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 June 18-19, 1973.

Such records are made available approximately 90 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 June 18-19, 1973[1/]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 8 per cent in both the last quarter of 1972 and the first quarter of 1973, was growing at a less rapid pace in the current quarter. Staff projections continued to suggest that growth would moderate further in the second half of the year.

In May industrial production continued to rise--reflecting for the most part further gains in output of consumer goods and business equipment--but the pace of expansion was less rapid than it had been earlier in the year. The value of new construction put in place in both April and May changed little from the monthly average for the first quarter. Growth in nonfarm payroll employment slowed from the high rate in the first quarter of the year, but the unemployment rate remained at 5 per cent. Retail sales rose in May, according to the advance report, after having declined more sharply in April than had been reported earlier; the average for the 2 months was close to the average for the first quarter.

1/ This meeting was held over a 2-day period beginning on the afternoon of June 18, 1973, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

The advance in average hourly earnings of production workers on nonfarm payrolls, which had been moderate in the first 4 months of 1973, remained so in May. However, this year's upward spiral in the wholesale price index continued, reflecting another substantial rise in prices of industrial commodities as well as a large increase in prices of farm and food products. In April the uptrend in the consumer price index was sustained at about the fast pace of the preceding 3 months. On June 13 the President announced that prices of all goods and services--except for rents and for prices of raw agricultural commodities sold at the farm level--would be frozen for a period not to exceed 60 days while a new and more effective system of controls was being devised to replace the economic stabilization program's third phase, which had been introduced in mid-January. Wages, profit margins, dividends, and interest rates remained subject to the controls that had existed under Phase III.

The latest staff projections for the second half of 1973 were very similar to those of 4 weeks earlier, although business fixed investment now was expected to expand at a somewhat less rapid pace, as suggested by the latest Department of Commerce survey of business spending plans. It was still anticipated that residential construction outlays would decline appreciably, that business inventory investment would increase less rapidly, and that the rise in disposable income and consumption expenditures would slow considerably.

In foreign exchange markets, the dollar came under strong selling pressure in early May, chiefly against those continental European currencies that were jointly floating against the dollar. Speculative demands were reflected in appreciation of those currencies floating against the dollar rather than in additions to foreign official holdings of dollars. By the date of this meeting, several of the European currencies had appreciated by as much as 7 to 10 per cent since early May.

The U.S. merchandise trade balance, which had improved substantially in March, was in surplus in April for the first time in about a year and a half. Exports of nonagricultural goods rose further while those of agricultural goods were near the high level reached in March. The value of imports declined, even though import prices rose sharply as a result largely of the devaluation of the dollar in February.

At U.S. commercial banks, total loans expanded sharply further in May, reflecting large increases in business loans and in loans to nonbank financial institutions. Banks' holdings of securities rose somewhat, although their holdings of U.S. Government securities declined appreciably. Faced with strong demands for loans and with rising market interest rates, banks raised the prime rate applicable to large corporations in three steps of 1/4 of a percentage point each, from 6-3/4 per cent at the end of April to 7-1/2 per cent in early June.

Growth in the narrowly defined money stock (M_1),[2/] which had been very slow in the first quarter of the year and had picked up in April, was rapid in May and early June. The more broadly defined money stock (M_2)[3/] also grew in May at a faster pace than it had earlier, reflecting solely the accelerated expansion in M_1; inflows of time and savings deposits other than large-denomination CD's were about the same as in April. However, growth in the bank credit proxy[4/] continued to moderate as the outstanding volume of large-denomination CD's grew less rapidly than they had earlier in the year. It appeared that over the first half of 1973, M_1, M_2, and the credit proxy would grow at annual rates of about 5.5, 7.5, and 13.0 per cent, respectively.[5/]

Inflows of savings to nonbank thrift institutions--which had slowed considerably in April, in part because of earlier increases in market interest rates--picked up somewhat in May. Mortgage interest rates continued to edge up.

System open market operations since the meeting on May 15 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat slower growth in the monetary aggregates over the months immediately ahead than had occurred on average in the preceding 6 months. Operations had

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

5/ Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period.

been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 9 to 11 per cent in the May-June period, while avoiding marked changes in money market conditions.

Soon after the May meeting, it had appeared that in the May-June period the monetary aggregates would grow at rates in excess of acceptable ranges and that RPD's would grow at an annual rate above the range that the Committee had specified. Consequently, the System had acted promptly to resist the expansion in RPD's, and the Federal funds rate rose from around 7-3/4 per cent in the days before the May meeting to an average slightly above 8 per cent in the statement week ending May 23. On May 24 and again on June 8, a majority of the Committee members concurred in recommendations by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's, and the funds rate rose to around 8-1/2 per cent in the days before this meeting. In the 5 weeks ending June 13, member bank borrowings averaged about $1,855 million, up from about $1,715 million in the preceding 4 weeks.

In the inter-meeting period, short-term market interest rates advanced considerably further as money market conditions continued to firm and private credit demands remained strong. On May 16, moreover, imposition of marginal reserve requirements on large-denomination CD's was announced and the remaining Regulation Q ceilings on such CD's were suspended. The yield on 3-month Treasury

bills--which had been relatively low, for the most part because of a shortage of bills in the market--rose more than other short-term rates as the market supply increased, mainly because of System sales of bills for its own account and that of foreign central banks; the market rate on such bills advanced from 6.17 per cent on the day before the May meeting to 7.20 per cent on the day before this meeting. Federal Reserve discount rates were raised 1/2 percentage point, to 6-1/2 per cent, at 10 Reserve Banks on June 11 and at the remaining two Banks by June 15.

In long-term markets, increases in interest rates were moderate, despite the further tightening of money market conditions and further increases in short-term interest rates. The over-all volume of new public offerings of corporate and State and local government bonds had changed little in May, and although a rise was in prospect for June, the volume for the second quarter as a whole appeared to be low for that season of the year.

