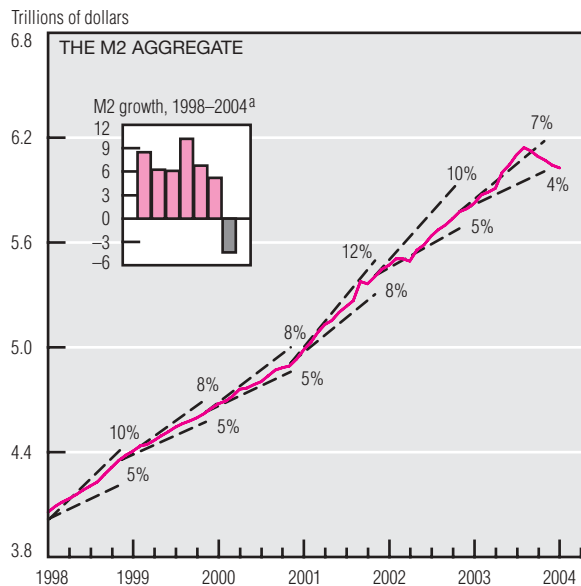
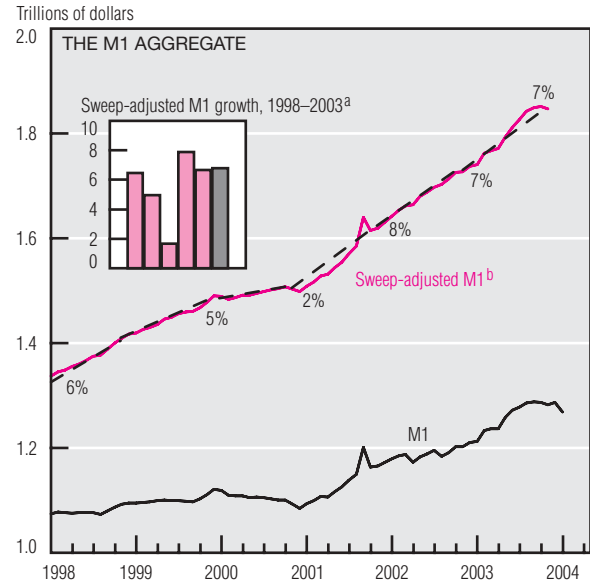
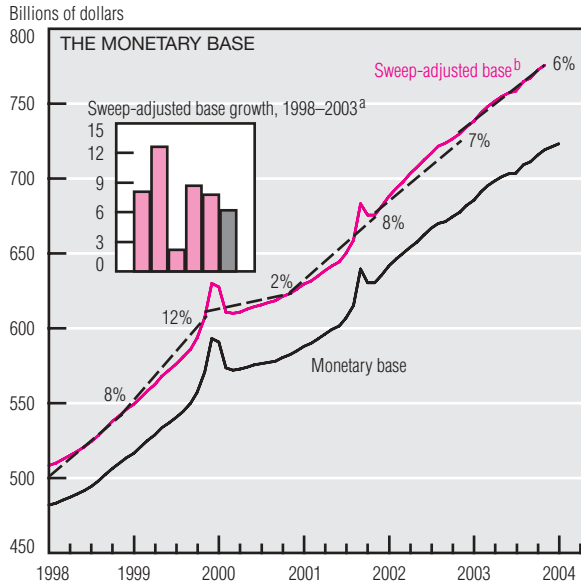


Monetary Policy



Growth Rates of Monetary Components (percent)

	Annual						Average, 1998–2002
	1998	1999	2000	2001	2002	2003	
Monetary base ^c	8.1	12.6	2.2	8.7	7.8	6.2	7.9
M1 ^d	6.5	5.0	1.7	7.9	6.7	6.8	5.8
M2	8.5	6.3	6.1	10.2	6.8	5.2	7.2
Currency	8.4	11.1	4.3	9.1	8.2	6.0	8.2
Total reserves	-3.1	-7.2	-6.2	8.8	-6.7	9.5	-2.9
Checkable deposits ^e	-2.1	-4.8	-6.8	4.9	-1.6	7.5	-2.1
Money market funds	23.0	13.7	11.4	8.2	-6.0	-11.5	10.1
Small time deposits	-1.3	-0.7	9.5	-4.9	-9.0	-9.7	-1.3
Savings deposits	14.0	10.1	6.6	21.7	21.1	15.1	14.7

a. The far-right bars refer to the most recent data available. Growth rates are calculated on a fourth-quarter over fourth-quarter basis except for the far-right bar for M2, which refers to the annualized year-to-date growth rate from 2003:IVQ to January 2004. All data are seasonally adjusted.

b. The sweep-adjusted base contains an estimate of required reserves saved when balances are shifted from reservable to nonreservable accounts. Sweep-adjusted M1 contains an estimate of balances temporarily moved from M1 to non-M1 accounts.

c. Refers to the sweep-adjusted base.

d. Refers to the sweep-adjusted M1.

e. Refers to demand deposits and other checkable deposits.

SOURCES: Board of Governors of the Federal Reserve System, "Money Stock Measures," *Federal Reserve Statistical Releases*, H.6.

Growth in the sweep-adjusted monetary base (total currency in circulation plus total reserves including depository institutions' vault cash) has been fairly constant over the past couple of years. In 2003, however, it recorded an annual growth rate of 6.2%, slower than the 7.9% average for 1998–2002. The decline in base growth results primarily from a decrease of 2.2 percentage points (pp) in currency growth, which more than offset total reserves' increase of 12.4 pp. Total reserves fell 2.9% from 1998 to 2002 before rising 9.5% in 2003.

M1 (currency in the hands of the public plus demand and other checkable deposits) is a slightly broader monetary aggregate. Like monetary base, sweep-adjusted M1 growth has been fairly stable over the past couple of years, but it is roughly 1.3 pp above its 1998–2002 average. Much of the acceleration resulted from a sharp increase in the sum of demand deposits and other checkable deposits, which comprise nearly half of M1. After falling 2.1% in 1998–2002, its growth rate rose 7.5% in 2003, primarily because the opportunity cost of M1 (market

interest rate minus interest rate on M1 accounts) fell over the same period.

An even broader monetary aggregate, M2, grew 5.2% in 2003, 2.3 pp less than its 1998–2002 average. Although M2 grew overall in 2003, it has fallen almost 1.9% (3.8% annualized) since August. This resulted from sharp declines in retail money market mutual funds (21.6 pp) and small time deposits (8.4 pp) from their averages. These declines were more than offset by higher M1 growth and a slight uptick in savings deposits.