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December 12, 1980

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# MONETARY POLICY ALTERNATIVES

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Prepared for the Federal Open Market Committee

By the staff Board of Governors of the Federal Reserve System

December 12, 1980

MONETARY AGGREGATES AND  
MONEY MARKET CONDITIONS

Recent developments

(1) Growth of M-1A and M-1B slowed further in November, but remained well above that needed to reach the FOMC's short-run target path. Meanwhile, growth in M-2 and M-3 accelerated last month. The pickup in the broader aggregates reflected a surge in the expansion of small time deposits and large CDs. Savings deposits, on the other hand, declined for the first time since May, and money market mutual funds dropped slightly further. Recent data suggest a substantial slowing in growth of all of the monetary aggregates in December. M-1A growth for the year 1980, shown in the penultimate column of the table below, is likely to be just under the upper limit of its longer-run FOMC range, while growth rates for the other monetary aggregates will exceed the upper limits of their respective ranges.<sup>1/</sup> Commercial bank credit posted another strong gain in November,

<u>Monetary</u> <u>Aggregates</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Oct. to Dec.</u> <u>Growth Consistent</u> <u>with FOMC</u> <u>Short-run Target</u>	<u>Growth from</u> <u>QIV '79 to</u> <u>QIV '80 <u>e/</u></u>	<u>Target Growth</u> <u>for 1980</u>
M-1A	9.4	7.1	-0.8	5.5	3½ to 6
M-1B	11.5	9.3	1.8	7.5	4 to 6½
M-2	9.3	11.0	7.1	9.8	6 to 9
M-3	11.0	15.9	--	9.8	6½ to 9½
Memo:					
Bank Credit	13.3	16.1	--	8.0	6 to 9

e/ Estimated

1/ In 1980 actual shifts into ATS accounts out of demand deposits and other assets were greater than anticipated in the ½ point differential in the targets for M-1A and M-1B. With appropriate adjustment of the target ranges--raising the M-1B range and lowering the M-1A range--actual growth in M-1B would be only slightly above its range, as would M-1A.

as commercial and industrial loans continued to expand sharply, and bank credit growth for the year 1980 will be in the upper half of its longer-run range.

(2) Reserve aggregates rose sharply in November, but a substantial part of this growth was attributable to an increase needed to accommodate a large rise in reserve requirements resulting from the reduction of weekend Eurodollar reserve-avoidance activities. After adjustment is made for this development, nonborrowed reserves declined at about a 5 percent annual rate last month, as shown in the last column of the table on page 3. However, total reserves, adjusted, grew at an 18 percent annual rate. This advance reflected not only the continued rapid expansion in required reserves associated with the larger than targeted growth in the monetary aggregates, but also unexpectedly strong demands for excess reserves, probably related to the implementation of the Monetary Control Act. The enlarged level of excess reserves accounted for  $8\frac{1}{2}$  percentage points of the growth in total reserves. With demands for reserves outpacing the adjusted target path of nonborrowed reserves,<sup>1/</sup> member bank borrowing increased substantially further early in the intermeeting period, and the federal funds market continued to tighten. In the latest statement week, however, member bank borrowing declined to an average of \$1.8 billion.

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<sup>1/</sup> See Appendix I for the reserve targets and adjustments.

Recent Growth in Reserve Aggregates  
(SAAR)

	<u>October</u>	<u>November</u>	<u>Memo: Adjusted November*</u>
Nonborrowed reserves	2.5	13.2	-5.1
Total reserves	5.2	35.9	18.1
Monetary base	10.1	15.0	10.6
Memo: (\$ million)			
Average level of Discounts and Advances			
Adjustment borrowings	1,310	2,059	--
Average level of excess reserves	206	498	--

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\* Deducting estimates of the additional reserves required in association with the reduction of weekend reserve avoidance activities.

(3) With demand for reserves outpacing the amount supplied through open market operations, and with further pressure on short-term markets generated by the percentage point increase in both the basic discount rate and the surcharge, short-term interest rates have risen another 2 to 5 percentage points since the November FOMC meeting. Pressures have been particularly intense on very short-term instruments. The federal funds rate averaged 18.82 percent in the most recent full statement week.<sup>1/</sup> Rates on 3-month Treasury bills and 3-month CDs rose to as high as 17 and 21 percent, respectively, above peaks reached in early spring. With bank credit demand strong, banks have pressed large CD offerings on the market. In addition, the Treasury raised more than \$6 billion of new cash through short-term bills since the previous meeting. With business loan demands

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<sup>1/</sup> At a telephone meeting on November 26, the Committee raised the upper end of the federal funds rate range adopted in November from 17 to 18 percent. On December 5 and then again on December 12, the Committee agreed that open market operations would not be precisely constrained by the 18 percent limit.

remaining quite strong and costs of loanable funds rising, banks raised their prime lending rates from 16½ percent to 20 percent.

(4) Bond yields have increased less than short rates, rising about 5/8 to 1 percentage point since the November meeting. The Treasury raised just under \$5 billion of new money with coupon securities in that period. At the same time, the volume of public offerings of bonds by corporations in November and early December was relatively light as firms have backed away from the market in the anticipation that yields would come down over the near term. Primary mortgage rates have moved up less than bond yields; new mortgage commitment activity is reported to be quite limited at current rate levels.

(5) The dollar has risen sharply on exchange markets since the last Committee meeting, in response to the continued widening of interest rate differentials in favor of dollar assets and to the intensification of concerns over the Polish situation. The dollar rose by 3 to 4 percent against Continental currencies and declined only against the yen.

U.S. authorities acquired \$2 billion of DM.

(6) 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>	QIII '80 over QIV '79	Past Three Months Nov. '80 over Aug. '80	Past Month Nov. '80 over Oct. '80
Nonborrowed reserves	6.3	0.4	7.7	6.5	13.2
Total reserves	6.2	2.7	3.7	21.1	35.9
Monetary base	9.2	7.8	7.7	11.7	15.0
<u>Concepts of Money</u>					
M-1A (Currency plus demand deposits) <sup>2/</sup>	7.4	5.0	3.9	9.8	7.1
M-1B (M-1A plus other checkable deposits)	8.2	7.6	5.7	19.9	9.3
M-2 (M-1B plus small time and savings deposits, money market mutual fund shares and overnight RP's and Eurodollars)	8.4	8.9	9.6	9.7	11.0
M-3 (M-2 plus large time deposits and term RP's)	11.3	9.8	8.9	12.2	15.9
<u>Bank Credit</u>					
Loans and investments of all commercial banks <sup>3/</sup>	13.5	12.3	5.4	14.7	16.1
<u>Managed Liabilities of Banks</u> (Monthly average change in billions)					
Large time deposits	4.3	1.2	1.1	4.9	7.8
Eurodollars	0.6	1.8	-2.1	-1.3	-4.8
Other borrowings <sup>4/</sup>	1.3	1.0	1.4	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.

NOTE: All items are based on averages of daily figures except for data on total loans and investments of commercial banks, commercial paper, and thrift institutions--which are derived from either end-of-month or Wednesday statement date figures. Growth rates for reserve measures in this and subsequent tables are adjusted to remove the effect of discontinuities from breaks in the series when reserve requirements are changed.

Alternative longer-run monetary strategies

(7) To aid the Committee in its preliminary assessment of monetary targets for next year, to be announced in February, the table on the following page presents estimates of GNP, prices, and unemployment that might be expected with alternative monetary strategies. Strategy I is based in part on the FOMC's tentative decision with respect to M-1 for 1981 made in July, and is the monetary premise for the greenbook GNP projection. It involves a reduction next year of  $\frac{1}{2}$  percentage point in target growth of M-1A and M-1B, abstracting from the distorting effects on these aggregates of shifts into NOW and related accounts. It further assumes similar reductions in 1982 and 1983. Strategy II assumes continuation through 1981 and for two years thereafter of the FOMC's 1980 target for M-1A--that is, growth at the  $4\frac{3}{4}$  percent midpoint of this year's range. The figures for strategies III and IV show impacts if instead growth over the next three years is at 6 and  $3\frac{1}{2}$  percent, respectively.

(8) The steadily reduced rate of money growth envisioned by strategy I is likely to entail a noticeable reduction in the rate of inflation, with some improvement next year and larger improvement in later years. Such monetary restraint, so far as we can tell now, would permit little real growth, and unemployment would be expected to rise throughout the 3-year projection period. Strategy II would provide a bit more scope for real growth, but with slightly less success in slowing price increases within the projection time horizon. The higher money growth rates of strategy III would appear to permit enough real growth to reduce the unemployment rate and to move it below its current level in 1983. However, there would be less progress in reducing inflation. Finally, strategy IV--which entails

Economic Implications of Alternative  
Long-run Policy Strategies

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Nominal GNP (percent change, Q4/Q4)</u>				
Strategy I	9.7	8.9	8.4	7.8
Strategy II		9.3	9.6	9.9
Strategy III		10.0	11.4	12.3
Strategy IV		8.4	7.8	7.7
<u>Real GNP (percent change, Q4/Q4)</u>				
Strategy I	-0.9	-0.8	.3	1.1
Strategy II		-0.5	1.3	2.7
Strategy III		.2	2.9	4.3
Strategy IV		-1.2	-0.1	1.2
<u>Deflator (percent change, Q4/Q4)</u>				
Strategy I	10.7	9.8	8.0	6.6
Strategy II		9.8	8.2	7.0
Strategy III		9.8	8.3	7.7
Strategy IV		9.7	7.9	6.4
<u>Unemployment Rate (percent, Q4)</u>				
Strategy I	7.6	8.8	9.2	9.8
Strategy II		8.7	8.8	8.5
Strategy III		8.5	7.8	6.6
Strategy IV		9.0	9.7	10.3

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Note: Strategy 1 represents M-1A growth (abstracting from NOW/ATS account effects) of 4½ percent in 1981, 3½ percent in 1982, 3½ percent in 1983. This is consistent with the assumptions underlying the Greenbook GNP forecast and with the Committee's tentative target for 1981. Strategy 2 is 4½ percent M-1A growth in each of the next three years. Strategy 3 is 6 percent M-1A growth in each of the next three years. Strategy 4 is 3½ percent M-1A growth in each of the next three years. All the projections embody the fiscal policy assumptions of the Greenbook, in particular a \$35 billion tax cut in 1981 with no further discretionary tax actions in subsequent years.

a prompt, sizable reduction in money growth--would have the largest effect in reducing inflation over the projection period, but at the highest short-run cost in terms of real growth and unemployment.

