Monetary Trends
March 2012

This publication contains charts and tables compiled by the Data Desk staff of the Federal Reserve Bank of St. Louis. The data are related to U.S. monetary and financial conditions, with an emphasis on various measures of the monetary policy stance.

Effective January 2012, all cover pages for the International Economic Trends, Monetary Trends, and National Economic Trends publications have been discontinued. Cover pages are now part of our Economic Synopses series.
Monetary Trends is published monthly by the Research Division of the Federal Reserve Bank of St. Louis. Visit the Research Division’s website at research.stlouisfed.org/publications/mt to download the current version of this publication or register for e-mail notification updates. For more information on data in the publication, please visit research.stlouisfed.org/fred2 or call (314) 444-8590.

On March 23, 2006, the Board of Governors of the Federal Reserve System ceased the publication of the M3 monetary aggregate. It also ceased publishing the following components: large-denomination time deposits, RPs, and eurodollars.
**Monetary Trends**

**M2 and MZM**

Billions of dollars

- MZM
- M2

<table>
<thead>
<tr>
<th>Year</th>
<th>M2</th>
<th>MZM</th>
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<tr>
<td>2012</td>
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**Treasury Yield Curve**

Percent

- Week Ending Friday:
  - 03/04/11
  - 02/03/12
  - 03/02/12

**Adjusted Monetary Base**

Percent change at an annual rate

- 2009: -150
- 2010: -75
- 2011: 0
- 2012: 75

**Real Treasury Yield Curve**

Percent

- Week Ending Friday:
  - 03/04/11
  - 02/03/12
  - 03/02/12

**Reserve Market Rates**

- Effective Federal Funds Rate
- Intended Federal Funds Rate*

**Inflation-Indexed Treasury Yield Spreads**

Percent

- Week Ending Friday:
  - 03/04/11
  - 02/03/12
  - 03/02/12

*Note: Effective December 16, 2008, FOMC reports the Intended Federal Funds Rate as a range. Currently, Intended Federal Funds Rate is not plotted on this chart due to the note above.
Monetary Trends

M1
Percent change from year ago

MZM
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 MSI series until we revise the code to accommodate the discontinuation of M3.
Monetary Trends

**Adjusted Monetary Base**
Percent change from year ago

**Domestic Nonfinancial Debt**
Percent change from year ago

**Currency Held by the Nonbank Public**
Percent change from year ago

**Small Denomination Time Deposits**
Percent change from year ago

**Checkable Deposits**
Percent change from year ago

**Money Market Mutual Fund Shares**
Percent change from year ago

**Savings Deposits**
Percent change from year ago

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Federal Reserve Bank of St. Louis
As of April 10, 2006, the Federal Reserve Board made major changes to its commercial paper calculations. For more information, please refer to http://www.federalreserve.gov/releases/cp/about.htm.
Monetary Trends

Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans

Net Percentage of Domestic Banks Tightening Standards for Commercial Real Estate Loans

Net Percentage of Domestic Banks Tightening Standards for Residential Mortgage Loans

Net Percentage of Domestic Banks Tightening Standards for Consumer Loans

Research Division
Federal Reserve Bank of St. Louis
CPI Inflation and 1-Year-Ahead CPI Inflation Expectations

Percent

The shaded region shows the Humphrey-Hawkins CPI inflation range. Beginning in January 2000, the Humphrey-Hawkins inflation range was reported using the PCE price index and therefore is not shown on this graph.

10-Year Ahead PCE Inflation Expectations and Realized Inflation

Percent

See the notes section for an explanation of the chart.

Treasury Security Yield Spreads

Yield to maturity

Real Interest Rates

Percent, Real rate = Nominal rate less year-over-year CPI inflation

See the notes section for an explanation of the chart.
Monetary Trends

Federal Funds Rate and Inflation Targets

Percent

Calculated federal funds rate is based on Taylor's rule.

Actual and Potential Real GDP

Billions of chain-weighted 2005 dollars

See notes section for further explanation.

Components of Taylor's Rule

PCE Inflation

Percent change from year ago

Monetary Base Growth and Inflation Targets

Percent

Calculated base growth is based on McCallum's rule. Actual base growth is percent change from the previous quarter. Stars represent actual values for 2008:Q4, 2009:Q1, 2009:Q4, 2011:Q1, 2011:Q2 and are 188.02 percent, 60.74 percent, 56.52 percent, 45.94 percent, and 58.74 percent, respectively.

