumed that no more than one to five percent of the total balances would shift.¹ The staff expects the flows from other market instruments to be modest compared to total shifts to MMDAs and Super NOWs, only \$5 to \$15 billion.

In addition, it is not known to what extent changes in holdings by money market mutual funds of bank overnight RPs and Eurodollars (which are netted out of M2) will be offset by changes in the outstandings of those liabilities. If money market funds reduce their holdings by more (or less) than banks reduced their gross issuance, M2 growth could be raised (or lowered). As indicated in table 2, it is expected that the consolidation of overnight RPs and Eurodollars would have only a minor impact on M2.

III. EFFECT ON M3 OF THE MMDA AND THE SUPER NOW

The introduction of the MMDA and the Super NOW should enhance M3 growth in 1983 to a small degree because the new accounts will likely attract some funds from non-M3 investments and encourage greater intermediation through the institutions encompassed by the aggregate. However, because of the consolidation adjustments made to avoid double counting in the aggregates, M3 could be affected by portfolio adjustments made

1. Staff would expect most of the shifting to be from term RPs and Eurodollars with maturities of 2 to 14 days, since investors holding assets with longer maturities already could shift to domestic deposit if they wished to do so.

Table 2

Flow Impacts for M2
for 1983

(\$ billions)

| Source | Total Outstanding Nov. 1982 | Projected Total Outstanding Q4 1983 ¹ | Flows to M2 | |
|---------------------------------------|-----------------------------------|---|----------------|----------|
| | | | Low | High |
| Large CDs (net) | 340.4 | 350 | 5 | 30 |
| Term RPs (net) | 32.8 | 35 | * | 2 |
| Term Eurodollars (net) | 84 ^e | 84 ² | 1 | 4 |
| MMMF (Inst.-only) | 45.3 | 50 | 1 | 3 |
| Other market instruments | n.a. | n.a. | 5 | 15 |
| Consolidation adjustment ³ | n.a. | n.a. | <u>-1</u> | <u>1</u> |
| Total | | | 11 | 55 |

n.a.--not applicable.

e--estimated.

* less than \$.5 billion.

1. Projected levels for Q4 1983 in the absence of the MMDA and the Super NOW.

2. Term Eurodollars were not explicitly projected.

3. Net impact of changes in overnight RP and Eurodollars at general purpose and broker dealer money market mutual funds and changes in total overnight RPs and Eurodollars.

by money market funds and depository institutions. For example, if money fund holdings of large CDs, RPs, and Eurodollars were to decline by less than the fall in the total issuance of these instruments, M3 growth would tend to be damped, and there is an arithmetic possibility that, despite flows from market instruments to MMDAs and Super NOWs, there would be a net reduction in M3 growth in 1983 as a result of the inter-institutional flows associated with these instruments. This is shown in table 3 for the estimate of the lower bound impact on M3. In the third column of the table it is assumed that money market funds react to the loss of shares by reducing all their assets proportionately, while gross large CDs, RPs and Eurodollars decline by twice the amount of the reduction in the money fund holding of those assets. The staff views this possibility as unlikely, however, and expects that the net impact on M3 growth will be slightly positive. As an upper end of the range of possible impacts, the estimates in the fourth column assume that gross large CDs, RPs and Eurodollars are reduced by only half as much as the fall in the holdings of these assets at money funds.

IV. SUMMARY: IMPACT ON GROWTH RATES OF M1, M2 and M3

A summary of our estimates of the combined impact of MMDAs and Super NOWs on the aggregates is presented in table 4. In the upper panel of the table, the lower bound for the effect on M1 growth for all of 1983 of minus 2 percentage points was derived by combining the high shift out of M1 to the MMDA with the low shift to Super NOWs in M1 (see

Table 3

Flow Impacts for M3
for 1983

(\$ billions)

| Source | Total Outstanding Nov. 1982 | Projected Total Outstanding Q4 1983 ¹ | Flows to M3 | |
|--|-----------------------------------|---|----------------|----------|
| | | | Low | High |
| Term Eurodollars (net) | 84 ^e | 84 ² | 1 | 4 |
| Other market instruments | n.a. | n.a. | 5 | 15 |
| Consolidation adjustment ³ | n.a. | n.a. | <u>-11</u> | <u>5</u> |
| Total | | | - 6 | 24 |

n.a.--not applicable

e--estimated

1. Projected levels for Q4 1983 in the absence of the MMDA and the Super NOW.

2. Term Eurodollars were not explicitly projected.

3. Net impact of changes in overnight RP, overnight Eurodollars, term RPs and large CDs held by money market mutual funds and changes in the total amount of these instruments outstanding.