(9) The behavior of the economy in response to these several strategies will depend, among other things, on changes in expectations by the public. We have assumed no more than a gradual abatement of inflationary expectations, as actual price increases diminish as a result of slack markets. But should, for instance, the strong commitment to restraint of strategy I or strategy IV lead to a rapid decline of inflationary expectations, and hence to reduced upward pressure on wages and prices, there would be more scope for expansion in real GNP. On the other hand, the greater money growth of strategy III, which exceeds the upper limit of the tentative target announced by the FOMC for 1981, could exacerbate inflationary expectations because the System might be seen as becoming accommodative to inflation; in that case, this strategy could involve more rapid inflation and less real growth than shown in the table.

(10) All of our projections assume a further downward shift of demand for M-1A and M-1B relative to GNP and interest rates (as measured by the prediction error in the money demand equation of the Board's quarterly model). The extent of shift in 1981 is somewhat less than occurred in 1975 - 1976, after allowing for the estimated impact from introduction of nationwide NOW accounts at the beginning of next year.<sup>1/</sup> If such a downward shift does not occur, the proposed targets would be even more restraining in their impact on nominal GNP growth. For example, if the downward shift were not to occur, or to be significantly less than expected, then adoption

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<sup>1/</sup> A brief discussion of money demand shifts implied by a few money demand equations is contained in appendix II.

of the targets for 1981 involved in strategy I probably would yield an economic outcome for that year more restrictive than implied by strategy IV.

(11) It should also be pointed out that the M-1 growth rates assumed for these projections appear to involve relatively more growth in the broader aggregates, particularly M-2, than was implicit in the Committee's tentative thinking about targets for 1981. The table below compares the monetary targets for 1981 decided in July with the set the staff believes consistent with those M-1 ranges. As reflected in the two sets of ranges,

	<u>Tentative targets for 1981 set in July</u>	<u>Current estimates of consistent set</u>
M-1A	3 to 5½	3 to 5½
M-1B	3½ to 6	3½ to 6
M-2	5½ to 8½	8 to 11
M-3	6½ to 9½	7½ to 10½
Bank credit	6 to 9	6½ to 9½

we would expect M-2 growth to be above the upper end of the tentative range for this aggregate announced in July and M-3 to be at least in the upper part of its tentative range. This is based on our assessment of credit demands on banks and thrift institutions next year, asset preferences of the public at expected market rates of interest, the availability of attractive consumer-type instruments at depository institutions, and recent experience.

(12) Adjustments to targets next year for M-1A and M-1B would need to be made to take account of the impact on the public's deposit holdings from the introduction of NOW and related accounts on a nationwide basis. Our estimates of likely impacts are described in appendix III. On the assumption that thrifts, including credit unions, will very actively compete for such deposits, we have assumed that the total of funds newly shifted into

NOW accounts will be larger than earlier expected; however, we have retained the assumption that two-thirds of these funds will come from demand deposits. There is a wide range of error around these estimates, but our midpoint estimate is that such shifts will reduce M-1A growth by about 4 percentage points and raise M-1B growth by 2 percentage points. The relation between M-1A and M-1B will also be influenced by the rate of growth in already outstanding checkable deposits other than demand deposits (OCDs) as compared with M-1A. We have assumed that the OCD component of M-1B will grow somewhat faster than M-1A; this is consistent with the recent trend growth in household transactions balances, but the actual outcome will also depend to a great extent on the behavior of OCDs as a savings vehicle. On balance, consistent with the Committee's earlier tentative decision effectively to reduce M-1A and M-1B growth by  $\frac{1}{2}$  point next year, we would now anticipate that actual growth for M-1A over the year 1981 would be in a  $-1$  to  $1\frac{1}{2}$  percent range (1 point lower than earlier), and for M-1B in a  $5\frac{1}{2}$  to 8 percent range ( $\frac{1}{2}$  point higher than earlier).

Near-term targets

(13) The table below presents for Committee consideration alternative sets of targets for the monetary aggregates through the first quarter of next year, taking the known November level as a base. The growth rates of M-1A and M-1B are specified in terms of their behavior in the absence of the January 1 introduction of nationwide NOW accounts; the corresponding actual changes in these narrow aggregates, reflecting the anticipated distorting effects of shifting into interest-bearing checking accounts, are shown in parentheses. The staff's assumption is that the Committee would wish to set its targets for M-1A and M-1B in terms of the "effective" growth rates, with paths for the measured aggregates being adjusted as incoming weekly data give some indication of the actual degree of shifting. Also shown in the table are associated federal funds rate ranges for the intermeeting period. (Detailed and longer-run data for the monetary aggregates are contained in the table on the next page.)

	<u>Alt. A</u>	<u>Alt. B</u>	<u>Alt. C</u>
Growth from November to March			
M-1A	4½ (½)	3½ (-½)	2½ (-2)
M-1B	5½ (7½)	4½ (6½)	3½ (5½)
M-2	9½	8½	8½
Intermeeting range for federal funds	12 to 18	13 to 19	15 to 20

(14) All of the alternatives would imply a substantial deceleration of monetary growth from the rates recently experienced. Nonetheless, given the likely reduction in demand for cash balances from the sharp increase in interest rates that has occurred over the past few months and

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>
1980--November	389.0	389.0	389.0	414.0	414.0	414.0
December	389.8	389.8	389.8	415.7	415.7	415.7
1981--January	391.4	391.1	390.7	417.6	417.3	416.9
February	393.4	392.5	391.2	419.8	418.9	417.6
<u>Growth Rates Monthly</u>						
1980--December	2.5	2.5	2.5	4.9	4.9	4.9
1981--January	4.9	4.0	2.8	5.5	4.6	3.5
	(-1.2)	(-2.1)	(-3.4)	(8.4)	(7.5)	(6.4)
February	6.1	4.3	1.5	6.3	4.6	2.0
	( 0 )	(-1.9)	(-4.6)	(9.2)	(7.5)	(4.9)
December '80 -	5.5	4.2	2.0	6.0	4.7	2.6
March '81	(-0.2)	(-1.4)	(-3.6)	(8.7)	(7.4)	(5.3)
<u>Quarterly Average</u>						
1980--QIV	10	10	10	12-1/2	12-1/2	12-1/2
1981--QI	5	4	2-3/4	6	5-1/4	4
	(1.0)	(1/4)	(-1)	(8)	(7-1/4)	(6)
1979 QIV to 1980 QIV	5-1/2	5-1/2	5-1/2	7-1/2	7-1/2	7-1/2

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>
1980--November	1668.8	1668.8	1668.8	1943.6	1943.6	1943.6
December	1675.7	1675.7	1675.7	1958.2	1958.2	1958.2
1981--January	1689.1	1688.7	1688.0	1974.1	1973.8	1973.3
February	1705.0	1703.7	1701.7	1988.3	1987.5	1986.0
<u>Growth Rates</u>						
<u>Monthly</u>						
1980--December	5.0	5.0	5.0	9.0	9.0	9.0
1981--January	9.6	9.3	8.8	9.7	9.6	9.3
February	11.3	10.7	9.7	8.6	8.3	7.7
December '80 - March '81	10.5	10.0	9.2	9.0	8.7	8.2
<u>Quarterly Average</u>						
1980--QIV	9½	9½	9½	12	12	12
1981--QI	9½	9	8½	10	9½	9½
1979 QIV to 1980 QIV	9½	9½	9½	9½	9½	9½

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NOTE: The following annual rates of growth in bank credit for the year and for the quarters are expected under alternative B: year 1980, 8; 1980 QIV, 15; 1981 QI, 11. Only minor variations in growth rates would be expected under alternatives A and C.

from the substantial weakening of economic activity projected, growth of the narrow aggregates at the rates indicated for any of the alternatives probably would be accompanied by a decline in interest rates from their current levels. However, as noted earlier, inflationary trends will be giving considerable impetus to the public's demand for transactions balances over the whole of 1981, and thus interest rates may well stay at high levels on average next year.<sup>1/</sup>

(15) Alternative B has been designed to place M-1A and M-1B in March near the midpoints of the FOMC's tentative long-range targets for 1981 adopted last July. Thus, under this alternative the rate of growth over the first three months of next year would be  $4\frac{1}{2}$  percent annual rate, assuming M-1A grows at the  $2\frac{1}{2}$  percent annual rate for December. Substantially lower growth rates are included in alternative C. This alternative would tend to limit the potential for interest rate declines should the economy weaken as projected and may tend to reduce the risk of pronounced interest rate fluctuations in the course of the year. Alternative A proposes somewhat higher growth rates of money than alternative B. (The charts on the following pages depict the near-term behavior of the monetary targets under the three alternatives, with M-1A and M-1B shown both before and after adjustment for the impact of NOW accounts; the alternatives are shown in relation to the tentative long-run ranges for 1981 established at the July meeting.)

