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 February 17-18, 1976.

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 February 17-18, 1976[1/]

1. Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services--which had increased at an annual rate of 5.4 per cent in the fourth quarter of 1975, according to preliminary estimates--was continuing to expand at a moderate pace in the current quarter and that the rise in prices was near the fourth-quarter rate. Staff projections for the second quarter of this year suggested that growth in output would remain moderate and that the rate of increase in prices would change little.

In January retail sales had remained close to the high level reached in December, according to the advance report. Reflecting widespread gains--especially among nondurable goods--industrial production was estimated to have recovered further. Nonfarm payroll employment--which had increased appreciably in December--expanded even more in January. In manufacturing, gains in employment were sizable and the average workweek, which had lengthened considerably in December, increased a little further. The unemployment rate dropped from 8.3 to 7.8 per cent.

1/ This meeting was held over a 2-day period, beginning on the afternoon of February 17.

The index of average hourly earnings for private nonfarm production workers rose sharply in January, but a significant part of the rise reflected an increase in the minimum wage as of the first of the month. Increases in wholesale prices of industrial commodities were again pervasive, but the rise in the average was somewhat less than in November and December; average prices of farm products and foods declined appreciably further. In December the consumer price index had risen slightly less than in the preceding 2 months, reflecting smaller increases in prices of foods and energy.

Staff projections for the first half of 1976 suggested that growth in real output would be somewhat stronger than had been suggested 4 weeks earlier. The greater strength was attributed in large part to a sizable shift in nonfarm business inventories from liquidation in the fourth quarter of 1975 to accumulation in the first half of this year and to somewhat larger gains in personal consumption expenditures. It was still anticipated that residential construction and business fixed investment would continue to recover but that exports of goods and services would rise less than imports.

The trade-weighted value of the dollar had changed little over the 4 weeks since the January meeting of the Committee. Foreign exchange markets had been unsettled at times, but the disturbances had affected primarily the Italian lira, the French franc, and a few other European currencies--some of which moved considerably. In December merchandise imports rose considerably more than exports, reflecting recovery in imports of industrial supplies; the foreign trade surplus, although not so large as in most other months last year, was still substantial. Bank-reported private capital movements shifted to a net outflow in December.

Total loans and investments at U.S. commercial banks--after having declined appreciably in December--increased somewhat in January, reflecting for the most part another large increase in bank holdings of Treasury securities. Outstanding loans to businesses rose slightly while the outstanding volume of commercial paper issued by nonfinancial corporations expanded substantially. In late January most banks reduced the prime rate applicable to large business borrowers from 7 to 6-3/4 per cent.

M_1, which had declined in December and grown at an annual rate of 2.5 per cent from the third to the fourth quarter, increased at an annual rate of about 1.5 per cent in January. However,

M_2 and M_3 expanded at annual rates of about 11 per cent in January, after having grown from the third to the fourth quarter at annual rates of about 6 and 9 per cent, respectively. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's expanded substantially in January; inflows into savings accounts were especially large, as short-term market interest rates continued to decline early in the month and fell below Regulation Q ceiling rates on such accounts.

System open market operations in the inter-meeting period had been guided by the Committee's decision to maintain the bank reserve and money market conditions prevailing at the time of the January meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data that became available week by week suggested that in the January-February period M_1 would grow at a rate near the lower limit of the range of tolerance that had been specified by the Committee but that M_2 would grow at a rate near the upper limit of its range of tolerance. Therefore, operations were directed toward maintaining the Federal funds rate close to 4-3/4 per cent, the level prevailing at the time of the January meeting. Throughout the inter-meeting period, the rate was close to 4-3/4 per cent.

Short-term market interest rates--which had declined appreciably from mid-December to mid-January--drifted down somewhat further in late January, when market participants apparently anticipated further easing in money market conditions. When the easing failed to develop, however, most short-term rates returned to about the levels prevailing at the time of the January meeting. For example, the rate on 3-month Treasury bills was around 4.85 per cent at the time of this meeting, compared with around 4.80 per cent 4 weeks earlier.

In longer-term markets, interest rates also changed little over the inter-meeting period. In part because of declines that had occurred in rates earlier, the volume of publicly offered corporate bonds expanded in January. Mortgage interest rates declined somewhat, in response to the earlier decreases in other rates and to the strong inflows of deposits to thrift institutions.