Table 4

Estimated Impact of MMDAs and
Super-NOW Accounts on the Growth
of the Monetary Aggregates
(percentage points)

Fourth Quarter 1982 to Fourth Quarter 1983

| | | | |
|----|------|----|---|
| M1 | -2 | to | 5 |
| M2 | 1/2 | to | 3 |
| M3 | -1/4 | to | 1 |

December 1982 to March 1983
(annualized)

| | | | |
|----|------|----|-------|
| M1 | -4 | to | 10 |
| M2 | 1 | to | 5 |
| M3 | -1/2 | to | 1-1/2 |

table 1). The upper estimate for M1, plus 5 percentage points, reflects a combination of the low flows out of M1 and the high flows into M1. M2 growth is expected to be increased by 1/2 to 3 percentage points in 1983, and M3 growth will be virtually unchanged to 1 percentage point higher in 1983.

The NOW account experience in 1981 might suggest that a very high share of the shifting to MMDAs and Super NOWs could be completed in a few months. The staff chose a somewhat slower rate of shifting than estimated for the NOW account experience because of the larger number of instruments out of which a substantial volume of funds could shift and because the cost of delaying a decision for many investors would be low.¹ The bottom panel of table 4 shows that the impacts of the new accounts--and the degree of uncertainty surrounding these impacts--is considerably magnified for the December 1982 to March 1983 period relative to the estimates for the year as a whole.

1. Specifically, the staff assumed that about half of the year's impact on M1 growth would occur in the first quarter, and about 40 percent of the year's impact on M2 and M3 growth.

