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(CONFIDENTIAL FR)

September 17, 1971.

MONETARY AGGREGATES AND MONEY MARKET CONDITIONS

Prepared for the Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 17, 1971.

MONETARY AGGREGATES AND
MONEY MARKET CONDITIONS

Recent developments

(1) Growth in M_1 slowed sharply in August, both in relation to the rapid expansion actually experienced in July and in relation to the increase projected for August at the time of the last Committee meeting. Growth of M_2 and the adjusted credit proxy also fell short of projections in August. Data for the first two weeks in September--with the second week still partly estimated--indicate that rates of expansion for the two money supply aggregates have continued to fall substantially short of expectations, whereas the proxy has moved somewhat above path.

Recent Paths of the Key Monetary Aggregates
(Seasonally adjusted, billions of dollars)

	M_1		M_2		Adjusted Proxy	
	Aug. 24 Path	Actuals	Aug. 24 Path	Actuals	Aug. 24 Path	Actuals
<u>Annual Rates of Growth, per cent</u>						
July		10.1		7.2		8.0
August	7.5	3.2	7.0	4.8	12.0	10.7
<u>Levels, billions of \$</u>						
August	229.0	228.1	456.9	455.9	351.3	351.1
<u>Week ending</u>						
Aug. 25	230.2	228.1	459.0	456.3	354.5	353.8
Sept. 1	229.3	227.4	458.1	455.8	353.4	353.9
Sept. 8	229.0	227.1	458.0	456.1	353.3	353.7
Sept. 15p	228.8	226.6	458.0	456.0	352.6	353.4

p/ Partly estimated.

(2) The slower August growth in M_1 and M_2 largely reflected a substantial weakness in private demand deposits at reserve city banks which may well have been associated in part with dollar outflows through foreign exchange transactions. (This conclusion is supported by the demand deposit ownership survey for August, which showed a sharp drop in that month in business demand balances.) With a major portion of the resultant dollar accumulations by foreign central banks being invested in special U.S. Treasury securities (which increased by \$5.3 billion in August), U.S. Government deposits expanded, offsetting much of the slowdown in private demand deposits.

(3) Immediately following the last FOMC meeting, Desk operations were directed toward attaining money market conditions that included a Federal funds rate in the neighborhood of $5\frac{1}{2}$ -- $5\frac{5}{8}$ per cent. In early September, incoming deposit data showed that actual growth in key aggregates was falling short of projections, and the Desk became somewhat more accommodative in reserve provision. Unusual pressures developed in the money market during the Labor Day week, however, resulting from cautious bank reserve management over the 3-day week-end and possibly related to augmented Federal fund demands related to interest arbitrage between the domestic and Euro-dollar markets. Despite sizable reserve supplying operations on the part of the Desk, the average Federal funds rate was about $5\frac{3}{4}$ per cent in the Labor Day week. Most recently, with the aggregates showing further weakness, the Federal funds rate has dropped, and the Desk is now aiming at a rate in a $5\frac{1}{4}$ -- $5\frac{1}{2}$ per cent range.

(4) Over the past three statement weeks, the Desk has supplied more nonborrowed reserves than were indicated by the reserve paths

consistent with the monetary aggregate targets adopted at the last meeting, as shown in the table on the next page. This occurred despite a slight reduction in required reserves on balance. With the greater provision in nonborrowed reserves, member banks' net borrowed reserve position was less taut than projected--with excess reserves somewhat higher than projected and borrowings at the discount window considerably lower. Total reserves turned out to be somewhat above path on balance. Compared to a reserve path adjusted for the unanticipated reductions in reserves required against U.S. Government deposits (as shown by the numbers in parentheses in the table), the attained levels of total and nonborrowed reserves are even higher relative to path.

(5) In securities markets, the initial exuberance following announcement of the new economic program faded somewhat in early September. Treasury bill rates, which had previously declined sharply as a result of heavy foreign official demands, reversed course in early September as foreign demands abated and as earlier market expectations of an easing in the Federal funds rate failed to materialize. Most recently, as the money market has turned more comfortable, bill rates have stabilized with the latest bid on the 3-month bill a little under 4-3/4 per cent. Note and bond yields rose after early September, partly reflecting the development of a wait-and-see attitude among investors regarding phase II of the President's economic program. The adjustment was largest in the corporate bond sector where a build-up in the forward calendar of new issues and an overhang of dealer inventories created by over-aggressive pricing of earlier

Reserve Aggregates: August 24 Paths vs. Actual
(Seasonally unadjusted, in millions of dollars)

Statement Week ending	Actual	August 24 Path	Actual minus Aug. 24 path
September 1			
Total reserves	30,531	30,466 (30,504)	65 (27)
Nonborrowed reserves	29,823	29,666 (29,704)	157 (119)
Required reserves	30,186	30,216 (30,254)	- 30 (-68)
Excess	345	250	95
Borrowings	708	800	- 92
September 8			
Total reserves	30,869	30,915 (30,807)	- 46 (62)
Nonborrowed reserves	30,104	30,115 (30,007)	- 11 (97)
Required reserves	30,645	30,690 (30,502)	- 45 (63)
Excess	224	225	- 1
Borrowings	765	800	- 35
September 15			
Total reserves	30,881	30,792 (30,781)	89 (100)
Nonborrowed reserves	30,424	29,992 (29,981)	432 (443)
Required reserves	30,615	30,567 (30,556)	48 (59)
Excess	266	225	41
Borrowings	457	800	-343

NOTE: Figures in parenthesis reflect adjustment of the path for unanticipated changes in U.S. Government deposits.

offerings had substantially weakened the technical position of the market. The market atmosphere improved following comments by the President at his press conference on Thursday which were taken to presage a relatively tough phase II wage-price program.

Recent Interest Rates
on Market Securities

Series	Rate Levels (Per cent per annum)		
	August 13	Subsequent Low	September 17
<u>Short-term</u>			
3-mo. Tres. Bill	5.15	4.44 (8/31)	4.72
3-6 mo. Finance Paper	5.50	5.38 (8/31)	5.38
60-89 Day CD's	5.63	5.13 (8/25)	5.50
<u>Long-term</u>			
10-yr. U.S. Treasury	6.68	6.07 (9/8)	6.12
New Issue Corps (Aaa basis)	7.97	7.21 (9/10)	7.56
Municipals (Bond Buyer)	6.03	5.36 (9/10)	5.38

(6) The following table summarizes developments in the major financial aggregates for selected recent periods:

	4th and 1st Qtrs. combined (March over Sept.)	Second Quarter (June over March)	August over June
Total Reserves	8.9	6.6	7.6
Nonborrowed Reserves	10.3	5.3	1.5
<u>Concepts of Money</u>			
M ₁ (Currency plus demand deposits <u>1/</u>)	6.2	11.3	6.6
M ₂ (M ₁ plus time deposits at commercial banks other than large CD's)	13.7	12.6	6.0
M ₃ (M ₂ plus deposits at thrift institutions)	14.6	14.8	8.7
<u>Bank Credit</u>			
Total member bank deposits (Bank credit proxy adj.)	9.7	6.5	9.4
Loans and investments of commercial banks <u>2/</u>	10.5	7.4	10.3
<u>Short-term market paper</u> (Actual ϕ change in billions)			
Large CD's	\$ 6.1	\$ 0.7	\$ 1.8
Bank-related commercial paper N.S.A.	- 2.9	0.0	n.a.
Nonbank commercial paper	- 0.4	- 0.9	n.a.

1/ Other than interbank and U.S. Government.

2/ Based on month-end figures. Includes loans sold to affiliates and branches.

N.S.A. Not seasonally adjusted.

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 either end-of-month or last Wednesday of month figures.

Prospective developments

(7) Financial relationships are still bedevilled by uncertainties related to how the new economic program will evolve; in particular, concern focuses on phase II of wage-price policies and the outcome of international negotiations on foreign exchange rates and related matters. A disappointing follow-through for phase II would probably reverse the recent improvement in market and public psychology and lead to substantial upward pressures on interest rates. We have assumed, however, a generally effective follow-through. In the international sphere the timing of the return-flow of the sizable speculative outflow of dollar funds is a major uncertainty. We have assumed no significant return at least between now and year-end.

(8) Two alternative sets of operating specifications for Committee consideration are summarized in the text table below. The specifications in the first column can be drawn upon for the policy directives A or B, as explained in the section on possible directive language beginning on page 12. The table on the next page shows monthly paths for the spectrum of monetary aggregates, while two tables attached at the end of the text contain weekly paths for the monetary aggregates and more detail on aggregate reserves thought to be consistent with the two paths.

