



# FEDERAL RESERVE

press release

For immediate release

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached records of policy actions taken by the Federal Open Market Committee at its meetings of April 17 and April 18, 1972.

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 the data as they may have been revised since then.

Attachment

RECORD OF POLICY ACTIONS  
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on April 17, 1972

This meeting was called by the Chairman for the afternoon before the meeting scheduled for April 18, 1972, to enable the Committee to consider certain matters before it without infringing on the time available for its deliberations on current monetary policy.

1. Continuing Authority Directive.

The Committee amended paragraph 1(c) of the continuing authority directive with respect to domestic open market operations to provide that interest rates on repurchase agreements (RP's) arranged by the Federal Reserve Bank of New York with nonbank dealers should be determined by competitive bidding unless otherwise expressly authorized by the Committee. Prior to this action, interest rates on RP's had been administratively determined by the System Account Management, subject to the provision of paragraph 1(c) that they should not be less than (1) the discount rate of the Federal Reserve Bank of New York or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is lower. (On three recent occasions--December 23, 1971, January 26, 1972, and March 7, 1972--the Committee had suspended this provision for periods of a few weeks, on the basis of advice from the System Account Manager that it might otherwise not prove feasible to enter

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into RP's in the volume likely to be found desirable to meet the Committee's current reserve objectives.) Although no upper limit was specified in the continuing authority directive, in practice RP rates ordinarily had not been set higher than the discount rate. The amended paragraph read as follows:

To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from non-bank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

Votes for this action: Messrs.  
Burns, Hayes, Brimmer, Coldwell,  
Daane, Eastburn, MacLaury, Maisel,  
Mitchell, Robertson, Sheehan, and  
Winn. Votes against this action:  
None.

This action was taken on recommendation of a staff committee appointed to study certain matters relating to RP's. The staff committee found that such agreements provide a useful means for supplying

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reserves when the indicated reserve needs are large but are likely to be of a short duration, and that existing procedures for setting RP rates had worked fairly well on the whole. However, the staff committee also concluded that a competitive bidding procedure would have certain advantages. In particular, it would minimize the unwarranted "announcement effects" that had sometimes resulted when market participants attached an unintended policy significance to changes in the RP rate. Secondly, it would insure that the costs to dealers of funds obtained through System repurchase agreements were closely related to the costs of funds available to them from alternative sources.

The Open Market Committee concurred in these findings of the staff committee and decided to experiment with a procedure under which rates on RP's with nonbank dealers would be established through competitive bidding, after applying reasonable limitations on the volume of RP's with individual dealers. In view of the possibility that circumstances might arise under which a competitive bidding procedure would not be desirable, provision was made for the use of other procedures when expressly authorized by the Open Market Committee.

2. Revision of guideline for operations in Federal agency issues.

At this meeting the Committee revised the sixth of the guidelines for the conduct of System operations in securities

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issued by Federal agencies. Initial guidelines had been approved on August 24, 1971, with the understanding that they would be subject to review and revision as experience was gained, and guideline 5 had been revised on February 15, 1972. Prior to today's action, guideline 6 had specified that System holdings of any one issue would not exceed 10 per cent of the amount of the issue outstanding, but that there would be no specific limit on aggregate holdings of the issues of any one Federal agency. The revision consisted of an increase in the limit on holdings of any one issue to 20 per cent, and the addition of a provision that aggregate System holdings of the issues of any one agency would not exceed 10 per cent of the amount of outstanding issues of that agency.

Votes for this action: Messrs.  
Burns, Hayes, Brimmer, Coldwell,  
Daane, Eastburn, MacLaury, Maisel,  
Mitchell, Robertson, Sheehan, and  
Winn. Votes against this action:  
None.

This action was taken on the grounds that it would reduce the number of occasions on which the System might have to reject offers of particular issues that were priced attractively relative to other issues, while maintaining the principle that System operations in agency issues should be conducted on a limited scale so as not to dominate the market for such issues.

RECORD OF POLICY ACTIONS  
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on April 18, 1972

Current Economic Policy Directive.

The information reviewed at this meeting suggested that real output of goods and services had grown in the first quarter of 1972 at about the stepped-up rate attained in the fourth quarter of 1971, and that prices had risen at a relatively fast pace in the first quarter, in part because of the mid-November termination of the 90-day freeze. Staff projections suggested that the rate of growth in real GNP would increase somewhat in the current quarter and that the uptrend in prices would moderate.

In March retail sales increased sharply after having changed little for several months. Industrial production continued to grow at a substantial rate, employment rose appreciably in manufacturing and other nonfarm establishments, and the average factory workweek remained near the high level reached in February. However, the unemployment rate moved back up to 5.9 per cent from 5.7 in February, reflecting a very large increase in the civilian labor force. Housing starts dropped in March from the extraordinary high they had reached in February.

The uptrend in wholesale prices of industrial commodities continued in March at about the relatively rapid rate prevailing

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since mid-November, when the 90-day freeze had ended. However, average prices of foodstuffs declined, after having risen sharply in February, and the increase in the total wholesale price index was small. Average hourly earnings of production workers on private nonfarm payrolls now were estimated to have advanced at a more rapid pace in January and February than had been indicated by earlier data, and they rose appreciably further in March.

According to staff projections, growth in real GNP would pick up in the second quarter mainly because of a sizable advance in consumer spending. Such spending would be buoyed by a much larger gain in disposable income than in the first quarter, when an increase in personal income tax payments under the new withholding schedules had dampened the rise. The staff projections suggested that both Federal purchases and State and local government outlays would continue to expand at moderate rates and that the rise in residential construction outlays would slow as housing starts declined from a record level. It was expected that business capital outlays, in line with recent surveys, would continue to increase, but at a less rapid pace than in the first quarter.