Table 1
Selected Interest Rates
Percent

December 20, 1982

| Period | Short Term | | | | | | | | Long-Term | | | | | | | |
|----------------|---------------|------------------|--------|---------|------------------------------|---------------------|--------------------------|-----------------|--|---------|---------|--|----------------------|----------------|------------------|--------------|
| | federal funds | Treasury bills | | | CDs secondary market 3-month | comm. paper 1 month | money market mutual fund | bank prime loan | U.S. government constant maturity yields | | | corporate Aaa utility recently offered | municipal Bond Buyer | home mortgages | | |
| | | secondary market | | auction | | | | | 3-year | 10-year | 30-year | | | primary conv. | secondary market | |
| | | 3-month | 1 year | | | | | | | | | | | | 8-month | FNMA auction |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | |
| 1981--High | 20.06 | 16.72 | 15.05 | 15.85 | 18.70 | 18.33 | 17.32 | 20.64 | 16.54 | 15.65 | 15.03 | 17.72 | 13.30 | 18.63 | 19.23 | 17.46 |
| Low | 12.04 | 10.20 | 10.64 | 10.70 | 11.51 | 11.39 | 11.84 | 15.75 | 12.55 | 12.27 | 11.81 | 13.98 | 9.49 | 14.80 | 14.84 | 13.18 |
| 1982--High | 15.61 | 14.41 | 13.51 | 14.36 | 15.84 | 15.56 | 13.89 | 16.86 | 15.01 | 14.81 | 14.63 | 16.34 | 13.44 | 17.66 | 18.04 | 15.56 |
| Low | 8.69 | 7.43 | 8.24 | 7.73 | 8.69 | 8.19 | 8.26 | 11.50 | 9.90 | 10.49 | 10.42 | 11.75 | 9.25 | 13.66 | 15.78 | 12.57 |
| 1981--Nov. | 13.31 | 10.86 | 11.20 | 11.53 | 12.48 | 12.35 | 14.33 | 16.84 | 13.11 | 13.39 | 13.35 | 15.49 | 11.89 | 17.83 | 16.64 | 15.10 |
| Dec. | 12.37 | 10.85 | 11.57 | 11.47 | 12.49 | 12.16 | 12.09 | 15.75 | 13.66 | 13.72 | 13.45 | 15.18 | 12.90 | 16.92 | 16.92 | 15.51 |
| 1982--Jan. | 13.22 | 12.28 | 12.77 | 12.93 | 13.51 | 12.90 | 12.01 | 15.75 | 14.64 | 14.59 | 14.22 | 15.88 | 13.28 | 17.40 | 17.80 | 16.19 |
| Feb. | 14.78 | 13.48 | 13.11 | 13.71 | 15.00 | 14.62 | 13.11 | 16.56 | 14.73 | 14.43 | 14.22 | 15.97 | 12.97 | 17.60 | 18.00 | 16.21 |
| Mar. | 14.68 | 12.68 | 12.47 | 12.62 | 14.21 | 13.99 | 13.49 | 16.50 | 14.13 | 13.86 | 13.53 | 15.19 | 12.82 | 17.16 | 17.29 | 15.54 |
| Apr. | 14.94 | 12.70 | 12.50 | 12.86 | 14.44 | 14.38 | 13.74 | 16.50 | 14.18 | 13.87 | 13.37 | 15.44 | 12.59 | 16.89 | -- | 15.40 |
| May | 14.45 | 12.09 | 11.98 | 12.22 | 13.80 | 13.79 | 13.49 | 16.50 | 13.77 | 13.62 | 13.24 | 15.24 | 11.95 | 16.68 | 16.27 | 15.30 |
| June | 14.15 | 12.47 | 12.57 | 12.31 | 14.46 | 13.95 | 13.07 | 16.50 | 14.48 | 14.30 | 13.92 | 15.84 | 12.45 | 16.70 | 17.22 | 15.84 |
| July | 12.59 | 11.35 | 11.90 | 12.24 | 13.44 | 12.62 | 12.86 | 16.26 | 14.00 | 13.95 | 13.55 | 15.61 | 12.28 | 16.82 | -- | 15.56 |
| Aug. | 10.12 | 8.68 | 10.37 | 10.11 | 10.61 | 9.50 | 11.02 | 14.39 | 12.62 | 13.06 | 12.77 | 14.47 | 11.23 | 16.27 | 15.78 | 14.51 |
| Sept. | 10.31 | 7.92 | 9.92 | 9.54 | 10.66 | 9.96 | 9.73 | 13.50 | 12.03 | 12.34 | 12.07 | 13.57 | 10.66 | 15.43 | -- | 13.57 |
| Oct. | 9.71 | 7.71 | 8.63 | 8.30 | 9.51 | 9.08 | 9.16 | 12.52 | 10.62 | 10.91 | 11.17 | 12.34 | 9.69 | 14.61 | -- | 12.83 |
| Nov. | 9.20 | 8.07 | 8.44 | 8.32 | 8.95 | 8.66 | n.a. | 11.85 | 9.98 | 10.55 | 10.54 | 11.88 | 10.06 | 13.83 | -- | 12.66 |
| 1982--Oct. 6 | 10.77 | 7.82 | 9.53 | 9.23 | 10.58 | 10.09 | 9.42 | 13.50 | 11.52 | 11.63 | 11.75 | 12.43 | 9.75 | 14.96 | -- | 13.21 |
| 13 | 9.60 | 7.58 | 8.38 | 7.73 | 9.59 | 9.18 | 9.46 | 13.00 | 10.38 | 10.67 | 11.02 | 12.22 | 9.25 | 14.60 | -- | 12.58 |
| 20 | 9.53 | 7.51 | 8.24 | 7.76 | 9.16 | 8.70 | 9.09 | 12.00 | 10.30 | 10.64 | 10.91 | 12.06 | 9.69 | 14.20 | -- | 12.73 |
| 27 | 9.44 | 7.81 | 8.53 | 8.47 | 9.07 | 8.69 | 8.87 | 12.00 | 10.51 | 10.88 | 11.12 | 12.15 | 10.05 | 14.15 | -- | 12.81 |
| Nov. 3 | 9.43 | 7.85 | 8.43 | 8.23 | 9.03 | 8.69 | 8.81 | 12.00 | 10.21 | 10.63 | 10.92 | 11.92 | 9.96 | 13.91 | -- | 12.64 |
| 10 | 9.45 | 7.90 | 8.40 | 8.40 | 8.96 | 8.70 | 8.65 | 12.00 | 9.92 | 10.49 | 10.54 | 11.76 | 9.92 | 13.84 | -- | 12.62 |
| 17 | 9.61 | 8.37 | 8.54 | 8.54 | 9.22 | 8.93 | 8.55 | 12.00 | 10.06 | 10.62 | 10.52 | 11.88 | 10.20 | 13.78 | -- | 12.58 |
| 24 | 8.91 | 8.04 | 8.37 | 8.11 | 8.87 | 8.51 | 8.57 | 11.79 | 9.91 | 10.49 | 10.42 | 11.90 | 10.16 | 13.77 | -- | 12.63 |
| Dec. 1 | 8.69 | 8.19 | 8.57 | 8.51 | 8.75 | 8.47 | 8.29 | 11.50 | 10.07 | 10.71 | 10.65 | 11.95 | 10.23 | 13.66 | -- | 12.83 |
| 8 | 8.84 | 7.93 | 8.36 | 8.25 | 8.69 | 8.46 | 8.34 | 11.50 | 9.92 | 10.54 | 10.49 | 11.95 | 10.13 | 13.66 | -- | 12.72 |
| 15 | 8.86 | 7.86 | 8.25 | 8.21 | 8.71 | 8.49 | 8.26 | 11.50 | 9.90 | 10.56 | 10.55 | 12.10 | 10.05 | n.a. | -- | 12.57 |
| 22 | | | | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | | | | |
| Daily--Dec. 10 | 8.83 | 8.04 | 8.43 | -- | 8.76 | 8.55 | -- | 11.50 | 10.05 | 10.66 | 10.63 | -- | -- | -- | -- | -- |
| 16 | 8.99 | 7.83 | 8.14 | -- | 8.67 | 8.52 | -- | 11.50 | 9.83 | 10.59 | 10.66 | -- | -- | -- | -- | -- |
| 17. | 8.70p | 7.87 | 8.18 | -- | 8.72 | 8.59 | -- | 11.50 | 9.89p | 10.65p | 10.68p | -- | -- | -- | -- | -- |