Components of McCallum's Rule

Monetary Base Velocity Growth

Recursive Average

Real Output Growth

10-Year Moving Average

Quarter to Quarter Growth Rate
Monetary Trends

Implied One-Year Forward Rates

Rates on 3-Month Eurodollar Futures

Rates on Selected Federal Funds Futures Contracts

Rates on Federal Funds Futures on Selected Dates

Inflation-Indexed Treasury Securities

Inflation-Indexed Treasury Yield Spreads

Inflation-Indexed 10-Year Government Notes

Inflation-Indexed 10-Year Government Yield Spreads

Note: Data is temporarily unavailable for the French and U.K. 10-Year Notes and Government Yield Spreads.
Monetary Trends

Velocity
Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)

Interest Rates
Percent

MZM Velocity and Interest Rate Spread
Ratio Scale

M2 Velocity and Interest Rate Spread
Ratio Scale

Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)

Interest Rate Spread = 3-Month T-Bill less MZM Own Rate

1974Q1 to 1993Q4
1994Q1 to present

Interest Rate Spread = 3-Month T-Bill less M2 Own Rate

1974Q1 to 1993Q4
1994Q1 to present
Monetary Trends

Gross Domestic Product
Percent change from year ago

Dashed lines indicate 10-year moving averages.

Real Gross Domestic Product
Percent change from year ago

Dashed lines indicate 10-year moving averages.

Gross Domestic Product Price Index
Percent change from year ago

Dashed lines indicate 10-year moving averages.

M2
Percent change from year ago

Dashed lines indicate 10-year moving averages.
Recent Inflation and Long-Term Interest Rates

<table>
<thead>
<tr>
<th>Consumer Price Inflation Rates</th>
<th>Long-Term Government Bond Rates</th>
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<tbody>
<tr>
<td>Percent change from year ago</td>
<td>Percent</td>
</tr>
<tr>
<td>2011Q1 2011Q2 2011Q3 2011Q4</td>
<td>Nov11  Dec11  Jan12  Feb12</td>
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<tr>
<td>United States</td>
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<tr>
<td>Canada</td>
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<td>France</td>
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<td>Germany</td>
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<td>Italy</td>
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<tr>
<td>Japan</td>
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<td>United Kingdom</td>
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Inflation and Long-Term Interest Rate Differentials

- Inflation differential = Foreign inflation less U.S. inflation
- Long-term rate differential = Foreign rate less U.S. rate
### Money Stock

<table>
<thead>
<tr>
<th>Year</th>
<th>M1</th>
<th>M2</th>
<th>M3*</th>
<th>Bank Credit</th>
<th>Adjusted Monetary Base</th>
<th>Reserves</th>
<th>MSI M2**</th>
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<tr>
<td>2007</td>
<td>1372541</td>
<td>763690</td>
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<td>2008</td>
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<td>7816148</td>
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<td>232564</td>
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<td>2009</td>
<td>1637303</td>
<td>9543962</td>
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<td>2010</td>
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<th>Reserves</th>
<th>MSI M2**</th>
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<th>Adjusted Monetary Base</th>
<th>Reserves</th>
<th>MSI M2**</th>
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<tr>
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<tr>
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Note: All values are given in billions of dollars. *See table of contents for changes to the series.

**We will not update the MSI series until we revise the code to accommodate the discontinuation of M3.
### Monetary Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>3-mo Rates</th>
<th>10-yr Yields</th>
<th>3-mo Yields (3-yr)</th>
<th>10-yr Yields (3-yr)</th>
<th>10-yr Yields (10-yr)</th>
<th>3-mo Yields (10-yr)</th>
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<tr>
<td>2007</td>
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<td>0.18</td>
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### 2009

<table>
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<tr>
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### 2010

<table>
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<th>Year</th>
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<th>10-yr Yields (3-yr)</th>
<th>10-yr Yields (10-yr)</th>
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### 2011

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Note: All values are given as a percent at an annual rate.
### Percent change at an annual rate

<table>
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<th>MZM</th>
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<td>Feb</td>
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<td>Oct</td>
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<td>2012 Jan</td>
<td>30.17</td>
<td>15.08</td>
<td>15.68</td>
<td></td>
</tr>
</tbody>
</table>

*See table of contents for changes to the series.*
Definitions

M1: 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 issued by financial institutions (except demand deposits due to the Treasury and depository institutions), minus cash items in process of collection and Federal Reserve float.