	<u>Alt. A (or B)</u>	<u>Alt. C</u>
Federal funds rate	5--5-5/8%	4-1/2--5%
Member bank borrowings	\$400-\$700 million	\$200-\$400 million
3-month bill rate	4-5/8--5-1/4%	4-1/4--4-5/8%
Growth in M_1 (SAAR)		
September	1-1/2%	1-1/2%
October	4-1/2	5-1/2
3rd Qtr.	5	5
4th Qtr.	3-1/2	4-1/2
2nd Half	4	4-1/2

Alternative Monthly and Quarterly
Paths of Key Monetary Aggregates

	<u>M₁</u>		<u>M₂</u>	
	<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
1971				
September	228.4	228.4	458.0	458.0
October	229.3	229.5	460.5	460.8
November	229.9	230.4	462.4	463.4
December	230.3	231.0	464.4	465.9

Per Cent Annual Rates of Growth

September	1.5	1.5	5.5	5.5
October	4.5	5.5	6.5	7.5
November	3.0	5.0	5.0	7.0
December	2.0	3.0	5.0	6.5
3rd Q. 1971	5.0	5.0	6.0	6.0
4th Q. 1971	3.5	4.5	5.5	7.0

Adjusted Credit Proxy

Total Reserve

	<u>Alt. A(B)</u>		<u>Alt. C</u>	
	<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September	353.4	353.4	32.1	32.1
October	355.2	355.6	32.1	32.2
November	358.0	359.2	33.3	32.4
December	357.3	359.1	32.2	32.4

Per Cent Annual Rates of Growth

September	8.0	8.0	17.0	17.5
October	6.0	7.5	- 1.0	1.0
November	9.5	12.0	6.5	8.5
December	- 2.5	- 0.5	- 2.5	--
3rd Q. 1971	9.0	9.0	11.0	11.0
4th Q. 1971	4.5	6.5	1.0	3.0

(9) As compared with the first seven months of the year, the growth in M_1 is expected to continue at a sharply reduced rate between now and year-end--particularly if money market conditions do not ease significantly from around prevailing levels--as the lagged effects on domestic cash demands of earlier higher short-term interest rates take hold and as precautionary demands for cash are reduced further in the wake of the President's program. Under alternative A--which contemplates a Federal funds rate in a 5--5-5/8 per cent range--the annual rate of growth in M_1 is likely to be only about one or two per cent in September and around 3-1/2 per cent for the fourth quarter. A somewhat more rapid growth rate is currently anticipated from September to October mainly in consequence of an expected drop in U.S. Government deposits from their unusually high mid-September level. Under alternative C, money supply growth would be expected to be a little more rapid in the fourth quarter than under alternative A. In the first quarter of next year, growth in M_1 would be expected to be more rapid under either alternative, as transactions demands for cash--which would rise along with projected nominal GNP growth in the fourth quarter --strengthen further. The pick-up could be quite modest under alternative A, however, while under alternative C the cumulative impact of lower interest rates could lead to a return to growth rates of around 6 per cent or so.

(10) With respect to interest rates, if the Federal funds rate stays in a 5-1/4--5-1/2 per cent/^{range} bill rates might back up somewhat further over the next several weeks and exert upward pressure on other short-term

rates. This would be especially likely if the Treasury decides--as we have assumed it will--to anticipate some of its later cash needs by adding about \$3--\$4 billion to the bill supply in October. On the other hand some partly offsetting downward pressure on bill rates might be generated if the Treasury were to contemplate, as an alternative or a supplement, a financing strategy which involved considerable debt lengthening. Long-term interest rates are likely to be very sensitive to the trend of market expectations as to the effectiveness of phase II policies. Over the near-term, the heavy volume of new corporate issues, particularly if accompanied by sizable Treasury debt lengthening operations, could exert some upward rate pressures.

(11) An appreciable decline in the Federal funds rates--for example, consistently into a 5--5-1/4 per cent range or lower--would confirm market hopes that the recent weakness in money supply will be followed by an easing in money market conditions. Both long- and short-term rates would be expected to decline under those circumstances, with declines quite marked if and as the Federal funds rate moves down to trade consistently below 5 per cent.

(12) Growth in time and savings deposits other than large CD's is expected to accelerate from recent low rates to about a 9-1/2 per cent annual rate in September, given experience in the first two weeks of the month, but, under alternative A, to drop back to a 7-1/2 per cent rate in the fourth quarter. The lower growth rate is anticipated in view of strengthened consumer spending and the likelihood that market interest

rates will not drop enough to provide much in the way of incentive for savers to add sharply to time deposit funds. A somewhat more rapid growth in such deposits would be anticipated under alternative C, given the marked decline in market interest rates that would be expected.

(13) Under any of the alternatives presented, funds available to banks from U.S. Government deposits, private demand deposits, and time deposits other than large CD's taken together are likely to grow much less rapidly on balance in September and the fourth quarter than they had in the spring and summer. As a result, banks may be led to bid actively for large CD's should business and other loan demands be strong, as would be expected if economic recovery proceeds at the accelerated rate indicated in the staff GNP projection. Under alternative A, the adjusted bank credit proxy is expected to grow at an 8 per cent annual rate in September and 4-1/2 per cent in the fourth quarter. Under alternative C, the growth rate in the bank credit proxy in the fourth quarter is expected to be around 6-1/2 per cent, as banks in a period of declining interest rates add to investments for purposes of obtaining high yields or capital gains.

Possible directive language

(14) Alternative A. This language is proposed for possible use if the Committee decides to seek, or permit, the growth rates for the aggregates over the months ahead discussed earlier in connection with alternative A, including rates for M_1 of 1-1/2 and 3-1/2 per cent in September and the fourth quarter, respectively. The money market and reserve conditions believed likely to be consistent with such growth rates are noted in paragraph (8).

"To implement this policy, the Committee seeks to achieve ~~more~~ moderate growth in monetary and credit aggregates over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with that objective."

This language differs from that of the directive adopted at the August 24 meeting only in the deletion of the word "more" from the phrase "to achieve more moderate growth . . ." It is assumed that the Committee would not want to continue to call for "more moderate growth" in light of the August experience, when M_1 and M_2 grew at rates of about 3 and 5 per cent, respectively.

(15) Alternative B. The language of B differs from that of A in two respects. First, the words "over the months ahead" are omitted following the reference to growth in the aggregates. This modification

is proposed for consideration if the Committee does not wish to accept as aggregate targets the comparatively low growth rates of alternative A for a period longer than the weeks immediately ahead. Secondly, a clause reading "taking account of developments in capital markets" is added at the end of the first sentence. This change is suggested for consideration if the Committee decides to instruct the Manager to give considerable weight to the objective of avoiding excessive pressures in capital markets, recognizing that this might require some adaptation in reserve supplying operations. Either of these modifications might, of course, be made without the other.

"To implement this policy, the Committee seeks to achieve ~~more~~ moderate growth in monetary and credit aggregates ~~ever-the-months-ahead~~, TAKING ACCOUNT OF DEVELOPMENTS IN CAPITAL MARKETS. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with that objective."

(16) Alternative C. This language is proposed for possible use if the Committee decides to seek somewhat more rapid growth rates in the aggregates than called for under alternative A. The money market and reserve conditions believed likely to prove consistent with those growth rates are noted in paragraph (8).

"To implement this policy, the Committee seeks to PROMOTE ~~achieve-more~~ moderate growth in monetary and credit

aggregates over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with that objective."

This directive does not include the phrase "taking account of developments in capital markets" since the prompt and substantial easing of the money market contemplated is likely to minimize the risk of adverse capital market developments, particularly in a period when the monetary aggregates are weak.

Alternative Weekly Paths of Key Monetary Aggregates
(Seasonally adjusted, billions of dollars)

		<u>M₁</u>		<u>M₂</u>	
		<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September	22	229.0	229.0	458.7	458.7
	29	230.6	230.6	460.9	460.9
October	6	229.2	229.2	459.8	459.8
	13	228.8	228.9	459.7	459.8
	20	229.4	229.6	460.8	461.0
		<u>Credit Proxy</u>		<u>Total Reserves</u>	
		<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September	22	353.1	353.1	31.8	31.8
	29	353.1	353.1	32.1	32.1
October	6	354.4	354.5	32.0	32.1
	13	353.6	353.9	32.1	32.2
	20	356.0	356.4	32.1	32.1

Total and Nonborrowed Reserve Paths
(Daily averages in millions of dollars, seasonally adjusted)

	<u>Total Reserves</u>		<u>Nonborrowed Reserves</u>	
	<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September	32,116	32,123	31,474	31,537
October	32,089	32,151	31,545	31,857
November	32,259	32,383	31,686	32,059
December	32,191	32,382	31,642	32,083

Per Cent Annual Rates of Growth

September	17.5	17.5	23.0	25.5
October	- 1.0	1.0	- 2.5	12.0
November	6.5	8.5	5.5	7.5
December	- 2.5	--	- 1.5	1.0
3rd Q. 1971	11.0	11.0	8.5	9.5
4th Q. 1971	1.0	3.0	2.0	7.0

Weekly Paths--Seasonally Adjusted

	<u>Total Reserves</u>		<u>Nonborrowed Reserves</u>	
	<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September 22	31,831	31,831	31,156	31,156
29	32,087	32,112	31,282	31,532
October 6	32,041	32,091	31,551	31,851
13	32,124	32,174	31,613	31,913
20	32,060	32,120	31,576	31,886

