



BOARD OF GOVERNORS  
OF THE  
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CLASS II - FOMC

TO: Federal Open Market Committee      SUBJECT: Impacts of Alternative  
FROM: James L. Kichline                      Monetary Growth Rates

The attached two tables compare projections of real GNP, unemployment, prices, and other selected economic and financial variables based on an assumed 5-1/4 per cent rate of growth of  $M_1$  with projections based on slower and faster  $M_1$  growth rates (4 and 6-1/2 per cent, respectively). The rates of growth of  $M_1$  employed represent the midpoint and the outer limits of the current  $M_1$  long-run range. These tables are being distributed in accordance with a Committee request at the July meeting.

Table 1 shows the projections themselves, by quarters, from the fourth quarter of 1977 through the fourth quarter of 1980. Under each variable, the figures for the "base forecast" (i.e., the projections based on a 5-1/4 per cent  $M_1$  growth rate) are shown in row 2; those based on slower and faster growth rates are shown in rows 1 and 3, respectively. Table 2 shows the differences from the base forecast (mostly in percentage points) of the projections based on slower and faster  $M_1$  growth rates. Under each variable the rows are numbered 1 and 3 to correspond to the numbering in Table 1.

For the period through the fourth quarter of 1978, the base forecast is the same as the judgmental projection shown in the Greenbook.

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For the period beyond 1978, the base forecast has been derived from econometric model extensions of the judgmental projection. Differences from the base forecast of alternative  $M_1$  growth rates for the entire forecast period have been derived mainly from simulations of the econometric model.

For the period through the third quarter of 1978, the assumed 5-1/4 per cent  $M_1$  growth path is comparable to Alternative B in the Bluebook; the 4 per cent  $M_1$  growth pattern is similar to Alternative D in the Bluebook. Beyond QIII/78, growth of  $M_1$  is assumed to proceed steadily at the indicated rates, and the interest rate projections are based largely on simulations of the model.

Attachments

Table 1

Projections of Selected Economic and  
Financial Variables Assuming Alternative  $M_1$  Growth Rates

	<u>1977</u>	<u>1978</u>				<u>1979</u>		<u>1980</u>	
	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>
Real GNP Growth (per cent, annual rate)									
1) 4% $M_1$ growth	5.0	4.3	3.8	3.1	2.9	3.3	2.8	2.5	2.2
2) 5-1/4% $M_1$ growth	5.2	4.8	4.7	4.3	4.3	4.6	3.9	3.4	3.1
3) 6-1/2% $M_1$ growth	5.4	5.5	5.9	5.8	6.0	6.3	4.8	3.9	3.5
Unemployment Rate (per cent)									
1) 4% $M_1$ growth	6.8	6.7	6.9	6.9	7.0	7.1	7.2	7.3	7.4
2) 5-1/4% $M_1$ growth	6.9	6.7	6.7	6.6	6.6	6.3	6.1	6.1	6.2
3) 6-1/2% $M_1$ growth	6.8	6.6	6.6	6.5	6.2	5.6	5.1	4.9	4.9
Fixed-Weight Deflator (per cent change, annual rate)									
1) 4% $M_1$ growth	6.0	6.8	6.5	6.1	6.0	5.9	5.7	5.8	5.2
2) 5-1/4% $M_1$ growth	6.0	6.8	6.5	6.2	6.3	6.4	6.4	6.7	6.5
3) 6-1/2% $M_1$ growth	6.0	6.8	6.5	6.3	6.5	7.1	7.6	8.2	8.2
Three-Month Treasury Bill Rate (per cent)									
1) 4% $M_1$ growth	6-3/4	7-3/4	8-1/4	8-1/2	8-1/2	9.0	9-1/8	9.0	8-7/8
2) 5-1/4% $M_1$ growth	6-1/2	7-1/8	7-1/2	7-3/4	7-3/4	8-1/8	8-1/4	8.0	7-7/8
3) 6-1/2% $M_1$ growth	6-1/4	6-1/4	6-3/4	7.0	7.0	7-3/8	7-1/2	7-1/2	7-3/8

Table 2

Differences from Base Forecast of  
Projections Assuming Alternative  $M_1$  Growth Rates 1/

	1977	1978				1979		1980	
	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>
Nominal GNP (billions of \$)									
1) 4% $M_1$ growth	-1.0	-3.8	-8.8	-15.6	-23.8	-43.2	-64.6	-88.4	-100.0
3) 6-1/2% $M_1$ growth	1.0	4.5	10.9	19.8	30.7	57.1	84.6	113.4	128.0
Real GNP (billions of 1972 \$)									
1) 4% $M_1$ growth	-0.7	-2.5	-5.6	-9.8	-14.4	-24.2	-32.5	-39.9	-45.5
3) 6-1/2% $M_1$ growth	0.6	2.9	7.0	12.3	18.4	31.0	40.0	45.4	49.0
Fixed-Weight Deflator (percentage points)									
1) 4% $M_1$ growth	--	--	--	-0.1	-0.3	-0.5	-0.7	-0.9	-1.3
3) 6-1/2% $M_1$ growth	--	--	--	0.1	0.2	0.7	1.4	1.5	1.7
Unemployment Rate (percentage points)									
1) 4% $M_1$ growth	0.1	--	0.1	0.3	0.4	0.8	1.1	1.2	1.2
3) 6-1/2% $M_1$ growth	-0.1	-0.1	-0.1	-0.1	-0.4	-0.7	-1.0	-1.2	-1.3
Three-Month Treasury Bill Rate (percentage points)									
1) 4% $M_1$ growth	1/4	5/8	3/4	3/4	3/4	7/8	7/8	1.0	1.0
3) 6-1/2% $M_1$ growth	-1/4	-7/8	-3/4	-3/4	-3/4	-3/4	-3/4	-1/2	-5/8
Aaa Corporate Bond New Issues (percentage points)									
1) 4% $M_1$ growth	1/8	1/8	1/4	1/4	3/8	3/8	3/8	1/2	1/2
3) 6-1/2% $M_1$ growth	-1/8	-3/8	-1/4	-1/4	-1/4	-3/8	-3/8	-3/8	-3/8
Money Stock (billions of \$)									
1) 4% $M_1$ growth	-0.4	-1.2	-2.5	-3.8	-4.9	-7.1	-9.5	-11.9	-14.4
3) 6-1/2% $M_1$ growth	0.2	1.7	3.2	4.3	5.4	7.7	10.1	12.7	15.5

1/ Base forecast assumes  $M_1$  growth of 5-1/4 per cent from the QIII/77 level.