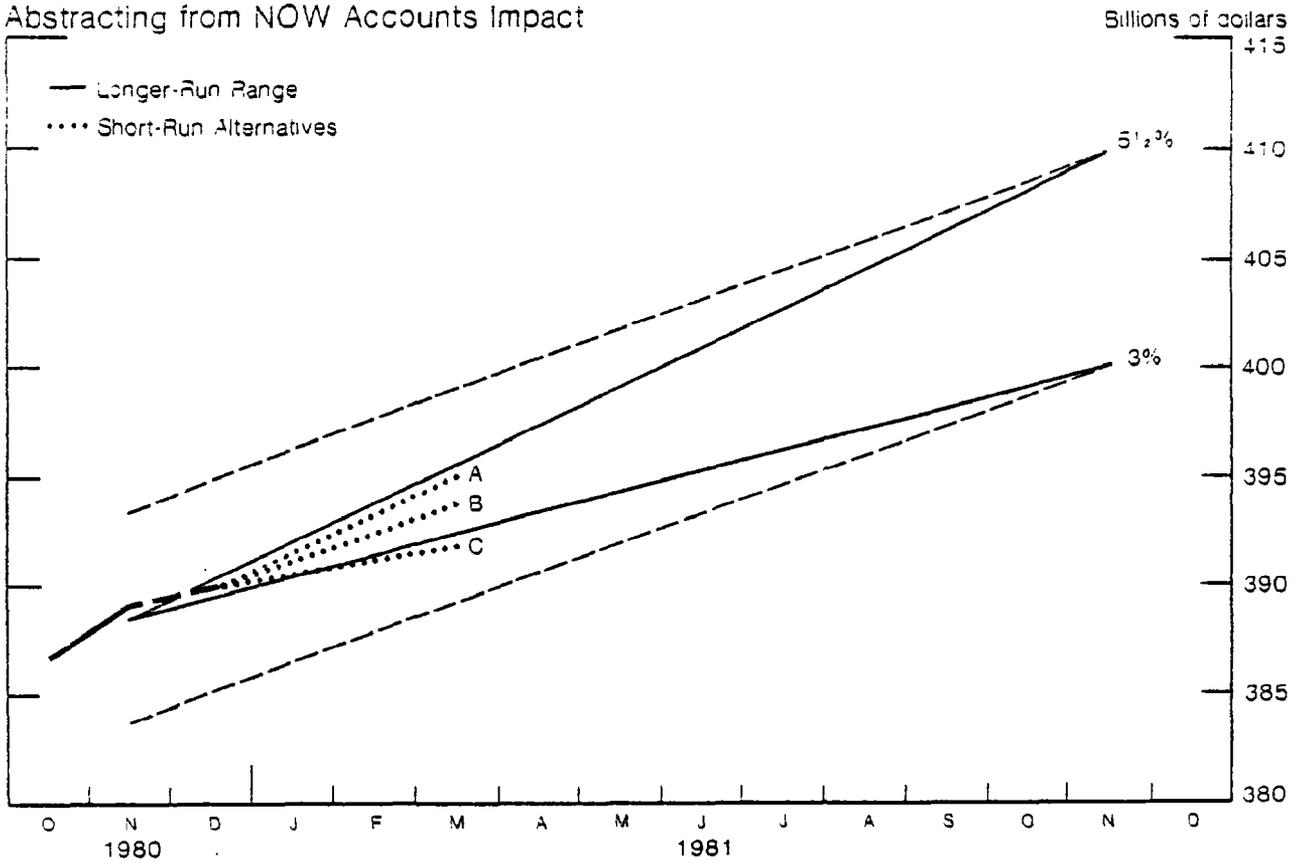
(16) Under alternative B, actual M-1A growth may be slightly negative after the turn of the year, on the assumption that the NOW account effect reduces M-1A growth by about  $5\frac{1}{2}$  percentage points over the first three months of the year. Measured M-1B growth may be around  $7\frac{1}{2}$  percent in the early months of next year on the assumption that shifts out of assets

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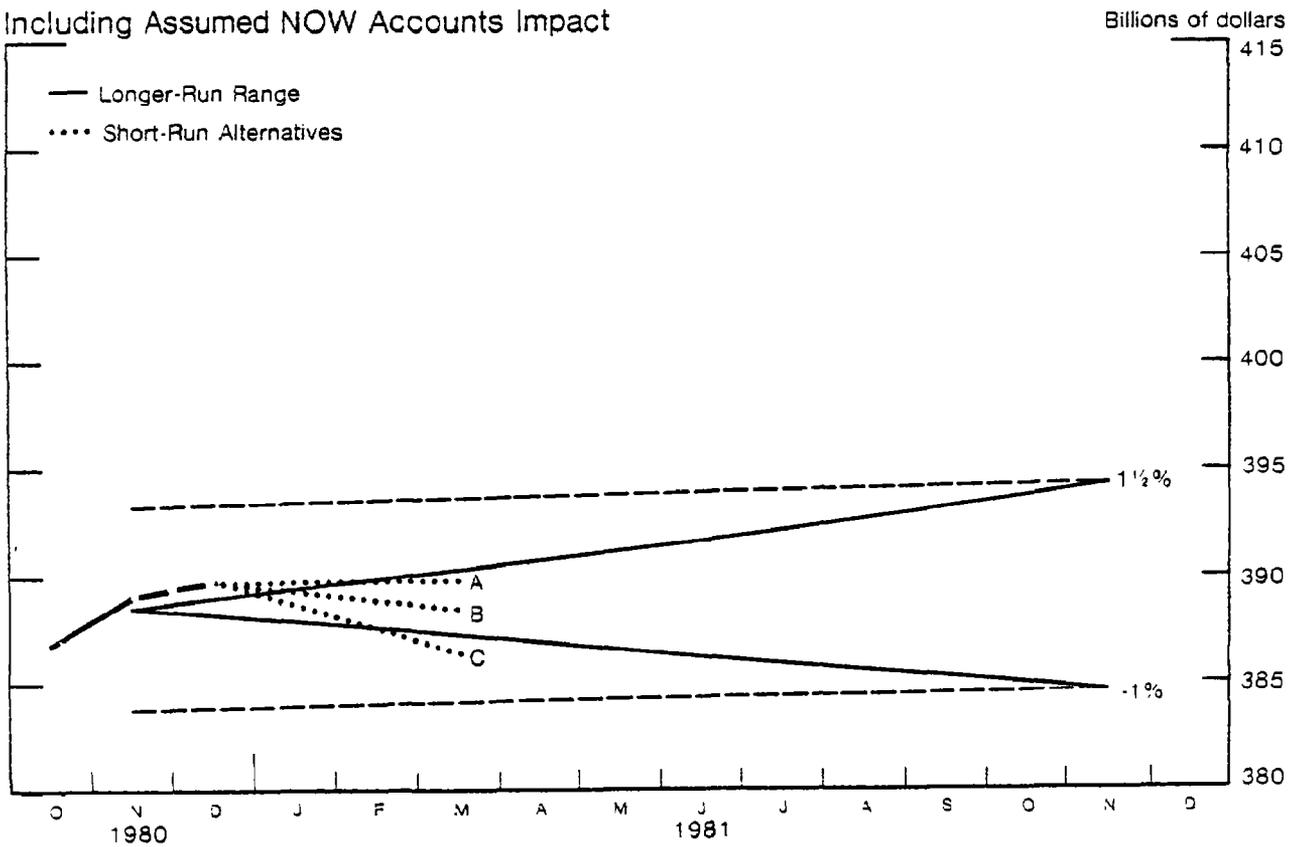
<sup>1/</sup> Appendix IV displays quarterly interest rates in 1981 associated with alternative B.