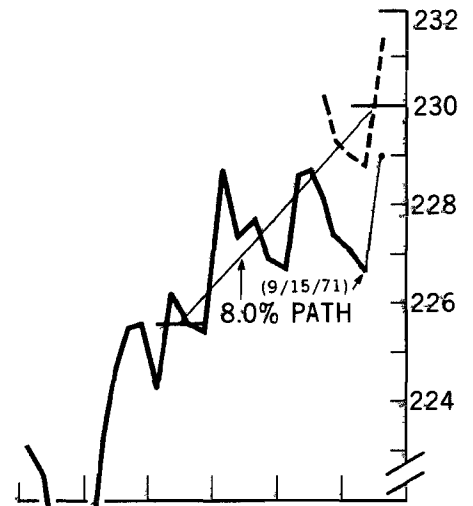
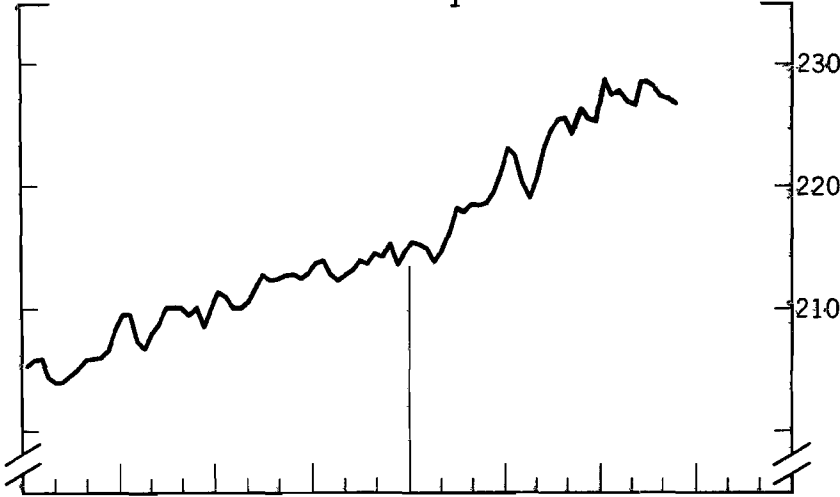
Weekly Paths--Not Seasonally Adjusted

	<u>Total Reserves</u>		<u>Nonborrowed Reserves</u>	
	<u>Alt. A(B)</u>	<u>Alt. C</u>	<u>Alt. A(B)</u>	<u>Alt. C</u>
September 22	30,634	30,634	29,834	29,834
29	30,924	30,974	30,124	30,374
October 6	31,249	31,299	30,699	30,999
13	31,188	31,238	30,638	30,938
20	31,485	31,535	30,935	31,235

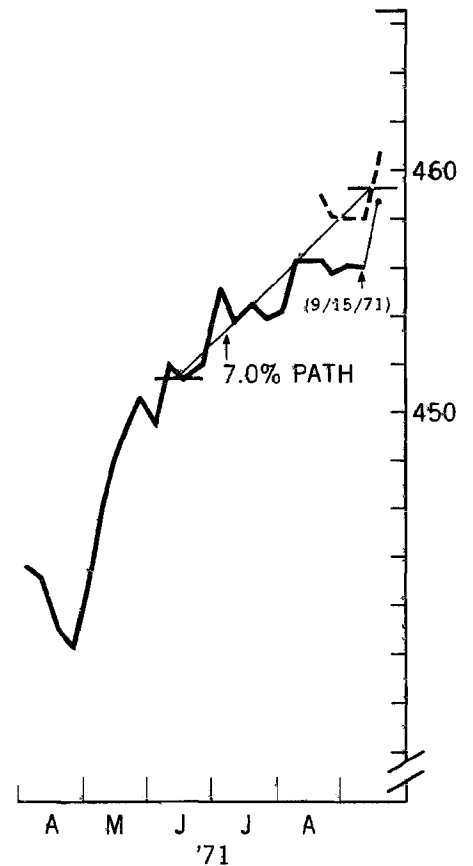
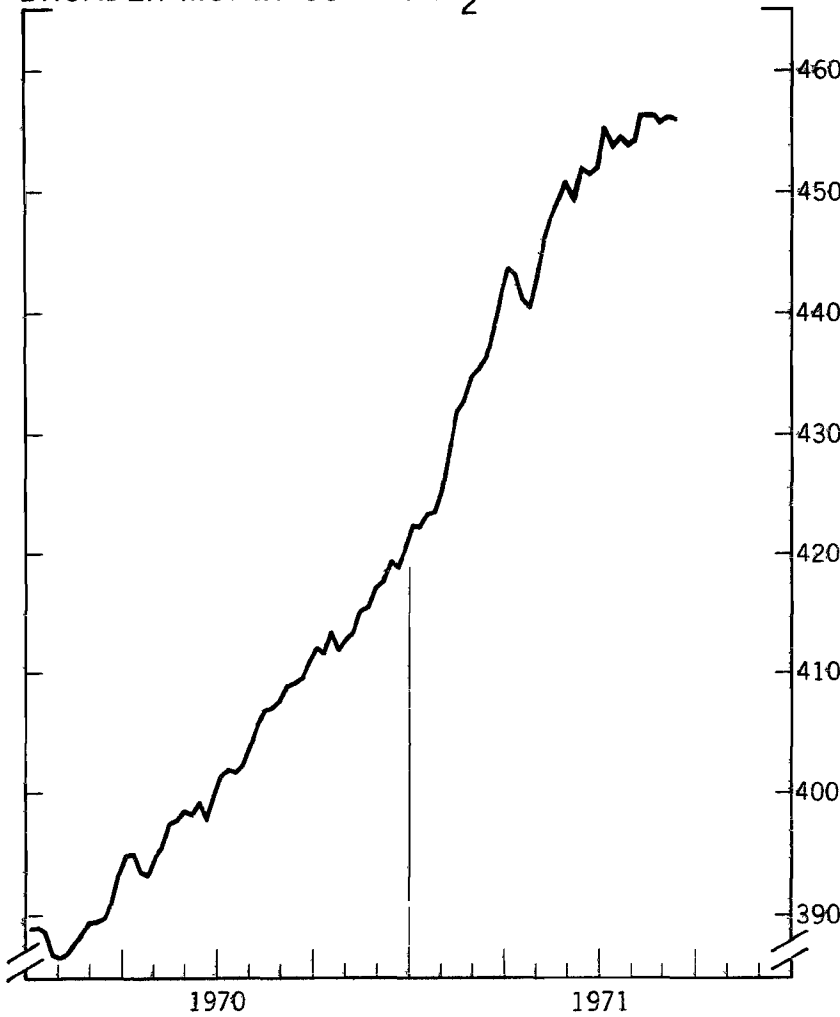
MONETARY AGGREGATES