NOTE Weekly data for columns 1, 2, 3, and 5 through 11 are statement week averages. Weekly data in column 4 are average rates set in the auction of 8-month bills that will be issued on the Thursday following the end of the statement week. Data in column 7 are taken from Donoghue's Money Fund Report. 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 FNMA auction yield is the average yield in a bi-weekly auction for short term forward commitments for government underwritten mortgages, figures exclude graduated payment 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.

Table 2

Net Changes in System Holdings of Securities¹

Millions of dollars, not seasonally adjusted

December 20, 1982

| Period | 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 | | |
| 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 |
| 1980 | -3,052 | 912 | 2,138 | 703 | 811 | 4,564 | 217 | 398 | 29 | 24 | 668 | 2,035 | 2,462 |
| 1981 | 5,317 | 294 | 1,702 | 393 | 379 | 2,768 | 133 | 360 | -- | -- | 494 | 8,491 | 684 |
| 1981--Qtr. III | 2,912 | 122 | 607 | 64 | 182 | 976 | -- | -- | -- | -- | -- | 3,855 | 424 |
| IV | 2,803 | 80 | 626 | 165 | 108 | 979 | 133 | 360 | -- | -- | 494 | 4,247 | 3,305 |
| 1982--Qtr. I | -4,329 ⁷ | 20 ⁷ | 50 | -- | -- | 70 ⁷ | -- | -- | -- | -- | -- | -4,371 | -999 |
| II | 5,585 ⁷ | -68 ⁷ | 570 ⁷ | 81 | 52 | 635 ⁷ | -- | -- | -- | -- | -- | 6,208 | -5,375 |
| III | 150 | 71 | 891 ⁷ | 113 | 123 | 1,198 ⁷ | -- | -- | -- | -- | -- | 1,295 | 7,855 |
| 1982--June | 1,759 ⁷ | -200 ⁷ | -- | -- | -- | -200 ⁷ | -- | -- | -- | -- | -- | 1,554 | -3,961 |
| July | 330 | 71 | 891 ⁷ | 113 | 123 | 1,198 ⁷ | -- | -- | -- | -- | -- | 1,526 | 4,108 |
| Aug. | 470 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 424 | 542 |
| Sept. | -649 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -654 | 3,205 |
| Oct. | 774 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 768 | -4,902 |
| Nov. | 2,552 | 88 | 485 | 194 | 132 | 900 | -- | -- | -- | -- | -- | 3,451 | 2,145 |
| 1982--Oct. 6 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -1,071 |
| 13 | 433 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 427 | 1,792 |
| 20 | 221 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 221 | 5,964 |
| 27 | 120 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 120 | -5,160 |
| Nov. 3 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -499 |
| 10 | 114 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 839 |
| 17 | 1,649 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,649 | -845 |
| 24 | 86 | 88 | 485 | 194 | 132 | 900 | -- | -- | -- | -- | -- | 985 | -217 |
| Dec. 1 | 704 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 704 | 607 |
| 8 | 99 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 99 | -2,354 |
| 15 | 1,797 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,791 | 3,151 |
| 22 | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | |
| LEVEL--Dec. 19 | 59.0 | 17.4 | 35.1 | 12.1 | 16.6 | 81.2 | 2.6 | 4.8 | 1.0 | .5 | 8.9 | 149.1 | -1.5 |

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 the net purchases of securities, also reflects changes in System holdings of bankers' acceptances, direct Treasury borrowing from the System and redemptions (-) of agency and Treasury coupon issues.⁶ Includes changes in RPs (+), matched sale-purchase transactions (-), and matched purchase-sale transactions (+).⁷ Maturing 4-year notes were exchanged on June 30 for special 6-day bills.

