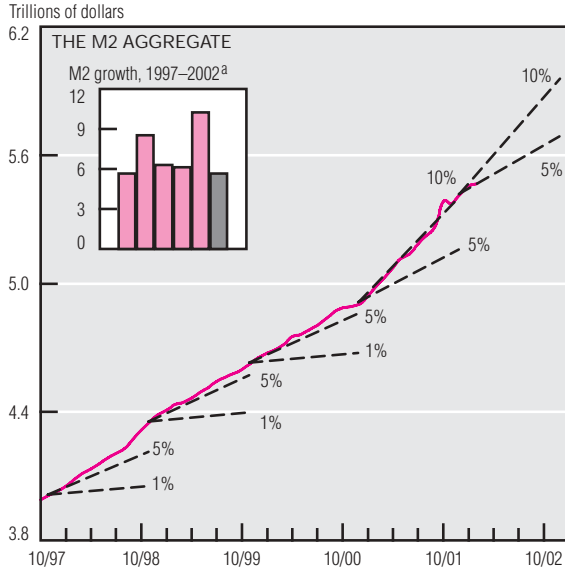
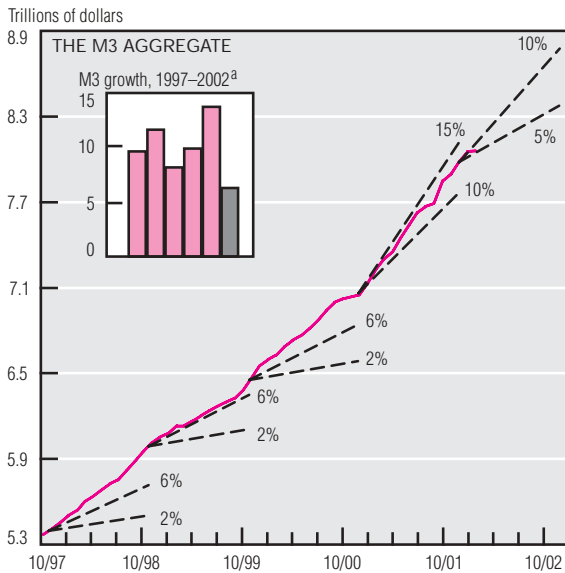


# Money and Financial Markets



Component	Percent of M2	Percent of change
M1	21.6	14.8
Savings deposits	41.8	80.3
Small time deposits	18.2	-10.6
Retail money market mutual funds	18.4	15.5



Component	Percent of M3	Percent of change
M2	67.9	54.9
Large time deposits	10.0	-1.6
Repurchase liabilities	7.4	3.7
Institutional money market mutual funds	14.7	42.9

NOTE: Last plots for M2 and M3 are January 2002. Prior to November 2000, dotted lines for M2 and M3 are FOMC-determined provisional ranges. Subsequent dotted lines represent growth in levels and are for reference only.  
 a. Growth rates are percentage rates calculated on a fourth-quarter over fourth-quarter basis. Data are seasonally adjusted. The 2002 growth rates for M2 and M3 are calculated on a January over 2001:IVQ basis. Data are seasonally adjusted.  
 SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, "Money Stock and Debt Measures," H.6.

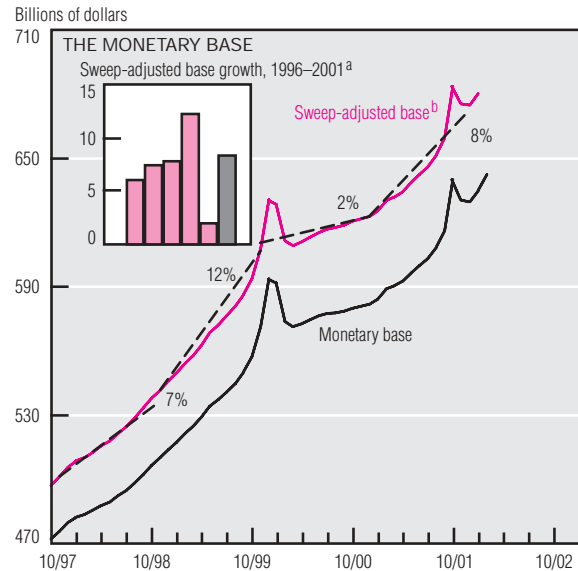
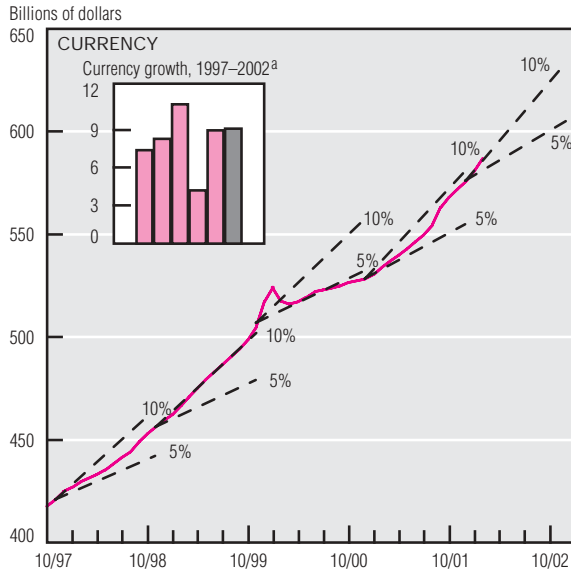
Growth in the broad monetary aggregates appears to have slowed considerably during January 2002. However, as we have cautioned in past issues of this publication, year-to-date growth rates need careful interpretation. In January 2002, M2 grew 5.7% year-to-date at an annual rate, seemingly much slower than its year-to-date growth rate for December 2001 (10.2%). However, the latter incorporates information from the previous year and averages across both fast-