NARROW MONEY SUPPLY M_1

BILLIONS OF DOLLARS



BROADER MONEY SUPPLY M_2

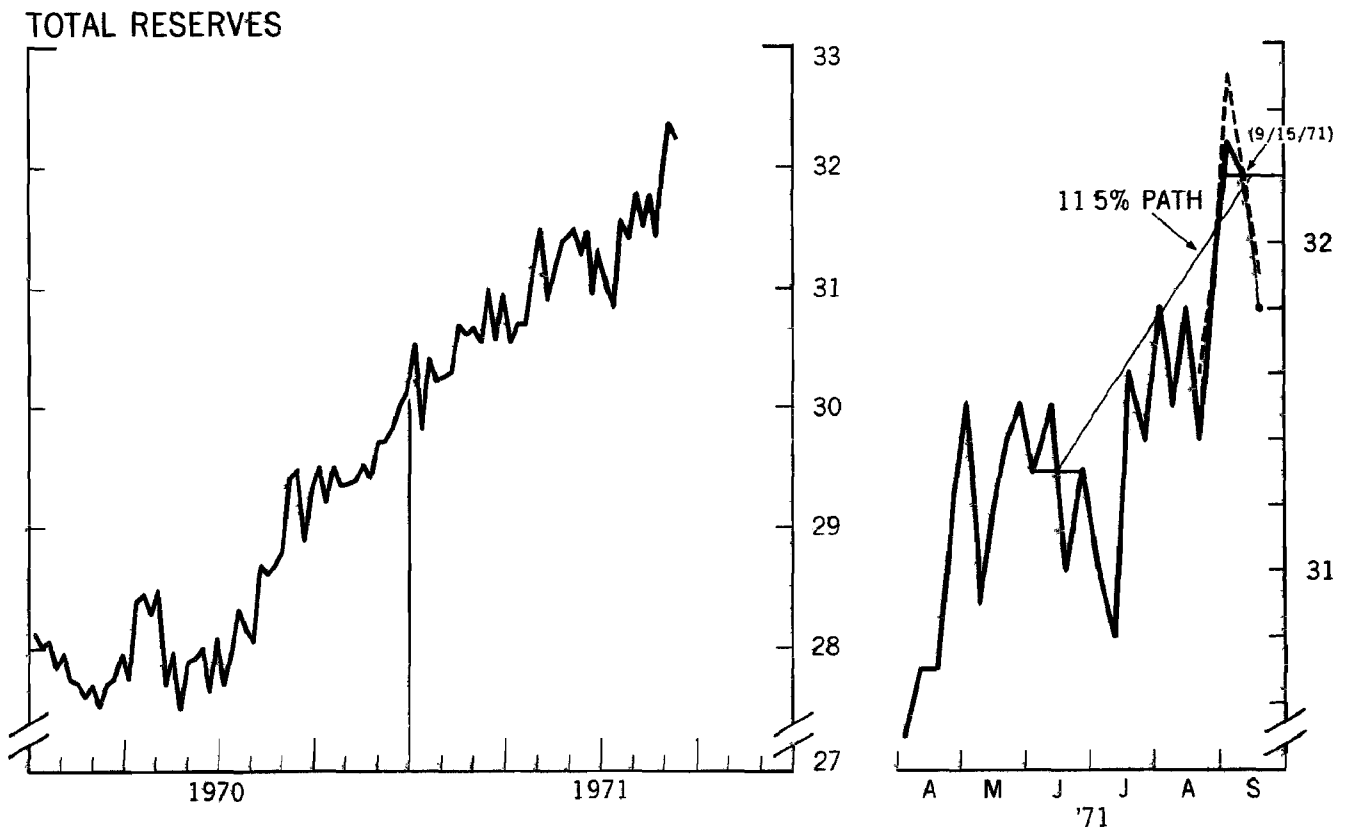
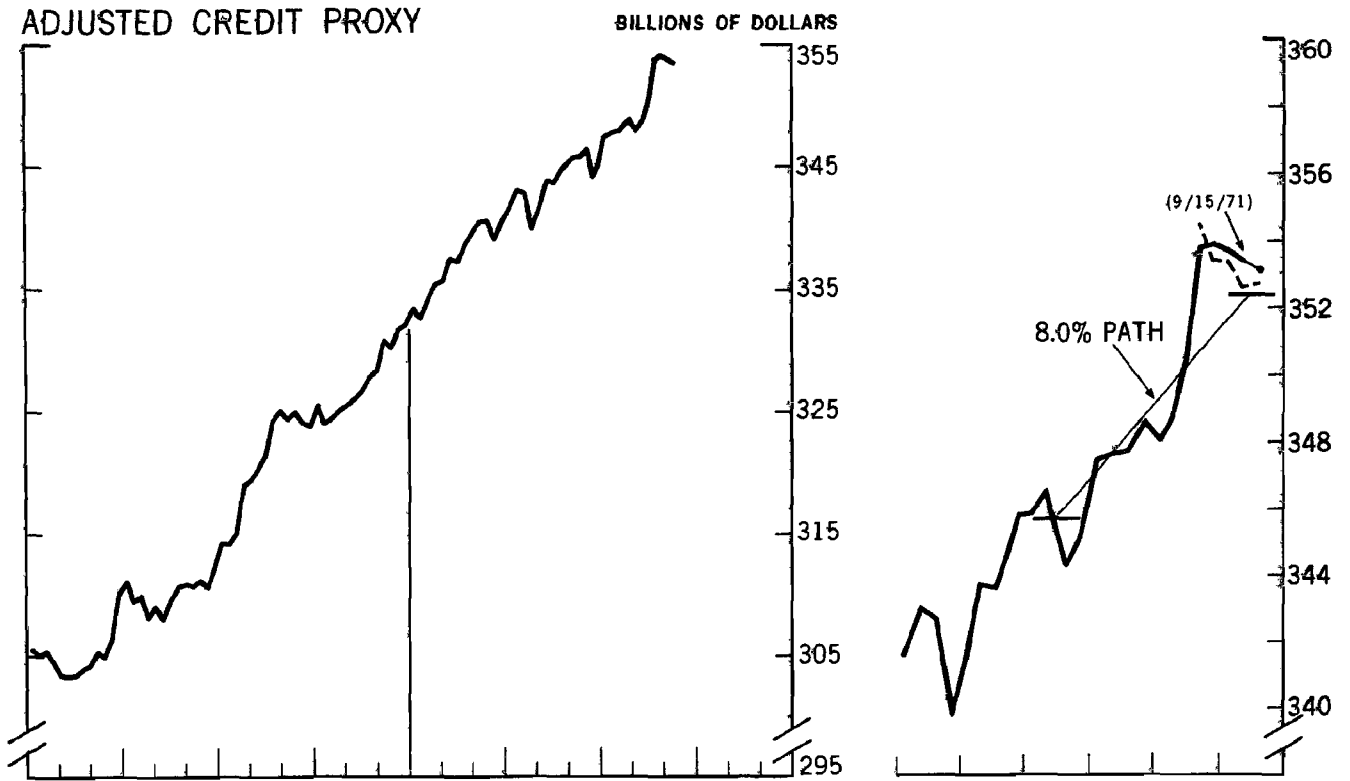


— Actual
- - - Currently Projected

- - - Wkly. Path, Indicated
at FOMC Meeting (8/24/71)

⋯ Longer Run Path

MONETARY AGGREGATES



— Actual
 —●— Currently Projected

--- Wkly. Path, Indicated
 at FOMC Meeting (8/24/71)

— Longer Run Path

INTEREST BEARING SOURCES OF BANK FUNDS

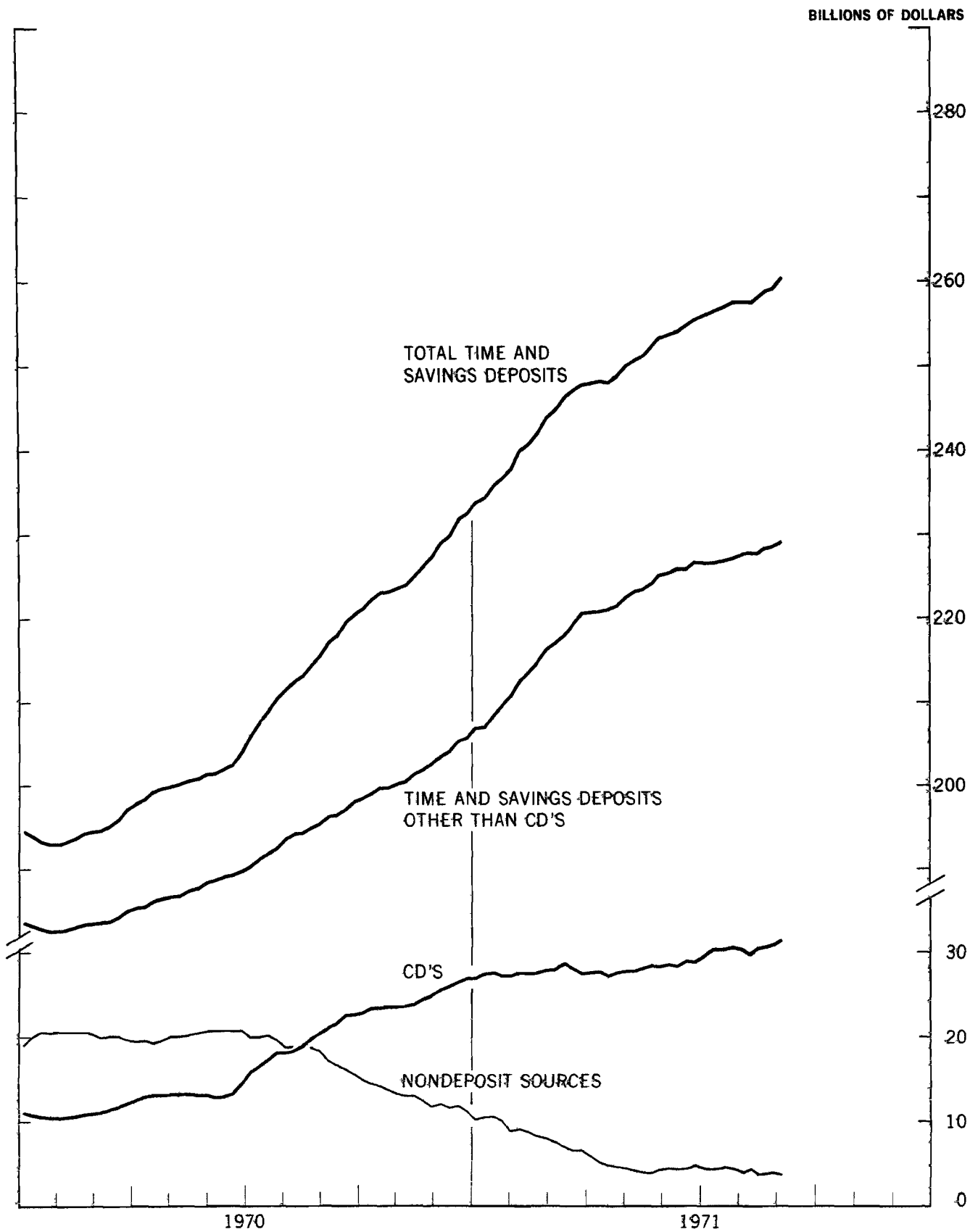
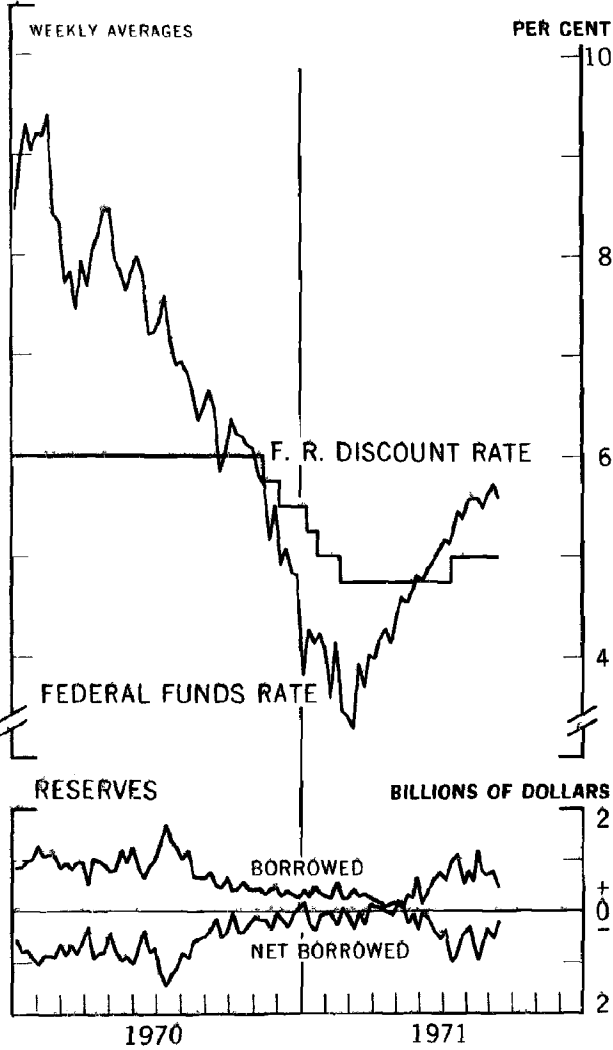


