FEDERAL RESERVE

press release

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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 February 13, 1973.

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 February 13, 1973

Current economic policy directive

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 8.5 per cent in the fourth quarter of 1972, and growth appeared to be continuing at a substantial, although less rapid, rate in the first quarter of 1973. Staff projections suggested that real growth in the second quarter would remain close to the first-quarter rate.

In January retail sales rose sharply, according to the advance report, after having increased considerably more in December than had been indicated by earlier data. Industrial production continued to expand--reflecting gains in consumer goods and business equipment--and nonfarm payroll employment rose further; however, the pace of expansion in output and employment in both December and January was less rapid than over the four preceding months. The unemployment rate declined slightly further to 5.0 per cent.

Labor costs per unit of output in the private nonfarm economy--which had changed little in the second and third quarters of 1972--turned up in the fourth quarter as the advance in output per manhour slowed and the rise in wage rates accelerated. Average hourly earnings of production workers continued to rise at a relatively rapid rate in January. In December the rise in overall consumer prices slowed; while retail prices of nonfood commodities and of services advanced at a faster pace than earlier in the year, average retail prices of foods were about stable. In wholesale markets, however, prices of meats, eggs, and some other foods and foodstuffs rose sharply in December, and the rise continued in January.

The latest staff projection of real growth in the first half of 1973 was about unchanged from that of 4 weeks earlier, but now the expected rise in average prices was somewhat larger, in part because of the substantial increases that had already occurred in prices of foods and foodstuffs. It was still expected that expansion in consumption expenditures, business fixed investment, and State and local government purchases of goods and services would remain strong and that business inventory investment would increase further. It was also anticipated that outlays for residential construction would level off and then turn down.

In foreign exchange markets the relative calm that had prevailed for a number of months was shattered in late January by a series of developments, including a decision by the Italian

Government to create a dual market for the lira in response to capital outflows, a decision by the Swiss Government to float the franc in response to large capital inflows, and release of U.S. foreign trade statistics revealing that the deficit--which had worsened in November after having improved gradually from June through October--had remained large in December. Heavy speculative flows out of dollars into the German mark and some other currencies developed, culminating in very large purchases of dollars by many central banks in the process of maintaining their exchange rates within the internationally agreed limits. On February 12, after consultations with other major countries, the Secretary of the Treasury announced that the United States would devalue the dollar by 10 per cent.

At U.S. commercial banks, credit demands--which had eased in December--expanded substantially in January in all major industrial categories and in all regions of the country, and outstanding business loans rose at a record pace. Real estate and consumer loans continued to grow at rapid rates, while bank holdings of securities increased little. In association with the strong demand for loans and further advances in market interest rates, some banks announced increases in their prime rates from 6 to 6-1/4 per cent at the beginning of February, but in cooperation with the Government's stabilization program, the banks rescinded the increases pending evaluation of data on costs and earnings.

The narrowly defined money stock (M_1)[1/] changed little in January after having increased sharply in December, and growth over the 2 months combined was at an annual rate of about 6.5 per cent--about the same as the rate over the whole 6-month period from July 1972 to January 1973.[2/] Part of the recent fluctuation in the growth rate was attributable to a temporary increase in demand deposits of State and local governments in association with initial distributions of funds under the Federal revenue sharing program and subsequent shifts of some of these funds into earning assets, including time deposits. Inflows of time and savings deposits other than large-denomination CD's increased from December to January, moderating the deceleration in growth in the more broadly defined money stock (M_2).[3/] Growth in M_2 over both the December-January and the July-January periods was at an annual rate of about 9.5 per cent.

1/ Private demand deposits plus currency in circulation.

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

Inflows of savings funds to nonbank thrift institutions also rose substantially from December to January. Contract interest rates on conventional mortgages apparently changed little in January and yields in the secondary market for Federally insured mortgages also remained stable.

On January 31 the Treasury announced that in its mid-February financing it would offer holders of maturing notes an opportunity to exchange their holdings for a 3-1/2 year, 6-1/2 per cent note priced to yield about 6.60 per cent and that it would auction about $1 billion of 6-3/4-year, 6-5/8 per cent notes. As had been expected in the market, a relatively large part--$2.2 billion, or 47 per cent--of the $4.8 billion of maturing notes held by the public was redeemed for cash.

