

Meeting of Federal Open Market Committee

July 16, 1974

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, July 16, 1974, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Black
Mr. Bucher
Mr. Clay
Mr. Holland
Mr. Kimbrel
Mr. Mitchell
Mr. Sheehan
Mr. Wallich
Mr. Winn

Messrs. Coldwell, Mayo, and Morris, Alternate
Members of the Federal Open Market Committee

Messrs. Eastburn, Francis, and Balles, Presidents
of the Federal Reserve Banks of Philadelphia,
St. Louis, and San Francisco, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Partee, Senior Economist
Mr. Axilrod, Economist (Domestic Finance)
Messrs. Brandt, Davis, Doll, Gramley,
Hocter, Pierce, and Reynolds,
Associate Economists

Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Coyne, Assistant to the Board of Governors
Mr. Wonnacott, Associate Director, Division of International Finance, Board of Governors
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Wendel, Assistant Adviser, Division of Research and Statistics, Board of Governors
Miss Pruitt, Economist, Open Market Secretariat, Board of Governors
Mrs. Ferrell, Open Market Secretariat Assistant, Board of Governors

Mr. Van Nice, First Vice President, Federal Reserve Bank of Minneapolis
Messrs. Eisenmenger, Boehne, Scheld, and Sims, Senior Vice Presidents, Federal Reserve Banks of Boston, Philadelphia, Chicago, and San Francisco, respectively
Messrs. Snellings, Jordan, and Green, Vice Presidents, Federal Reserve Banks of Richmond, St. Louis, and Dallas, respectively
Mr. Kareken, Economic Adviser, Federal Reserve Bank of Minneapolis
Ms. Tschinkel, Manager, Securities Department, Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on June 18, 1974, were approved.

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The memorandum of discussion for the meeting of the Federal Open Market Committee held on June 18, 1974, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period June 18 through July 15, 1974, were approved, ratified, and confirmed.

By unanimous vote, renewal for further periods of 3 months of System drawings on the National Bank of Belgium, the Swiss National Bank, and the Bank for International Settlements, maturing in the period August 2-15, 1974, was authorized.

A proposed letter from Chairman Burns to the Secretary of the Treasury, concerning possible use by the Bank of Italy of its swap line with the Federal Reserve, was approved.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 18 through July 15, 1974, were approved, ratified, and confirmed.

With Mr. Bucher dissenting, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions for the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real output of goods and services changed little in the second quarter and that no significant expansive forces appear to be emerging. The over-all rate of price rise, while very large, was not quite so rapid in the second as in the first quarter, but the advance in wage rates accelerated. In June industrial production was unchanged, following 2 months of moderate advance, while nonfarm payroll employment edged down. The unemployment rate remained at 5.2 per cent. Wholesale prices of farm and food products declined substantially further, but increases among industrial commodities continued widespread and extraordinarily large.

Since mid-May the dollar has appreciated somewhat against leading foreign currencies. In June there was a large increase in foreign official assets in the United States, mainly reflecting investments by oil-exporting countries. The foreign trade deficit increased sharply in May, as exports declined and imports rose further.

Growth in the narrowly defined money stock was somewhat more rapid in June than in May; growth during the second quarter was close to the 7 per cent first-quarter pace. Net inflows of consumer-type time deposits at banks and at nonbank thrift institutions increased in June, but deposit experience at the nonbank institutions deteriorated late in the month. Growth in business loans and in total bank credit slowed in June, and banks added much less to their outstanding volume of large-denomination CD's than in April and May. Private market interest rates have risen substantially in recent weeks, and in association with uneasy conditions in financial markets, yield spreads between prime and lower quality issues have widened. Yields on long-term Government securities have increased relatively little, and those on Treasury bills have declined somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury refunding and of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead.

By unanimous vote, the guidelines for the conduct of System operations in Federal agency issues were amended, effective immediately, to delete guidelines numbered 4 and 7, and to renumber the remaining guidelines as 4, 5 and 6.

By unanimous vote, paragraph 1(b) of the Authorization for Domestic Open Market Operations was amended, effective immediately, to read as follows:

(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$500 million.

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It was agreed that the next meeting of the Committee would be held on Tuesday, August 20, 1974, at 9:30 a.m.

The meeting adjourned.


Secretary