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 July 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 July 15, 1975

## Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services had leveled off in the second quarter of 1975, as consumer spending had continued to strengthen, and that the rise in prices had moderated further. Staff projections for the second half of the year, like those of 4 weeks earlier, suggested that real economic activity would expand and that the rise in prices, on the average, would slow from the pace in the first half.

In June retail sales had expanded somewhat further, according to the advance report, and sales for the second quarter as a whole were up considerably from the first quarter. Industrial production rose slightly in June, following 8 months of decline. Nevertheless, it appeared that producers and distributors in many industries were continuing their efforts to liquidate inventories; total business inventories had declined appreciably in the preceding 4 months. After increasing for 2 months, total employment was stable in June. The calculated unemployment rate declined substantially, but the drop was attributed mainly to seasonal adjustment problems associated with the influx of younger persons into the labor market at the end of the school year.

The advance in the index of average hourly earnings for private nonfarm production workers moderated further from the first to the second quarter of the year. Average wholesale prices of industrial commodities rose somewhat more in June than in the preceding 3 months, mainly because of increases in prices of crude oil and refined petroleum products; over the first half of the year the rise in industrial commodity prices was sharply below the rapid pace in 1974. Wholesale prices of farm and food products declined appreciably in June. In May the rise in the consumer price index had slowed, after a pick-up in April.

Staff projections for the second half of 1975 continued to suggest moderate recovery in real output and substantial gains in nominal GNP. It was still anticipated that the recovery would be spurred by rapid growth in consumption expenditures in response to the expansive income tax measures, by increases in residential construction, and by a marked slowing in business inventory liquidation from the exceptionally rapid rate in the first half of the year. As before, it was anticipated that business fixed investment would decline somewhat further in real terms and that imports would rise at a faster pace than exports as economic activity expanded in this country.

The average exchange value of the dollar against leading foreign currencies--which had changed little for about 3 months--rose appreciably in late June and early July, in large part as a result of a rise in short-term interest rates on dollar assets relative to comparable rates on assets denominated in major foreign currencies. In May U.S. merchandise imports fell more sharply than exports, and the foreign trade surplus was substantial. Banks' claims on foreigners increased considerably in May while their liabilities to foreigners declined slightly; the result was a sizable net outflow of funds compared with a small net inflow in April.

Total loans and investments at U.S. commercial banks changed little during June. As in the preceding 4 months, total loans declined; outstanding loans to businesses fell sharply further--as did the outstanding volume of commercial paper issued by nonfinancial businesses--in association with continued inventory liquidation and heavy corporate financing in the capital market. Banks again added substantially to their holdings of U.S. Government securities.

Expansion in demand deposits and in consumer-type time and savings deposits at banks and at nonbank thrift institutions--already strong in May--was extremely rapid in June, in part because of Federal income tax rebates and of supplementary social security payments; over the second quarter of the year, $M_1$, $M_2$, and $M_3$ grew at annual rates of about 11, 13, and 15 per cent, respectively. Weekly data suggested that the aggregates had begun to weaken late in the month, after completion of the special disbursements by the Treasury.

System open market operations since the June 16-17 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead. Data that had become available soon after the June meeting suggested that in the June-July period the aggregates would grow at rates above the upper limits of the ranges of tolerance that had been specified by the Committee. Therefore, System operations persistently had been directed toward some tightening in bank reserve and money market conditions. In the last 3 days of the statement week ending June 25 the Federal funds rate was close to 6 per cent--the upper limit of the range of tolerance specified at the June meeting--compared with a level between 5-1/4 and 5-1/2 per cent at the time of that meeting.

On June 26 a majority of the members concurred in the Chairman's recommendation that the upper limit of the funds rate constraint be raised to 6-1/4 per cent, on the understanding that the additional leeway would be used only if another week's data confirmed excessive strength in the aggregates. However, data that had become available for the statement week ending July 2, and then for the week ending July 9, suggested that the aggregates had begun to weaken. Accordingly, the System sought no further tightening in bank reserve and money market conditions. For a short time around midyear Federal funds traded above 6 per cent, as a result of special pressures in the market associated with the June 30 statement date for banks and with the Independence Day holiday.

Short-term interest rates had risen appreciably since the June meeting of the Committee, partly in response to the firming in money market conditions. The rise in rates on Treasury bills was exceptionally large, in part because rates had declined earlier in anticipation of a seasonal decline in the supply of bills in late June. At the time of this meeting the market rate on 3-month Treasury bills was 6.03 per cent, up from a low of 4.88 per cent on June 16.