System open market operations since the January 16 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 the rates recorded over 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 in a range of 4.5 to 10.5 per cent in the January-February period, while avoiding marked changes in money market conditions and taking account of Treasury financing operations.

The System had acted early in the inter-meeting period--prior to announcement of the terms of the Treasury financing--to restrain expansion in reserves provided through open market operations, and money market conditions had firmed. The Federal funds rate, which had been about 5-3/4 per cent in the days before the January meeting, rose to about 6-3/8 per cent in the latter part of the month and then fluctuated around that level. Member bank borrowings averaged about $1,235 million in the 4 weeks ending February 7, compared with about $1,200 million in the preceding 4 weeks. At the time of this meeting it appeared that in the January-February period RPD's would grow at a rate near the middle of the specified range.

Market interest rates had continued to rise since the Committee's January meeting, reflecting the further tightening in money market conditions, widespread expectations of vigorous economic expansion, and uncertainty about the effectiveness of Phase III of the economic stabilization program. Short-term rates had risen considerably. In early February, however, the market for Treasury bills was strengthened by actual and expected purchases of bills by foreign central banks in association with the speculative outflows from dollars into other currencies. On February 9, the last market day before this meeting, the rate on

3-month bills was 5.44 per cent, down from 5.76 per cent on February 1 but up from 5.27 per cent on the day before the January meeting.

The rise in interest rates was more moderate for long-term than for most short-term securities. The volume of new public offerings of corporate bonds, which had been reduced in December by the holidays, failed to rebound in January and appeared likely to remain at a reduced level in February. The volume of new State and local government bonds also changed little in January, and it appeared likely to decline in February.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at somewhat slower rates than had occurred on average in the past 6 months. The members took note of a staff analysis suggesting that the sharp further advance in short-term interest rates that had occurred in recent months would probably retard growth in the demand for money over the months ahead. The analysis also suggested that in the February-March period the Committee's objectives for monetary growth might be fostered by pursuing growth in RPD's at an annual rate within a range of 0.5 to 2.5 per cent and that attainment of RPD growth in that range probably would be associated with some additional firming of money market conditions and some upward pressure on long-term interest rates.

The Committee concluded that active reserve-supplying operations should be avoided unless RPD's in the February-March period appeared to be declining at an annual rate of more than 2.5 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period within a range of -2.5 to +2.5 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 possible credit market developments and international 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 continued substantial growth in real output of goods and services in the current quarter, although at a rate less rapid than in the fourth quarter of 1972. The unemployment rate has declined slightly further. In recent months wage rates have increased at a relatively rapid pace, and unit labor costs turned up in the fourth quarter of 1972. The rise in consumer prices slowed in December when retail prices of foods changed little,

but prices of foods and foodstuffs at earlier stages of distribution rose sharply in both December and January. The excess of U.S. merchandise imports over exports remained large in December. Heavy speculative movements out of dollars into German marks and some other currencies developed in late January and early February. On February 12 the Government announced that the United States would devalue the dollar by 10 per cent.

The narrowly defined money stock changed little in January after having increased sharply in December, and growth over the 2 months combined was at an average annual rate of about 6-1/2 per cent. Growth in the more broadly defined money stock slowed less abruptly from December to January as inflows of consumer-type time and savings deposits to banks accelerated. A sharp and pervasive increase has taken place in bank loans to businesses. In recent weeks market interest rates generally have risen further, with increases substantial for short-term rates and relatively moderate for long-term rates. Most recently, however, Treasury bill rates have moved back down under the influence of foreign official buying.

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 possible domestic credit market and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat slower growth in monetary aggregates over the months ahead than occurred on average in the past 6 months.

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

Absent and not voting: Mr. Daane.

Developments subsequent to the meeting made it appear that RPD's would grow in the February-March period at an annual rate in excess of 2.5 per cent, even though money market conditions had firmed and the Federal funds rate had averaged close to 6-3/4 per cent for two successive weeks. On March 1, 1973, the members agreed that the weekly average Federal funds rate should be permitted to rise somewhat further if necessary to limit growth in RPD's.