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COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

THE MEMORANDUM HAS BEEN *def.*

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

December 30, 1974

RF

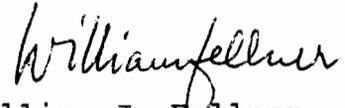
MEMORANDUM FOR THE PRESIDENT

Subject: Weekly Memo on Financial Conditions

Recent developments suggest that the Fed has adopted measures usually resulting in rapid growth rates of monetary aggregates, but the results have been attenuated by repayments of borrowings from the Fed. The fact that banks mainly reduced borrowings instead of expanding loans, investments and hence deposits, and that this was not associated with an upward pressure on interest rates, suggests that the strong growth in loan demands of the early part of the year have now tapered off.



Alan Greenspan
Chairman



William J. Fellner
Member



Some Details

Late in November the Fed changed several required reserve ratios and they estimated that this would "release" about \$750 million reserves for purposes of creating additional bank deposits. Between November 27 and December 25, non-borrowed reserves also increased by \$22 million. These two changes led to the equivalent of an increase in total bank reserves of about \$752 million from November 27 to December 25, which corresponds to an annual rate of increase of about 24 percent. Since banks used virtually all of these additional reserves to pay back borrowings from the Fed, the net effect on deposits and monetary aggregates was much less than that usually developing from such policies.

Some Details
(Optional Reading)

(1) Money Growth. The following figures give numerical content to the statements in the Summary concerning the growth of the money supply.

Percent Changes of Monetary Aggregates,
Seasonally Adjusted Annual Rates

Period	M ₁ (currency plus demand deposits)	M ₂ (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
Past 52 weeks (from average of four weeks ending Dec. 19, 1973 to average of four weeks ending Dec. 18, 1974)	4.9	7.7	10.3
Past 26 weeks (from average of four weeks ending June 19, 1974 to average of four weeks ending Dec. 18, 1974)	3.9	6.7	6.1
Past 13 weeks (from average of four weeks ending Sept. 18, 1974 to average of four weeks ending Dec. 18, 1974)	5.4	7.6	4.2
Past 4 weeks (from average of four weeks ending Nov. 20, 1974 to average of four weeks ending Dec. 18, 1974)	9.6	7.7	12.0

Interest Rates
 (average of daily figures)
 (percent)

Period	U.S. Government			Prime commercial paper 4-6 months	Moody's Aaa bond rate
	3-month bills	3-5 year issues	long term bonds		
August	8.74	8.64	7.33	11.65	9.00
September	8.36	8.38	7.30	11.23	9.24
October	7.24	7.98	7.22	9.36	9.27
November	7.59	7.65	6.93	8.81	8.90
Week ending:					
Dec. 6	7.52	7.46	6.89	9.05	8.90
Dec. 13	7.17	7.16	6.75	8.78	8.87
Dec. 20	7.06	7.06	6.70	9.00	8.85
Dec. 27	6.96	7.17	6.77	9.00	8.90