and slow-growing months. If the January growth rate were calculated over a like time span, it would be clear that although M2 growth did slow in January, it declined only about half a percentage point to 9.7%. This caution applies equally to M3 growth (6.0% annualized year-to-date for January 2002). That said, how do we account for the rapid growth in the monetary aggregates during 2001? Most of the increase in M2 (80%) can be directly

linked to an increase in savings deposits. This surge has several causes, one of the most significant being the rapid decline in short-term rates. Savings deposit rates typically respond more slowly than other rates over the business cycle, a quality that makes them more attractive than others when rates are falling. In addition, some mutual fund providers began offering sweep arrangements. This strategy involves transferring funds from mutual funds to savings

(continued on next page)

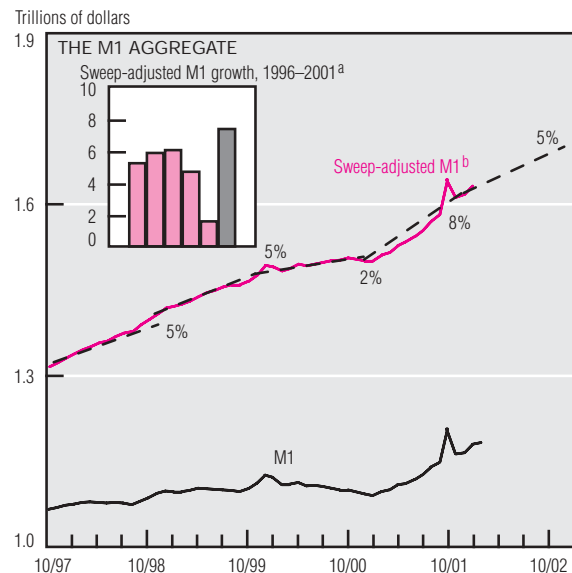
# Money and Financial Markets (cont.)



Changes in the Monetary Base, 2000:IVQ–2001:IVQ		
Component	Percent of M2	Percent of change
Currency	91.2	96.8
Total reserves	1.9	7.1
Surplus vault cash	6.7	–2.5

Changes in M1, 2000:IVQ–2001:IVQ		
Component	Percent of M2	Percent of change
Currency	49.3	63.9
Travelers' checks	0.7	–0.3
Demand deposits	28.1	16.4
Other checkable deposits	21.9	19.9



NOTE: Last plots for the monetary base, currency, and M1 are January 2002. Last plots for the sweep-adjusted base and sweep-adjusted M1 are December 2001. Dotted lines represent growth rates and are for reference only.

a. Growth rates are percentage rates calculated on a four-quarter over fourth-quarter basis. The 2002 growth rate for currency is calculated on a January over 2001:IVQ basis. Data are seasonally adjusted.

b. Sweep-adjusted M1 contains an estimate of balances temporarily moved from M1 to non-M1 accounts. The sweep-adjusted base contains an estimate of required reserves saved when balances are shifted from reservable to nonreservable accounts.

SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Releases*, "Money Stock and Debt Measures," H.6, and "Aggregate Reserves of Depository Institutions," H.3.

deposits at banks in order to take advantage of FDIC insurance. In 2001, M3 growth was split between M2 (55%) and institutional money market mutual funds (43%).

Turning to narrower measures of money, both currency and the sweep-adjusted monetary base grew robustly during 2001. Currency growth in the first half of 2001 was comparable to that experienced in 2000, but it accelerated in the second half of last year. As one would expect,

currency growth was strongest in 2001:IIIQ, but monthly growth actually peaked in August—before the terrorist attacks. Because currency constituted more than 90% of the monetary base and accounted for 97% of its increase, it is no surprise that base growth followed a similar pattern, although monthly base growth did peak in September. Unlike M2 and M3, currency grew at nearly the same rate in January 2002 (9.2% annualized year-to-date) as it

did over the course of 2001. Although December sweeps data are the most recent available, it is quite likely that the sweep-adjusted base will do likewise.

Currency also makes up about half of the M1 monetary aggregate and was responsible for about 60% of its change in 2001. The remainder of the increase in M1 was split between demand deposits and other checkable deposits, which account for roughly equal shares of the aggregate.