### Actual and Tentatively Targeted M-1A

Abstracting from NOW Accounts Impact

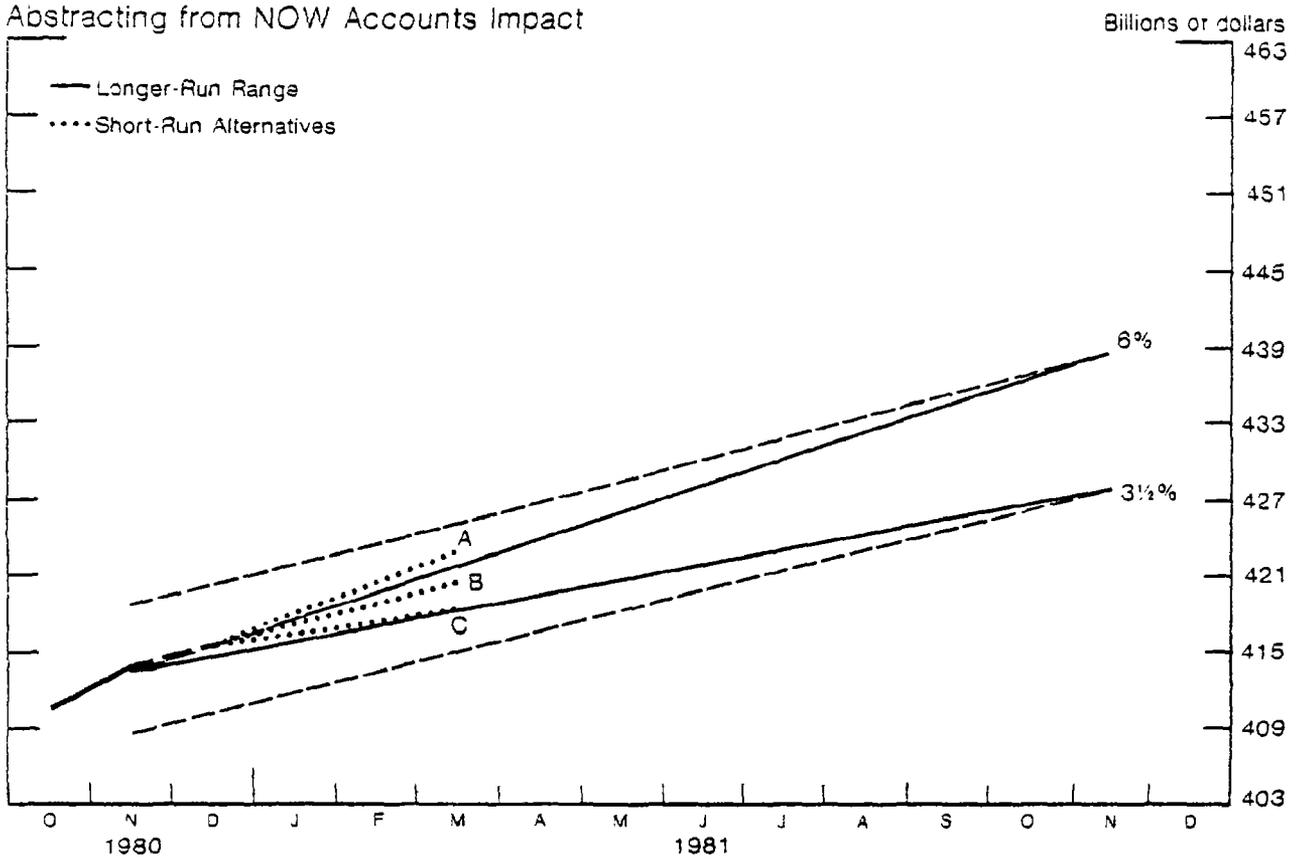


Including Assumed NOW Accounts Impact

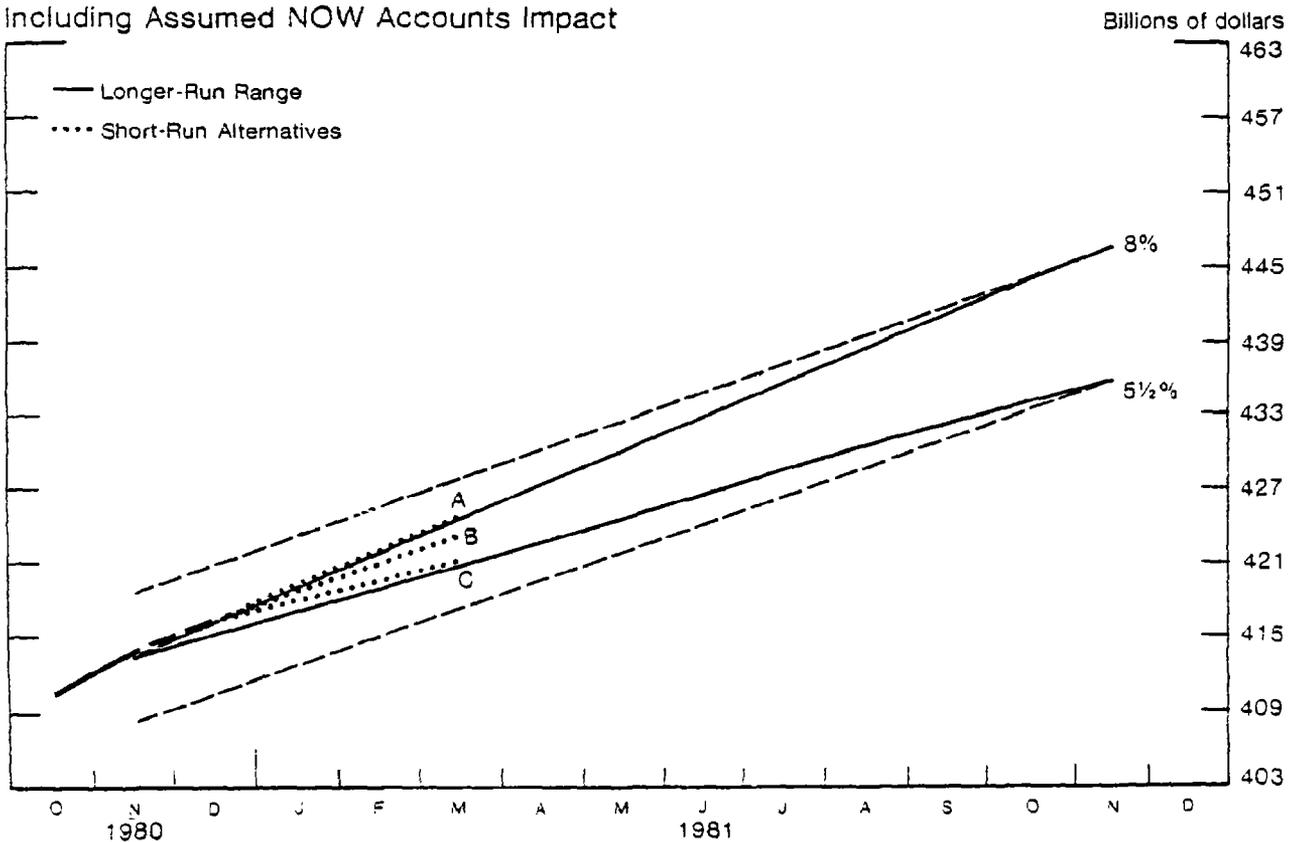


### Actual and Tentatively Targeted M-1B

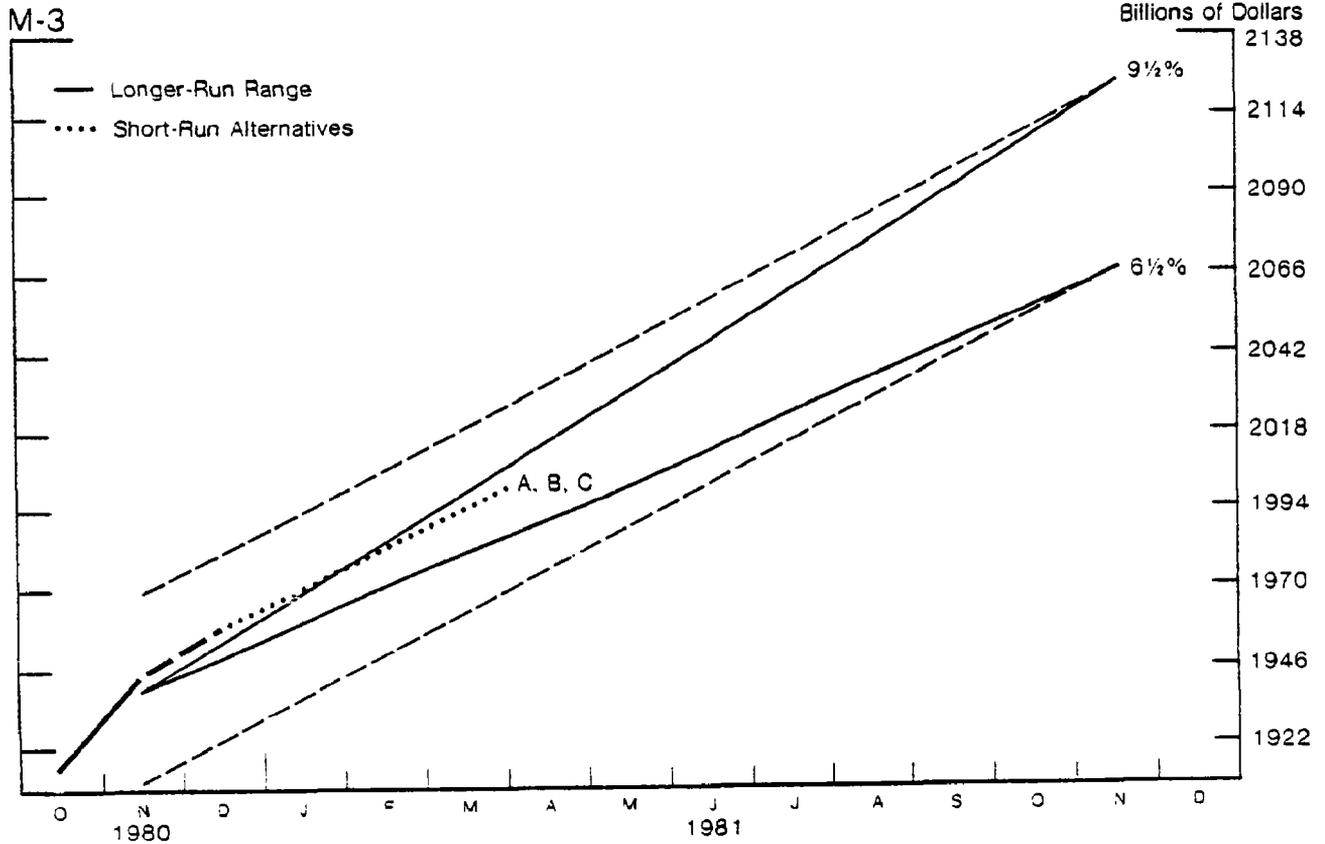
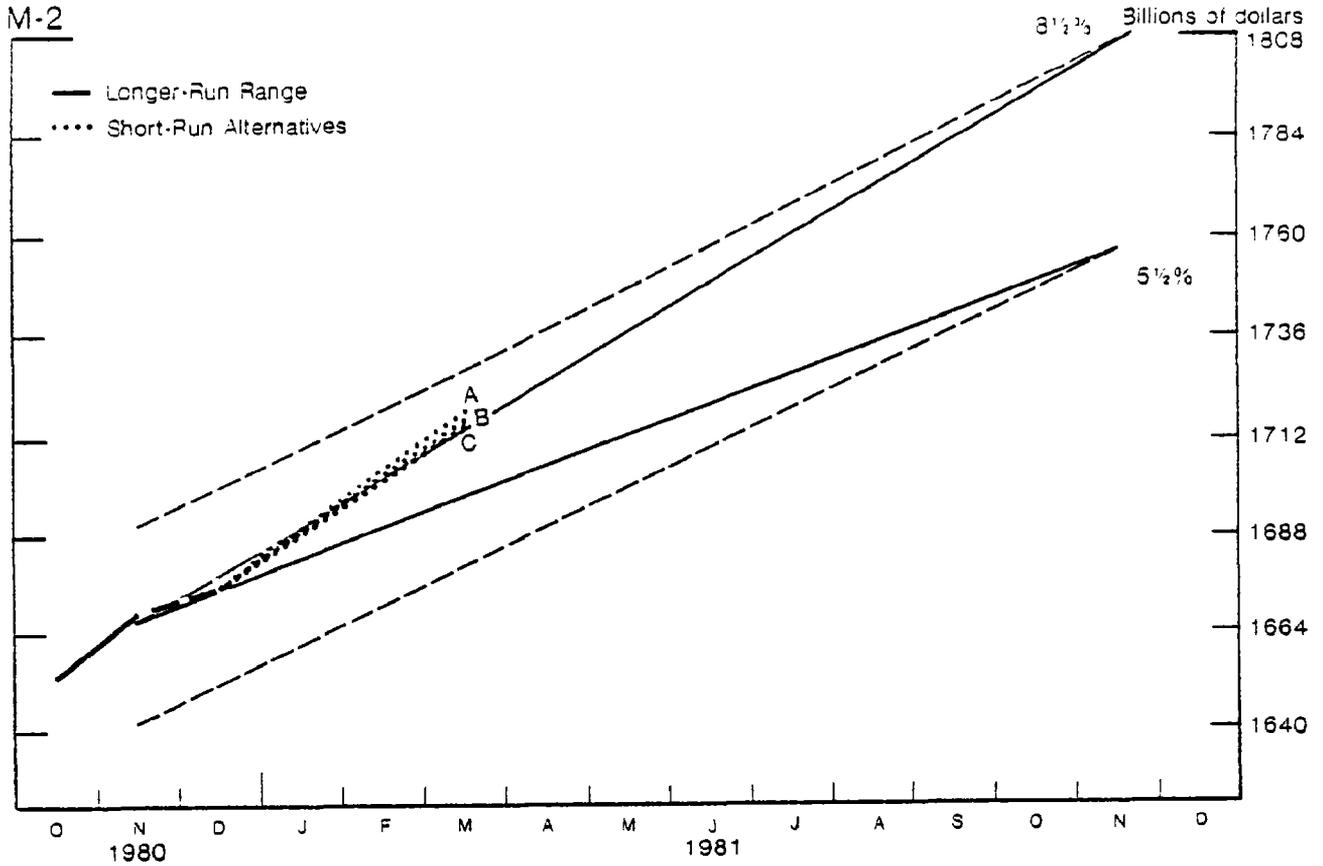
Abstracting from NOW Accounts Impact



Including Assumed NOW Accounts Impact



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



not contained in M-1B raise growth of that aggregate by about  $2\frac{1}{2}$  percentage points. To achieve the monetary expansion indicated by alternative B, total reserves would have to increase at about a  $1\frac{1}{2}$  percent annual rate from November to March, and by 3 percent over the shorter-run period from November to January.