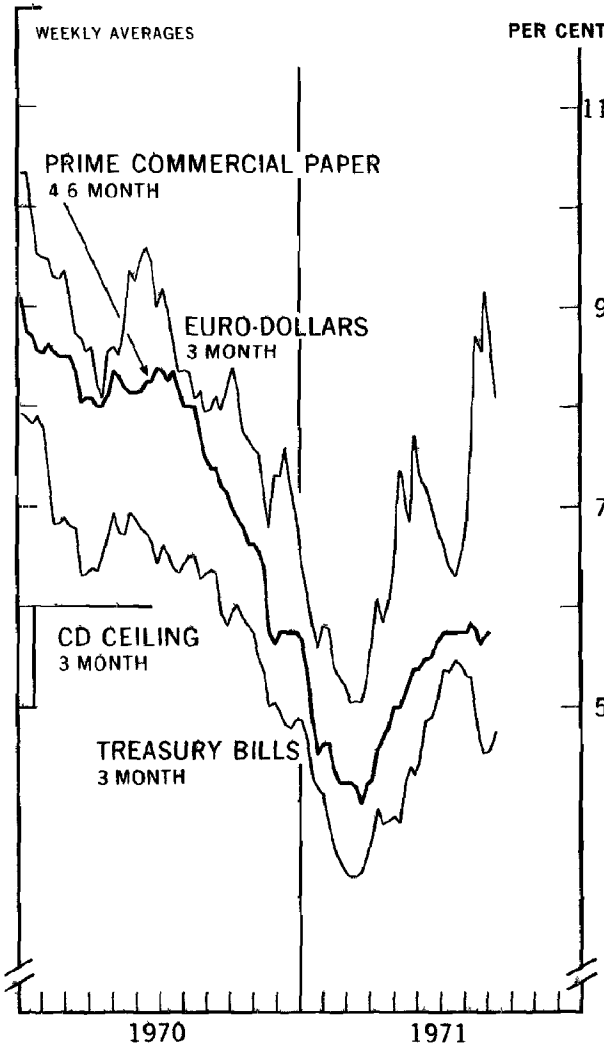
CHART 3

MONEY MARKET CONDITIONS AND INTEREST RATES

MONEY MARKET CONDITIONS



INTEREST RATE Short-term



INTEREST RATES Long-term

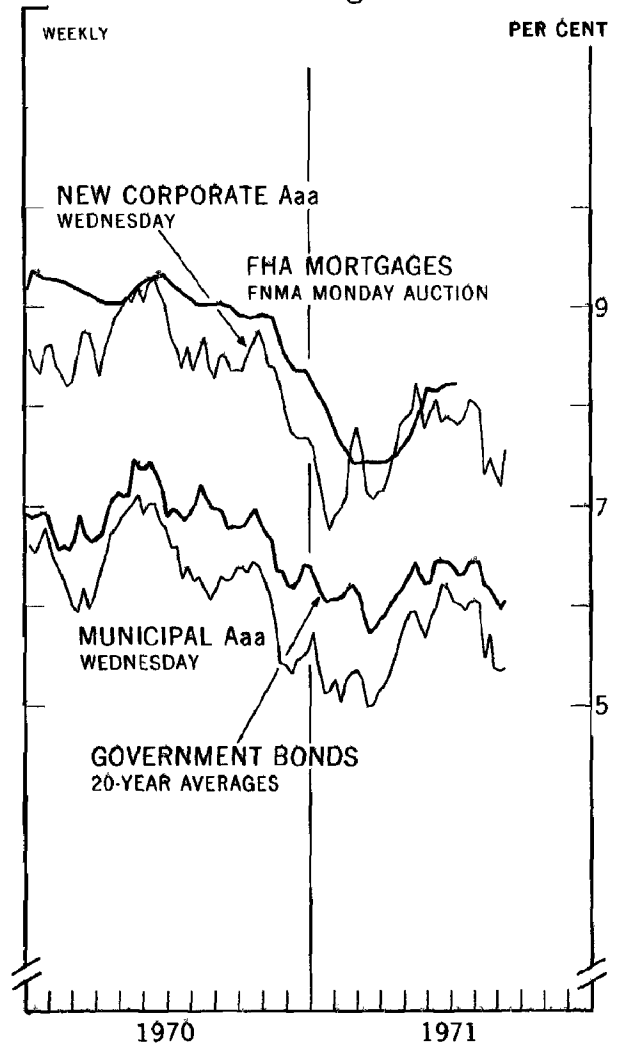


Table 1
PATHS OF KEY MONETARY AGGREGATES

STRICTLY CONFIDENTIAL (FR)

September 17, 1971

Period	Narrow Money Supply (M ₁) 1/		Broad Money Supply (M ₂) 2/		Adjusted Credit Proxy		Total Reserves	
	1 Path as of Aug. 24	2 Actuals & Current Proj.	3 Path as of Aug. 24	4 Actuals & Current Proj.	5 Path as of Aug. 24	6 Actuals & Current Proj.	7 Path as of Aug. 24	8 Actuals & Current Proj.
Monthly Pattern in Billions of Dollars								
1971: Apr.		221.1		442.0		341.7		30.8
May		223.9		447.3		343.8		31.3
June		225.6		451.4		345.7		31.3
July		227.5		454.1		348.0		31.3
Aug.	229.0	228.1	456.9	455.9	351.3	351.1	31.7	31.7
Sept.	230.0	(228.4)	459.3	(458.0)	352.4	(353.4)	32.2	(32.1)
Annual Percentage Rates of Change--Quarterly and Monthly								
1971: 1st Qtr.		8.9		17.8		10.9		11.0
2nd Qtr.		11.3		12.6		6.5		6.6
3rd Qtr.	8.0	(5.0)	7.0	(6.0)	8.0	(9.0)	11.5	(11.0)
1971: Apr.		9.3		12.1		5.3		2.7
May		15.2		14.4		7.4		17.0
June		9.1		11.0		6.6		0.2
July		10.1		7.2		8.0		0.3
Aug.	7.5	3.2	7.0	4.8	12.0	10.7	17.0	14.9
Sept.	5.0	(1.5)	6.5	(5.5)	4.0	(8.0)	17.0	(17.0)
Weekly Pattern in Billions of Dollars								
1971: July 28		226.9		453.9		348.7		31.4
Aug. 4		226.7		454.1		348.1		31.8
11		228.6		456.3		348.7		31.5
18		228.7		456.3		350.5		31.8
25	230.2	228.1	459.0	456.3	354.5	353.8	31.6	31.4
Sept. 1	229.3	227.4	458.1	455.8	353.4	353.9	31.9	31.9
8	229.0	227.1	458.0	456.1	353.3	353.7	32.5	32.3
15 pe	228.8	226.6	458.0	456.0	352.6	353.4	32.2	32.2
22	231.4	(229.0)	460.8	(458.7)	352.7	(353.1)	31.9	(31.8)

NOTES: Annual rates of change other than those for the past are rounded to the nearest half per cent. Data shown in parenthesis are current projections.

pe - Partially estimated.

