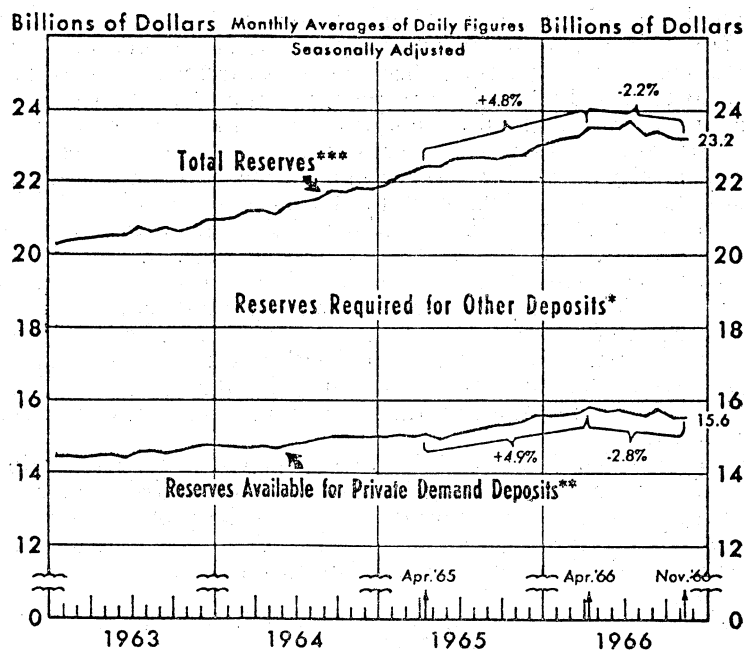


during 1965 and early 1966. To the extent that actual cash balances exceed desired cash balances, upward pressures are placed on spending. Evidence indicates that changes in the rate of spending have usually followed marked and sustained changes in the rate of growth of the money stock after a few months' lag.⁴ The decline in money since April has probably exerted a restraining influence on aggregate demand in late 1966.

The demand deposit component of money has declined at a 3-percent annual rate since spring following a 5-percent rate rise from mid-1964 to spring 1966. By contrast, the currency component has increased at a 4-percent rate since spring compared with a 6-percent rate in the preceding period. The amount of currency held is probably related to the volume of transactions which typically utilize currency. Changes in the rate of growth of currency have tended to coincide with movements in total spending or to lag slightly behind them. Rates of growth of demand deposits have been related to changes in member bank reserves available for private demand deposits. Marked and sustained changes in the growth rates of demand deposits have usually preceded changes in economic activity.⁵

Changes in the money stock have reflected in large measure changes in member bank reserves. Member bank reserves (adjusted for

Reserves of Member Banks



*U.S. Government demand deposits, deposits due to domestic commercial banks, and time and savings deposits.

**Deposits of member banks included in the usual definition of the money supply.

***Adjusted for estimated effect of reserve requirement changes.

Percentages are annual rates of change between months indicated.

Latest data plotted: November preliminary

⁴ See "Money Supply and Time Deposits, 1914-1964," in the September 1964 issue of this *Review*.

⁵ See "Currency and Demand Deposits," in this *Review*, March 1965.