(17) Under alternative B, the federal funds rate might be expected to drop over the forthcoming intermeeting period to around 17 percent, and probably by more later in the quarter, unless the economy proves to be stronger than expected. A 17 percent funds rate would imply borrowing in a range of  $\$1\frac{1}{2}$  to  $\$1\frac{1}{2}$  billion, given the present discount rate structure. A drop in the funds rate to this level would be accompanied by declines of 2 percentage points or so in very short rates. Intermediate- and longer-term market rates would drop substantially initially, partly as short positions are covered. Rate declines may be more limited over the longer run, as markets face adverse expectational pressures associated with sharp increases that may be published in the consumer price index and with discussion of a deficit-expanding tax cut. Even before such a tax cut becomes a reality, debt markets will be burdened with heavy federal financing requirements--expected to run between \$20 and \$25 billion in the first quarter. The long-term bond markets will, in addition, be called upon to absorb a massive backlog of corporate and municipal offerings that have been awaiting a downturn in rates.

(18) Bank credit growth should slow in the months ahead, reflecting not only the slackening of loan demand associated with the weakening of final demands and some liquidation of inventories but also the funding of short-term debt by businesses. In reflection, the issuance of managed liabilities--especially large CDs--should fall off from the recent elevated pace,

contributing to a moderation of M-3 growth. At thrift institutions, residential mortgage credit flows likely will be somewhat smaller than in the past couple of months. Average rates on new S&L commitments for conventional fixed rate loans are expected to move higher in the weeks immediately ahead, but then to move downward only moderately. Although thrift institutions are projected to continue to experience ample deposit inflows, the funds will remain very costly and in an environment of significant operating losses the institutions may tend to emphasize investment in short-term, particularly liquid, assets.

(19) To attain the somewhat higher monetary targets of alternative A total reserves would have to increase at a  $2\frac{1}{2}$  percent, at an annual rate, between November and March and by a  $3\frac{1}{2}$  percent rate in the two-month December-January period. The federal funds rate may fall to around 16 percent in the intermeeting period, and, given the present discount rate structure, borrowing could be in a range around \$1 billion. Other short-term rates may drop 3 percentage points or so, tending to lessen the financing and cash flow difficulties of many businesses and households. The reduction in deposit costs at thrift institutions, while substantial, would still leave them facing severe earnings pressures over the next several months. Even though short rates drop more under this alternative than under alternative B, long rates may be little different, particularly if inflationary expectations remain high--as they may if a substantial easing in short rates occur well before signs of a weakening in price pressures or before there are clear signs of a significant drop-off in economic activity.

(20) Alternative C is the most restrictive of the three short-run options presented. Under this alternative, M-1A in March would be just below the lower end of the tentative long-run growth cone for 1981--on both an adjusted and unadjusted basis. The alternative C monetary targets are consistent with virtually no growth in total reserves. Borrowing over the next few weeks might decline only a little from the recent \$1.8 billion level, and the federal funds rate might remain in the 18 to 20 percent area. However, as the first quarter progresses, federal funds and other short-term rates are likely to drop somewhat as evidence of economic weakness emerges and demands for credit and money soften. Credit conditions on the whole would remain quite taut, though. Mortgage markets in particular would show little or no easing and this, together with continued consumer credit stringencies, would inhibit household spending.

Directive language

(21) Given below are suggested operational paragraphs for the directive consistent with the form of the directive adopted at recent meetings. Because December figures for the monetary aggregates are largely projected, the language calls for expansion of reserve aggregates at a pace consistent with the desired rate of monetary growth over the four-month period ending in March 1981, provided that the weekly average federal funds rate remains within a specified range. The specifications adopted at the November meeting are shown in strike-through form.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the FOUR-MONTH period ~~from-September-to-December~~ ENDING IN MARCH 1981 at annual rates of about  $2\frac{1}{2}$  \_\_\_ percent, 5 \_\_\_ percent, and  $7\frac{1}{2}$  \_\_\_ percent respectively, ~~or-somewhat-less~~, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of ~~13-to-18~~ \_\_\_ TO \_\_\_ percent.

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

Appendix I

RESERVE TARGETS AND RELATED MEASURES  
FOR 5-WEEKS ENDED DECEMBER 24  
(\$ millions, not seasonally adjusted)

As of	Targets for 5-Week Averages		Projections for 5-week Averages			
	Total Reserves (1)	Non- borrowed Reserves (2)	Total Reserves (3)	Required Reserves (4)	Excess Reserves (5)	Adjustment Borrowing (3)-(2)
November 18 (FOMC Meeting)	39,691	38,191	39,691	39,291	400	1,500
November 22	39,821 <sup>1/</sup>	38,321 <sup>1/</sup>	40,224	39,824	400	1,903
December 1	40,041 <sup>2/</sup>	38,371 <sup>2/</sup>	40,382	40,009	373	2,011
December 5	40,131 <sup>3/</sup>	38,461 <sup>3/</sup>	40,392	39,941	450	1,931
December 12	40,171 <sup>4/</sup>	38,501 <sup>4/</sup>	40,381	39,929	452	1,880
December 19						

- <sup>1/</sup> Total and nonborrowed reserve paths adjusted upward by \$130 million on November 22 due to changes in multiplier relationships.
- <sup>2/</sup> Total and nonborrowed reserve paths adjusted upward by \$220 million on December 1 for multiplier changes, and nonborrowed reserve path adjusted downward by \$170 million in view of continuing strength in total reserves.
- <sup>3/</sup> Total and nonborrowed reserve paths adjusted upward by \$90 million on December 5 due to multiplier changes.
- <sup>4/</sup> Total and nonborrowed reserve paths adjusted upward by \$40 million on December 12 due to multiplier changes.

## Appendix II

### Alternative Econometric Estimates of the Drift in the Demand for M-1A in Recent Years and Projections for QIV '80 to QIV '81

Since the mid-70's several developments have likely worked to reduce the demand for M-1. Legislative and regulatory changes have created new kinds of deposits or permitted expanded use of existing ones. At the same time high interest rates have encouraged the use of very liquid deposit substitutes such as RPs and MMMFs, while also providing a greater incentive for investment in cash management systems designed to lower average cash holdings. As a result, M-1 velocity has tended to rise somewhat more than might be expected on the basis of the prior established relationships.

To provide a quantitative indication of the amount of this downward demand shift or drift, three representative money demand models have been selected. As shown in Appendix Table II-1, these models differ mainly in the specification of the opportunity cost of holding transactions balances. The first of these models is the Board's quarterly econometric model. In this model the opportunity cost of holding money balances is represented by two money market yields--the three-month Treasury bill rate and the federal funds rate--and the passbook savings rate. The second model shown in the table was developed by Michael Hamburger, while he was on the staff of the Federal Reserve Bank of New York. The opportunity cost of holding M-1 balances in his model is depicted by a long-term rate of interest--a bond rate--and a dividend-price ratio for common stocks as well as the passbook rate. The last one shown was developed by two members of the Board staff, Richard Porter and Thomas Simpson. Their model is like the Board's quarterly model with one major exception: it includes a ratchet variable designed to capture the incentive to invest in new money management systems that enable the depository to conduct transactions with a smaller amount of money balances. When market rates of interest are high and expected to remain

high for some time in the future, the perceived profitability of adopting new cash management systems increases and new systems are implemented that reduce deposit demands, not only in the current period but also in the future.

Appendix Table II-2 shows the annual rate of demand errors or drift in M-1A for each of these models over the six-year period from QIV '74 - QIV '75 to QIV '79 - QIV '80 and for the QIV '80 to QIV '81 longer-run target periods. In each case, money demand drift, shown in the third panel of the table, is measured as the difference between actual (or targeted) money growth and predicted money growth, shown in the upper panels of the table. Since each of the econometric models was estimated based on data prior to mid-1974, none of them could be expected to predict the weakness in M-1A growth associated with regulatory changes permitting NOW/ATS accounts and savings deposits for businesses and for state and local governments. The lower panel in table II-2 modifies the drift estimates by adjusting the predicted growth rates for an estimate of the impact of such regulatory actions on M-1A.

The Board's quarterly model, which tended to be the best equation of the three prior to the mid-70's, generates large drift estimates in 1975 and 1976, even when adjusted for the regulatory changes. Neither it nor the Porter-Simpson model generates particularly large errors in the period from 1977 to 1980, especially when the adjustment for the regulatory changes is made. The Porter-Simpson model produces somewhat smaller estimates of demand drift than the Board's quarterly model in the years 1975 and 1976 and again in 1980, in large measure because of the behavior of the ratchet cash management variable in periods during or just following high long-term rates. Making the adjustment for the regulatory changes, the Hamburger model correctly forecasts the average rate of expansion of the money stock over the six-year period. In large part the slower growth predicted by

this model than the others can be attributed to the historically high value of the dividend-price ratio over this period and the sluggish response of this model to the increasing inflation since 1977.

For the QIV '80 to QIV '81 longer-run target period the models provide a wide range of estimates of demand drift. Abstracting from the introduction of nationwide NOW accounts, the predictions bracket the  $4\frac{1}{2}$  percent midpoint of the longer-run target range for M-1A. The Board's model implies that M-1A will be about  $2\frac{3}{4}$  percentage points above this midpoint, while the Porter-Simpson model predicts growth at about  $1\frac{1}{2}$  percentage points below the midpoint. The latter model is, in effect, predicting that the relatively high long-term rates expected to prevail over the coming year will induce a further increase in the efficiency of cash management and a fairly rapid increase in velocity.

Table II - 1

Principal Determinants of Alternative Models  
of the Demand for Narrow Money Balances

Model	Determinant			
	Real Income	Opportunity Cost	Price	Other
Board's Quarterly Econometric Model (demand deposit)	per capita real GNP	three-month bill; Federal funds rate; passbook rate	GNP deflator	
Hamburger Demand Model	real GNP	dividend-price ratio; passbook rate; long-term bond rate	GNP deflator	
Porter-Simpson Demand Model	real GNP	three-month bill; passbook rate	GNP deflator	cash management variable based on long-term rate

NOTE: The Board's quarterly econometric model includes a currency equation that depends on real personal consumption expenditure, the personal consumption deflator and the three-month rate. The Board's demand deposit equation also includes a time trend.

