

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, O.C. 20551

STRICTLY CONFIDENTIAL (FR) CLASS I - FOMC

TO: Federal Open Market Committee

FROM: Normand Bernard \(\langle \langle \).

DATE: January 27, 1983

SUBJECT: FOMC telephone

conference call, January 28, 1983.

Chairman Volcker will ask for views on the following paragraph during tomorrow's FOMC telephone conference which is scheduled to begin at 11:45 a.m.

The Committee subsequently discussed the extraordinarily rapid growth in money market deposit accounts (MMDAs) that has taken place since they became available in mid-December and the implications of this growth for behavior and interpretation of the monetary aggregates. These accounts had risen to a level of about \$185 billion on average by the week ending January 19, leading to a very sharp expansion in M2; growth of M2 seemed clearly to be on a track well above the 9½ percent annual rate from the December to March period set at the December meeting. However, while estimates of sources of MMDA inflows are subject to considerable uncertainty, staff analysis—based on assessment of incoming data as well as various reports on sources of MMDA inflows—indicated that much, if not all, of the greater M2 growth could be attributed to unexpectedly large shifts out of large CDs and market instruments, which are not included in M2, into MMDAs.

M3 growth also was raised substantially by shifts out of market instruments into MMDAs. Expansion of M1 has remained on the strong side, with growth very recently raised by introduction of super-NOW accounts. With distortions from transition to the new deposit accounts making it difficult to assess the "underlying" behavior of the aggregates, but with evidence of substantial shifts of funds into the broader aggregates out of market instruments, the Committee decided for the time being not to restrain reserve growth further in an effort to reduce monetary growth that appears reasonably related to the redistribution of funds to MMDAs. The situation will be reviewed at the regular FOMC meeting on February 8-9.