FEDERAL RESERVE

press release

For immediate release June 2, 1975

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 14-15, 1975.

Such records are made available approximately 45 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 14-15, 1975[1/]

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services had continued to fall sharply in the first quarter of 1975, that the rise in prices had moderated, and that nominal GNP had declined. Staff projections suggested that real economic activity would recede only a little further in the second quarter and would turn up later in the year, and that the rise in prices would continue to moderate.

In March economic activity continued to decline but at a less rapid pace than in the immediately preceding months. Decreases in both industrial production and nonfarm employment, although still substantial, were not so large as in the 4 months from November through February. The rate of unemployment increased from 8.2 to 8.7 per cent, as the civilian labor force expanded after having declined sharply in February. Total retail sales were estimated to have changed little in March; although sales of automobiles declined following termination of price rebates, the reduction was offset by a further increase in sales of other consumer

1/ This meeting was held over a 2-day period, beginning on the afternoon of April 14.

items. In the first quarter as a whole, total sales were appreciably higher than in the fourth quarter of 1974, and it appeared that inventory liquidation at all levels of business had been substantial.

The advance in the index of average hourly earnings for private nonfarm production workers accelerated in March, but over the first quarter it was less rapid than during the spring and summer of 1974. The wholesale price index declined in March for the fourth consecutive month, as prices of farm and food products fell sharply further and prices of industrial commodities increased only slightly. In February, as in December and January, the rise in the consumer price index had not been so large as in most months in 1974.

In late March the President signed the Tax Reduction Act of 1975, which provided for rebates of 1974 personal income taxes and for reductions in both personal and corporate income taxes in 1975. New withholding schedules for personal income tax payments would take effect May 1. The Act also provided for one-time cash payments to recipients of social security benefits and a further lengthening of the benefit period for payment of unemployment compensation.

Staff projections suggested that in the second quarter the decline in real GNP would be considerably smaller than had been expected 4 weeks earlier and that nominal GNP would turn up. In large part, the improvement in the outlook for the second quarter reflected the expectation that inventory liquidation, while remaining rapid, would moderate from the exceptional pace now estimated for the first quarter. It was anticipated that business fixed investment would decline further, but that personal consumption expenditures would expand slightly in real terms and that residential construction would increase.

Exchange rates for the dollar against leading foreign currencies had risen since early March, as short-term interest rates abroad continued to decline relative to rates in the United States, and as market attitudes toward the dollar improved in response to indications of moderation in the rise in U.S. prices and of improvement in the U.S. foreign trade balance. For the first 2 months of the year the balance was in surplus; compared with fourth-quarter rates, exports of agricultural commodities were up and imports of commodities other than fuels were down. Moreover, net outflows of capital reported by banks--which had continued large in February--apparently diminished in March. On April 9 the Board of Governors announced a reduction, from 8 to 4 per cent, in reserve requirements on foreign borrowings by member banks.

Total loans and investments at U.S. commercial banks expanded relatively little from the end of February to the end of March, and virtually all of the expansion reflected increases in bank holdings of Treasury securities and in loans to securities dealers. Outstanding loans to businesses declined further; business demands for short-term credit remained weak both at banks and in the commercial paper market.

The narrowly defined money stock (M_1)[2/] expanded substantially in March, in part because demand deposits were increased by accelerated distribution of Federal tax refunds. Net inflows of consumer-type time and savings deposits to banks remained strong and those to nonbank thrift institutions were extremely large, in part because of the tax refunds but mainly because of relatively attractive interest rates available on such deposits. Consequently, growth in broader measures of the money stock (M_2[3/] and M_3[4/]) was rapid. Over the first quarter M_1; M_2, and M_3 were estimated to have expanded at annual rates of 3.9, 8.5, and 10.2 per cent, respectively. In March, as in February, banks reduced the outstanding volume of their large-denomination CD's in response to the growth in other deposits and the weakness in loan demand. The bank credit proxy over the first quarter grew at an annual rate of 3.2 per cent.[5/]

2/ Private demand deposits plus currency in circulation.

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

4/ M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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

System open market operations after the March 18 meeting had been guided initially by the Committee's decision to seek bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than had occurred in recent months, while taking account of developments in domestic and international financial markets. In the first statement week after the meeting, the System purchased a substantial volume of Treasury coupon and Federal agency issues in the course of reserve-supplying operations undertaken to offset the effects of a sharp rise in Treasury balances at Reserve Banks.

On March 27 available data suggested that in the March-April period the annual rates of growth in both M_1 and M_2 would be above the upper limits of the ranges of tolerance that had been specified by the Committee. During the previous statement week the Federal funds rate had averaged about 5-1/2 per cent. In light of the behavior of the aggregates, the System Account Manager would, under normal circumstances, have permitted the weekly average Federal funds rate to rise to the upper limit of its range of tolerance--namely, to 5-3/4 per cent. However, a majority of Committee members concurred in the Chairman's recommendation of March 27 that, in view of the weakness in the economy and of the sensitive conditions in financial markets, particularly the bond markets, the Manager be instructed to treat 5-1/2 per cent as the approximate upper limit for the weekly average funds rate for the time being. The funds rate fluctuated around that level until the statement week ending April 9, when a sharp decline in the Treasury balance supplied a large volume of reserves and the funds rate slipped to about 5-1/4 per cent.

