

Monetary Trends



A New *Monetary Trends*

This is the first issue of the new *Monetary Trends*. The design, similar to *National Economic Trends*, replaces long-familiar growth triangles with more charts of the short- and long-run movements in a larger number of variables. The new *Monetary Trends* also includes additional indicators of the stance of monetary policy, relative to the economy's inflation rate.

Among the new data in *Monetary Trends* are the MZM monetary aggregate, the monetary services index (or MSI), and long-maturity bond yields and inflation rates for other G-7 countries. MZM, equal to the zero-maturity components of M3, replaces M1. The latter has (almost) disappeared from *Monetary Trends* because the widespread use by banks of retail sweep programs makes it impossible to accurately measure checkable deposits. The MSI is an index number which, by treating monetary assets as durable goods and looking to the interest income that is foregone by holding such assets, measures the flow of monetary services that households and firms receive from these assets. Although changes in the MSI and other monetary aggregates tend to look similar when most economic variables are moving smoothly together, they may at other times diverge significantly. The international data, through cross-country comparisons of inflation and interest-rate differentials, furnish an additional perspective on the stance of both U.S. and foreign monetary policy.

Monetary Trends opens on page 3 with a summary of recent monetary and financial conditions. The following six pages display the long- and short-run growth of monetary, reserve and credit aggregates and their principal components, plus the levels of short- and long-term interest rates. Long-run charts generally begin in 1980, when the Monetary Control Act significantly expanded the flow of data to the Federal Reserve from depository institutions; short-run charts usually display the most recent four years of data.

Some new monetary policy indicators are shown on the next two pages. The upper half of page 10 compares, for five alternative long-run inflation targets, the observed federal funds rate to the level implied by John Taylor's 1993 equation summarizing FOMC decision making.* The lower half of the page compares, for the same five inflation targets, actual growth of the adjusted monetary base (including an estimate of the distortion due to retail sweep programs) to that implied by Bennett McCallum's 1988 rule for base growth. Perhaps coincidentally, recent levels of the federal funds rate and growth of the monetary base are almost exactly those implied by the two equations, assuming a 2 percent long-run inflation target.

Several interest rate-based indicators are shown on page 11, including implicit one-year forward rates along the Treasury yield curve, rates on Eurodollar and federal funds futures contracts, and yield spreads between nominal and indexed 5- and 10-year Treasury securities. The Eurodollar chart (first row, right) and the first federal funds chart (second row, left) each trace through time the yield on three specific contracts. Each line in the second federal funds chart (second row, right), displays a single day's snapshot of yields for contracts expiring in the months shown on the horizontal axis; note that open interest is typically small beyond two months ahead.

Despite revision, one feature of *Monetary Trends* has not changed: The data shown, except for those furnished by some international organizations, are available without charge from this Bank by following the instructions at the bottom of page 2. As always, we welcome your comments addressed to: Editor, *Monetary Trends*, Research Division, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis MO 63166, or to webmaster@stls.frb.org.

— Richard G. Anderson

* See technical notes on page 15.