1/ Currently plus private demand deposits.

2/ M₁ plus time deposits other than large CD's.

FR712-D
Rev 2/16/71

Table 1-A
PATHS OF KEY MONETARY AGGREGATES

STRICTLY CONFIDENTIAL (FR)
September 17, 1971

Period	U.S. Gov't. Deposits		Total Time & Savings Deposits		Time Deposits other than large CD's		Large Negotiable CD's		Nondeposit Sources of Funds	
	1 Path as of Aug. 24	2 Actuals & Current Proj.	3 Path as of Aug. 24	4 Actuals & Current Proj.	5 Path as of Aug. 24	6 Actuals & Current Proj.	7 Path as of Aug. 24	8 Actuals & Current Proj.	9 Path as of Aug. 24	10 Actuals & Current Proj.
Monthly Pattern in Billions of Dollars										
1971: Apr.		5.4		248.3		221.0		27.3		5.1
May		4.2		251.4		223.4		27.9		4.1
June		3.9		254.4		225.8		28.6		4.5
July		3.7		256.8		226.6		30.1		4.3
Aug.	6.3	6.1	258.2	258.2	227.9	227.8	30.3	30.3	3.7	3.9
Sept.	5.7	(6.2)	259.8	(261.2)	229.3	(229.8)	30.5	(31.6)	3.6	(3.7)
Annual Percentage Rates of Change--Quarterly and Monthly										
1971: 1st Qtr.				27.3		27.2				
2nd Qtr.				13.5		13.7				
3rd Qtr.			8.5	(10.5)	6.0	(6.5)				
1971: Apr.				10.7		14.8				
May				15.0		13.0				
June				14.3		12.9				
July				11.3		4.3				
Aug.			6.5	6.5	7.0	6.4				
Sept.			7.5	(14.0)	7.5	(9.5)				
Weekly Pattern in Billions of Dollars										
1971: July 28		4.1		257.5		227.0		30.5		4.3
Aug. 4		4.3		257.5		227.4		30.1		3.9
11		4.3		257.4		227.7		29.7		4.2
18		5.9		257.9		227.6		30.3		3.7
25	8.8	8.2	258.9	258.7	228.8	228.2	30.1	30.5	3.6	3.7
Sept. 1	7.8	8.0	259.0	259.1	228.8	228.4	30.2	30.8	3.6	4.0
8	7.7	7.5	259.3	260.3	229.0	229.0	30.3	31.3	3.6	3.8
15 pe	6.2	8.1	259.6	260.9	229.2	229.3	30.4	31.6	3.6	3.7
22	5.9	(5.7)	259.9	(261.5)	229.4	(229.7)	30.5	(31.8)	3.6	(3.7)

NOTES: pe - Partially estimated.
Annual rates of change other than those for the past are rounded to the nearest half per cent.
Data shown in parenthesis are current projections.

FR 712-K
Rev 2/16/71

Table 2 AGGREGATE RESERVES AND MONETARY VARIABLES

CONFIDENTIAL (FR)

September 17, 1971

RETROSPECTIVE CHANGES, SEASONALLY ADJUSTED
(Annual rates in per cent)

Period	Reserve Aggregates ¹		Monetary Variables					Addenda		
	1 Total Reserves	2 Nonborrowed Reserves	3 Total Member Bank Deposits	4 Adjusted Credit Proxy	5 Money Supply			8 Time Deposits Adjusted	9 Thrift Instit. Deposits	10 Nonbank Commercial Paper
					6 Total	7 Currency	Private Demand Deposits			
Annually										
1968	+ 7.8	+ 6.0	+ 9.0	n.a.	+ 7.8	+ 7.4	+ 7.9	+11.1	+ 6.3	n.a.
1969	- 1.6	- 3.0	- 4.0	n.a.	+ 3.1	+ 6.0	+ 2.4	- 5.0	+ 3.4	n.a.
1970	+ 6.4	+ 9.5	+11.8	+ 8.3	+ 5.4	+ 6.3	+ 5.1	+18.4	+ 7.8	+ 7.3
Semi-annually										
1st Half 1970	- 0.2	+ 1.9	+ 3.3	+ 3.5	+ 5.9	+ 7.8	+ 5.3	+ 7.8	+ 4.7	+12.8
2nd Half 1970	+13.0	+17.1	+20.0	+12.9	+ 4.8	+ 4.6	+ 4.7	+27.9	+10.6	+ 1.7
1st Half 1971	+ 8.9	+ 8.2	+13.5	+ 8.8	+10.3	+ 9.4	+10.5	+20.8	+20.8	-18.2
Quarterly										
1st Qtr. 1970	- 2.9	- 0.4	+ 0.6	+ 0.5	+ 5.9	+ 6.1	+ 5.3	+ 1.4	+ 2.5	+17.8
2nd Qtr. 1970	+ 2.6	+ 4.1	+ 6.0	+ 6.5	+ 5.8	+ 9.4	+ 5.3	+14.1	+ 7.0	+ 7.5
3rd Qtr. 1970	+19.1	+24.4	+24.1	+17.2	+ 6.1	+ 3.3	+ 6.7	+32.2	+ 9.3	-16.2
4th Qtr. 1970	+ 6.6	+ 9.4	+15.1	+ 8.3	+ 3.4	+ 5.8	+ 2.7	+ 21.8	+11.6	+20.4
1st Qtr. 1971	+11.0	+11.0	+17.0	+10.9	+ 8.9	+ 9.0	+ 8.9	+27.3	+23.3	-24.7
2nd Qtr. 1971	+ 6.6	+ 5.3	+ 9.6	+ 6.5	+11.9	+ 9.6	+11.8	+13.5	+17.3	-12.5
1970: Monthly										
Apr.	+21.3	+25.4	+16.8	+13.7	+ 9.9	+10.3	+10.5	+19.7	+ 8.1	+34.4
May	-13.9	-19.0	- 4.5	- 1.2	+ 5.2	+15.3	+ 3.0	+10.9	+ 5.3	+18.9
June	+ 0.5	+ 6.2	+ 5.8	+ 7.0	+ 2.3	+ 2.5	+ 2.2	+11.4	+ 7.3	-30.0
July	+ 6.0	-16.1	+22.7	+18.1	+ 5.7	+ 7.5	+ 4.4	+35.6	+11.9	-87.5
Aug.	+23.3	+48.8	+29.2	+23.2	+ 6.8	+ 2.5	+ 8.9	+28.8	+ 5.9	- 7.2
Sept.	+27.5	+40.1	+19.0	+ 9.7	+ 5.7	--	+ 6.6	+29.8	+10.0	+49.6
Oct.	- 1.9	--	+10.1	+ 1.1	+ 1.1	+ 7.5	- 0.7	+20.3	+10.6	+32.4
Nov.	+ 3.6	+ 4.4	+13.1	+ 7.0	+ 2.8	+ 4.9	+ 2.2	+15.1	+ 9.4	-28.7
Dec.	+18.4	+22.8	+21.4	+16.5	+ 6.2	+ 4.9	+ 6.6	+28.8	+14.5	+58.1
1971: Monthly										
Jan.	+12.2	+ 8.8	+16.1	+10.5	+ 1.1	+ 7.4	- 1.4	+25.5	+25.1	- 9.0
Feb.	+11.4	+15.1	+19.3	+12.9	+14.0	+ 9.8	+16.0	+28.6	+18.5	-10.9
Mar.	+ 9.2	+ 8.8	+14.9	+ 8.9	+11.6	+ 9.7	+12.2	+25.9	+24.9	-55.2
Apr.	+ 2.7	+ 9.7	+12.2	+ 5.3	+ 9.3	+12.0	+ 7.8	+10.7	+21.8	+ 4.4
May	+17.0	+12.4	+11.1	+ 7.4	+15.2	+ 9.5	+17.6	+15.0	+14.2	-15.8
June	+ 0.2	- 6.2	+ 5.3	+ 6.6	+ 9.1	+ 7.1	+ 9.7	+14.3	+15.1	-26.3
July	+ 0.3	-13.1	+ 8.8	+ 8.0	+10.1	+11.7	+ 9.6	+11.3	+15.8	-32.1
Aug. p.	+14.9	+16.2	+17.2	+10.7	+ 3.2	+ 2.3	+ 3.4	+ 6.5	8.4	n.a.

