FEDERAL RESERVE

press release

For immediate release

August 21, 1972

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on May 23, 1972.

Such records are made available approximately 90 days after the date of each meeting of the Committee and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based on the information that was available to the Committee at the time of the meeting, rather than on data as they may have been revised since then.

Attachment

CONFIDENTIAL (FR)

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on May 23, 1972

Current Economic Policy Directive

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 5.6 per cent in the first quarter--about the same rate as in the fourth quarter of 1971--and growth appeared to be accelerating in the current quarter. Staff projections suggested that the growth rate would increase further in the second half of 1972.

In April industrial production rose at a faster pace than earlier in the year, reflecting widespread gains in output among consumer goods, business equipment, and materials. Employment in manufacturing and other nonfarm establishments continued to expand, and the average factory workweek increased sharply. However, the unemployment rate remained at 5.9 per cent. According to the advance report, retail sales declined in April--following an upsurge in March--but they remained well above the monthly average in the first quarter. Housing starts continued to fall from the extraordinary high reached in February, although part of the reported decline for April may have reflected statistical problems.

Wholesale prices of farm and food products, which had declined in March, were about unchanged in April, but prices of industrial commodities continued to rise at the substantial rate of the preceding 4 months. The consumer price index rose somewhat, after having been stable in March; over the 2 months, retail prices of foods changed little. The advance in average hourly earnings of production workers on private nonfarm payrolls remained fairly rapid.

Staff projections continued to suggest that growth in real GNP would accelerate in the current quarter, with a step-up in inventory accumulation from a very low rate in the first quarter now expected to account for a part of the acceleration. Consumer spending, which had increased more in the first quarter than had been estimated earlier, was expected to continue upward at a substantial rate; such spending would be buoyed by a larger gain in disposable income than in the first quarter when a sizable increase in personal income tax payments under the new withholding schedules had dampened the rise. It was anticipated that business capital outlays would continue to increase, but at a less rapid pace than in the first quarter, and that the rise in residential construction outlays would slow.

Projections for the second half of the year, like those of 5 weeks earlier, suggested some further rise in the rate of real GNP growth. It was still anticipated that disposable income and consumption expenditures would increase at a faster pace, that business capital outlays and inventory investment would continue to expand, and that net exports would improve. On the other hand, it was expected that the expansion in Federal outlays would slow--although not to the extent that had been suggested in the previous projections--and that residential construction outlays would level off.

Exchange rates for the dollar against most major foreign currencies had changed little since mid-March. The U.S. balance of payments on the official settlements basis had been in slight surplus, reflecting an inflow of private capital, especially short-term, to the United States; this was in contrast with the heavy deficit recorded in the first 2-1/2 months of 1972 when private capital on balance had flowed out. The payments balance on the net liquidity basis apparently had remained in deficit in recent weeks, although the deficit was greatly reduced by the inflow of capital. In March the deficit in merchandise trade remained large.

The Treasury announced on April 26 that in its mid-May financing it would refund only $1.75 billion of the $2.4 billion in publicly held debt maturing on May 15 and that it would redeem the balance for cash. In the refunding the Treasury auctioned $1.25 billion of a 1-year note, at an average price to yield 4.44 per cent, and $500 million more of a bond maturing in February 1982, at an average price to yield 6.29 per cent. It was thought possible that the Treasury would undertake an advance refunding in the interval before the next meeting of the Committee.

Market interest rates generally had fluctuated in a narrow range since the Committee's meeting on April 18. Early in the period short- and long-term rates had edged down, partly in response to indications that Treasury cash borrowings in the second half of the year would be less than had been anticipated. Moreover, the combined volume of new corporate and State and local government bonds publicly issued had declined somewhat in April and appeared likely to decline further in May. Toward the end of the period, however, interest rates--especially short-term rates--had tended upward again partly in response to some firming in money market conditions and to three Treasury auctions of bills in a short period of time. The market rate on 3-month bills was 3.79 per cent on the day before this meeting, compared with a low of 3.42 per cent in early May and 3.85 per cent on the day before the April meeting.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages rose somewhat in April; in both cases the increases were the first in many months. Inflows of savings funds to nonbank thrift institutions slowed, but they remained at a relatively advanced pace.

At commercial banks, business loans outstanding expanded in April at a faster pace than in the first quarter, and real estate and consumer loans continued to grow rapidly. Banks added only a small amount to their holdings of Government securities and reduced slightly their holdings of other securities; in the first quarter, they had added substantial amounts of both.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) slowed to an annual rate of about 8 per cent in April from an average rate of about 12 per cent in February and March. Inflows of savings funds to commercial banks continued to slacken, and growth in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) also moderated to a rate of about 8 per cent, from an average rate of 13 per cent in February and March. However, expansion in the bank credit proxy--daily-average member bank deposits, adjusted to include funds from nondeposit sources--remained rapid, reflecting increases in both U.S. Government deposits and the volume of large-denomination CD's outstanding.

System open market operations since the April 18 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD) at an annual rate in the April-May period of 7 to 11 per cent and growth in the monetary aggregates at somewhat more moderate rates than earlier, while at the same time avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that RPD would actually grow over the April-May period at an annual rate of 7.5 per cent. Since the April meeting the Federal funds rate had continued to fluctuate around the 4-1/4 per cent level reached in early April. Member bank borrowings averaged about $115 million in the 5 weeks ending May 17 compared with about $105 million the preceding 4 weeks.

In pursuit of its open market objectives, the System needed to provide fewer reserves than it would otherwise have provided because a large amount of reserves was supplied by a reduction in the Treasury's balance at the Federal Reserve Banks and by the monetization of the gain in the dollar value of the gold stock that resulted from the recent increase in the U.S. official price of gold.

In late April the System met temporary needs for reserves by making repurchase agreements with nonbank dealers; interest rates on those agreements were established by competitive bidding, in accordance with a Committee decision on April 17, 1972. In this initial use of the experimental auction procedure, no major difficulties were encountered.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at rates somewhat slower than those recorded in recent months. After taking account of recent changes in deposits and lagged reserve requirements, the Committee decided to seek growth in RPD at an annual rate in a range of 7.5 to 11.5 per cent during the May-June period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. It was recognized that growth in RPD within that range might be associated with some firming of money market conditions. The members also decided that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected and that account should be taken of capital market developments and possible Treasury refunding. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting, including recent data for such measures of business activity as industrial production and employment, suggests that real output of goods and services may be growing at a faster rate in the current quarter than in the two preceding quarters, but the unemployment rate remains high. In April wholesale prices of farm and food products changed little--after having declined in March--but the rise in prices of industrial commodities remained substantial. The consumer price index, which had been stable in March, increased somewhat. Wage rates continued to rise at a substantial pace. The U.S. balance of payments on the official settlements basis has been in small surplus since mid-March, but the payments balance on the net liquidity basis has apparently remained in deficit. In March merchandise imports continued to be considerably in excess of exports.

Growth in both the narrowly and broadly defined money stock slowed in April from the rapid rates in February and March. Inflows of savings funds to nonbank thrift institutions also slowed, but they remained at a relatively advanced pace. Reflecting a further increase in U.S. Government deposits and a rise in the outstanding volume of large-denomination CD's, the bank credit proxy continued to expand at a rapid rate. In recent weeks, market interest rates have fluctuated in a narrow range.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of capital market developments and possible Treasury refunding, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat slower growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Sheehan, and Winn. Votes against this action: None.