Projections for the second half of the year suggested some further step-up in the rate of growth in real GNP. It was anticipated that disposable income and consumption expenditures

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would increase at a faster pace; that business capital outlays would continue to grow at moderate rates and inventory investment would increase further; that State and local government expenditures would expand substantially; and that net exports would improve in lagged response to the earlier realignment of exchange rates. On the other hand, Federal outlays were expected to rise at a slower pace than in the first half of the year and residential construction activity was expected to level off.

In foreign exchange markets the dollar had strengthened somewhat since mid-March and the deficit in the U.S. balance of payments on the official settlements basis had been small, in contrast with preceding weeks when the dollar had weakened in association with speculative outflows of funds. Markets had been influenced in recent weeks by the rise in short-term interest rates in the United States relative to those abroad and by the enactment on April 3 of the Par Value Modification Act, which raised the U.S. official price of gold from \$35 to \$38 per ounce. In February the value of U.S. exports fell much more than the value of imports and the deficit in merchandise trade increased from the already large amount in January.

Short-term interest rates generally had continued to rise since the Committee's meeting on March 21, in response to some further tightening in money market conditions and to evidence of

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gathering strength in economic activity and rising credit demands. However, the market rate on 3-month Treasury bills, at about 3.85 per cent on the day before this meeting, was unchanged from 4 weeks earlier. Demands for bills of short maturities had expanded in recent weeks, and the prospective supply was reduced when the Treasury announced on March 21 that it would no longer add \$300 million to its weekly issues of 91-day bills, as it had been doing since February 14.

In association with increases in yields on most types of short-term securities and growing uncertainties about the course of interest rates in general, rates on long-term securities also had drifted upward since the March meeting. The combined volume of new corporate and State and local government bonds publicly issued changed little in March, remaining well below the monthly average of 1971; the volume of offerings appeared likely to increase somewhat in April.

Contract interest rates on conventional new-home mortgages declined slightly in March while yields in the secondary market for Federally insured mortgages changed little. Inflows of savings funds to nonbank thrift institutions remained very large; for the first quarter as a whole they approximated the extraordinarily high rates of the same period of 1971.

At commercial banks, business loans outstanding rose in March at the stepped-up pace of February, and real estate and

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consumer loans continued to expand rapidly. Banks increased sharply further their holdings of both U.S. Government and other securities. In reaction to strengthening loan demand and advances in money market rates, most major banks raised their prime rates from 4-3/4 to 5 per cent in late March and early April.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or  $M_1$ ) remained rapid in March. However, growth in the more broadly defined money stock ( $M_1$  plus commercial bank time and savings deposits other than large-denomination CD's, or  $M_2$ ) slowed somewhat. Inflows of savings funds to commercial banks, while still strong, continued to moderate--reflecting in part the increases in yields available on short-term market securities and earlier reductions in rates paid by banks on time and savings deposits. Over the first quarter,  $M_1$  and  $M_2$  grew at annual rates of about 9.5 and 13.5 per cent, respectively, compared with rates of about 1 and 8 per cent over the fourth quarter of 1971.<sup>1/</sup> Chiefly because of large swings in U.S. Government deposits, the rate of growth in the bank credit proxy--daily-average member bank deposits, adjusted to include funds from nondeposit sources--increased sharply in March after having slowed in February.

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<sup>1/</sup> Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

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System open market operations since the March 21 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits at an annual rate in the March-April period of 9 to 13 per cent while at the same time avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that the reserve measure employed would actually grow over the March-April period at an annual rate of about 13.5 per cent, but a technical adjustment to the underlying data--which did not affect the deposit measure--accounted for about 1 percentage point of the rate of growth in the measure of reserves. The Federal funds rate had risen from about 4 per cent at the time of the March 21 meeting to around 4-1/4 per cent in recent weeks. Member bank borrowings averaged about \$105 million in the 4 weeks ending April 12 compared with about \$45 million in the preceding 5 weeks.

The Committee agreed that the economic situation called for growth in the monetary aggregates at rates somewhat more moderate than those recorded for the first quarter of the year. The members took account of a staff analysis which suggested that somewhat more moderate rates of growth over April and May combined were likely to be associated with expansion in the volume of reserves available to support private nonbank deposits at an annual rate of about 9 per cent in those months and probably with some further tightening of money market conditions.

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The Committee decided to seek growth in the reserve measure employed at an annual rate in a range of 7 to 11 per cent during the April-May period and to accept, if necessary, somewhat firmer money market conditions in order to achieve growth in that range in existing circumstances, while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. The members also decided that account should be taken of the forthcoming Treasury financing and of developments in capital markets, and that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the somewhat more moderate rates expected. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

The following current economic 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 grew in the first quarter at about the stepped-up rate attained in the fourth quarter of 1971. Most measures of business activity have shown strength recently and demands for labor have improved further, but the unemployment rate remains high. The rise in wholesale prices slowed in March as some farm and food products declined sharply, but the rise in prices of industrial commodities remained substantial. Wage rates also rose substantially in March and over the first quarter as a whole. The dollar has strengthened somewhat in exchange markets in recent weeks, and the over-all U.S. balance of payments deficit on the official settlements basis has been small. In January and February merchandise imports continued to be considerably in excess of exports.

The narrowly defined money stock expanded rapidly in February and March, bringing the annual rate of growth

over the past 6 months to about 5-1/4 per cent. Inflows of consumer-type time and savings deposits to banks have been strong thus far this year, although they moderated as the first quarter progressed; inflows to nonbank thrift institutions remained very large. Mainly reflecting swings in U.S. Government deposits, a modest increase in the bank credit proxy in February was followed by a large increase in March. Market interest rates generally have continued to rise 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 sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of capital market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat more moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.