NOTE: Aggregate reserve series have been adjusted to eliminate changes in percentage reserve requirements against deposits, but reserve requirements on Eurodollar borrowings are included beginning October 16, 1969, and requirements on bank-related commercial paper are included beginning October 1, 1970.

n.a.-Not Available

FR 712 - E

Table 3
AGGREGATE RESERVES AND MONETARY VARIABLES
SEASONALLY ADJUSTED

CONFIDENTIAL (FR)

September 17, 1971

Period	Aggregate Reserves			Member Bank Deposits		Money Supply			Commercial Bank Time Deposits			12 Adjusted Credit Proxy	13 Addendum Nonbank Comm Paper
	1 Total	2 Non- borrowed	3 Required	4 Total	5 U.S Govt Demand	6 Total	7 Currency	8 Private Demand Deposits	9 Total	10 CD's	11 Other		
	(In millions of dollars)			(In billions of dollars)									
1970: Jan.	28,001	26,966	27,823	284.8	5.3	205.2	46.2	159.0	193.3	10.6	182.7	304.8	29.4
Feb.	27,722	26,615	27,523	282.9	5.6	204.5	46.4	158.1	193.5	10.6	182.9	303.4	30.0
Mar.	27,723	26,782	27,536	286.2	5.9	206.6	46.7	159.8	195.3	11.5	183.8	306.1	30.4
Apr.	28,216	27,350	28,046	290.2	5.2	208.3	47.1	161.2	198.5	12.9	185.6	309.6	31.2
May	27,890	26,916	27,692	289.1	3.0	209.2	47.7	161.6	200.3	13.2	187.1	309.3	31.7
June	27,907	27,056	27,713	290.5	4.8	209.6	47.8	161.9	202.2	13.2	189.0	311.1	30.9
July	28,041	26,694	27,896	296.0	4.4	210.6	48.1	162.5	208.2	16.9	191.3	315.8	28.7
Aug.	28,585	27,780	28,408	303.2	6.4	211.8	48.2	163.7	213.2	19.0	184.2	321.9	28.5
Sept.	29,240	28,708	29,024	308.0	6.2	212.8	48.2	164.6	218.5	21.7	196.8	324.5	29.7
Oct.	29,385	28,928	28,134	310.6	5.7	213.0	48.5	164.5	222.2	23.2	199.1	324.8	30.5
Nov.	29,474	29,033	29,233	314.0	6.0	213.5	48.7	164.8	225.0	23.9	201.1	326.7	29.7
Dec.	29,925	29,584	29,703	319.6	6.2	214.6	48.9	165.7	230.4	26.0	204.4	331.2	31.2
1971: Jan.	30,229	29,801	30,029	323.9	6.7	214.8	49.2	165.5	235.3	27.1	208.2	334.1	31.0
Feb.	30,515	30,176	30,255	329.1	6.2	217.3	49.6	167.7	240.9	27.4	213.5	337.7	30.7
Mar.	30,748	30,398	30,534	333.2	4.8	219.4	50.0	169.4	246.1	27.8	218.3	340.2	29.3
Apr.	30,816	30,644	30,611	336.6	5.4	221.1	50.5	170.5	248.3	27.3	221.0	341.7	29.4
May	31,253	30,961	30,998	339.7	4.2	223.9	50.9	173.0	251.4	27.9	223.4	343.8	29.0
June	31,257	30,801	31,046	341.2	3.9	225.6	51.2	174.4	254.4	28.6	225.8	345.7	28.3
July	31,266	30,465	31,094	343.7	3.7	227.5	51.7	175.8	256.8	30.1	226.6	348.0	27.6
Aug. p	31,654	30,876	31,473	347.2	6.1	228.1	51.8	176.3	258.2	30.3	227.8	351.1	n.a.
Week ending:													
1971: July													
7	31,032	30,462	30,769	343.7	2.5	228.7	51.8	176.9	256.0	29.6	226.5	347.5	28.2
14	30,831	29,950	31,026	343.4	2.9	227.4	51.7	175.7	256.6	30.1	226.5	347.7	28.4
21	31,552	30,346	31,135	343.3	4.0	227.7	51.8	175.9	256.9	30.1	226.8	347.8	28.3
28	31,414	30,849	31,332	344.4	4.1	226.9	51.7	175.2	257.5	30.5	227.0	348.7	28.3
Aug.													
4	31,776	31,022	31,357	344.2	4.3	226.7	51.8	174.9	257.5	30.1	227.4	348.1	27.9
11	31,473	30,980	31,490	344.4	4.3	228.6	51.9	176.7	257.4	29.7	227.7	348.7	27.8
18	31,781	30,572	31,507	346.8	5.9	228.7	51.9	176.7	257.9	30.3	227.6	350.5	27.9
25	31,415	30,679	31,349	350.1	8.2	228.1	51.7	176.5	258.7	30.5	228.2	353.8	28.4
Sept.													
1 p	31,938	31,243	31,633	349.9	8.0	227.4	51.8	175.6	259.1	30.8	228.4	353.9	28.2
8 p	32,337	31,651	32,108	349.9	7.5	227.1	51.7	175.5	260.3	31.3	229.0	353.7	28.3

NOTES. Aggregate reserve series have been adjusted to eliminate changes in percentage reserve requirements against deposits, but reserve requirements on Euro-dollar borrowings are included beginning October 16, 1969, and requirements on bank-related commercial paper are included beginning October 1, 1970. Adjusted credit proxy includes mainly total member bank deposits subject to reserve requirements, bank-related commercial paper, and Euro-dollar borrowings of U.S. banks. Weekly data are daily averages for statement weeks. Monthly data are daily average except for nonbank commercial paper figures which are for last day of month.

p - Preliminary.

n.a. - Not Available.

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Table 4

MARGINAL RESERVE MEASURES
(Dollar amounts in millions, based on period averages of daily figures)

Period	Free reserves	Excess reserves	Member Banks Borrowings				Country
			Total	Reserve City		Other	
				8 N.Y.	Outside N.Y.		
Monthly (reserves weeks ending in):							
1970--January	- 759	169	928	148	287	232	261
February	- 916	210	1,126	106	317	289	414
March	- 751	129	880	90	225	287	278
April	- 687	178	865	227	331	119	188
May	- 765	159	924	165	241	228	290
June	- 736	171	907	140	289	217	261
July	-1,134	183	1,317	218	460	348	291
August	- 706	175	881	143	278	273	187
September	- 374	235	609	101	115	274	119
October	- 274	193	467	12	40	313	102
November	- 199	210	409	42	17	294	57
December	- 84	264	348	36	16	265	30
1971--January	- 140	238	378	45	36	262	35
February	- 71	264	335	29	30	248	29
March	- 120	192	312	41	17	238	16
	2	154	152	15	9	119	9
	6	218	212	78	36	60	38
June	- 303	211	514	103	85	159	167
July	- 672	158	830	77	223	270	260
Aug. p	- 633	194	827	153	130	318	226
1971--Apr. 7	80	277	197	--	--	184	13
14	58	208	150	17	--	127	6
21	- 3	81	84	--	1	79	4
28	- 128	48	176	42	34	86	14
May 5	191	365	174	46	40	61	27
12	131	230	99	39	20	22	18
19	- 204	102	306	134	47	74	51
26	- 93	174	267	91	36	84	56
June 2	- 361	285	646	171	100	217	158
9	- 80	73	153	46	27	25	55
16	- 149	254	403	86	"	152	161
23	- 409	210	619	103	161	202	153
30	- 518	232	750	107	132	203	308
July 7	- 384	277	661	--	149	257	255
14	- 986	5	991	252	309	189	241
21	- 839	282	1,121	47	344	397	333
28	- 478	67	545	9	88	236	212
Aug. 4	- 330	434	764	43	122	307	292
11	- 566	27	593	--	47	328	218
18	- 955	224	1,179	338	254	326	261
25	- 680	91	771	229	97	313	132
Sept. 1 p	- 363	345	708	99	52	370	187
8 p	- 541	224	765	--	286	306	173
15 p	- 191	266	457	--	97	231	129

p - Preliminary.

Table 5

SOURCE OF FEDERAL RESERVE CREDIT
Retrospective Changes
(Dollar amounts in millions of dollars, based on weekly averages of daily figures)

Period	Total Federal Reserve credit (Excl. float)	U.S. Government securities			Repurchase agreements	Federal Agency Securities	Bankers' acceptances	Member banks borrowings
		Total holdings	Bills ^{1/}	Other				
Year:								
1969 (12/25/68 - 12/31/69)	+5,539	+5,192	+4,279 (--)	+ 707	+ 206	+ 67	+ 35	+ 240
1970 (12/31/69 - 12/30/70)	+3,351	+4,276	+3,220 (- 143)	+1,180	- 124	- 63	- 28	- 884
1971--Apr.								
7	+ 155	+ 145	+ 4 (- 82)	+ 124	+ 17	+ 47	+ 23	- 60
14	- 255	- 86	+ 128 (+ 12)	+ 84	- 298	- 68	- 54	- 47
21	+ 348	+ 423	+ 360 (+ 70)	+ 113	- 50	- 11	+ 2	- 66
28	+ 54	- 43	+ 30 (--)	--	- 73	- 7	+ 12	+ 92
May								
5	+ 771	+ 712	+ 384 (--)	--	+ 328	+ 50	+ 11	- 2
12	+ 201	+ 272	+ 173 (--)	--	+ 99	- 6	+ 10	- 75
19	+ 503	+ 304	+ 400 (--)	+ 71	- 167	- 4	- 4	+ 207
26	+ 115	+ 144	+ 256 (--)	+ 56	- 168	- 6	+ 16	- 39
June								
2	+ 305	- 57	+ 13 (--)	--	- 70	- 8	- 9	+ 379
9	- 974	- 418 ^{2/}	- 439 (--)	--	- 73	- 27	- 36	- 493
16	+ 202	- 47 ^{2/}	- 463 (- 39)	--	--	--	- 1	+ 250
23	+ 160	+ 106 ^{2/}	+ 348 (+ 39)	--	+ 162	+ 23	+ 27	+ 216
30	+1,156	+1,059	+1,151 (--)	+ 27	- 119	- 9	- 25	+ 131
July								
7	+ 362	+ 373	+ 131 (- 57)	+ 35	+ 207	+ 47	+ 31	- 89
14	+ 364	+ 74	+ 208 (- 87)	--	- 134	- 20	- 20	+ 330
21	+ 743	+ 562	+ 25 (+ 144)	--	+ 537	+ 47	+ 4	+ 130
28	- 957	- 359	27 (--)	--	- 586	- 21	- 1	- 576
Aug.								
4	+ 335	+ 141	+ 101 (--)	--	+ 40	- 14	- 11	+ 219
11	- 204	+ 1	+ 50 (- 70)	--	- 49	- 25	- 9	- 171
18	+ 483	- 73	- 25 (+ 70)	+ 109	- 157	- 18	- 12	+ 586
25	- 116	+ 296	+ 397 (--)	--	- 101	- 10	+ 6	- 408
Sept.								
1 p	+ 383	+ 399	+ 282 (--)	--	+ 117	+ 27	+ 20	- 63
8 p	+ 468	+ 309	-- (--)	+ 91	+ 218	+ 68	+ 34	+ 57
15 p	- 387	- 54	- 145 (- 145)	+ 15	+ 76	- 20	- 5	- 308