M2: M1 plus savings deposits (including money market deposit accounts) and small-denomination (under $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: M2 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. addresses 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 nonprofit organizations. 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 spliced chain index; see Anderson and Rasche (1996a,b, 2001, 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 spliced chain 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 clearing balance contracts; see Anderson and Rasche (1996a, 2001, 2003).

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 Nisemith (1997). Indexes are shown for the assets included in M2, with additional data at research.stlouisfed.org/msi/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 1.21 and 1.26. M2M, Adjusted Monetary Base, Adjusted Reserves, and Monetary Services Index are spliced chain indices as described in Anderson and Rasche (1996b, 2001, 2003).

Page 5: Checkable Deposits is the sum of demand and other checkable deposits. Savings Deposits is the sum of money market deposit accounts and savings deposits. Time Deposits have a minimum initial maturity of 7 days. Retail Money Market Mutual Funds are included in M2.

Page 6: Excess Reserves plus RCB (Required Clearing Balance) Contracts equals the amount of deposits at Federal Reserve Banks held by depository institutions but not applied to satisfy statutory reserve requirements. This measure excludes the vault cash held by depository institutions that is not applied to satisfy statutory reserve requirements. Consumer Credits includes most short- and intermediate-term credit extended to individuals. See Statistical Supplement to the Federal Reserve Bulletin, table 1.55.

Page 7: Data are reported in the Senior Loan Officer Opinion Survey on Bank Lending Practices.

Page 8: Inflation Expectations measures include the quarterly Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, the monthly University of Michigan Survey Research Center’s Surveys of Consumers, and the annual Federal Open Market Committee (FOMC) range as reported in the Congress in the February testimony that accompanies the Monetary Policy Report to the Congress. Beginning February 2000, the FOMC began using the personal consumption expenditures (PCE) price index to report its inflation range; the FOMC then switched to the PCE chain-type price index excluding food and energy prices (“core”) beginning July 2004. Accordingly, neither are shown on this graph. CPI Inflation is the percentage change from a year ago in the consumer price index for all urban consumers. Real Interest Rates are ex post measures, equal to nominal rates minus year-over-year CPI inflation.

From 1991 to the present the source of the long-term PCE inflation expectations data is the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters. Prior to 1991, the data were obtained from the Board of Governors of the Federal Reserve System. Realized (actual) inflation is the annualized rate of change for the 40-quarter period that corresponds to the forecast horizon (the expectations measure). For example, in 1965:Q1, annualized PCE inflation over the next 40 quarters was expected to average 1.7 percent. In reality, the average annualized rate of change measured 4.8 percent from 1965:Q1 to 1975:Q1. Thus, the vertical distance between the two lines in the chart at any point is the forecast error.

Page 9: FOMC Intended Federal Funds Rate is the level (or midpoint) of the Federal Reserve’s target for the federal funds rate that the staff of the FOMC expected to be consistent with the desired degree of pressure on bank reserve positions. In recent years, the FOMC has set an explicit target for the federal funds rate.

Page 10: Federal Funds Rate and Inflation Targets shows the observed federal funds rate, quarterly, and the level of the funds rate implied by applying Taylor’s (1993) equation

\[ f_t = \pi_t - \pi_{t-1} + (\pi_{t-1} - \pi^*)/2 + 100 \times (\gamma_{t-1} - \gamma - \pi^*)/2 \]

to five alternative target inflation rates, \( \pi^* = 0, 1, 2, 3, 4 \) percent, where \( f_t \) is the implied federal funds rate, \( \pi_{t-1} \) is the previous period’s inflation rate (PCE) measured on a year-over-year basis, \( \gamma_{t-1} \) is the log of the previous period’s level of real gross domestic product (GDP), and \( \gamma - \pi^* \) is the log of an estimate of the previous period’s level of potential output. Potential Real GDP is estimated by the Congressional Budget Office (CBO).

