Liquid asset growth can be a useful tool for understanding the relationship between monetary policy and real economic activity. However, the use of this tool can be complex and requires careful consideration of the underlying economic conditions.

For a more detailed analysis, please refer to the full report available at the Federal Reserve's website.
Definitions

M3: The sum of currency held outside the vaults of depository institutions, Federal Reserve Banks, and the U.S. Treasury; traveler’s checks; and demand and other checkable deposits insured by financial institutions (except demand deposits due to the Treasury and depository institutions), minus cash items in process of collection and Federal Reserve float.

M2M (money, near maturity): M2 minus small-denomination time deposits, plus institutional money market mutual funds, less those included in M2 but excluded from M2.1. The total M2M was coined by William Rotke (1981), as the aggregate itself was proposed earlier by Motley (1981).

M3: M3 plus savings deposits (including money market deposit accounts) and small-denomination (<$100,000) time deposits issued by financial institutions, and shares in retail money market mutual funds (funds with initial investments under $50,000), net of retirement accounts.

M3: M3 plus large-denomination ($100,000 or more) time deposits, repurchase agreements issued by depository institutions, Eurodollar deposits, specifically, dollar-denominated deposits due to nonbank U.S. entities held at foreign offices of U.S. banks worldwide and all banking offices in Canada and the United Kingdom, and institutional money market mutual funds (funds with initial investments of $50,000 or more).

Bank Credit: All loans, leases, and securities held by commercial banks.

Domestic Nonfinancial Debt: Total credit market liabilities of the U.S. Treasury, federally sponsored agencies, state and local governments, households, and nonfinancial firms. End of period basis.

Adjusted Monetary Base: The sum of currency in circulation outside Federal Reserve Banks and the U.S. Treasury, deposits of depository financial institutions at Federal Reserve Banks, and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This series is a revised index; see Anderson and Rasche (1996a, 2003).

Adjusted Reserves: The sum of vault cash and Federal Reserve Bank deposits held by depository institutions and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This revised index is numerically larger than the Board of Governors’ measure, which excludes vault cash not used to satisfy statutory reserve requirements and Federal Reserve Bank deposits used to satisfy required reserves.

Bank Credit: All loans, leases, and securities held by commercial banks.

Monetary Services Index: An index that measures the flow of monetary services received by households and firms from their holdings of liquid assets; see Anderson, Jones, and Neumich (1997). Indexes are shown for the sectors included in M2, with additional data at research.stlouisfed.org/mis/index.html.

Note: M1, M2, M3, Bank Credit, and Domestic Nonfinancial Debt are constructed and published by the Board of Governors of the Federal Reserve System. For details, see Statistical Supplement to the Federal Reserve Bulletin, tables 121 and 130. M3M, Adjusted Monetary Base, Adjusted Reserves, and Monetary Services Index are constructed and published by the Research Division of the Federal Reserve Bank of St. Louis.

Notes

Page 3: Readers are cautioned that, since early 1994, the level and growth of M3 have been depicted by retail sweep programs that redisburse transactions deposits (demand deposits and other checkable deposits) as sweep deposits overnight, thereby reducing banks’ required reserves; see Anderson and Rasche (2003) and research.stlouisfed.org/economic/overview.html.

Primary Credit Rate, Discount Rate, and Intended Federal Funds Rate: Shown in the chart Reserve Market Rates are plotted as of the date of the change, while the Effective Federal Funds Rate is plotted as of the end of the month. Interest rates in the table are monthly averages from the Board of Governors ELStat Statistical Release. The Treasury Yield Curve and Federal Reserve Yield Curve show constant maturity yields calculated by the U.S. Treasury for securities 5, 7, 10, and 20 years to maturity. Inflation-Indexed Treasury Yield Spread: a measure of inflation compensation at those horizons, and it is simply the nominal constant maturity yield less the real constant maturity yield. Daily data and descriptions are available at research.stlouisfed.org/els.

Research Division

Federal Reserve Bank of St. Louis
**Monetary Trends**

**Percent change at an annual rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>M1</th>
<th>M2M</th>
<th>M2</th>
<th>M3*</th>
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<tbody>
<tr>
<td>2005</td>
<td>2.04</td>
<td>2.11</td>
<td>4.25</td>
<td>5.87</td>
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<tr>
<td>2006</td>
<td>0.19</td>
<td>4.34</td>
<td>5.27</td>
<td>4.95</td>
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<tr>
<td>2007</td>
<td>-0.15</td>
<td>9.06</td>
<td>6.02</td>
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</tr>
<tr>
<td>2008</td>
<td>4.40</td>
<td>14.05</td>
<td>7.12</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>14.10</td>
<td>0.53</td>
<td>7.85</td>
<td></td>
</tr>
</tbody>
</table>

- **2008**
  1. 2.63 15.73 7.90
  2. 2.30 13.35 6.05
  3. 8.95 5.03 4.96
  4. 29.93 10.77 14.41

- **2009**
  1. 12.56 17.95 12.43
  2. 10.85 5.84 2.73
  3. 7.50 1.43 1.06
  4. 8.15 0.59 3.71

- **2010**
  1. 3.83 -4.24 0.02
  2. 1.75 -4.80 1.96

**Adjusted Monetary Base**

**Reserve Market Rates**

**Inflation-Indexed Treasury Yield Spreads**

**See table of contents for changes to the series.**
Monetary Trends
updated through 07/20/10

M1
Percent change from year ago

M2
Percent change from year ago

Monetary Services Index - M2**
Percent change from year ago

**We will not update the ISSI series until we revise the code to accommodate the discontinuation of M3.

Federal Primary Prime 3-mo Treasury Yields Corporate Municipal Conventional
Funds Credit Rate Rate CD 3-yr 10-yr AAA Bonds AAA Bonds Mortgage

<table>
<thead>
<tr>
<th>Year</th>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1</td>
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<tr>
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</tr>
</tbody>
</table>

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