Short-term market interest rates rose somewhat over the inter-meeting period, apparently because of growing expectations that the decline in interest rates was at or near an end for the time being; accelerated growth in the monetary aggregates and stability in the Federal funds rate strengthened the view that the System would not ease money market conditions further, and enactment of the tax reductions made it clear that near-term Treasury financing needs would be enlarged and also strengthened expectations of economic recovery later in the year. At the time of this meeting the market rate on 3-month Treasury bills was 5.53 per cent, compared with 5.39 per cent on the day before the last meeting.

Bond yields, which had turned up before the March meeting, increased further during the inter-meeting period. The bond markets were affected not only by the large volume of current and expected securities offerings, but also by concern over the financial positions of some State and local governmental entities. Public offerings of corporate bonds were heavy in March, and a continued large volume was in prospect for April despite many cancellations and postponements of planned issues. Yields on home mortgages declined only slightly further in the primary market and turned up in the secondary market.

The Treasury was expected to announce the terms of its mid-May financing on May 1. Of the maturing issues, \$3.8 billion were held by the public.

At this meeting the Committee reviewed its procedures for specifying desired longer-run growth rates in monetary and credit aggregates, and concluded that at present it should formulate such growth rates for four aggregates--M_1, M_2, M_3, and the bank credit proxy--in terms of ranges for annual periods. It was the consensus of the Committee that growth in these aggregates over the period from March 1975 to March 1976 at rates within the following ranges presently appeared to be consistent with its broad economic objectives: M_1, 5 to 7-1/2 per cent; M_2, 8-1/2 to 10-1/2 per cent; M_3, 10 to 12 per cent; and the bank credit proxy, 6-1/2 to 9-1/2 per cent.[6/] It was understood that these ranges, as well as the particular list of aggregates for which such ranges were specified, were subject to review and modification at subsequent meetings.

In considering current policy, the Committee took note of a staff analysis suggesting that the monetary aggregates would grow

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6/ Mr. Eastburn preferred to focus on the aggregates that he believed were most closely linked with economic activity--M_1, M_2, and perhaps the bank credit proxy--and he favored employing ranges not more than one percentage point in width. In Mr. MacLaury's view, the outlook for the economy over the coming year--specifically the expected patterns of performance of employment and prices--called for somewhat faster growth of the aggregates over the year, indexed by a 7 per cent growth rate for M_1.

at relatively rapid rates in the April-May period if prevailing money market conditions persisted. Relatively rapid growth was expected in large part because of the temporary effects of large tax rebates scheduled to begin in May, at a time when the demand for money was also being influenced by the continuing impact of earlier declines in short-term interest rates and by the rise in nominal GNP anticipated for the second quarter. Any further upward pressures on market interest rates most likely would be confined to the market for Treasury securities. It was expected that business, mortgage, and consumer demands for bank credit would remain relatively weak.

Against the background of this analysis and of its longer-run objectives for monetary and credit aggregates, the Committee decided to seek growth in M_1 and M_2 over the April-May period at annual rates with ranges of tolerance of 6-1/2 to 9 per cent and 9-1/2 to 11-3/4 per cent, respectively. The members concluded that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of 1-1/2 to 4-1/4 per cent. They agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of 4-3/4 to 5-3/4 per cent, if necessary in the course of seeking monetary growth rates within the ranges specified. The members also agreed that in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets.

The following domestic 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 fell sharply in the first quarter. However, retail sales strengthened during the quarter, and the rate of decline in over-all activity has slowed in recent weeks. In March industrial production and employment declined less than they had on average in the preceding 4 months, but the unemployment rate increased from 8.2 to 8.7 per cent, as the civilian labor force grew. Average wholesale prices of industrial commodities rose little in March and prices of farm and food products declined sharply. The advance in average wage rates during the first quarter was large, but it was still below the increases of last spring and summer.
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> The prospect of an upturn in economic activity has been strengthened by enactment of the Tax Reduction Act of 1975, which will be adding soon to growth in disposable personal income.
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> The foreign exchange value of the dollar has risen since early March, as short-term interest rates abroad have declined further and market attitudes toward the dollar have continued to improve. In January-February the U.S. foreign trade balance was in surplus, as agricultural exports reached a new high and the volume of imports other than fuels declined. Net outflows of funds through banks continued large in February but appear to have diminished in March. In early April reserve requirements on foreign borrowings by member banks were reduced from 8 to 4 per cent.
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> The narrowly defined money stock rose moderately on balance over the first quarter, while broader measures of the money stock expanded more rapidly. Growth was substantial in March, apparently in part because of

the effects of accelerated tax refunds on deposits at banks and nonbank thrift institutions. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Since mid-March short-term market interest rates have increased somewhat and longer-term yields have risen considerably further.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than has occurred on average in recent months.

Votes for this action: Messrs. Burns, Hayes, Baughman, Coldwell, Holland, MacLaury, Mayo, Mitchell, and Wallich. Vote against this action: Mr. Eastburn. Absent and not voting: Messrs. Bucher and Sheehan.

Mr. Eastburn dissented from this action because he preferred to retain the previous 5-1/2 per cent upper limit on the intermeeting range for the Federal funds rate. While he believed that firmer money market conditions might prove to be necessary later on in the year, he thought any such firming would be inappropriate at this time, given the sensitive state of financial markets, the continued weakness in the economy, and his preference for seeking more rapid growth in the monetary aggregates in the near term than would be desirable over the longer run.