Table II

M-1 Predictions and Drift Estimates for Alternative Econometric Models  
(Fourth quarter over fourth quarter rates of growth)

	QIV'74 to QIV'75	QIV'75 to QIV'76	QIV'76 to QIV'77	QIV'77 to QIV'78	QIV'78 to QIV'79	QIV'79 to QIV'80	Average 1975-80	QIV'80 to QIV'81
<u>Actual (or targeted) M-1A Growth</u>	4.7	5.5	7.7	7.4	5.0	5.5	6.0	1/4
<u>Predicted M-1A growth in the absence of regulatory changes 1/</u>								
Board's Quarterly Econometric Model	10.0	9.6	9.0	8.1	7.2	8.0	8.7	7.1
Hamburger Demand Model	5.7	8.7	7.5	6.9	6.9	6.0	7.0	5.4
Porter-Simpson Demand Model	8.4	8.5	9.2	8.0	6.3	6.2	7.8	3.0
<u>M-1A Drift (actual M-1A growth less predicted M-1A growth)</u>								
Board's Quarterly Econometric Model	-5.3	-4.1	-1.3	-0.7	-2.2	-2.5	-2.7	-6.9
Hamburger Demand Model	-1.0	-3.2	0.2	0.5	-1.9	-0.5	-1.0	-5.2
Porter-Simpson Demand Model	-3.7	-3.0	-1.5	-0.6	-1.3	-0.7	-1.8	-2.8
<u>M-1A Drift adjusted for regulatory changes<sup>2/</sup> (actual M-1A growth less predicted growth adjusted for regulatory changes)</u>								
Board's Quarterly Econometric Model	-5.1	-2.9	-0.9	-0.2	-0.5	-1.2	-1.8	-2.7
Hamburger Demand Model	-.8	-2.0	0.6	1.0	-0.2	0.8	-0.1	-1.0
Porter-Simpson Demand Model	-3.1	-1.8	-1.1	-0.1	0.4	0.6	-0.8	1.4

1/ Predicted growth rates for 1975-80 are based on actual values of the money demand determinants through 1980-QIII. Thereafter, they are based on the staff's judgmental Greenbook projection for interest rates and output.

2/ The adjustments are based on the assumption that the introduction of ATS accounts nationwide, NOW accounts in the Northeast, and savings accounts for businesses and for state and local governments has had a depressing effect on M-1A growth. An adjusted M-1A series is constructed as an estimate of what M-1A would have been if these new deposit categories had not been created. The series added to M-1A essentially consists of two-thirds of other checkable deposits, one-fourth of business savings deposits and one-fifth of state and local savings deposits. Since the latter two series tend to fluctuate with interest rates, the actual adjustment is made by assuming that these series grow at half the rate of increase of nominal income after the initial introductory phase for each.

### Appendix III

#### Estimated Impact of Nationwide NOW accounts on the Monetary Aggregates in 1981

As the public adjusts to the year-end introduction of nationwide NOW accounts, growth in M-1A will be slowed by shifts from household demand deposits to other checkable deposits (OCDs), while growth in M-1B will be enlarged by shifts of funds from savings and other liquid assets to OCDs. No significant impact is expected on M-2 because it includes virtually all of the funds likely to shift to NOWs.

The advent of nationwide NOWs (and continued shifting into similar accounts) will affect principally the approximately \$88½ billion of household demand deposits currently held in the 42 states where NOWs are not yet authorized. However, some further shifting to NOW accounts is also expected from the roughly \$13½ billion of household demand deposits in the Northeast, especially in New York and New Jersey.<sup>1/</sup> Some inferences about the proportion of household demand deposits in the 42 states likely to be converted to NOWs may be drawn from the earlier experience with NOW and ATS accounts. In Massachusetts and New Hampshire, shifting to NOW accounts initially was slow, reflecting the novelty of the NOW concept in 1974 as well as the uncertainty about its future status. Similarly, the public's adjustment to the introduction of ATS accounts nationwide in 1978 has been rather slow. In contrast, when NOWs were first authorized in the four other New England

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<sup>1/</sup> NOWs have been authorized in Massachusetts and New Hampshire for all depository institutions except credit unions since January 1, 1974, in the other four New England states since February 27, 1976, in New York since November 10, 1978, and in New Jersey since December 28, 1979. NOWs may be held only by individuals and nonprofit organizations. ATS were authorized nationwide at banks and thrifts on November 1, 1978 and share drafts first became available at federal credit unions on October 1, 1974. ATS accounts may be held only by individuals, and share drafts only by credit union members.

states in 1976 and in New York in 1978, the growing awareness and acceptance of NOWs resulted in much faster adjustment.

Based on the historical growth rate of household demand deposits, such deposits would probably grow to a level of about \$110 billion by the end of 1981 if there were no shifts into OCDs. The varied NOW and ATS experience suggests a fairly wide range for the possible proportion of personal demand deposits shifting to NOWs in 1981. If the adjustment by the public to the availability of NOWs outside the Northeast is extremely rapid (that is 25 percent shift in the first year), a diversion to NOWs of about \$24 billion of these household demand deposits may occur in 1981. Another \$1 billion is expected to be shifted in the Northeast. On the other hand, if the adjustment is slow, total shifts may come to only about \$6 billion. These figures translate into an estimated reduction of M-1A growth ranging from  $1\frac{1}{2}$  to  $6\frac{1}{2}$  percentage points in 1981 (table 1).

Surveys in early 1979, experience in New England, and a recent sampling by Reserve Banks suggests that roughly one-third of existing NOW deposits were diverted from assets other than demand deposits. Assuming that a similar pattern emerges in the rest of the nation, roughly \$3 to \$12 $\frac{1}{2}$  billion of savings deposits and other liquid assets will shift to NOWs during 1981. These figures imply an estimated boost to M-1B ranging from  $\frac{1}{2}$  to 3 percentage points.<sup>1/</sup>

The width of these ranges reflects the high degree of uncertainty regarding the speed of adjustment to nationwide NOWs in light of the

<sup>1/</sup> If the mix of growth in OCD included a shift of savings deposits equal to that of demand deposits, the impact on M-1B would be twice as large as shown while the impact on M-1A would be unchanged. The interest rate ceiling at banks on nationwide NOWs and ATS accounts will equal the ceiling on their regular savings accounts, and this might provide an incentive for the public to shift more of their savings into such accounts.

diversity of experience with NOW and ATS accounts. Several factors argue for expecting a rate of growth in the vicinity of the lower bound:

- (1) About one-third of commercial banks--holding around 87 percent of total commercial bank individual savings deposits and an estimated 70 percent of household demand deposits--already offered either NOW or ATS (or both) accounts at the end of 1979. In addition, over 70 percent of mutual savings banks offer NOW-ATS, and over 90 percent of such institutions offer some form of transaction account that could act as a vehicle for offering ATS. Only S&Ls and CUs have yet to enter the market for household transaction balances in large numbers. Thus, since NOW and ATS accounts are close substitutes from the viewpoints of both offering institutions and depositors, the nationwide NOW authority does not seem to be the sort of innovation that should cause massive shifts of funds.
- (2) Thrift competition is not as intense in most parts of the country as in the states currently permitting NOW accounts, and therefore banks in the 42 states may be less aggressive in merchandising NOWs than were institutions in New England and New York. Thrifts hold just over half of all savings deposits nationwide, compared to about three-quarters in the Northeast.
- (3) Money market mutual funds may divert some of the more interest-sensitive funds from NOWs, particularly if market rates remain at high levels.

On the other hand, there are bases for arguing for a relatively fast rate of conversion:

- (1) Recent high market interest rates have heightened consumer awareness of the value of interest-bearing transaction deposits thus increasing the marketability of NOWs. Moreover, from the point of view of depository institutions, relatively high market interest rates during 1981 might increase incentives to market NOW accounts more aggressively in an effort to retain or attract funds.
- (2) While NOW and ATS accounts are functionally equivalent, the simplicity of the NOW account concept likely will make it easier to market than ATS.
- (3) NOWs afford most S&Ls nationwide their first opportunity to compete in the household transaction deposit market. Typical pricing structures announced by S&Ls suggest an aggressive stance, aimed to acquire a large market share by offering NOWs free of service charges with minimum balance requirements of at least \$1,000--frequently \$2,000 to \$3,000--for service charge-free accounts.

Midpoints of the estimated ranges may be viewed as the most likely impact of shifts to NOW accounts in 1981, namely a 4 percentage point reduction in M-1A growth and a 2 percentage point boost in M-1B growth. The adjustment by the public to the introduction of nationwide NOWs is expected to continue, but at a reduced pace, in 1982 and 1983. The ultimate shift to NOW accounts likely will be quite large; after more than six years of NOW accounts at all depository institutions in Massachusetts and New Hampshire, roughly two-thirds of household demand deposits are estimated to have shifted.

Table 1

ESTIMATED IMPACT OF THE AUTHORIZATION OF NATIONWIDE NOWs ON  
GROWTH OF M-1A AND M-1B IN 1981  
(In billions of dollars, percent of aggregate in parentheses)

	Reduction in M-1A	Boost in M-1B	Growth of OCD during 1981
Low Estimate	5.8 (1½)	2.9 (¾)	8.7
High Estimate	24.8 (6½)	12.4 (3)	37.2
Midpoint Estimate	15.4 (4)	7.7 (2)	23.1

NOTE: These figures exclude the estimated ½ percentage point divergence in M-1A and M-1B growth rates in 1981 due to more rapid growth in existing OCD than in M-1A.

