FEDERAL RESERVE
press release

For immediate release November 13, 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 August 15, 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 August 15, 1972

Current economic policy directive

Preliminary estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of about 9 per cent in the second quarter--compared with upward revised rates of about 6.5 per cent in the two preceding quarters--and that the rise in prices in the private economy had moderated. Staff projections suggested that economic growth would remain rapid in the second half of the year--although it would slow appreciably from the second-quarter rate. It was expected that growth would be somewhat more rapid in the fourth than in the third quarter.

In July retail sales rose sharply--according to the advance report--and more than recovered the decline in June. However, industrial production registered only a small increase and employment in nonfarm establishments declined somewhat, in part because floods following tropical storm Agnes curtailed output and employment in the eastern part of the country. The over-all unemployment rate remained at 5.5 per cent, as the rate declined for men aged 25 and over but increased for those under 25.

The advance in hourly earnings of production workers on private nonfarm payrolls, which had been slow in May and June, was moderately faster in July. The rise in wholesale prices of industrial commodities was small, but prices of farm and food products rose sharply further, registering their largest monthly increase of the year to date. In June, the consumer price index rose very little.

Staff projections suggested that expansion in consumption expenditures and in business inventory investment would be strong in the current quarter, although less so than in the second quarter; that business capital outlays would rise less rapidly; and that residential construction would level off. For the fourth quarter, it was anticipated that consumption expenditures would be stimulated by payment of the 20 per cent increase in social security benefits, scheduled to begin in early October, and that growth in State and local government purchases of goods and services would be increased if, as assumed, Federal revenue sharing was enacted.

In foreign exchange markets, relative calm had been restored since the July meeting of the Committee, following a month of turbulence during which the United Kingdom had allowed sterling to float and some European countries had acquired substantial amounts of dollars in the process of keeping exchange rates for their currencies within the limits of the Smithsonian Agreement. After a meeting on July 17-18, the Finance Ministers of the European Community reaffirmed their intention to maintain the exchange rates and margins of the Smithsonian Agreement, and speculation on a joint European Community float against the dollar subsided. Also in support of the Smithsonian Agreement, the Federal Reserve renewed operations in the foreign exchange markets and reactivated its swap network with other central banks. In subsequent weeks, the reserves of the central banks of most industrial countries changed little, and exchange rates for some major currencies backed away from their upper limits.

U.S. merchandise exports, imports, and the trade deficit changed little in June. For the second quarter as a whole, the deficit was substantially greater than that in the first quarter of the year.

On July 26 the Treasury announced that in its mid-August refunding it would offer holders of notes and bonds maturing during the remainder of 1972 an opportunity to exchange their holdings for the following issues: a 3-1/2-year, 5-7/8 per cent note priced to yield 5.96 per cent; a 7-year, 6-1/4 per cent note at par; and a 12-year, 6-3/8 per cent bond priced to yield 6.45 per cent. In addition, holders of securities maturing in November 1974 and February 1975 were given the opportunity to exchange them for the longer-term note and the bond. This combination of a refunding and pre-refunding was highly successful. Of the $19.6 billion of eligible securities held by the public, about $8 billion were exchanged for the new issues--$3.9 billion for the shorter-term note, $3 billion for the longer-term note, and $1.1 billion for the bond. Only about $600 million or 26 per cent of the publicly held issues maturing this August were redeemed for cash.

Since the Committee's meeting on July 18, market interest rates on both short- and long-term securities had declined somewhat on balance, in part because the Treasury's over-all demands for new cash in recent months had fallen short of those that had been widely expected. Moreover, the combined volume of new publicly issued corporate bonds and of State and local government bonds had declined somewhat from June to July, and a further decline had appeared in prospect for August.

In markets for short-term securities, the absence of a short-term issue in the Treasury's August financing had exerted some downward pressure on rates for Treasury bills and private instruments. The market rate on 3-month bills was 3.87 per cent on the day before this meeting, compared with 3.92 per cent on the day before the July meeting and an interim low of 3.77 per cent at the beginning of August.

Contract interest rates on conventional mortgages on new homes rose slightly from June to July, but rates on the much larger volume of new loans on existing homes remained stable. Yields also were stable in the secondary market for Federally insured mortgages. Inflows of savings funds to nonbank thrift institutions increased further in July and were substantially above the second-quarter rate.

At commercial banks, real estate and consumer loans continued to expand rapidly in July, and outstanding business loans rose substantially after having declined in June. Banks reduced their holdings of U.S. Government securities, as the Treasury's net borrowing demands were smaller than customary in July.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) was unusually rapid in July following low rates of growth in May and June. Expansion 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) was a little faster in July than in June, despite a marked reduction in inflows of consumer-type time and savings deposits to banks. Growth was substantial in the bank credit proxy--

daily-average member bank deposits, adjusted to include funds from nondeposit sources--reflecting not only a sharp rise in private demand deposits but also an increase in the outstanding volume of large-denomination CD's.

System open market operations in the period since the July 18 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate of between 3 and 7 per cent in the July-August period, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. Through most of the period it had appeared that growth in RPD's might exceed the target range. For that reason, and also because the monetary aggregates were expanding rapidly, the System undertook to slow the increase in reserves to the extent feasible in light of the large-scale Treasury refunding then in process. At present it appeared that RPD's would grow over the July-August period at a rate of about 6.5 per cent. The Federal funds rate had risen from about 4-5/8 per cent at the time of the preceding meeting to around 4-3/4 per cent in recent days. In the 4 weeks ending August 9 member bank borrowings averaged about $250 million, compared with about $180 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates over the months ahead. It decided to seek growth in RPD's during the August-September period at an annual rate in a range of 5 to 9 per cent--a rate which was expected to be associated with some moderation in monetary growth. While recognizing that pursuit of the objective for RPD's might be associated with some firming of money market conditions, the Committee agreed that a marked firming, which might precipitate unduly sharp increases in interest rates in a sensitive market atmosphere, should be avoided. The members also decided that in the conduct of operations, account should be taken of developments in capital markets and international developments, and that some allowance should also be made in operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if financial developments suggested that the Committee's purposes 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 indicates that real output of goods and services increased at a rapid rate in the second quarter, and continued though less rapid growth appears in prospect for the current quarter. The unemployment rate was lower in June and July, but it was still substantial. The pace of advance in wage rates has slowed on balance in recent months, and the rate of increase in average prices of all goods and services in the private economy

moderated in the second quarter. In July, the rise in wholesale prices of industrial commodities slowed, but wholesale prices of farm and food products rose sharply further. Since mid-July foreign exchange market conditions have been quiet and the central bank reserves of most industrial countries have changed little. In June, the large excess of U.S. merchandise imports over exports persisted.

The narrowly defined money stock grew at an unusually rapid rate in July, following relatively slow growth in May and June. Growth in the broadly defined money stock remained substantial, although inflows of consumer-type time and savings deposits to banks slowed appreciably. The bank credit proxy expanded sharply in July, reflecting strength in both private demand deposits and large-denomination CD's. In recent weeks, interest rates on most market securities have declined somewhat on balance, and the Treasury completed a highly successful refunding.

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