Monetary Base Growth and Inflation Targets shows the quarterly growth of the adjusted monetary base implied by applying McCallum’s (2000, p. 52) equation

\[ \Delta \lambda_t = \Delta \lambda_{t-1} + (\Delta \lambda_{t-1} - \Delta \lambda^*) \]

\[ \Delta \lambda^* = \pi' + \Delta \gamma \]

to five alternative target inflation rates, \( \pi' = 0, 1, 2, 3, 4 \) percent, where \( \Delta \lambda_t \) is the implied growth rate of the adjusted monetary base, \( \Delta \lambda_t \) is the 10-year nominal constant maturity yield less the real constant maturity yield. Daily data and descriptions are available at research.stlouisfed.org/fred2. See also Statistical Supplement to the Federal Reserve Bulletin, table 1.35. The 30-year constant maturity series was discontinued by the Treasury as of February 18, 2002.
moving average growth in real GDP, \( \Delta v_t^m \) is the average base velocity growth (calculated recursively), \( \Delta v_{t-1} \) is the lag growth rate of nominal GDP, and \( \lambda = 0.5 \).

Page 11: Implied One-Year Forward Rates are calculated by this Bank from Treasury constant maturity yields. Yields to maturity, \( R(m) \), for securities with \( m = 1, \ldots, 10 \) years to maturity are obtained by linear interpolation between reported yields. These yields are smoothed by fitting the regression suggested by Nelson and Siegel (1987),

\[
R(m) = \alpha_0 + (\alpha_1 + \alpha_2)(1 - e^{-m/50})(m/50) - \alpha_2 e^{-m/50},
\]

and forward rates are calculated from these smoothed yields using equation (a) in table 13.1 of Shiller (1990),

\[
f(m) = \left[ D(m) R(m) - D(m-1) \right] / \left[ D(m) - D(m-1) \right],
\]

duration is approximated as \( D(m) = (1 - e^{-R(m) \times m})/R(m) \). These rates are linear approximations to the true instantaneous forward rates; see Shiller (1990). For a discussion of the use of forward rates as indicators of inflation expectations, see Sharpe (1997).

Rates on 3-Month Eurodollar Futures and Rates on Selected Federal Funds Futures Contracts trace through time the yield on three specific contracts. Rates on Federal Funds Futures on Selected Dates displays a single day’s snapshot of yields for contracts expiring in the months shown on the horizontal axis. Inflation-Indexed Treasury Securities and Yield Spreads are those plotted on page 3. Inflation-Indexed 10-Year Government Notes shows the yield of an inflation-indexed note that is scheduled to mature in approximately (but not greater than) 10 years. The current French note has a maturity date of 7/25/2015, the current U.K. note has a maturity date of 4/16/2020, and the current U.S. note has a maturity date of 11/15/2020. Inflation-Indexed Treasury Yield Spreads and Inflation-Indexed 10-Year Government Yield Spreads equal the difference between the yields on the most recently issued inflation-indexed securities and the unadjusted security yields of similar maturity.

Page 12: Velocity (for MZM and M2) equals the ratio of GDP, measured in current dollars, to the level of the monetary aggregate. MZM and M2 Own Rates are weighted averages of the rates received by households and firms on the assets included in the aggregates. Prior to 1982, the 3-month T-bill rates are secondary market yields. From 1982 forward, rates are 3-month constant maturity yields.

Page 13: Real Gross Domestic Product is GDP as measured in chained 2000 dollars. The Gross Domestic Product Price Index is the implicit price deflator for GDP, which is defined by the Bureau of Economic Analysis, U.S. Department of Commerce, as the ratio of GDP measured in current dollars to GDP measured in chained 2005 dollars.

Page 14: Inflation Securities are all securities held by commercial banks in both investment and trading accounts.

Page 15: Inflation Rate Differentials are the differences between the foreign consumer price inflation rates and year-over-year changes in the U.S. all-items Consumer Price Index.

Page 17: Treasury Yields are Treasury constant maturities as reported in the Board of Governors of the Federal Reserve System’s H.15 release.

Sources

Agence France Trésor: French note yields.
Bank of Canada: Canadian note yields.
Board of Governors of the Federal Reserve System:

Bureau of Economic Analysis: GDP.
Bureau of Labor Statistics: CPI.
Chicago Board of Trade: Federal funds futures contract.
Chicago Mercantile Exchange: Eurodollar futures.
Congressional Budget Office: Potential real GDP.
Federal Reserve Bank of St. Louis: Adjusted monetary base and adjusted reserves, monetary services index, MZM own rate, one-year forward rates.
Organization for Economic Cooperation and Development: International interest and inflation rates.
Standard & Poor’s: Stock price-earnings ratio, stock price composite index.
University of Michigan Survey Research Center: Median expected price change.


References


Note: *Available on the Internet at research.stlouisfed.org/publications/review/.