FEDERAL RESERVE
press release

For immediate release October 6, 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 August 19, 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 August 19, 1975.

1. Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services--after having fallen sharply for two quarters--had bottomed out in the second quarter of 1975 and was likely to increase appreciably in the current quarter. Staff projections suggested that expansion in output would remain strong in the fourth quarter. It was expected that the rate of increase in prices--which had moderated earlier this year--would be somewhat more rapid in the third and fourth quarters.

In July retail sales continued to expand at a vigorous pace, in real as well as in dollar-value terms. Industrial production--which had turned up in June after 8 months of decline--rose moderately further, reflecting in large part gains in output of consumer goods. The average workweek of production workers in manufacturing industries increased considerably, and employment in nonfarm establishments also rose. Although the civilian labor force increased, after having contracted in June, the unemployment rate declined further, from 8.6 to 8.4 per cent.

The advance in the index of average hourly earnings for private nonfarm production workers, which had continued to moderate in the second quarter of the year, was relatively slow in July. The wholesale price index rose sharply, in large part because of substantial increases in prices of grains, hogs, meats, and some other foods and foodstuffs; among industrial commodities, prices of fuels and related products and power rose significantly. In June the rise in the consumer price index had accelerated again, reflecting mainly increases in retail prices of foods and fuels.

Staff projections for the second half of 1975, compared with those of 5 weeks earlier, suggested a larger rise in prices and a more vigorous recovery in output. The faster rate of expansion in real GNP reflected for the most part a more marked slowing in business inventory liquidation from the sharp rate of liquidation in the second quarter. Business fixed investment outlays now were projected to strengthen late in the year. As before, it was anticipated that real consumption expenditures would increase at a rapid pace and that residential construction also would expand but that exports would rise less than imports.

The average exchange value of the dollar against leading foreign currencies--which had begun to appreciate in late June--rose considerably further between mid-July and mid-August, reflecting a continued rise in short-term interest rates on dollar assets relative to comparable rates on assets denominated in other currencies. Moreover, a large increase in the U.S. foreign trade surplus was reported for June--when exports increased sharply while imports declined slightly further--and the surplus for the second quarter as a whole was substantially greater than for the first quarter.

Total loans and investments at U.S. commercial banks expanded moderately in July. On a seasonally adjusted basis, outstanding loans to businesses changed little, and the outstanding volume of commercial paper issued by nonfinancial businesses rose somewhat, following several months of decline. Banks continued to add to their holdings of U.S. Government securities, but not at so rapid a pace as in earlier months of this year. Most major banks raised the prime rate from 7 to 7-3/4 per cent, owing in part to recent increases in short-term market interest rates.

M_1 increased relatively little in July, after having grown extremely rapidly in May and June in association with disbursement of Federal income tax rebates and of supplementary social security payments. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions--which also had been augmented by the special Treasury payments--slowed in July, but they were still fairly large; growth in M_2 and M_3, although substantially below the pace in the preceding 2 months, was moderate.

System open market operations since the July 15 meeting had been guided by the Committee's decision to maintain about the prevailing bank reserve and money market conditions, provided that growth in monetary aggregates appeared to be slowing substantially from the bulge during the second quarter. Data that had become available immediately after the July meeting suggested that in the July-August period the aggregates would grow at rates above the upper limits of the ranges of tolerance that had been specified by the Committee. Accordingly, System operations had been directed toward a slight firming in bank reserve and money market conditions, and the Federal funds rate had risen to the vicinity of 6-1/8 to 6-1/4 per cent in the latter part of July from about 6 per cent at the time of the July meeting. Later data suggested that growth in the aggregates would be within the specified ranges, and System operations were directed toward maintaining steady conditions.

On July 23 the Treasury announced that it would auction up to $5.8 billion of notes and bonds, of which $4.8 billion represented refunding of publicly held notes that were to mature on August 15. In auctions on July 29, 30, and 31, respectively, the Treasury sold $3 billion of 2-3/4-year notes at an average price to yield 7.94 per cent, $2 billion of 7-year notes at an average price to yield 8.14 per cent, and $800 million of 25-year bonds at an average price to yield 8.44 per cent. On August 6 the Treasury announced that over the following 2 weeks it would sell 2-year and 4-year notes and additional amounts of bills to raise $6 billion in new cash.

Market interest rates in general had risen appreciably further since the July meeting of the Committee, in response to indications of the strengthening in economic activity, to the pick-up in the rate of increase in prices, to the large current and prospective financing requirements of the Treasury, and to the firming in money market conditions. In the short-term market, rates on Treasury securities had risen somewhat more than those on private instruments. On the day before this meeting, the rate on 3-month Treasury bills was 6.42 per cent, up about 40 basis points from the rate at the time of the July meeting.

In markets for longer-term securities, upward pressures were also greater for Government than for private securities, reflecting the heavy offerings of Treasury coupon issues. Conditions in the market for State and local government securities were adversely affected by the uncertainties stemming from the financing problems of New York City. Offerings of such securities were large in July, but a decline was in prospect for August. On the other hand, upward pressures on corporate bond yields were dampened by cancellation or postponement of some new issues that had been scheduled for marketing in August. The volume of public offerings of corporate bonds fell in July from the record high of June, and a further decline was in prospect for August.

A staff analysis suggested that growth in monetary aggregates would pick up moderately in the August-September period from the reduced rate in July, in part because of the gathering strength in economic activity. It was further suggested that if nominal GNP were to expand over the second half of the year at about the rates now projected, the demand for money would strengthen considerably.

