FEDERAL RESERVE

press release

For immediate release February 15, 1973

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached records of policy actions taken by the Federal Open Market Committee at its meetings on November 20-21 and December 19, 1972. These records will be published in the Board's Annual Report for 1972 and in the Federal Reserve Bulletin. 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 meetings, rather than on data as they may have been revised since then.

Attachments

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on December 19, 1972

Current economic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 6.3 per cent in the third quarter, was growing at an appreciably faster pace in the current quarter. Staff projections for the first half of 1973 continued to suggest that growth in real output would remain strong, although not so rapid as now seemed indicated for the current quarter.

Industrial production increased substantially further in November and output indexes for September and October were revised upward; expansion over the 3-month period was very rapid. Led by employment gains in manufacturing, total nonfarm payroll employment continued to rise at a fast pace in November. The unemployment rate, which had been virtually stable around 5.5 per cent from June through October, fell to 5.2 per cent in November. Retail sales in November, according to the advance report, remained near the level attained in October, which was sharply above the third-quarter average.

The wholesale price index--which had risen little in October when prices of automobiles and trucks declined--advanced considerably in November, reflecting sizable increases in both industrial commodities and farm and food products. Average hourly earnings of production workers increased little, but their average rate of advance from August to November exceeded the rate earlier in the year. In October consumer prices again rose considerably, in large part because of the annual adjustment in the price measure for health insurance and increases in prices of other consumer services. Retail as well as wholesale prices of automobiles declined, and prices of foods increased little.

Staff projections continued to suggest that expansion in consumption expenditures would remain strong in the first two quarters of 1973, in part because of large refunds of personal income taxes withheld in 1972. Recent surveys of business spending plans reinforced earlier expectations that fixed investment would rise at a fast pace throughout the first half of 1973. It was also anticipated that business inventory investment would rise somewhat further and that State and local government purchases of goods and services would continue to grow rapidly but that residential construction outlays would level off and then turn down.

The deficit in the over-all U.S. balance of payments had continued large in recent months. In October, however, merchandise exports had risen more than imports, and the average trade deficit in September and October--although still substantial--had been moderately below the high levels of last spring and summer. In foreign exchange markets over recent weeks, the dollar had remained firm against major currencies other than the Japanese yen.

Interest rates on short-term securities had advanced since the Committee's meeting in late November, in response to seasonal expansion in private credit demands, a large increase in market supplies of Treasury bills, and some firming in money market conditions; on the day before this meeting the market rate on 3-month Treasury bills was 5.17 per cent, up from 4.76 per cent 4 weeks earlier. Rates on most types of longer-term securities also had advanced, although the volume of new public offerings of corporate and State and local government bonds had declined moderately from October to November and appeared likely to fall further in December, in part because of the holidays.

In mid-December the Treasury announced that on December 20 it would auction $2 billion of 2-year, 5-7/8 per cent notes for payment on December 28. Moreover, the Treasury indicated that in early January it would offer $500 million to $750 million of 20- to 30-year bonds.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages remained stable in November. From October to November inflows of savings funds to nonbank thrift institutions continued to slow, although inflows were still large by historical standards.

At commercial banks, loans outstanding to businesses and to most other types of borrowers continued to expand at rapid rates in November. Bank holdings of U.S. Government securities--which had declined in October--rose in association with a substantial increase in Treasury deposits that resulted in part from two Treasury financings during the month. Banks also added a substantial amount to their portfolios of other securities.

Growth in the narrowly defined money stock (M_1)[1/]--which had been slow in October--increased appreciably in November but nevertheless was still moderate, while growth in the more broadly defined money stock (M_2)[2/] remained at about the moderate rate of October. The bank credit proxy[3/] grew at a relatively fast pace,

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1/ Private demand deposits plus currency in circulation.
2/ M_1 plus commercial bank time and savings deposits other than large-denomination CD's.
3/ Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

reflecting the substantial increase in Treasury deposits and a rise in the outstanding volume of large-denomination CD's. In early December expansion in M_1 quickened, and it now appeared that the average rates of growth in the monetary aggregates over the second half of the year would be relatively rapid.

System open market operations since the November meeting had been guided by the Committee's decision at that meeting to continue to seek bank reserve and money market conditions that would support more moderate monetary growth than the annual rates of about 8.5 per cent for M_1 and 9.5 per cent for M_2 recorded over the third quarter.[4/] Accordingly, operations had been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 6 to 10 per cent in the November-December period, while avoiding marked changes in money market conditions and taking account of the continuing effects of the bank regulatory changes implemented in early November.

Through much of the intermeeting period the rate of growth in RPD's had appeared to be substantially above the specified range, and the System had acted to restrain expansion in nonborrowed reserves. As a result, money market conditions had firmed.

4/ Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

The Federal funds rate had risen to about 5-1/2 per cent in the days before this meeting from about 5 per cent at the time of the preceding meeting. Member bank borrowings had increased to an average of about $655 million in the 3 weeks ending December 13 from about $640 million in the preceding 5 weeks, and in the last few days before this meeting borrowings had risen substantially.

At the time of this meeting it still appeared that RPD's would grow over the November-December period at a rate somewhat above the specified range. However, the excess was not large, and in part it was attributable to a shift in the multiplier relationship between reserves and deposits that reflected greater-than-anticipated expansion in deposits at large member banks--which are subject to higher marginal reserve requirements--and lower-than-anticipated expansion at smaller banks.

The Committee agreed that the economic situation called for growth in the monetary aggregates at slower rates than those that appeared likely to be recorded for the second half of 1972. At the same time, the members noted that financial markets were still adjusting to the firming in money market conditions that had occurred in recent weeks. They took account of a staff analysis of prospective reserve-deposit relationships which suggested that the Committee's objectives for the aggregates might be served by fostering growth in RPD's during the December-January period at an annual rate within a range of 7 to 11 per cent. However, in view of the rapid expansion in monetary aggregates since the preceding meeting, the members concluded that reserve-supplying operations that would result in an easing of money market conditions should be avoided unless the annual rate of RPD growth appeared to be dropping below 4 per cent. Accordingly, they decided that open market operations should be directed at fostering RPD growth during the 2-month period within a range of 4 to 11 per cent, while continuing to avoid marked changes in money market conditions. They also agreed that in the conduct of operations account should be taken of the forthcoming Treasury financings and possible credit market developments, and that allowance should be made in operations if growth in the monetary aggregates appeared to be deviating from an acceptable range. It was understood that the Chairman might consider calling upon the Committee to appraise the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

The information reviewed at this meeting, including strong recent gains in industrial production, employment, and retail sales, suggests that real output of goods and services is growing more rapidly in the current quarter than in the third quarter. The unemployment rate has declined. Wage rates increased little in November, following 2 months of large increases. Consumer prices rose considerably again in October, and wholesale prices rose sharply in November. The over-all deficit in the U.S. balance of payments has remained substantial in recent months, but there has been a moderate reduction in the excess of U.S. merchandise imports over exports since last spring and summer.

In November rates of growth in the monetary aggregates generally remained moderate, but expansion in the narrowly defined money stock quickened in early December. In recent weeks most market interest rates have tended upward.

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 Treasury financing operations and possible credit market developments, the Committee seeks to achieve bank reserve and money market conditions that will support slower growth in monetary aggregates over the months ahead than appears indicated for the second half of this year.

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