FEDERAL RESERVE

press release

For immediate release July 16, 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 April 17, 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 April 17, 1973

1. Domestic policy directive

The information reviewed at this meeting suggested that in the first quarter of 1973 expansion in consumption expenditures had been substantially larger than estimated 4 weeks earlier and that real output of goods and services had continued to grow rapidly. Moreover, the rise in prices had accelerated sharply. Staff projections for the current quarter suggested that growth in real output, while slowing from the high rate in the preceding two quarters, would continue relatively high.

Retail sales expanded substantially in March, according to the advance report, and sales for February were now reported to have risen appreciably rather than to have declined; for the first quarter as a whole, the gain was exceptionally large. Industrial production continued to expand in March, reflecting substantial increases in output of consumer goods, business equipment, and materials. Nonfarm payroll employment rose considerably further, and for the first quarter as a whole the advance was rapid. However, the civilian labor force also increased substantially in the quarter, and the unemployment rate remained at around 5.0 per cent.

The advance in average hourly earnings of production workers on nonfarm payrolls moderated in the first quarter of the year from the rapid rate in the final months of 1972. However, total payroll costs per manhour rose sharply, reflecting the increase in social security taxes at the beginning of the year. In March, as in February, wholesale price increases were reported for many industrial materials and finished goods--including metals, lumber, petroleum products, motor vehicles, machinery, and clothing. The rise in prices of farm products and foods remained rapid, in large part because of continuing increases in prices of livestock, poultry, and meats.

The latest staff projection of growth in real output in the second quarter of 1973 was about the same as that of 4 weeks earlier. Now, however, the projected increase in business inventory investment was larger--following a reduction in the estimated rate at which businesses had added to inventories in the first quarter--while the expansion in final purchases was smaller. Expectations were that Federal purchases of goods and services would change little, after apparently increasing somewhat more in the first quarter than projected, and that consumption expenditures would rise less sharply, following the exceptional advance in the first quarter. It was still anticipated that expansion in business fixed investment and in State and local government purchases of goods and services would remain strong and that outlays for residential construction would turn down.

According to staff projections, growth in real GNP would moderate in the second half of the year. It was expected that residential construction outlays would decline further from the second-quarter rate; that both fixed investment and inventory investment by businesses would expand less rapidly; and that the rise in disposable income and consumption expenditures would slow substantially.

Foreign exchange markets in Europe and Japan--which had officially closed on March 1 and 2--reopened on March 19, but trading volume remained considerably below normal. There was a moderate flow of funds into dollars--following the enormous outflows that had occurred in February and early March--and the dollar strengthened against most major foreign currencies. In recent weeks the over-all U.S. balance of payments had been in surplus.

Merchandise exports in the first 2 months of 1973 were up sharply from the rate in the fourth quarter of 1972, reflecting substantial gains among agricultural commodities, industrial materials, and machinery. The rise in imports was not quite so large, and the trade deficit for the 2 months was below the rate of the fourth quarter.

At U.S. commercial banks, expansion in business loans moderated somewhat in March, but it remained very strong by historical standards. Growth in real estate and consumer loans remained rapid, and bank holdings of U.S. Government securities--which had declined sharply in February--increased by a moderate amount. To accommodate the strong demand for loans, banks continued to expand rapidly their outstanding volume of large-denomination CD's. Since interest rates on CD's with maturities of more than 90 days had reached Regulation Q ceilings, the great bulk of CD's issued in March had maturities between 30 and 89 days.

The narrowly defined money stock (M_1)[1/] changed little in March, and although inflows of time and savings deposits other than large-denomination CD's increased from a sharply reduced rate in February, growth in the more broadly defined money stock (M_2)[2/] moderated slightly further. Over the first quarter of 1973 as a whole, growth in M_1 and M_2--at annual rates of about 2 and 6 per cent, respectively--was markedly below the high rates that had prevailed briefly toward the end of 1972.[3/] However, the bank

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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/ 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.

credit proxy[4/] grew rapidly both in March and over the first quarter as a whole, reflecting the sharp expansion in the outstanding volume of large-denomination CD's.

Short-term interest rates continued to rise until early April, but then rates declined--especially those for Treasury bills--in part because of market expectations that a stronger wage-price control program was about to be introduced and that money market conditions would not soon tighten further. On the day before this meeting, the market rate on 3-month Treasury bills was 6.19 per cent, down from 6.55 per cent on April 3 but about the same as on the day before the March meeting. Over the inter-meeting period, on balance, rates declined for Treasury bills and for Federal agency issues with maturities of 6 months to a year, and rates advanced for large-denomination CD's not subject to Regulation Q ceilings.