On January 27 the Treasury announced that it would sell $6.9 billion of notes and bonds to refund $4.3 billion of publicly held notes that were to mature on February 15 and to raise $2.6 billion of new cash. In auctions on February 5 the Treasury sold $3 billion of 3-year notes and $0.4 billion of 29-year 3-month bonds at average prices to yield 7.05 per cent and 8.09 per cent, respectively. For the remaining \$3.5 billion, the Treasury offered 7-year, 8 per cent notes at par. However, subscriptions for these notes--which had a yield somewhat higher than that on outstanding issues of similar maturity--amounted to \$29 billion, and on February 4 the Treasury accepted \$6 billion of them. On February 13 the Treasury announced that it would auction \$2.5 billion of 21-month notes to raise new cash from the public.

At its January meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the fourth quarter of 1975 to the fourth quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1, 4-1/2 to 7-1/2 per cent; M_2, 7-1/2 to 10-1/2 per cent; and M_3, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was understood that the longer-term 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, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money--at current levels of short-term interest rates--might be expected to pick up in association with expansion in economic activity. Moreover, growth in M_1 might be temporarily bolstered by refunds of Federal income tax payments--which, beginning in the latter part of February, were expected to be even larger than a year earlier. At the same time, however, growth in time and savings deposits other than large-denomination CD's might moderate from the rapid pace in January, as payments were made for the new 7-year note being issued by the Treasury.

During the discussion it was noted that the economic situation and outlook had improved in recent weeks, and almost all Committee members indicated that they favored essentially no change in policy. The Committee decided that operations in the period immediately ahead should be directed toward maintaining the bank reserve and money market conditions now prevailing, characterized by a Federal funds rate of about 4-3/4 per cent, provided that monetary aggregates appeared to be growing at about the rates currently expected. The members concluded that growth in M_1 and M_2 over the February-March period at annual rates within ranges of tolerance of 5 to 9 per cent and 9 to 13 per cent, respectively, would be acceptable. Mainly because the outstanding volume of large-denomination CD's was projected to decline substantially over the 2-month period, it was expected that these growth rates for the monetary aggregates would be associated with an annual rate of decline in reserves available to support private nonbank deposits (RPD's) between 1/2 and 4-1/2 per cent.

The members agreed that, should the aggregates appear to be deviating significantly from the midpoints of their specified ranges, the weekly-average funds rate might be expected to vary in an orderly fashion within a range of 4-1/4 to 5-1/4 per cent. The Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to M_1 and M_2.

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 is continuing to expand at a moderate rate in the current quarter. In January retail sales remained at an advanced level and recovery in industrial production continued. Gains in nonfarm employment were large and widespread and the unemployment rate dropped from 8.3 per cent to 7.8 per cent. Average wholesale prices of industrial commodities increased somewhat less than in the

preceding 2 months, and average prices of farm products and foods declined appreciably further. The index of average wage rates advanced substantially in January, but a significant part of the rise reflected an increase in the minimum wage on the first of the month.

The trade-weighted value of the dollar has changed little over the past 4 weeks. There have been disturbances in foreign exchange markets affecting primarily European currencies, and rates for several currencies have moved considerably. In December the foreign trade surplus was substantial, although not as large as in other recent months, and bank-reported private capital movements shifted to a net outflow.

M_1, which had declined in December, increased only a little in January, but M_2 and M_3 rose considerably. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's expanded substantially. Inflows into savings accounts were especially large in January, as short-term market interest rates continued to decline early in the month and fell below Regulation Q ceiling rates on such accounts. In recent weeks, interest rates on both short- and long-term securities have changed little, while mortgage interest rates have declined somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued 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 maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Partee, and Wallich. Votes against this action: None. Absent and not voting: Mr. Gardner.

2. Amendment to authorization for foreign currency operations

At this meeting the Committee amended paragraph 6 of the authorization for foreign currency operations in order to create a new Foreign Currency Subcommittee, to which the Committee would delegate special duties in the foreign currency area. Previously, the Committee had delegated such duties to a standing Subcommittee, designated in the Committee's rules of procedure, consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors. The amendment creating the new Subcommittee provided for the same membership, with the addition of such other member of the Board as the Chairman might designate. It was contemplated that the Chairman would designate the member of the Board having particular responsibilities for international matters. With this amendment, paragraph 6 read as follows:

> 6. The Foreign Currency Subcommittee 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. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman

of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). All actions taken by the Foreign Currency Subcommittee under this paragraph shall be reported promptly to the Committee.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Partee, and Wallich. Votes against this action: None. Absent and not voting: Mr. Gardner.