FEDERAL RESERVE
press release

For immediate release September 18, 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 June 19-20, 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

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on June 19-20, 1972[1/]

Current economic policy directive

The information reviewed at this meeting suggested that real output of goods and services was rising in the second quarter at a faster pace than the 5.6 per cent annual rate recorded in the first quarter. A moderately higher rate of growth appeared to be in prospect for the rest of 1972.

In May retail sales increased sharply, according to the advance report, and were well above the first-quarter average. Industrial production continued to expand, with gains reported among consumer goods, business equipment, and materials. Payroll employment rose substantially further in manufacturing and other nonfarm establishments, but because of another large addition to the civilian labor force, the unemployment rate remained at 5.9 per cent.

Wholesale prices of farm and food products rose considerably in May, following little change in April, and prices of industrial commodities continued upward at about the average rate of earlier

1/ This meeting was held over a 2-day period beginning on the afternoon of June 19, 1972, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

months this year. Average hourly earnings of production workers on private nonfarm payrolls advanced at a slower pace than they had in the preceding 3 months.

The latest staff projections of real GNP for the second half of 1972, which suggested some further increase in the over-all rate of expansion, were similar to those of 4 weeks earlier. It was anticipated that disposable income and consumption expenditures would rise at a somewhat faster pace; that business capital outlays would continue to expand, although not so rapidly as had been suggested in the previous projections; and that inventory investment would increase appreciably. It was expected that Federal purchases of goods and services would expand moderately further and that residential construction would level off.

In foreign exchange markets, speculation involving a number of European currencies had developed since the last meeting of the Committee. The exchange rate for sterling against the dollar had declined significantly while rates for most continental currencies had risen; the spread between sterling and several other currencies had widened to the maximum specified under the European Community monetary agreement. Through early June the U.S. balance of payments was in surplus on both the official settlements basis and the net liquidity basis, as recorded and unrecorded inflows of short-term capital to the United States continued to exceed the deficit on current and long-term capital account. The excess of merchandise imports over exports in April, however, had been even larger than in February and March.

Since the Committee's meeting on May 23, market interest rates on both short- and long-term securities had fluctuated in a narrow range--declining somewhat early in the period and rising again later. Rates had edged down in late May in part because of a Treasury decision not to refund $1.2 billion of bonds maturing on June 15 and expectations in the market that the Treasury would not borrow new funds until late July. Moreover, the combined volume of new publicly issued corporate and State and local government bonds had declined somewhat further in May and appeared likely to remain at a reduced level in June. Later in the period rates moved up again, in part because of the effects on investor expectations of reports that suggested further strengthening in economic activity and indications of some firming in money market conditions. Markets for Treasury notes and bonds also were influenced by discussion of the possibility that the Treasury might undertake an advance refunding. The market rate for 3-month Treasury bills was 3.92 per cent on the day before this meeting compared with 3.79 per cent 4 weeks earlier.

Contract interest rates on conventional new-home mortgages were unchanged from April to May while yields in the secondary market for Federally insured mortgages rose slightly. Inflows of savings funds to nonbank thrift institutions continued to moderate.

At commercial banks, business loans outstanding expanded in May at about the stepped-up rate of April, and real estate and consumer loans continued to grow rapidly. Banks also added a substantial amount to their holdings of securities, especially securities of State and local governments.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) slowed further in May. However, inflows of savings funds to commercial banks increased, after having fallen off in the preceding 3 months, and growth stepped up somewhat 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). Over the April-May period, M_1 and M_2 grew at annual rates of about 6 and 8 per cent, respectively, compared with rates of about 9 and 13 per cent in the first quarter of 1972.[1/] Expansion in the bank credit proxy--daily-average member bank deposits, adjusted to include funds from nondeposit sources--remained rapid as banks, especially those experiencing strong demands for business loans, acted aggressively to increase the volume of large-denomination CD's outstanding.

System open market operations since the May 23 meeting of the Committee had been directed at fostering growth in reserves

1/ Based on the change in the daily-average levels from March to May and from December to March.

available to support private nonbank deposits (RPD's) at an annual rate in the May-June period between 7.5 and 11.5 per cent and growth in the monetary aggregates at rates somewhat slower than those recorded earlier this year, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that RPD's would grow over the May-June period at a rate of about 7 per cent. The average Federal funds rate had been slightly below 4-1/2 per cent since the beginning of June, compared with about 4-1/4 per cent in May. In the 4 weeks ending June 14 member bank borrowings had averaged about $115 million, approximately the same as in the preceding 5 weeks.

As at its May meeting, the Committee agreed that the economic situation called for moderate growth in the monetary aggregates over the months ahead. After taking account of recent changes in deposits and the 2-week lag in reserve requirements, the Committee decided to seek growth in RPD's at an annual rate in a range of 4.5 to 8.5 per cent during the June-July period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. As before, it was recognized that pursuit of the objective for RPD's 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 financing. 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, employment, and retail sales, suggests that real output of goods and services is growing at a faster rate in the current quarter than in the two preceding quarters, but the unemployment rate remains high. In May wholesale prices of farm and food products advanced appreciably--after having changed little in April--and the rise in prices of industrial commodities remained substantial. The most recent data suggest some moderation in the pace of advance in wage rates. The U.S. balance of payments has been in surplus in recent weeks on both the official settlements basis and the net liquidity basis. In April, however, the excess of merchandise imports over exports was even larger than in February and March. Some strains have developed in international financial markets recently, involving European currencies.
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> Growth in the narrowly defined money stock slowed further in May, while growth in the broadly defined money stock stepped up somewhat as inflows of consumer-type time and savings deposits to banks expanded considerably; over the April-May period, growth in both measures of the money stock was well below the high rates in the first quarter of the year. The outstanding volume of large-denomination CD's increased substantially further in May, and expansion in the bank credit proxy remained rapid. In recent weeks, market interest rates have continued to fluctuate 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 possible Treasury financing and developments in capital markets, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in the monetary aggregates over the months ahead.

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

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate.)

Subsequent to this meeting, on July 6, 1972, Committee members voted to amend this current economic policy directive by adding a reference to international developments in the final paragraph. As amended, that paragraph read as follows:

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

Votes for this action: Messrs. Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Robertson, Sheehan, Winn, and Treiber. Votes against this action: None.

Absent and not voting: Messrs. Burns, Hayes, and Mitchell. (Mr. Treiber voted as Mr. Hayes' alternate.)

In the 3 days preceding this action, foreign central banks had acquired large amounts of dollars in the process of maintaining exchange rates for their currencies within the internationally agreed margins. The System Account Manager advised that, insofar as the investment of these and any additional funds that might be acquired by the foreign central banks took the form of purchases of U.S. Treasury bills in the market, they would tend to exert downward pressures on bill rates. In the interests of the U.S. balance of payments and international confidence in the dollar, the members decided that open market operations should be conducted with a view to avoiding significant declines in bill rates, insofar as that was consistent with the objectives agreed upon by the Committee on June 20, 1972. Specifically, it was decided that (1) to the extent feasible, reserve additions required to meet the Committee's objectives should be made by means other than purchases of Treasury bills, and (2) foreign official demands for bills, if heavy, should be met to the extent feasible by sales of bills from the System's portfolio, with any undesired reserve effects offset by other means. The members agreed that the directive should be amended to affirm the Committee's intention to authorize such operations.

In casting their affirmative votes, a number of members indicated that while they believed the authorization desirable they thought it should be used with restraint. Mr. Brimmer noted that he favored the action not only on the international grounds cited but also because he thought a significant decline in bill rates would have adverse domestic implications.