Since the last meeting of the Committee, yields on intermediate- and long-term securities had declined on balance--changing little while short-term rates were rising and then declining along with short-term rates. As in the period between the February and March meetings, markets for these securities had been strengthened by foreign official buying of Treasury coupon issues and by light corporate demands for funds in the capital market. The volume of new

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

offerings of corporate bonds, which had been unusually small in February, was moderate in March and appeared likely to change little in April. For State and local government bonds, the volume of new issues was large in March but seemed likely to decline moderately in April.

The Treasury was expected to announce on April 25 the terms of its mid-May refunding. Of the maturing issues, $4.3 billion were held by the public.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages both rose somewhat in March. Inflows of savings funds to nonbank thrift institutions remained at around the slower pace to which they had fallen in February.

System open market operations since the meeting on March 19-20 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 preceding 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 12 to 16 per cent in the March-April period, while avoiding marked changes in money market conditions.

Toward the end of March, incoming data began to suggest that RPD's might grow at a rate below the specified range because of weaker-than-expected expansion in private demand deposits, and System operations were directed toward somewhat less tautness in bank reserve and money market conditions. In early April, available data continued to suggest that growth in RPD's in the March-April period would be below the specified range, but on April 11 a majority of the Committee members agreed that bank reserve and money market conditions should not be eased further in the few days before the next meeting. In those remaining days, the Federal funds rate was about 7 per cent, down slightly from the level prevailing in the days before the March meeting. In the 4 weeks ending April 11, member bank borrowings averaged about $1,850 million, compared with an average of $1,665 million in the preceding 5 weeks.

The Committee agreed that the economic situation and prospects called for moderate growth in the monetary aggregates over the months ahead, continuing the policy course agreed upon at the preceding meeting. The members took note of a staff analysis suggesting that the demand for money was likely to be stronger over the near term than it had been in the first quarter of the year, reflecting the unusually large Federal tax refunds--which would add to demand deposits temporarily--and continued strong expansion in economic activity. Although it was likely that expansion in the outstanding volume of large-denomination CD's would slow from the rapid pace in February and March, the increase was still expected to be large. Therefore, a relatively rapid rate of growth in RPD's in the April-May period was projected to be consistent with moderate growth in the monetary aggregates over the months ahead. The analysis also suggested that such a rate of growth in RPD's might be associated with little change in money market conditions and short-term interest rates in general.

The Committee decided that operations should be directed at fostering RPD growth during the April-May period at an annual rate within a range of 10 to 12 per cent, while continuing to avoid marked changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of deviations in monetary growth 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 rapid growth in real output of goods and services in the first quarter, spurred by an extraordinary increase in consumption expenditures. Over the first 3 months of this year, employment rose strongly but the unemployment rate remained about 5 per cent. The recent advance in wage rates has been more moderate than in the latter part of 1972, but the increase in social security taxes in January added significantly to payroll costs. The

rate of increase in prices stepped up very sharply in the first quarter. Prices of foods have continued to rise at wholesale and retail, and in both February and March increases in wholesale prices of industrial commodities were large and widespread. Foreign exchange markets have been relatively quiet since mid-March, and there has been a moderate reflow into dollars. The U.S. merchandise trade balance improved a little in January-February, when both exports and imports were sharply higher than in the fourth quarter of 1972.

Growth in both the narrowly and more broadly defined money stock slowed markedly in the first quarter following a bulge toward the close of last year. However, in the face of strong loan demand--especially from businesses--banks sharply increased their issuance of large-denomination CD's, and the bank credit proxy expanded very rapidly. Short-term market interest rates continued to rise until the beginning of April, but since then some rates--particularly those on Treasury bills--have declined. Rates on long-term market securities have moved down on balance in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mitchell, Morris, Robertson, Sheehan, and Winn. Votes against this action: None.

Absent and not voting: Mr. Mayo. (Mr. Winn voted as his alternate.)

2. Revision of guidelines for operations in Federal agency issues

At this meeting the Committee revised the third and fourth of the guidelines for the conduct of System operations in securities issued by Federal agencies. Initial guidelines had been approved on August 24, 1971, with the understanding that they would be subject to review and revision, and guidelines 5 and 6 had been revised on February 15 and April 17, 1972, respectively. Prior to today's action, guidelines 3 and 4 had contained references to "initial" activities. Thus, number 3 read "As an initial objective, the System would aim at building up a modest portfolio of agency issues, with the amount and timing dependent on the ability to make net acquisitions without undue market effect," and number 4 read "System holdings of maturing agency issues will be allowed to run off at maturity, at least initially." The revision of guideline 3 consisted of eliminating the outdated reference to building up a portfolio and the revision in guideline 4 consisted of deletion of the phrase "at least initially."

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mitchell, Morris, Robertson, Sheehan, and Winn. Votes against this action: None.

Absent and not voting: Mr. Mayo. (Mr. Winn voted as his alternate.)