FEDERAL RESERVE

press release

For immediate release April 10, 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 January /16 11, 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 January 16, 1973

Current economic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services (real gross national product) had accelerated appreciably in the fourth quarter of 1972 from an annual rate of nearly 6.5 per cent in the third quarter. Staff projections for the first half of 1973 continued to suggest that growth in real output--while slowing from the high rate that seemed indicated for the fourth quarter of 1972--would remain rapid.

In December industrial production continued to expand at a fast pace, and growth from the third to the fourth quarter was substantial. Total nonfarm payroll employment rose little in December, following sizable gains over the preceding 4 months. The unemployment rate, at 5.2 per cent, was unchanged from November but was well below the level prevailing from June through October. According to the advance report, retail sales increased slightly in December after having declined somewhat in November; nevertheless, sales were considerably higher in the fourth quarter than in the third.

Average hourly earnings of production workers advanced sharply in December. From August to December the average rate of gain was considerably higher than it had been earlier in 1972. Wholesale prices of industrial commodities increased little in December, but those of grains, livestock, meats, and other farm and food products rose very sharply, in part because of adverse weather during the autumn months. In November, when retail prices of foods had increased substantially, over-all consumer prices had continued to rise at about the same average rate as earlier in the year.

The latest staff projections for the first half of 1973 were very similar to those of 4 weeks earlier, although business fixed investment now was expected to expand at a somewhat faster pace, as suggested by the latest Department of Commerce survey of business spending plans. It was still anticipated that consumption expenditures would remain strong, in part because of large refunds of personal income taxes withheld in 1972; that State and local government purchases of goods and services would continue to grow rapidly; and that business inventory investment would increase further. The projections also suggested that outlays for residential construction would turn down.

On January 11 the President announced the third phase of the economic stabilization program--which had been inaugurated in August 1971--and requested legislation to authorize extension of the program for an additional year in order to reduce inflation, minimize unemployment, and improve the Nation's competitive position in world trade. With respect to inflation, the President established a goal of a further reduction in the over-all rate of increase in prices to 2.5 per cent or less by the end of 1973.

U.S. merchandise imports rose appreciably more than exports in November, and the trade deficit increased sharply after a gradual improvement that had begun at midyear. In the fourth quarter the over-all deficit in the U.S. balance of payments was still substantial, despite large foreign purchases of U.S. corporate stocks and some inflows of liquid funds such as usually occur near the end of the year. Exchange markets had been quiet in recent weeks, and rates for the dollar against most other major currencies had changed little on balance.

At. U.S. commercial banks, expansion in loans outstanding to businesses slowed in December from an exceptionally high rate in November, while real estate and consumer loans continued to grow rapidly. Bank holdings of U.S. Government securities again increased by substantial amounts in association with two Treasury financings during the month.

Growth in the narrowly defined money stock (M_1)[1/] accelerated sharply in December, after having been moderate on average during the August-November period; over the second half of the year growth was at an annual rate of about 8.5 per cent.[2/] Although a part of the growth in M_1 during December could be attributed to a large increase in demand deposits of State and local governments following initial distribution of funds under the Federal revenue sharing program, expanding transactions demands for money associated with the high and rising level of economic activity may have been a major factor.

Inflows of consumer-type time and savings deposits to commercial banks also accelerated in December, and the broadly defined money stock (M_2)[3/] grew much more rapidly than in the immediately preceding months; growth of M_2 over the second half of the year was at an annual rate of about 11 per cent. U.S.

1/ Private demand deposits plus currency in circulation.

2/ Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month of the preceding period. Moreover, they are based on revised series for the monetary aggregates, which were released to the public in early February.

3/ M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

Government deposits declined in December, but the outstanding volume of large-denomination CD's increased, and the bank credit proxy[4/] grew a little more rapidly than in November.

Inflows of savings funds to nonbank thrift institutions were maintained from November to December, after having moderated earlier in the fourth quarter, and they remained large by historical standards. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages were again virtually stable in December.

In capital markets the over-all volume of new public offerings of corporate and State and local government bonds was reduced substantially in December by the holidays. Although the volume was expected to rebound in January, it appeared likely to remain well below the monthly average for 1972. On December 27 the Treasury announced an auction of a long-term bond in which, for the first time, the lowest bid price accepted would be the price on all accepted tenders. In the auction, which was held on January 4, $625 million of a 20-year bond was sold at a price to yield 6.79 per cent. The Treasury was expected to announce on January 31 the terms on which it would refund securities maturing on February 15, including $4.8 billion held by the public.

4/ Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

System open market operations since the December 19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would support slower growth in monetary aggregates over the months ahead than appeared to be indicated for the second half of 1972. Operations had been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate within a range of 4 to 11 per cent in the December-January period, while avoiding marked changes in money market conditions and taking account of Treasury financing operations and possible credit market developments.

Early in the intermeeting period data becoming available had suggested that the rate of growth in RPD's would be substantially above the specified range. Consequently, the System had acted to restrain expansion in reserves provided through open market operations--to the extent feasible in light of the even-keel constraint associated with the Treasury's auction of the long-term bond--and money market conditions had firmed over the period. The Federal funds rate had risen to about 5-3/4 per cent in the days before this meeting from around 5-1/2 per cent at the time of the preceding meeting, and member bank borrowings had increased to an average of about $1,200 million in the 4 weeks ending January 10 from an average of about $600 million in the preceding 4 weeks. At the time of this meeting it still appeared that in the December-January period RPD's would grow at a rate well above the specified range.

Short- and long-term market interest rates in general had risen moderately further since the Committee's meeting on December 19. In short-term markets, demands for Treasury bills and some other instruments were strengthened by State and local government investment of receipts from Federal revenue sharing. On the day before this meeting the market rate on 3-month Treasury bills was 5.27 per cent, compared with 5.17 per cent 4 weeks earlier. In recognition of the substantial rise in short-term market interest rates that had occurred over recent months and the sharply increased level of member bank borrowings, Federal Reserve discount rates were raised one-half of a percentage point to 5 per cent, effective January 15.

The Committee agreed that the economic situation continued to call for growth in the monetary aggregates over the months ahead at slower rates than those recorded in the second half of 1972. The members took note of a staff analysis of prospective reserve-deposit relationships which suggested that more moderate rates of monetary growth might be achieved in the January-February period by fostering growth in RPD's in that period at an annual rate within a range of 9 to 11 per cent. In view of the very rapid monetary expansion in December, however, the members concluded that open market operations should be directed at achieving still greater restraint and 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 4.5 per cent. Specifically, they decided that operations should be directed at fostering RPD growth during the January-February period within a range of 4.5 to 10.5 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 forth-coming Treasury financing 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 suggests that real output of goods and services expanded much more rapidly in the fourth quarter than in the third quarter, and the unemployment rate declined. Wage rates have increased more rapidly in recent months than earlier in the year. Consumer prices rose considerably again in November. Wholesale prices of farm and food products advanced sharply in December but those of industrial commodities increased little. On January 11 the President announced Phase III of the economic stabilization program, which has among its major objectives a further reduction in the rate of inflation. The overall deficit in the U.S. balance of payments has remained substantial in recent months, and U.S. merchandise imports rose more than exports in November.

Growth in the narrowly and broadly defined money stock was exceptionally rapid in December, after having been moderate on average during the preceding 4 months. In recent weeks interest rates on both short- and long-term securities have risen moderately. Effective January 15, Federal Reserve discount rates were raised one-half of a percentage point to 5 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consonant with the aims of the economic stabilization program, including further abatement of inflationary pressures, sustainable growth in real output and employment, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing 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 occurred in the second half of last year.

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.)