Table 3
Security Dealer Positions and Bank Positions

Millions of dollars

STRICTLY CONFIDENTIAL (FR)
CLASS II-FOMC

December 20, 1982

| Period | U.S. government securities dealer positions | | | | Underwriting syndicate positions | | Member bank reserve positions | | | | |
|--------------|---|----------|----------------------|-----------|----------------------------------|-----------------|-------------------------------|---------------------|----------|-----------------------------|-------|
| | cash | | futures and forwards | | corporate bonds | municipal bonds | excess ** reserves | borrowing at FRB ** | | | total |
| | bills | coupons | bills | coupons | | | | adjustment | seasonal | extended (includes special) | |
| 1981--High | 15,668 | 4,633 | -12,865 | -4,676 | 595 | 268 | 562 | 2,597 | 309 | 464 | 2,912 |
| Low | 540 | 540 | -4,535 | -2,514 | 0 | 11 | -21 | 145 | 30 | * | 317 |
| 1982--High | 9,335 | 7,935 | 8,032 | -4,740 | 434 | 311 | 672 | 1,547 | 268 | 324 | 1,908 |
| Low | -2,699 | -1,207 | -11,077 | -821 | 0 | 22 | 0 | 172 | 46 | 20 | 365 |
| 1981--Nov. | 5,037 | 3,821 | -7,120 | -4,307 | 195 | 106 | 344 | 403 | 95 | 165 | 663 |
| Dec. | 2,185 | 2,289 | -5,416 | -4,150 | 21 | 172 | 319 | 433 | 54 | 148 | 636 |
| 1982--Jan. | 3,704 | 5,043 | -6,344 | -3,272 | 0 | 52 | 418 | 1,245 | 75 | 197 | 1,518 |
| Feb. | 4,557 | 5,327 | -7,594 | -3,173 | 8 | 97 | 304 | 1,426 | 131 | 232 | 1,790 |
| Mar. | 6,588 | 5,656 | -6,696 | -2,910 | 106 | 104 | 361 | 1,073 | 175 | 308 | 1,556 |
| Apr. | 7,721 | 4,846 | -5,552 | -3,402 | 23 | 76 | 273 | 1,156 | 167 | 245 | 1,568 |
| May | 7,390 | 6,713 | -10,129 | -4,350 | 84 | 179 | 359 | 706 | 235 | 176 | 1,117 |
| June | 7,286 | 3,791 | -6,194 | -2,677 | 20 | 128 | 308 | 859 | 241 | 104 | 1,205 |
| July | 5,768 | 3,446 | -1,403 | -2,522 | 21 | 84 | 314 | 420 | 221 | 50 | 691 |
| Aug. | 1,330 | 3,626 | 6,240 | -2,806 | 37 | 79 | 312 | 301 | 121 | 94 | 515 |
| Sept. | 275r | 1,832r | 3,158r | -1,307r | 21 | 86 | 384 | 713 | 102 | 119 | 933 |
| Oct. | 1,024r | 2,617r | 5,301r | -1,659r | 91 | 147 | 404 | 251 | 85 | 141 | 477 |
| Nov. | 3,680** | 4,677** | 1,466** | -3,227** | 210 | 197 | 407p | 384p | 48p | 188p | 621p |
| 1982--Oct. 6 | 85 | 1,793 | 2,210 | -1,022 | 125 | 39 | 511 | 379 | 104 | 123 | 606 |
| 13 | 772 | 2,824 | 4,584 | -1,482 | 56 | 147 | 462 | 178 | 70 | 117 | 365 |
| 20 | 1,372 | 2,559 | 5,493 | -1,789 | 103 | 233 | 261 | 321 | 85 | 110 | 516 |
| 27 | 1,271 | 3,340 | 7,454 | -1,960 | 81 | 167 | 319 | 183 | 90 | 179 | 452 |
| Nov. 3 | 2,062 | 2,479 | 5,514 | -2,355 | 238 | 118 | 542 | 185 | 77 | 196 | 458 |
| 10 | 2,527 | 4,317 | 2,181 | -3,396 | 135 | 172 | 347 | 482 | 50 | 190 | 722 |
| 17 | 3,862 | 4,236 | 2,236 | -3,608 | 165 | 186 | 398 | 506 | 48 | 188 | 742 |
| 24 | 3,779** | 5,643** | 34** | -3,163** | 434 | 311 | 324 | 235 | 46 | 186 | 467 |
| Dec. 1 | 6,668** | 5,572** | 14** | -2,995** | 105 | 212 | 522p | 403p | 35p | 185p | 623p |
| 8 | 7,743** | 4,308** | -1,872** | -3,019** | 263 | 247 | 302p | 227p | 26p | 186p | 439p |
| 15 | 5,584p** | 3,570p** | -3,070p** | -3,111p** | 227 | 197 | 588p | 490p | 24p | 189p | 703p |
| 22 | | | | | | | | | | | |
| 29 | | | | | | | | | | | |