^{1/} Figures in parenthesis reflect reserve effect of match sale-purchase agreement.

^{2/} Includes effect of changes in special certificates of \$ +94 million of the week of June 9, \$ +416 million of the week of June 16, and \$ -510 million of the week of June 23.

p - Preliminary

Table 6

MAJOR SOURCES AND USES OF RESERVES
Retrospective and Prospective Changes
(Dollar amounts in millions, based on weekly averages of daily figures)

Period	Factors affecting supply of reserves							Change in total reserves	Bank use of reserves	
	Federal Reserve credit (excl. float) 1/	Gold stock	Currency outside banks	Treasury operations	Float	Foreign deposits and gold loans	Other nonmember deposits and F.R. accounts		Required reserves	Excess reserves
(Sign indicates effect on reserves)										
Year:										
1969 (12/25/68 - 12/31/69)	+5,539	--	-2,676	- 813	+ 241	+ 54	- 898	+1,448	+1,340	+ 108
1970 (12/31/69 - 12/30/70)	+3,351	+1,150 ^{2/}	-3,122	+ 773	+ 667	+ 1	-1,655	+1,163	+1,257	- /
1971--Apr.										
7	+ 279	--	- 257	- 249	+ 235	+ 14	- 173	- 270	- 171	- 99
14	- 275	--	- 483	+ 249	+ 241	- 14	+ 217	- 45	+ 24	- 69
21	+ 348	--	- 414	- 131	+ 301	+ 21	+ 187	+ 313	+ 440	- 127
28	+ 54	--	+ 580	- 384	- 10	+ 1	- 23	+ 219	+ 252	- 33
May										
5	+ 771	--	+ 129	+ 307	- 497	- 14	- 72	+ 623	+ 306	+ 317
12	+ 201	- 171	- 351	- 248	- 211	- 13	+ 99	- 696	- 561	- 135
19	+ 503	- 229	- 465	+ 83	+ 421	+ 5	- 45	+ 278	+ 406	- 128
26	+ 115	--	+ 69	+ 218	- 177	- 25	- 315	- 116	- 188	+ 72
June										
2	+ 305	--	- 80	+ 169	- 327	--	- 33	+ 30	- 81	+ 111
9	- 974	--	- 240	+ 522	+ 291	+ 36	- 28	- 390	- 178	- 212
16	+ 202	--	- 378	+ 398	- 122	+ 1	+ 228	+ 327	+ 146	+ 181
23	+ 160	--	- 125	- 648	+ 291	- 5	+ 33	- 294	- 250	- 44
30	+1,156	--	+ 362	- 776	- 334	- 11	- 28	+ 373	+ 351	+ 22
July										
7	+ 362	--	- 616	- 54	+ 376	- 4	- 43	+ 21	- 24	+ 45
14	+ 364	--	- 483	- 244	+ 217	+ 8	+ 82	- 59	+ 213	- 272
21	+ 743	--	- 358	+ 176	+ 11	- 4	+ 110	+ 678	+ 401	+ 277
28	- 957	--	+ 895	+ 204	- 453	+ 29	- 27	- 309	- 94	- 215
Aug.										
4	+ 335	--	- 51	+ 266	- 153	- 37	- 89	+ 271	- 179	+ 450
11	- 204	- 86	- 168	- 17	- 65	+ 5	- 29	- 564	- 74	- 490
18	+ 483	- 114	- 384	+ 125	+ 178	- 7	- 1	+ 275	+ 78	+ 197
25	- 116	--	+ 55	- 113	+ 16	- 8	- 332	- 494	- 361	- 133
Sept.										
1 p	+ 383	--	+ 379	- 45	- 255	- 10	- 31	+ 420	+ 166	+ 254
8 p	+ 468	--	- 181	- 76	+ 155	+ 29	- 57	+ 338	+ 459	- 121
15 p	- 387	--	- 192	- 36	+ 344	+ 26	+ 256	+ 12	- 30	+ 42

1/ For retrospective details, see Table 5.

2/ Includes \$400 million in special drawing account.

p - Preliminary.

Table 7

Reconciliation--Money supply and Credit Proxy Adjusted
(Billions of dollars, not seasonally adjusted)

Item	Levels, 1971			Dollar Change	
	March	June	Aug. p	2nd Qtr., 1971	June to Aug., 1971
1. <u>Money supply--M₁</u>	217.4	223.6	224.7	6.2	1.1
2. Plus: Time deposits other than large CD's	218.9	226.1	227.8	7.2	1.7
3. <u>Equals: Money supply--M₂</u>	436.3	449.6	452.5	13.3	2.9
Plus:					
4. U.S. Gov't. deposits at member banks	4.5	4.4	5.7	-0.1	1.3
5. Net domestic commercial bank deposits at member banks	4.3	4.0	4.2	-0.3	0.2
6. Large CD's	28.0	28.4	31.2	0.4	2.8
7. Nondeposit funds <u>1/</u>	7.0	4.5	3.9	-2.5	-0.6
8. Time deposit of U.S. Gov't. and commercial banks	1.9	1.9	1.9	--	--
9. F.R. Float	2.7	2.7	2.6	--	-0.1
Less:					
10. Demand deposits at nonmember banks	38.3	39.9	40.3	1.6	-0.4
11. Time deposits at nonmember banks	56.5	58.8	60.2	2.3	1.4
12. Currency component of the money supply	49.5	51.1	51.9	1.6	0.8
13. Deposits at Edge Act Corps., agencies and foreign branches	0.8	0.7	0.7	-0.1	--
14. Foreign deposits at F.R.	0.4	0.4	0.4	--	--
Equals:					
15. <u>Credit Proxy Adjusted</u>	339.2	344.7	348.6	5.5	3.9

p - Preliminary.

1/ Includes borrowings from banks own foreign branches, commercial paper and other minor item.

NOTE: Sums of levels and changes may not add because of rounding.

Table 7A

Reconciliation--Money Supply and Credit Proxy Adjusted
(Billions of dollars, seasonally adjusted)

Item	Levels, 1971			2nd Qtr. 1971		June to Aug., 1971	
	March	June	Aug. p.	Dollar Change	Percentage Change	Dollar Change	Percentage Change
1. <u>Money supply--M₁</u>	219.4	225.6	228.1	6.2	11.3	2.5	6.6
2. Plus: Time deposits other than large CD's	218.3	225.8	227.8	7.5	13.7	2.0	5.3
3. Equals: <u>Money supply-- M₂</u>	437.6	451.4	455.9	13.8	12.6	4.5	6.0
Plus:							
4. U.S. Gov't. deposits at member banks	4.8	3.9	6.1	-0.9		2.2	
5. Net domestic commercial bank deposits at member banks	4.7	4.3	4.7	-0.4		0.4	
6. Large CD's	27.8	28.6	30.3	0.8		1.7	
7. Nondeposit funds <u>1/</u>	7.0	4.5	3.9	-2.5		-0.6	
Less:							
8. Currency component of the money supply	50.0	51.2	51.8	1.2		0.6	
9. Deposits at nonmember banks, and other items <u>2/</u>	91.8	95.7	98.0	3.9		2.3	
Equals:							
10. <u>Adjusted Credit Proxy</u>	340.2	345.7	351.1	5.5	6.5	5.4	9.4

1/ Includes borrowings from banks own foreign branches, commercial paper and other minor items.

2/ Other items include money supply type deposits at Edge Act corporations and domestic branches of foreign banks.

NOTE: Sums of levels and changes may not add because of rounding.

p - Preliminary.