FEDERAL RESERVE
press release

For immediate release June 18, 1973

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 March 19-20, 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 March 19-20, 1973[1/]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 8.0 per cent in the fourth quarter of 1972, was growing at a substantial but less rapid rate in the first quarter of 1973. Staff projections for the second quarter suggested that real growth would remain close to the first-quarter rate.

In February industrial production continued to expand, reflecting mainly substantial further gains in output of consumer goods and business equipment; increases in over-all output of materials, which had been sizable in late 1972, were small in the first 2 months of this year. Nonfarm payroll employment rose sharply in February. The civilian labor force also increased substantially--after having declined in January--and the unemployment rate, at 5.1 per cent, was about the same as in the preceding 3 months. Retail sales declined in February, according to the advance report, but the decline followed an exceptionally large advance from November to January.

1/ This meeting was held over a 2-day period beginning on the afternoon of March 19, 1973, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

Retail prices of foods rose sharply in January--the latest month for which such price data were available. In February wholesale prices of farm and food products increased substantially for the third successive month. Moreover, average wholesale prices of industrial commodities rose by an unusually large amount, reflecting sizable increases in shoes and other apparel, petroleum products, machinery, and a number of industrial materials. The advance in average hourly earnings of production workers on nonfarm payrolls, which had been large in the last 4 months of 1972, was moderate in the first 2 months of this year.

The latest staff projection of real growth in the second quarter of 1973 was little different from that of 4 weeks earlier. 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 outlays for residential construction would turn down. However, the increase in business inventory investment projected for the second quarter was somewhat larger than before; in the first quarter inventory accumulation appeared to be falling short of earlier projections as the expansion in final sales seemed to be exceeding expectations.

Following the announcement on February 12 that the United States would devalue the dollar by 10 per cent, most continental

European countries retained their currency par values in terms of SDR's or gold, Japan and Italy freed their currencies to float, and the United Kingdom, Switzerland, and Canada continued to allow their currencies to float. Exchange markets in major countries--which since February 9 had been closed in the sense that central banks had not intervened--reopened on February 14 and 15. After about a week of relative calm in the markets, during which a sizable volume of funds flowed back into dollars and the Japanese yen floated up by 16 to 17 per cent, a new speculative movement out of dollars and into German marks and some other currencies developed; on March 1 and 2 most major exchange markets closed again.

The new disturbance in foreign exchange markets led to a series of international conferences and to a number of measures aimed at maintaining orderly international monetary arrangements. On March 12 six of the nine members of the European Community announced their decision to participate in a joint float--after a 3 per cent upward revaluation of the German mark--while maintaining rates between their own currencies within bands of 2-1/4 per cent, and they were subsequently joined by two other European countries; the United Kingdom, Italy, and Ireland--the remaining three members of the Community--decided to continue to allow their currencies to float independently. After a meeting in Paris on March 16, the

United States, other "Group of Ten" countries, other EC countries, and Switzerland announced that they had agreed that official intervention in exchange markets might be useful at times to facilitate the maintenance of orderly conditions and to facilitate the reflow of speculative funds into dollars. Intervention might be financed through the use of mutual credit facilities, if necessary; in order to assure adequate financial resources, enlargement of some of the existing "swap" facilities was envisaged.

At U.S. commercial banks, expansion in business loans--already at a record rate in January--rose sharply further in February. A sizable share of the increase in outstanding loans was attributable to a shift in business borrowing from the commercial paper market in response to a rise in short-term interest rates in the market relative to bank lending rates. Loans to foreign commercial banks also expanded considerably, and consumer and real estate loans continued to grow at a fast pace. To accommodate the strong loan demand, banks sharply increased the outstanding volume of large-denomination CD's and reduced their holdings of Treasury securities.

The narrowly defined money stock (M_1)[2/], which had grown rapidly in December and then changed little in January, expanded

2/ Private demand deposits plus currency in circulation.

moderately in February; over the 3 months combined, growth was at an annual rate of about 6.5 per cent--little changed from the rate over the preceding 3 months.[3/] Inflows of time and savings deposits other than large-denomination CD's slowed sharply in February as market interest rates advanced, and the more broadly defined money stock (M_2)[4/] grew at an annual rate of about 6 per cent, compared with a rate of about 6.5 per cent in January; over the 6 months through February, growth was at a rate of about 8.5 per cent. In February, however, the bank credit proxy[5/] expanded at a very fast pace, reflecting the large increase in the outstanding volume of large-denomination CD's.