Appendix IV

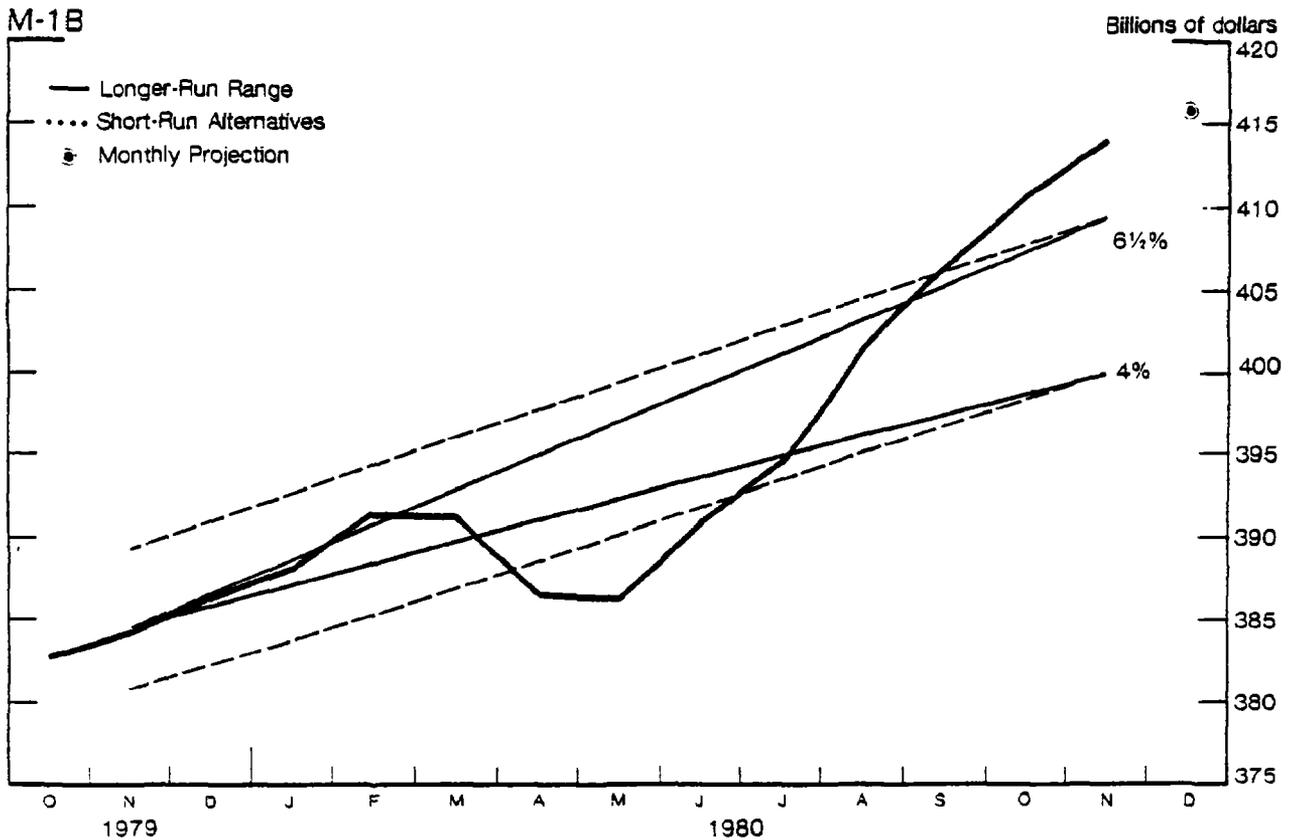
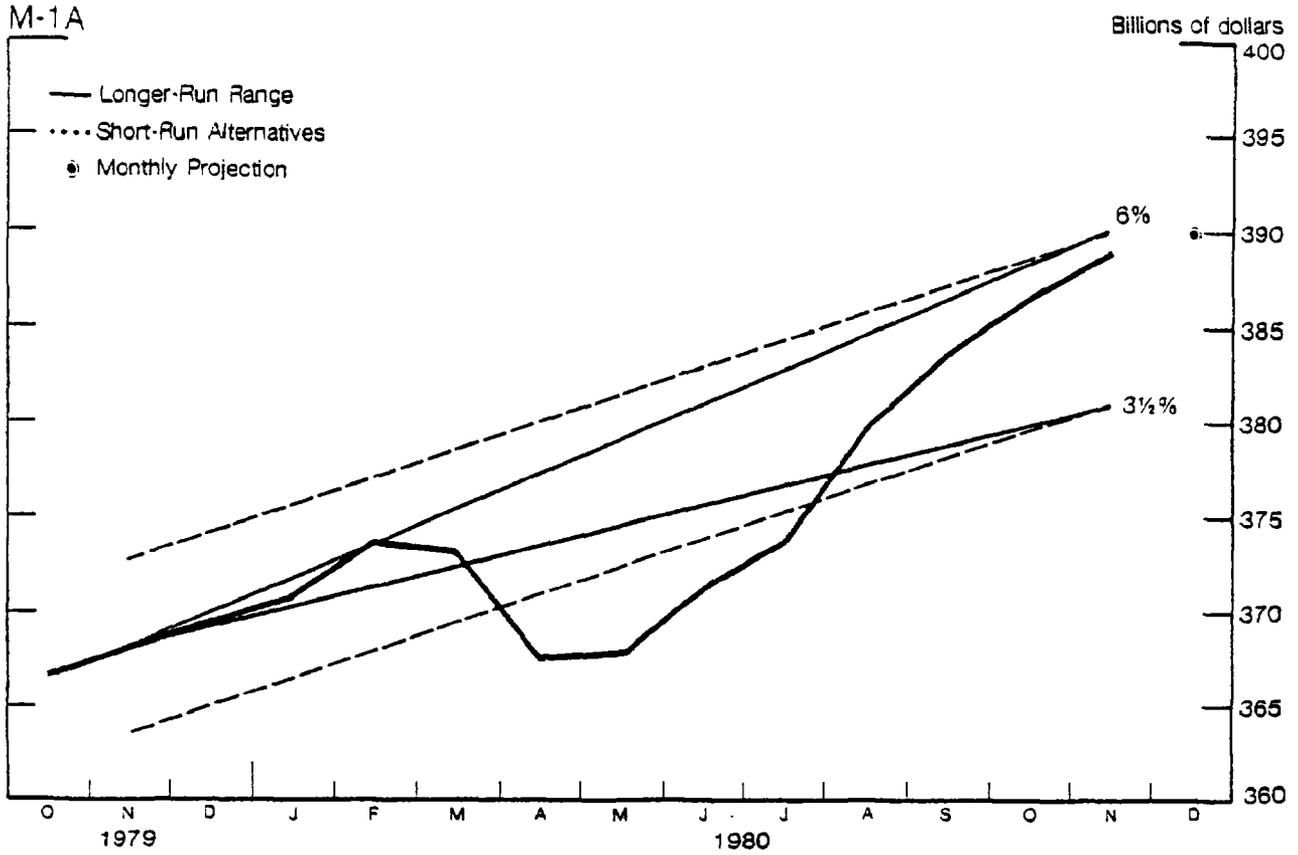
INTEREST RATES CONSISTENT WITH THE GREENBOOK GNP  
(Percent)

	<u>Federal Funds</u>	<u>3-month Treasury Bill</u>	<u>New Aaa Utility Bond</u>	<u>Conventional Mortgage Commitment</u>
1980--QIV	15-1/2	13-3/4	13-3/4	14-1/4
1981--QI	16-1/2	14-1/2	13-3/4	14-3/4
QII	15	13-3/4	13-5/8	14-1/2
QIII	16	14-1/2	13-3/4	14-1/2
QIV	17-1/2	16	14	14-3/4

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Note: These interest rate projections are based on the assumption that M-1A will grow 4-1/4 percent in 1981 (abstracting from the impact of shifting into NOW/ATS accounts). For the first quarter, monetary growth was assumed at the rate specified in Alternative B of this Bluebook.

