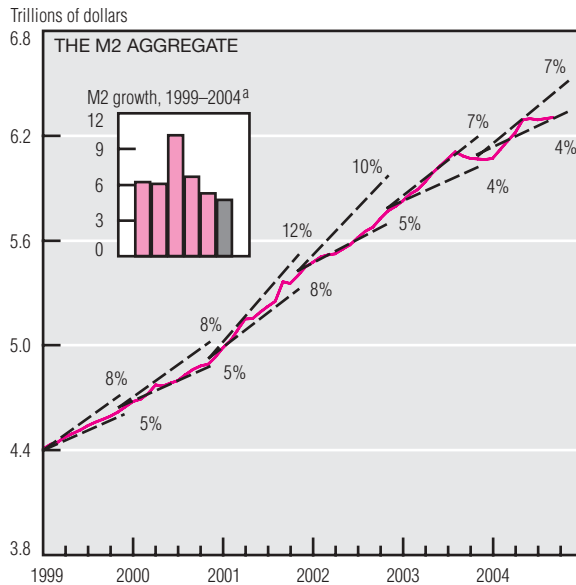
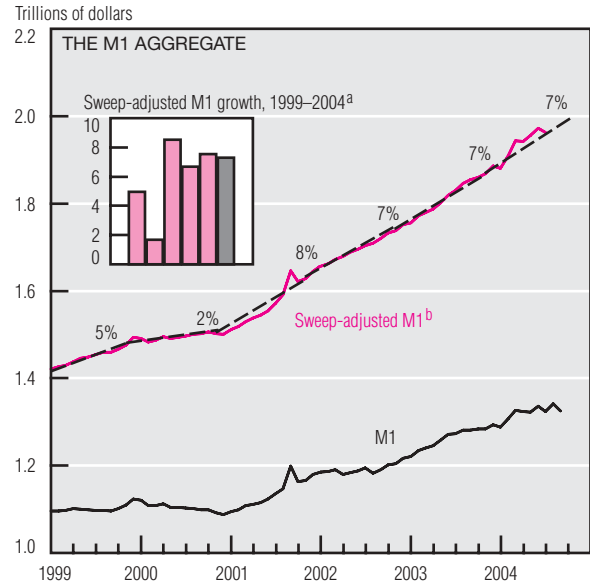
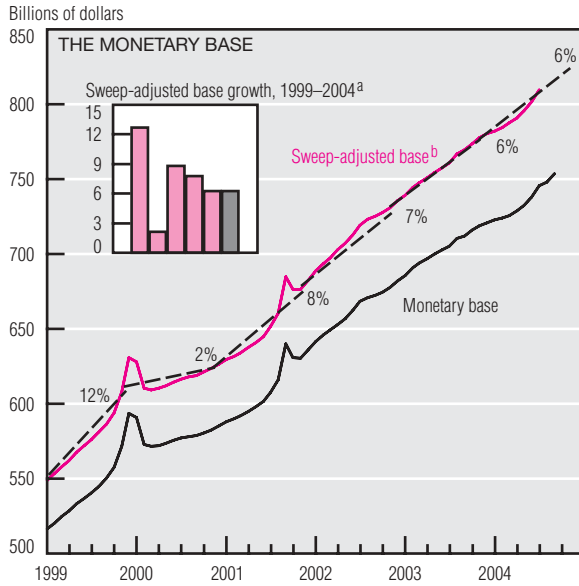


Monetary Policy



Growth Rates of Monetary Components (percent)

	Annual					Average,	
	1999	2000	2001	2002	2003	YTD 2004	1999–2003
Monetary base ^c	12.7	2.1	8.8	7.8	6.2	6.3	7.5
M1 ^c	5.0	1.7	8.5	6.7	7.5	7.3	5.9
M2	6.2	6.1	10.2	6.7	5.3	4.7	6.9
Currency Total	11.1	4.3	9.1	8.2	5.9	5.4	7.7
reserves	-7.2	-6.2	8.7	-6.6	8.2	7.7	-0.6
Cumulative sweeps	15.6	11.9	12.6	15.3	9.8	13.8	13.0
Check and demand ^d	-4.8	-6.8	5.2	-1.5	7.3	1.7	-0.1
Money market funds	13.6	11.4	7.8	-6.5	-11.6	-11.9	2.9
Small time deposits	-0.7	9.6	-5.0	-9.1	-9.3	-2.8	-2.9
Savings deposits	10.1	6.7	21.7	21.1	15.2	11.4	15.0

a. The far-right bar refers to the most recent data available. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. The 2004 growth rates for the sweep-adjusted monetary base and sweep-adjusted M1 are calculated on a July over 2003:IVQ basis. The 2004 growth rate for M2 is calculated on a September over 2003:IVQ basis. 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. The monetary base and M1 are sweep-adjusted.

d. Refers to demand deposits and other checkable deposits.

SOURCE: 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 increased its annualized year-to-date growth rate to 6.3% in 2004, up sharply from its year-to-date rate of 3.9% in May. This rise brings it closer to its five-year average of 7.5%. Current year-to-date annualized growth is less than 0.1% above 2003. Surprisingly, sweep-adjusted base growth increased slightly despite declines in total reserves growth (8.2% in 2003 and 7.7% currently) and currency

growth (5.9% in 2003 and 5.4% currently). The cause is strong growth in cumulative sweeps—13.8% currently and 9.8% in 2003.

M1 (currency in the hands of the public plus demand and other checkable deposits) is a slightly broader monetary aggregate. So far in 2004, sweep-adjusted M1 has had an annualized year-to-date growth rate of 7.3%, down slightly from the 7.5% growth it registered in 2003, and higher than its five-year average of 5.9%. The slowdown in M1 growth over the past year results primarily from slower growth in

demand deposits and other checkable deposits, which make up nearly half of M1. Their year-to-date annualized growth rate is 1.7%, compared to 7.3% in 2003.

The broader monetary aggregate, M2 has grown 4.7% in 2004 to date, 2.2 percentage points below its 1999–2003 average but only 0.6% less than its growth in 2003. Slower M2 growth resulted from continued decline in retail money market mutual funds. Although the decline in small time deposits also persisted, it has slowed since 2003.