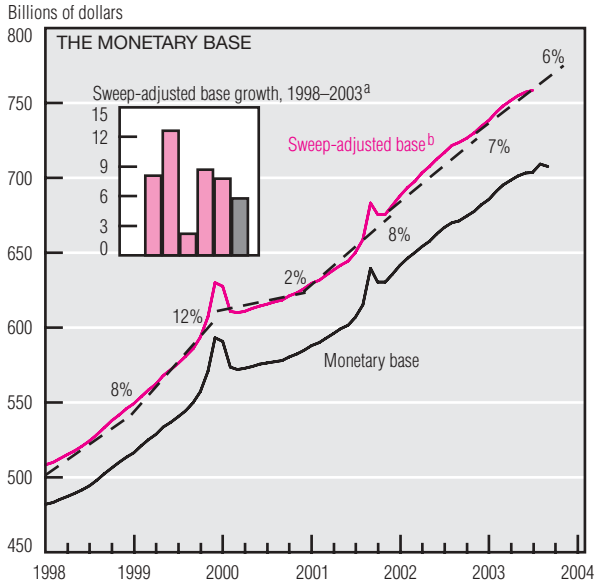
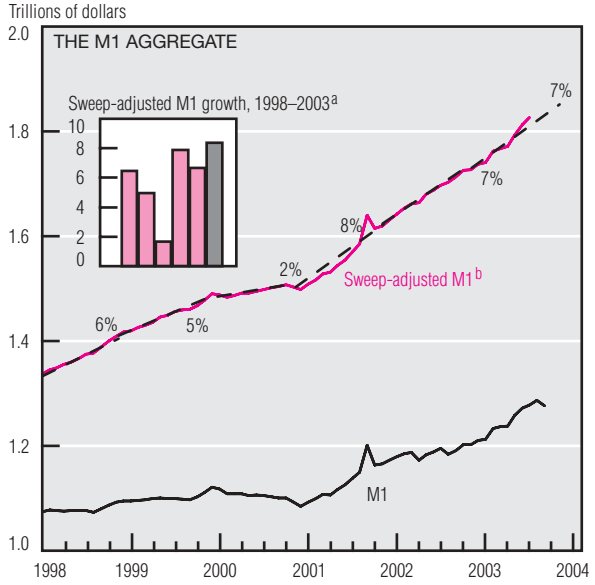
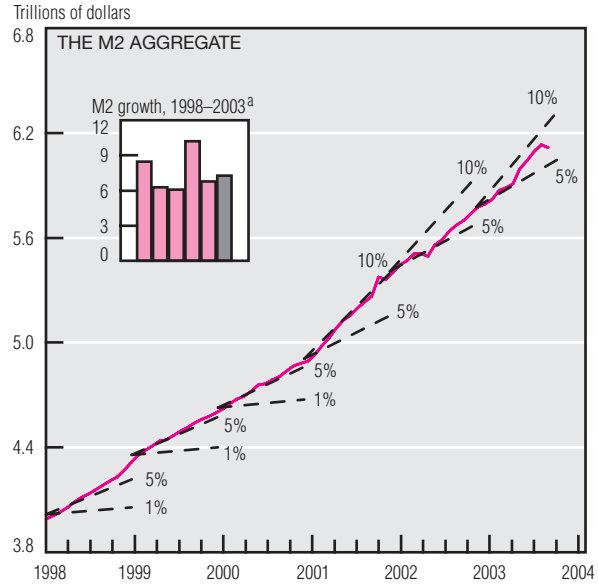
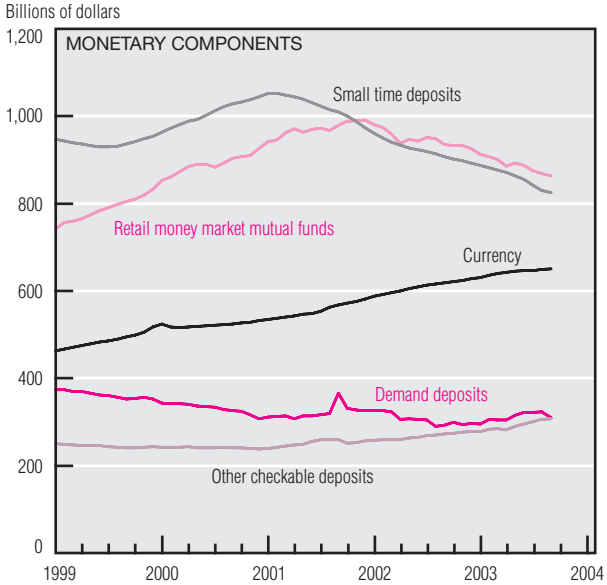
Monetary Policy









a. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. The 2003 growth rates for the sweep-adjusted monetary base and sweep-adjusted M1 are calculated on a July over 2002:IVQ basis. The 2003 growth rate for M2 is calculated on a September over 2002: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.
SOURCE: Board of Governors of the Federal Reserve System, "Money Stock Measures," *Federal Reserve Statistical Releases*, H.6.

Growth in the monetary base (total currency in circulation plus the sum of total reserves and depository institutions' vault cash that is not applied to reserve requirements) moderated to an annualized 5.7% rate between January and September, far below its five-year average of 7.9%. The decline in base growth resulted mainly from currency growth's 3-percentage-point drop from its five-year average of 8.2%. This more than offset total reserves' 15.9% year-to-date growth.

M1, another narrow monetary aggregate, consists of currency in the hands of the public plus demand and other checkable deposits. Its year-to-date annualized growth rate of 8.4% was roughly 2.8 percentage points above its five-year average. The accelerated growth of M1 resulted primarily from a sharp increase in demand deposits and other checkable deposits, whose year-to-date annualized growth rates were 10 percentage points above their five-year averages. The main causes of this growth were the surge in home refinancing activity and the decline in M1 opportunity cost.

M2 grew more slowly than M1 because the broader aggregates are affected primarily by economic activity, which has been sluggish for the past couple of years. This slower growth resulted from declines in retail money market mutual funds (8.5%) and small time deposits (9.8%), which partly offset the rise in M1 growth and the 18.3% advance in savings deposits. However, M2 growth accelerated from 6.8% in 2002 to 7.3% in 2003 so far, reflecting the recent economic recovery.