At its previous meeting, the Committee had agreed that growth in the monetary and credit aggregates on the average over the period from the second quarter of 1975 to the second quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: 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. 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 the course of the Committee's discussion of current policy at this meeting, it was noted that the economic recovery appeared to have gained strength over the past month--suggesting that expansion in activity would be relatively vigorous over the second half of the year--and that inflationary expectations had increased. It was also suggested, however, that financial markets had over-reacted to the minor tightening in bank reserve and money market conditions that had occurred over the past 2 months; that financial markets in general were unsettled, in part because of the financial problems of New York City and the possible repercussions of those problems; and that interest rates were high for this stage of the business cycle. In the circumstances, most members advocated maintenance of about the prevailing bank reserve and money market conditions in the period immediately ahead, provided that the monetary aggregates appeared to be growing in the August-September period at about the moderate rates expected. However, some members advocated a slight further firming in bank reserve and money market conditions in order to restrain monetary expansion later on.

The Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Specifically, the members agreed that growth in M_1 and M_2 over the August-September period at annual rates within ranges of tolerance of 4-1/2 to 7 per cent and 8-1/4 to 10-3/4 per cent, respectively, would be acceptable. Such growth rates were thought likely to involve an annual rate of change in reserves available to support private nonbank deposits (RPD's) within a range of -1-1/2 to -4 per cent.

The members agreed that in the period until the next meeting the weekly average for the Federal funds rate might be expected to vary in an orderly fashion within a range of 5-3/4 to 7 per cent, although it was understood that operations would not be directed toward establishing reserve conditions consistent with a movement in the rate above or below the current 6-1/8 to 6-1/4 per cent area unless it appeared that in the August-September period growth in the monetary aggregates would be substantially stronger or weaker than now expected. It was also understood that the Chairman might call upon the Committee to consider 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 domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that output of goods and services bottomed out in the second quarter and is likely to increase appreciably in the current quarter. In July retail sales expanded further and industrial production rose moderately for the second consecutive month, following 8 months of decline. Conditions in labor markets improved further: employment increased, the unemployment rate declined from 8.6 to 8.4 per cent, and the average workweek in manufacturing lengthened considerably. Average wholesale prices rose sharply in July, chiefly because of increases in prices of agricultural and energy products. The advance in average wage rates has continued to moderate over recent months.
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> In recent weeks the average exchange value of the dollar against leading foreign currencies has risen considerably further, reflecting additional increases in interest rates on U.S. dollar assets relative to rates on foreign currency assets. In June the U.S. foreign trade surplus rose substantially, as exports increased sharply while imports declined slightly further.

In July M_1 increased relatively little and growth in M_2 and M_3 slowed substantially, following a sharp increase in depositors' balances in May and June in connection with Federal income tax rebates and supplementary social security payments. Market interest rates in general have risen appreciably further in recent weeks, in association with indications of strengthening economic activity, more rapid inflation, and larger current and prospective Treasury financing requirements. Corporate bond offerings moderated somewhat in July but State and local government offerings continued large. Financial markets reflected considerable uncertainty stemming from New York City's financing problems. Business demands for short-term credit remained weak, although less so than in earlier months.

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 contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Volcker, Baughman, Bucher, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Subsequent to the meeting, on September 5, the available data suggested that in the August-September period M_1 would grow at a rate in the lower part of the range of tolerance that had been specified by the Committee and that M_2 would grow at a rate just below the lower limit of its range. In view of the likelihood of substantial strengthening in demands for money and credit over coming months, it appeared that a decline in the Federal funds rate at this time might have to be reversed shortly--a sequence that could seriously compound uncertainties in financial markets. Therefore, Chairman Burns recommended that until the next meeting of the Committee the Manager be instructed to continue to maintain reserve conditions consistent with a Federal funds rate in the 6-1/8 to 6-1/4 per cent area, while leaning toward the lower figure. Available members of the Committee concurred in the Chairman's recommendation.

2. Authorization for domestic open market operations

On August 6, 1975, Committee members had voted to increase from $2 billion to $3 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury, specified in paragraph 2 of the authorization for domestic open market operations, effective immediately, for the period until the close of business on August 19, 1975.

Votes for this action: Messrs. Burns, Bucher, Coldwell, Eastburn, Mitchell, Volcker, Wallich, Balles, and Francis. Votes against this action: None.

Absent and not voting: Messrs. Baughman, Holland, Jackson, MacLaury, and Mayo. (Messrs. Balles and Francis voted as alternates for Messrs. MacLaury and Baughman, respectively.)

This action, which was ratified at today's meeting, was taken on the recommendation of the System Account Manager. At the time of the recommendation, Treasury balances at Federal Reserve Banks were in overdraft in the amount of $651 million. Overdrafts were expected to continue until August 18 or 19, and it appeared possible that Treasury cash borrowing from the System substantially in excess of the $2 billion limit would be required.

3. Authorization for foreign currency operations

The Committee approved an increase from $180 million to $360 million in the System's swap arrangement with the Bank of Mexico and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, effective after review and approval by Chairman Burns following resolution of certain technical matters. The Chairman approved the increase on August 29, 1975. With this change, paragraph 2 of the authorization read as follows:

> The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Votes for this action: Messrs. Burns, Volcker, Baughman, Bucher, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

This action was taken in order to expand the facilities available for coping with the possible temporary pressures on the peso.