System open market operations since the February 13 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would support somewhat slower growth in monetary aggregates over the months ahead than had occurred on the average in the past 6 months. 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 -2.5 to +2.5 per cent in the February-March period, while avoiding marked changes in money market conditions.

3/ 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.

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

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

Early in the inter-meeting period it had appeared that growth in the monetary aggregates would remain strong and that bank sales of CD's, in association with the larger-than-expected demands for bank credit, might result in growth in RPD's in the February-March period at an annual rate in excess of 2.5 per cent. Consequently, the System had acted promptly to slow the expansion in RPD's, and the funds rate rose to about 6-3/4 per cent for the statement week ending February 21 from around 6-3/8 per cent in the days before the February meeting. After March 1--when Committee members agreed that the weekly average rate for Federal funds should be permitted to rise somewhat further if necessary to limit growth in RPD's--the rate fluctuated around a level slightly above 7 per cent. Member bank borrowings averaged about $1,665 million in the 5 weeks ending March 14, compared with about $1,235 million in the preceding 4 weeks.

Since the Committee's February meeting short-term market interest rates in general had risen substantially further as money market conditions continued to firm and as the persistent expansion in demands for bank credit induced banks to issue large amounts of CD's and to liquidate holdings of short-term Treasury securities. Rates on CD's with maturities between 90 and 179 days reached the Regulation Q ceiling of 6-3/4 per cent, and rates on those with maturities between

30 and 89 days--which are not subject to ceilings--rose to 7-1/4 per cent. Banks generally raised their prime rates from 6 to 6-1/4 per cent in late February, and on March 19 a number of banks announced that they would raise rates further to 6-3/4 per cent.[6/] On that day the market rate on 3-month Treasury bills was 6.22 per cent, compared with 5.44 per cent 5 weeks earlier. Federal Reserve discount rates were raised 1/2 percentage point, to 5-1/2 per cent, at four Reserve Banks on February 26 and at the remaining eight Banks by March 2.

Yields on long-term securities also had continued to rise since the February meeting, but the increase remained relatively moderate, especially for Treasury and corporate issues. Upward pressures on long-term yields were limited by foreign offical demands for Treasury coupon issues and by a sharp drop in the volume of new public offerings of corporate bonds in February and the prospect that the volume would only recover in March. For State and local government bonds, the volume of new issues declined more moderately in February and appeared likely to rise again in March; moreover, commercial bank demands for these securities receded as loan demands expanded.

Contract interest rates on conventional mortgages rose somewhat in February, after 4 months of stability, while yields

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6/ By March 27, in cooperation with the Government's stabilization program, these banks had rolled back their rates to 6-1/2 per cent.

in the secondary market continued to change little. Inflows of savings funds to nonbank thrift institutions, like those to banks, slowed considerably as yields on market securities became increasingly attractive to savers.

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 the average in the past 6 months. The members took note of a staff analysis suggesting that the cumulative impact of the advance in short-term interest rates that had already occurred would probably slow growth in the monetary aggregates over the months ahead. Nevertheless a relatively rapid rate of growth in RPD's was projected for the March-April period, chiefly because the substantial increase in the outstanding volume of large-denomination CD's that had occurred in recent weeks would affect required reserves with a lag and further expansion in the outstanding volume was expected. Therefore, the Committee's objectives for monetary growth might be fostered by pursuing growth in RPD's in the March-April period at an annual rate within a range of 14 to 16 per cent. The analysis also suggested that attainment of RPD growth in that range might be associated with some further increase in some short-term interest rates and probably also in long-term rates.

The Committee concluded that active reserve-supplying operations should be limited unless RPD's in the March-April period appeared to be growing at an annual rate of less than 12 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period at a rate within a range of 12 to 16 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.