The Committee agreed that the economic situation and prospects called for somewhat slower growth in monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year. A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate indicated for the second quarter in response to the anticipated moderation in GNP growth, to the sharp rise in short-term interest rates that had occurred in recent months, and to the

running down of the deposits that had been built up in association with the unusually large refunds of Federal income taxes in the second quarter. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably as a consequence of the recent rise in short-term market interest rates. It was noted, however, that projections of the demand for money were subject to more uncertainty than usual because of the unknown effects of the short-term freeze on prices and the lack of information concerning the elements of the price and wage stabilization program to follow.

The staff analysis also indicated that demands for bank credit were likely to remain strong and that banks probably would continue to add substantial amounts to the outstanding volume of large-denomination CD's. Therefore, a relatively rapid rate of growth in RPD's in the June-July period--at an annual rate in a range of 9.5 to 11.5 per cent--was projected to be consistent with somewhat slower growth in the monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year. The analysis suggested that such a rate of growth in RPD's might be associated with little change in money market conditions but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

In view of the rapid monetary expansion in the second quarter and uncertainty about the demand for money in the months ahead, the Committee agreed that the lower end of the range specified for the annual rate of RPD growth in the June-July period should be lower than that projected in the staff analysis. Specifically, the members decided that operations should be directed at fostering RPD growth during that period at an annual rate within a range of 8 to 11.5 per cent. They agreed that money market conditions might be permitted to vary somewhat more in the inter-meeting period than had been contemplated at other recent meetings, if such variation appeared indicated in the conduct of operations directed toward achieving RPD growth in the desired range.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments and of deviations in monetary growth from an acceptable range. It was 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, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity is slowing in the current quarter from an exceptionally rapid pace in the two preceding quarters. The unemployment rate has remained at 5 per cent. Wage rates have advanced moderately thus far this year, but the rise in both wholesale and retail prices has been exceptionally rapid. On June 13 the President announced that prices will be frozen for a maximum of 60 days while a new and more effective system of controls is developed. Phase III controls affecting wages, profit margins, dividends, and interest rates remain in effect. In foreign exchange markets, several European currencies have appreciated against the dollar by 7 to 10 per cent since early May. The U.S. merchandise trade balance continued to improve in April, as exports other than agricultural products increased sharply further and imports dipped.

Following relatively slow growth earlier in the year, the narrowly defined money stock rose sharply in May and early June. Growth in consumer-type time and savings deposits changed little, while banks' net sales of large-denomination CD's declined further. On May 16 marginal reserve requirements were imposed on large-denomination CD's and the remaining Regulation Q ceilings on such CD's were suspended. Business loan demands have remained strong, and since mid-May short-term market interest rates have advanced considerably further. Interest rates on long-term market securities in general have risen somewhat. On June 11 Federal Reserve discount rates were raised one-half point to 6-1/2 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat slower growth in monetary aggregates over the months immediately ahead than appears indicated for the first half of the year.

Votes for this action: Messrs. Burns, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, Sheehan, Clay, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Balles and Hayes. (Messrs. Clay and Debs voted as alternates for Messrs. Balles and Hayes, respectively.)

Subsequent to the meeting it appeared that in the June-July period the annual rate of growth in RPD's would be above 11.5 per cent and that growth in the monetary aggregates would exceed an acceptable range, even though money market conditions had continued to tighten. On July 6, 1973, a majority of the members concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's.

2. Authorization for domestic open market operations

On July 6, 1973, Committee members voted to increase from $2 billion to $3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on July 17, 1973.

Votes for this action: Messrs. Burns, Balles, Brimmer, Francis, Holland, Mitchell, Sheehan, Debs, and Winn. Votes against this action: None.

Absent and not voting: Messrs. Bucher, Daane, Hayes, Mayo, and Morris. (Messrs. Debs and Winn voted as alternates for Messrs. Hayes and Mayo, respectively.)

This action was taken on recommendation of the System Account Manager. The Manager had advised that a substantial volume of open market purchases of securities had been required in the period since the Committee's meeting on June 19 in order to offset the reserve absorption caused by a rise in Treasury balances at Federal Reserve Banks, an increase in currency in circulation, and a decline in Federal Reserve float, and he further advised that a temporary increase in the leeway for System purchases appeared desirable in light of the prospective near-term needs to supply reserves.

3. Authorization for foreign currency operations

Effective July 10, 1973, the table contained in paragraph 2 of the authorization for foreign currency operations was amended to reflect increases in most of the System's swap arrangements. With these changes, paragraph 2 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	2,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	2,000
Bank of Japan	2,000
Bank of Mexico	180
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 other European currencies	1,250

The increases--ranging in size from $250 million to $1 billion--in the swap arrangements with the Bank for International Settlements and with the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, and Switzerland were made pursuant to an action the Committee had taken by unanimous vote at its meeting on March 20, 1973. In that action, the Special Manager was authorized to undertake negotiations looking toward increases in System swap lines not exceeding $6 billion in the aggregate, on the understanding that increases in individual lines, and the corresponding amendments to the foreign currency authorization, would become effective upon approval by Chairman Burns, after consultation with the U.S. Treasury.

The remaining increases--of $50 million each--in the swap arrangements with the central banks of Austria, Denmark, Mexico, Norway, and Sweden were authorized by unanimous vote of the Committee at its meeting on June 19, 1973, on the understanding that they would become effective on the same date as the swap line increases for which negotiations had been authorized on March 20.

This expansion of the System's swap network was carried out in conformity with the policy that had been agreed to at the meeting of Finance Ministers and central bank governors in Paris on March 16, 1973.