Yields on longer-term Treasury and corporate securities also increased appreciably during the inter-meeting period, in response to the tightening in money market conditions and to exceptionally heavy demands in the capital market. Public offerings of both corporate bonds and State and local government issues expanded to new records in June, and a large volume of offerings was in prospect for July. Moreover, the Treasury auctioned $1.75 billion of 4-year notes on June 25 and indicated that it would auction $1.5 billion of 2-year notes in late July.

The Treasury was expected to announce the terms of its mid-August refunding on July 23. Of the maturing issues, $4.8 billion were held by the public.

At its previous meeting, the Committee had agreed that growth in the monetary and credit aggregates over the 12 months to June 1976 from the estimated levels for June 1975 within the following ranges would 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. In view of the erratic movements of monthly figures on money balances--as illustrated by the unexpectedly large rise in monetary aggregates in June--the Committee decided that the percentage ranges should apply to the period from the second quarter of 1975 to the second quarter of 1976, rather than from June to June. As before, it was understood that the ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that from month to month short-run factors might cause the rates of growth of the various aggregates to fall outside the ranges contemplated for annual periods.

In considering current policy, the Committee took note of a staff analysis suggesting that growth in monetary aggregates would slow considerably in July from the extremely rapid pace in May and June associated with the Federal income tax rebates and social security payments. In the course of the Committee's discussion, it was noted that growth in the monetary aggregates in May and June had been appreciably above expected rates, and that bank reserve and money market conditions had been permitted to firm somewhat as a consequence. It was also noted that the economy apparently was in the process of recovering from the recession and that a strengthening in the underlying demands for money and bank credit was in prospect.

In the circumstances, no member advocated operations to ease bank reserve and money market conditions in the period immediately ahead unless the monetary aggregates were considerably weaker than expected, and some suggested that a modest firming might be appropriate at this time. A number of members indicated that they would prefer to maintain about the prevailing conditions for the time being, in light of the uncertainties about the strength of the economic recovery and of the relatively high levels of market interest rates for the present stage of the cycle. However, these members were prepared to accept some firming in coming weeks if necessary to slow monetary growth substantially from the rapid pace in recent months.

At the conclusion of the discussion, the Committee decided to seek bank reserve and money market conditions over the period immediately ahead about the same as those now prevailing, provided that growth in monetary aggregates appeared to be slowing substantially from the bulge during the second quarter. Specifically, the members agreed that growth in $M_1$ and $M_2$ over the July-August period at annual rates within ranges of tolerance of 3 to 5-1/2 per cent and 8 to 10-1/2 per cent, respectively, would be acceptable. Such growth rates were thought likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of -2 to +1/2 per cent. The members agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion within a range of 5-1/2 to 6-3/4 per cent, depending on the behavior of the monetary aggregates. The members also concluded 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 leveled off in the second quarter of the year, as consumer spending continued to strengthen. Activity in residential real estate markets has picked up in recent months. In June industrial production rose slightly, following 8 months of decline. The calculated unemployment rate declined substantially, but this was attributed mainly to problems of seasonal adjustment. Average wholesale prices of industrial commodities rose somewhat more in June than in the preceding 3 months, chiefly because of increases in prices of petroleum products, but prices of farm and food products declined appreciably. From the first to the second quarter of the year, the advance in average wage rates continued to moderate.
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> In recent weeks the average exchange value of the dollar against leading foreign currencies has risen considerably, as interest rates on U.S. dollar assets increased relative to rates on foreign currency assets after mid-Jene. In May the U.S. foreign trade balance registered a substantial surplus, as imports dropped more sharply than exports. U.S. banks reported a sizable increase in claims on foreigners, while liabilities to foreigners were reduced slightly.

Growth in $M_1$, $M_2$, and $M_3$--which was substantial in May--was extremely rapid in June, in part because of Federal income tax rebates and of supplementary social security payments; beginning late in the month, after completion of such payments, the aggregates weakened. Business demands for short-term credit remained unusually weak both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Market interest rates in general have risen appreciably 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 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 maintain about the prevailing bank reserve and money market conditions over the period immediately ahead, provided that growth in monetary aggregates appears to be slowing substantially from the bulge during the second quarter.

Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, Jackson, MacLaury, Mayo, Wallich, and Debs. Vote against this action: Mr. Holland.

Absent and not voting: Messrs. Hayes and Mitchell. (Mr. Debs voted as alternate for Mr. Hayes.)

Mr. Holland dissented from this action because he believed that present circumstances did not warrant providing for a possible rise in the Federal funds rate to a level as high as 6-3/4 per cent in the period until the next meeting. He preferred to maintain bank reserve and money market conditions in the inter-meeting period closer to those now prevailing, in the expectation that by the next meeting the unwinding of the recent bulge in monetary aggregates caused by unusual Treasury payments would have proceeded far enough to permit monetary policy decisions to be related more closely to underlying trends in the aggregates.