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



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

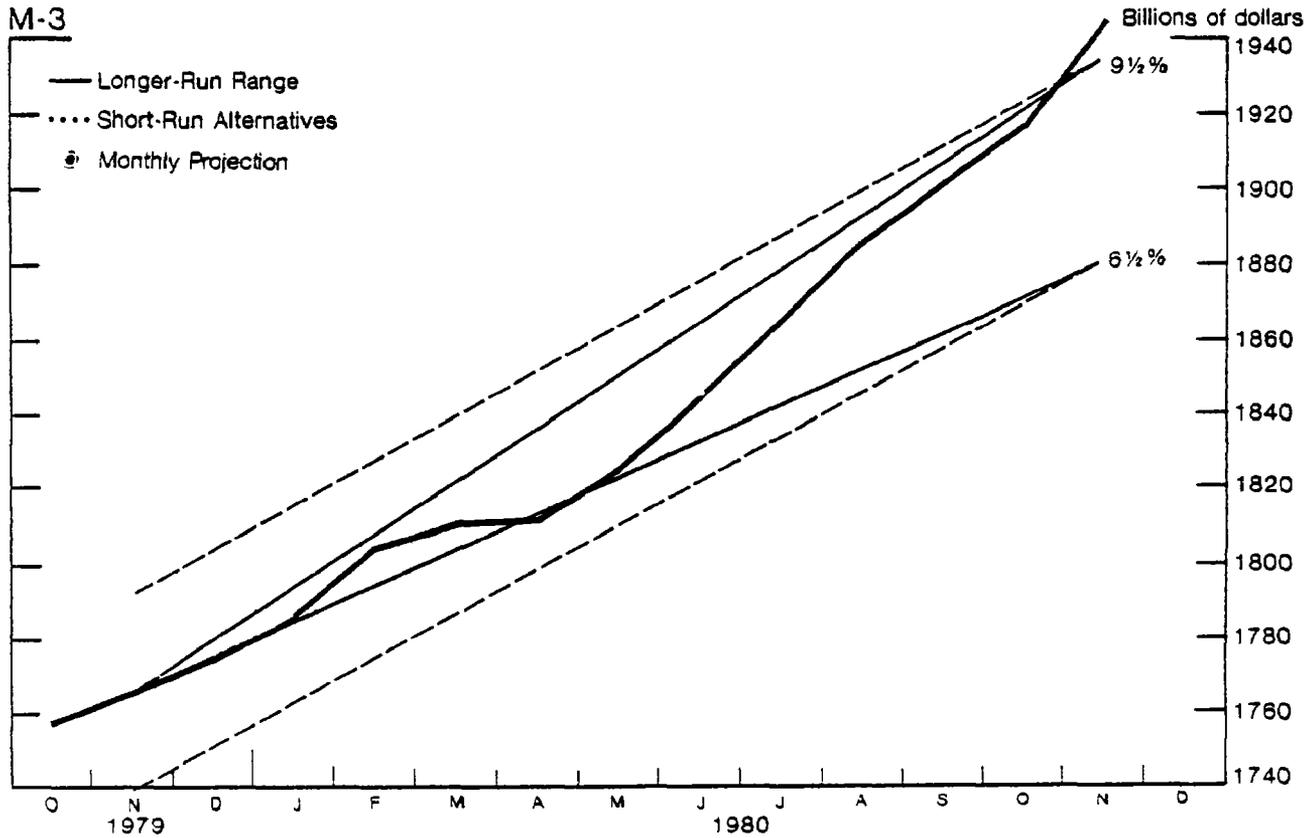
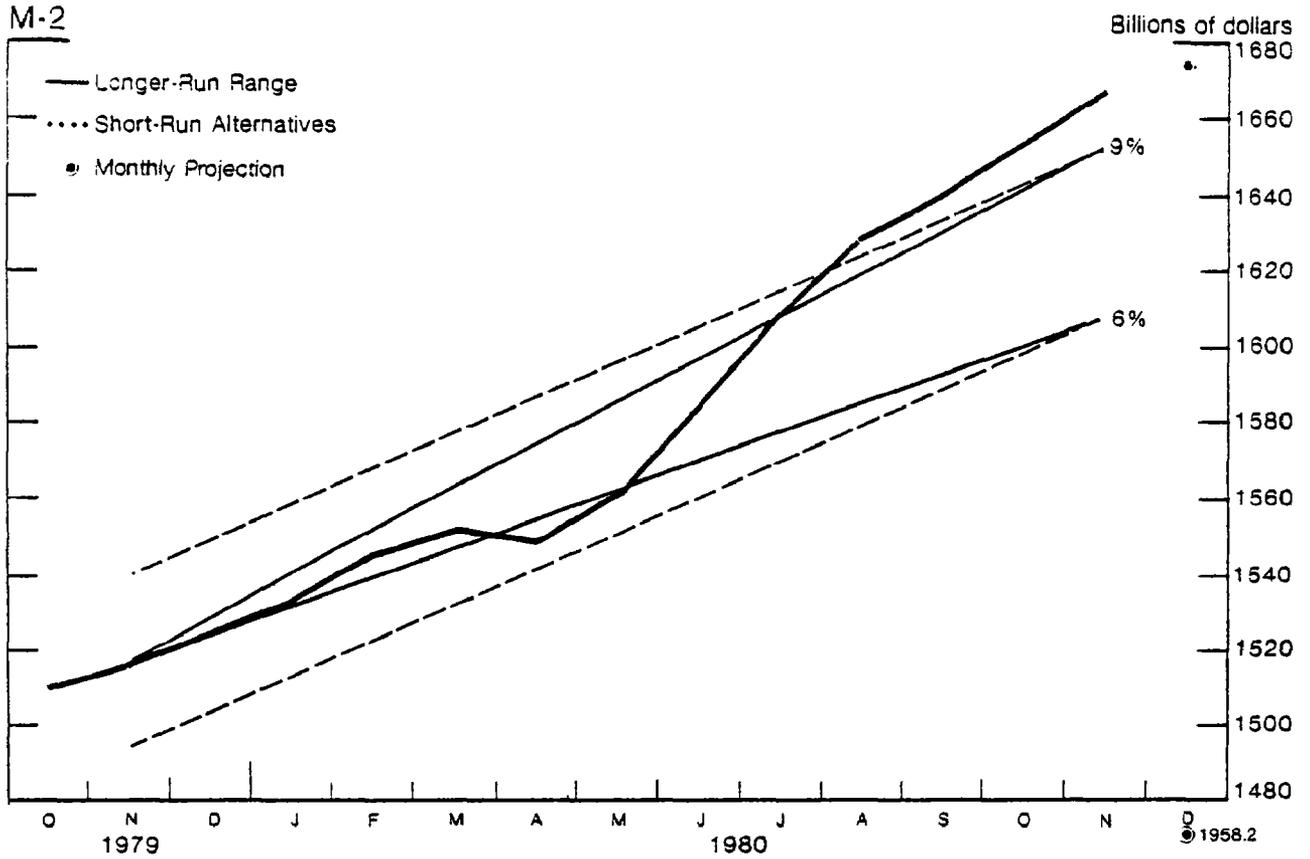


TABLE 1  
SELECTED INTEREST RATES  
(Percent)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC

Period	Short-term							Long-term								
	Federal funds	Treasury Bills			CDs Secondary Market	Comm. Paper 3-mo	Bank Prime Rate	U.S. Govt. Constant Maturity Yields			Corp. -Aaa Utility		Muni- cipal Bond Buyer	Home Mortgages		
		Market	Auction	6-mo				3-yr	10-yr	30-yr	New Issue	Recently Offered		Primary Conv.	Seconda- ry FNMA Auc.	y market GNMA Sec.
					3-mo	1-yr	3-mo									
(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	19.39	16.17	14.39	15.70	18.73	18.02	20.00	14.29	13.33	12.73	14.22	14.12	9.64	16.35	15.93	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--Nov.	13.18	11.79	11.22	11.86	13.90	13.57	15.55	11.18	10.65	10.30	11.42	11.36	7.30	12.83	12.75	11.57
Dec.	13.78	12.04	10.92	11.85	13.43	13.24	15.30	10.71	10.39	10.12	11.25	11.33	7.22	12.90	12.49	11.35
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	13.03	14.49	13.16
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	11.53	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	8.13	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	12.34
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.	15.59	13.73	12.66	13.61	15.68	15.18	16.06	13.31	12.68	12.37	13.85	13.91	9.56	14.21	15.53	13.55
1980--Oct. 1	12.38	11.05	11.19	11.72	12.35	12.12	13.00	12.16	11.92	11.76	13.08	13.06	9.22	13.60	15.30	13.35
8	12.59	11.34	10.93	11.14	12.52	12.18	13.50	11.60	11.50	11.39	13.02	12.87	9.01	13.73	--	12.70
15	12.64	11.12	10.84	11.28	12.49	12.25	13.50	11.58	11.37	11.19	12.62	12.85	8.81	13.78	14.60	12.59
22	12.55	11.39	11.16	11.41	12.68	12.26	13.93	11.91	11.66	11.48	13.21	13.03	9.06	13.85	--	12.98
29	13.17	12.17	11.82	12.28	13.51	12.92	14.07	12.51	12.10	11.92	13.92	13.79	9.45	14.00	15.30	13.35
Nov. 5	13.99	12.96	12.41	13.27	14.43	13.81	14.50	13.07	12.50	12.27	--	13.97	9.64	14.08	--	13.42
12	14.65	13.30	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	14.53p	14.98p	10.42	n.a.	15.50	13.79
17																
24																
31																
Daily--Dec. 5	19.32	15.84	13.53	--	18.14	17.67	19.00	13.89	12.85	12.33	--	--	--	--	--	--
11	20.14	17.14	14.01	--	20.90	19.65	20.00	14.37	13.57	13.17	--	--	--	--	--	--
12	19.60p	16.55	13.62	--	20.73	19.88	20.00	14.02p	13.29p	12.84p	--	--	--	--	--	--

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 FNMA 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. 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 SECURITIES<sup>1/</sup>  
(Millions of dollars, not seasonally adjusted)

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC

	Treasury Bills Net Change 2/	Treasury Coupons Net Purchases 3/					Federal Agencies Net Purchases 4/					Net Change Outright Holdings Total 5/	Net RPs 6/
		Within 1-year	1 - 5	5 - 10	Over 10	Total	Within 1-year	1 - 5	5 - 10	Over 10	Total		
1975	-468	337	3,284	1,510	1,070	6,202	191	824	460	138	1,613	7,267	1,272
1976	863	472	3,025	1,048	642	5,187	105	469	203	114	891	6,227	3,607
1977	4,361	517	2,833	758	553	4,660	--	792	428	213	1,433	10,035	-2,892
1978	870	1,184	4,188	1,526	1,063	7,962	-47	45	104	24	127	8,724	-1,774
1979	6,243	603	3,456	523	454	5,035	131	317	5	--	454	10,290	-2,597
1979--Qtr. III	5,363	395	1,289	309	310	2,302	191	288	3	--	482	8,129 <sup>7/</sup>	-2,019
IV	4,164	118	1,101	81	51	1,351	--	--	--	--	--	4,839 <sup>7/</sup>	-3,801
1980--Qtr. I	-2,945	292 <sup>8/</sup>	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
1980--June	322	-153 <sup>8/</sup>	738 <sup>8/</sup>	164	129	878	--	--	--	--	--	1,198	-1,271
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
1980--Oct. 1	--	--	--	--	--	--	--	--	--	--	--	-3	2,914
8	-402	--	--	--	--	--	--	--	--	--	--	-402	-6,052
15	--	--	--	--	--	--	--	--	--	--	--	-18	2,287
22	648	--	--	--	--	--	--	--	--	--	--	648	1,364
29	-486	--	--	--	--	--	--	--	--	--	--	-486	1,043
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													
24													
31													
LEVEL--Dec 10 (in billions)	46.0	12.2	34.9	13.4	15.0	75.5	2.1	4.9	1.1	0.7	8.8	130.3	-6.6

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 reflect 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/ On October 1, 1979, \$668 million of maturing 2- and 4-year notes were exchanged for a like amount of short-term bills, because the note auctions were delayed. On October 9 and 10, the bills were exchanged for new 2- and 4-year notes, respectively.

8/ Maturing 2-year notes were exchanged on June 2, 1980, for special 2-day 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 (FR)  
CLASS II - FOMC

	U.S. Govt. Security Dealer Positions		Underwriting Syndicate Positions		Member Bank Reserve Positions				
	Bills	Coupon Issues	Corporate Bonds	Municipal Bonds	Excess** Reserves	Borrowing at FRB**			
						Total	Seasonal	Special	Adjustment
1979--High	8,091	902	283	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	215p	5p	0	12
1979--Nov.	4,427	-514	17	106	244	1,911	140		1,763
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	136
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	1,310p	66p	0	1,244p
Nov.	*3,047	*149	17	57	498p	2,059p	97p	0	1,963p
1980--Oct. 1	2,601	-517	0	69	350p	1,873	40	0	1,833
8	2,042	-113	0	22	352p	1,248	48	0	1,200
15	2,726	164	52	80	235p	1,107	61	0	1,046
22	2,470	-50	7	232	78p	1,203	69	0	1,134
29	2,433	728	11	166	36p	1,440	87	0	1,353
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	*4,016	485	4p	113	310p	1,786p	111p	0	1,675p
17									
24									
31									

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.