NOTE: Government securities dealer cash positions consist of securities already delivered, commitments to buy (sell) securities on an outright basis for immediate delivery (5 business days or less), and certain "when issued" securities for delayed delivery (more than 5 business days). Futures and forward positions include all other commitments involving delayed delivery; futures contracts are arranged on organized exchanges. Underwriting syndicate positions consists 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. Monthly averages for excess reserves and borrowing are weighted averages of statement week figures. Monthly data for dealer futures and forwards are end of month figures for 1980

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

December 21, 1982

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann *M.A.*

Attached is a revised Appendix I to Monetary Policy Alternatives (the blue book), dated December 17, 1982. It replaces the first page after page 14.

Attachment

Appendix I

RESERVES TARGETS AND RELATED MEASURES
INTERMEETING PERIOD

(Millions of dollars; not seasonally adjusted)

| Date Reserves Path Constructed | Reserves Targets for Intermeeting Period (average for period) | | Projection of Reserves Demanded (average for period) | | | Implied Adjustment Borrowing | |
|---|--|-------------------------------------|--|-----------------------------|---------------------------|---------------------------------|--|
| | Total Reserves (1) | Non- borrowed Reserves (2) | Total Reserves (3) | Required Reserves (4) | Excess Reserves (5) | Average for Period (6) | For Remaining Statement Weeks of Intermeeting Period ^{1/} (7) |
| 5-Week Period: November 24 to December 22 | | | | | | | |
| November 19 | 41,331 | 41,081 | 41,331 | 41,031 | 300 | 250 | 250 |
| 26 | 41,411 ^{2/} | 41,161 ^{2/} | 41,462 | 41,152 | 310 | 301 | 306 |
| December 3 | 41,464 ^{3/} | 41,188 ^{3/4/} | 41,477 | 41,123 | 355 | 289 | 242 |
| 10 | 41,621 ^{5/} | 41,315 ^{5/6/} | 41,601 | 41,244 | 357 | 286 | 230 |
| 17 | 41,696 ^{7/} | 41,341 ^{7/8/} | 41,684 | 41,277 | 407 | 343 | 230 |

^{1/} Represents borrowing in remaining statement weeks (as intermeeting period progresses) implied by each weekly updating of the 5-week average nonborrowed reserves path. The movement in implied borrowing represents deviations in total reserves from target as well as any compensation for misses in nonborrowed reserves from target in earlier weeks of the intermeeting period.

^{2/} Total and nonborrowed reserves paths adjusted upward by \$80 million due to changes affecting the reserves multiplier.

^{3/} Total and nonborrowed reserves paths adjusted upward by \$53 million due to changes affecting the reserves multiplier.

^{4/} Nonborrowed reserves path adjusted downward by \$26 million to take account of the increased demand for borrowing in the week of December 1.

^{5/} Total and nonborrowed reserves paths adjusted upward by \$157 million due to changes affecting the reserves multiplier.

^{6/} Nonborrowed reserves path adjusted downward by \$30 million in light of unanticipated strength in borrowings in earlier weeks of the intermeeting period and disparate behavior in the monetary aggregates.

^{7/} Total and nonborrowed reserves paths adjusted upward by \$75 billion due to changes affecting the reserves multiplier.

^{8/} Nonborrowed reserves path adjusted downward by \$49 million in light of unanticipated strength in borrowings in earlier weeks of the intermeeting period and disparate behavior in the monetary aggregates.