The following domestic 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. Over the first 2 months of this year, employment rose strongly but the unemployment rate remained about 5 per cent. The advance in wage rates moderated from the earlier rapid pace, while the rate of increase in prices accelerated. Prices of foods continued to rise sharply both at wholesale and retail; in February, moreover, increases in wholesale prices of industrial

commodities were large and widespread. Another wave of speculative movements out of dollars into German marks and some other currencies developed at the beginning of March and led to a decision by a number of European countries to float their currencies jointly. On March 16, after a series of meetings, officials of leading industrial countries announced a program aimed at maintaining orderly international monetary arrangements.

The narrowly defined money stock expanded moderately in February, after having changed little in January, and growth over recent months remained at an average annual rate of about 6.5 per cent. The more broadly defined money stock continued to grow at a moderate rate in February as inflows of consumer-type time and savings deposits to banks slowed sharply. However, in the face of strong loan demand from businesses, and also from foreign banks, U.S. banks sharply increased their issuance of large-denomination CD's and the bank credit proxy expanded very rapidly. In recent weeks short-term market interest rates have risen substantially further while the rise in long-term rates has remained more moderate.

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 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, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against this action: None.

On April 11, 1973, less than one week before the date scheduled for the Committee's next meeting, the System Account Manager reported that in light of the latest estimates for RPD's and the monetary aggregates, he interpreted the Committee's instructions to call for reserve-supplying operations consistent with an easing in money market conditions. On that day a majority of the members concurred in a recommendation by the Chairman that such operations not be undertaken prior to the next meeting, when the Committee would have an opportunity to deliberate on the appropriate policy course.

2. Ratification of earlier action

On March 15, 1973, Committee members had voted to increase from $2 billion to $3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the continuing authority directive with respect to domestic open market operations, effective immediately, for the period ending with the close of business on March 20, 1973.

> Votes for this action: Messrs. Hayes, Balles, Brimmer, Bucher, Francis, Mayo, Mitchell, Morris, and Robertson. Votes against this action: None.
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> Absent and not voting: Messrs. Burns, Daane, and Sheehan.

This action, which was ratified by unanimous vote at this meeting, had been taken on recommendation of the System Account Manager. The Manager had advised that a substantial volume of open market purchases of Treasury and Federal agency securities had been required in the period since the Committee's previous meeting in order to offset the reserve absorption caused by a sizable unanticipated rise in Treasury balances at Federal Reserve Banks, an increase in currency in circulation, and changes in certain other market factors, and that a temporary increase in the leeway for System purchases appeared desirable in light of the prospective near-term needs to supply reserves.

3. Review of and amendments to continuing authorizations

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1973, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives.

The Committee concurred in a staff recommendation that, in the interest of simplicity and logic, the titles of three of these instruments should be changed and that corresponding amendments should be made in the text passages of certain instruments that referred to other instruments by title. The changes in titles were as follows: from "continuing authority directive with respect to domestic open market operations" to "authorization for domestic open market operations"; from "current economic policy directive" to "domestic policy directive"; and from "authorization for System foreign currency operations" to "authorization for foreign currency operations." The text passages amended to reflect these title changes were paragraph 1 of the authorization for domestic open market operations and paragraphs 2C and 2D of the foreign currency directive.

The Committee also amended its authorization for foreign currency operations in two respects to remove certain duplications that resulted from revisions made earlier in the year in its Rules of Organization and Rules of Procedure.[7] The amendments involved deletion of paragraph 10 and a revision of paragraph 6 to read as follows:

> The Subcommittee named in Section 272.4(c) of the Committee's Rules of Procedure is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

Except for the changes resulting from these actions, the Committee reaffirmed its domestic and foreign currency authorizations and its domestic and foreign currency directives in the form in which each was outstanding at the beginning of the year 1973.

Votes for these actions: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against these actions: None.

7/ Revised Rules of Organization, Rules of Procedure, and Regulation relating to Open Market Operations of Federal Reserve Banks, as well as miscellaneous amendments to the Rules Regarding Availability of Information, as approved by the Committee on January 16, 1973, effective February 1, 1973, were published in the Federal Register for January 30, 1973.