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 March 21, 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 data as they may have been revised since then.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on March 21, 1972

1. Current Economic Policy Directive.

The latest estimates of the Commerce Department indicated that real output of goods and services had risen at an annual rate of nearly 6 per cent in the fourth quarter of 1971, and it appeared that expansion in real GNP was continuing at about that rate in the current quarter. Prices rose substantially in the first few months following the mid-November termination of the 90-day freeze.

In February industrial production and nonfarm payroll employment continued to expand, and estimates of both measures for January were revised upward by substantial amounts. The average workweek in manufacturing increased sharply, more than recovering the reduction of January, and the unemployment rate declined further to 5.7 from 5.9 per cent in January. The number of housing starts expanded substantially further. However, retail sales--according to the advance report--remained at the December-January level.

The wholesale price index continued to rise at a rapid rate in January and February. In addition to sizable advances in prices of industrial commodities--which for the most part had been expected in the first few months after termination of the 90-day freeze--

there were large increases among foodstuffs. However, the advance in wage rates slowed after an initial post-freeze surge in December.

Staff projections suggested that growth in real GNP would be somewhat faster in the second quarter than in the first, in large part because of acceleration in consumer expenditures. It was expected that consumer spending would be buoyed by a more rapid rate of expansion in disposable personal income--as many taxpayers took steps to remedy the overwithholding of taxes that had resulted from the introduction of new withholding schedules at the beginning of this year. It was expected also that the rise in prices would moderate from the high rate that followed termination of the freeze.

The deficit in U.S. merchandise trade remained large in January, about equaling the average of the preceding 9 months. Between mid-February and mid-March speculative outflows of funds from the United States raised the deficit in the over-all balance of payments and put further downward pressure on exchange rates for the dollar against other major currencies.

Short-term interest rates had increased considerably in recent weeks, reflecting in large part expanding market supplies of Treasury bills and firming money market conditions. From February 14 through March 20, the Treasury added $300 million to its weekly issue of bills, and on March 1 it auctioned a $3 billion

strip of 15 outstanding issues of bills. In addition, the System sold sizable amounts of Treasury bills in order to absorb bank reserves that were supplied as the Treasury reduced its balances at the Federal Reserve Banks. On the day before this meeting of the Committee, the rate on 3-month bills was about 3.85 per cent compared with a recent low of about 3.00 per cent in mid-February.

Interest rates on long-term securities had changed little on balance since mid-February after having increased partly in reaction to late January estimates of a larger Federal deficit in fiscal 1972 than had been anticipated. The spread between rates on short- and long-term securities had been extremely wide by historical standards, and it remained wide even after the recent rise in short-term rates. In February, as in January, the volume of new corporate and State and local government bonds issued publicly was below the monthly average of 1971. It appeared that the volume of such issues would not change much in March.

Yields in the secondary market for Federally insured mortgages declined somewhat further in February, reaching a level about one-half of a percentage point lower than in the summer of 1971. The rates of inflow of savings funds to nonbank thrift institutions slowed from their exceptionally rapid pace of January, but they were still faster than the average rates of the second half of 1971. Despite the recent rise in yields available on short-term market

securities, the rates paid on savings shares and deposits remained relatively attractive.

Business loans at commercial banks expanded more rapidly in February than at any other time since the summer of 1971 when loan demand had been stimulated by developments in foreign exchange markets, but expansion was concentrated in a relatively few industries. Real estate and consumer loans continued to increase at high rates and banks added a large amount to their holdings of securities, especially Treasury issues.

Following 6 months of slow growth, the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) increased sharply in February--in part because of a substantial reduction in U.S. Government deposits at commercial banks. Inflows of savings funds to commercial banks--although smaller than in January--remained large, and continued rapid growth was recorded for the more broadly defined money stock (M_1 plus commercial bank time deposits other than large-denomination CD's, or M_2). Growth moderated in the bank credit proxy--daily-average member bank deposits, adjusted to include funds from nondeposit sources--chiefly because of the reduction in Government deposits. Including rough estimates for March, it appeared that over the first quarter M_1 and M_2 would expand at annual rates of about 9.5 and 13.0 per cent,

respectively, and that the bank credit proxy would rise at a rate of about 10.5 per cent.[1/]

System open market operations since the February 15 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits--the measure employed by the Committee to express its objective for bank reserves--at an annual rate between 6 and 10 per cent in the February-March period while at the same time avoiding both sharp fluctuations and large cumulative changes in money market conditions. As the period progressed, it appeared that the reserve measure was growing at a rate of 10 per cent or slightly faster. It also appeared that the first-quarter growth rates developing for the monetary aggregates were somewhat above the rates the Committee had expected. As a result, operations were directed toward limiting the growth in reserves, and money market conditions were allowed to firm. The Federal funds rate, which had fluctuated around 3-1/4 per cent in the second half of February, rose to about 4 per cent at the time of this meeting. Member bank borrowings averaged about $60 million in the 2 weeks through March 15 compared with about $35 million in the preceding 3 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates, although

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

at rates less rapid than those likely to be recorded for the first quarter. The members took account of a staff analysis suggesting that moderate rates of growth in the aggregates over March and April combined were likely to be associated with expansion in reserves available to support private nonbank deposits at an annual rate of about 11 per cent in those months, and probably with some further tightening in money market conditions. It was indicated that such developments would not necessarily have much lasting effect on capital markets, in view of the unusually wide spread existing between long- and short-term interest rates.

The Committee decided to seek growth in the reserve measure employed at an annual rate in a range of 9 to 13 per cent during the March-April period while avoiding both sharp day-to-day fluctuations and large cumulative changes in money market conditions. The members also decided that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected; that account should be taken of international developments and of the Treasury financing of relatively small size that was being contemplated; and that reserve-supplying operations should continue to include to the extent feasible purchases of intermediate- and longer-term Government securities as well as Treasury bills. 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 is increasing in the current quarter at about the stepped-up rate attained in the fourth quarter of 1971. Several measures of business activity have strengthened recently and demands for labor have improved somewhat, but the unemployment rate remains high. Wholesale prices continued to rise rapidly in January and February, in part because of large increases in prices of foods. However, the advance in wage rates slowed markedly after the post-freeze surge in December. Following a period of sluggish growth, the narrowly defined money stock increased sharply in February, partly reflecting a substantial reduction in U.S. Government deposits. Inflows of time and savings funds at bank and nonbank thrift institutions continued rapid in February, although below January's extraordinary pace. Short-term interest rates have risen considerably in recent weeks while yields on long-term securities have changed little on balance. Exchange rates for most major foreign currencies against the dollar appreciated further in February and early March, as recurrent speculative outflows of capital added to the U.S. balance of payments deficit. 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.
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> To implement this policy, while taking account of international developments and possible Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.
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> Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

2. Continuing authority directive.

On February 29, 1972, the Committee members had 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 continuing authority directive with respect to domestic open market operations.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Clay, Daane, Kimbrel, Maisel, Mayo, Mitchell, Morris, Robertson, and Sheehan.
Votes against this action: None.

This action, which was ratified by unanimous vote at today's meeting, had been taken on recommendation of the System Account Manager as a temporary precautionary measure. The Manager had advised that increased leeway for System sales of Government and Federal agency securities might well be required in implementing the Committee's policy directive during the period before the next meeting in view of the large volume of sales that had already been required because of the reduction in Treasury balances at Federal Reserve Banks.

At this meeting, after the Manager had advised that the larger limit no longer appeared likely to be needed, the Committee amended paragraph 1(a) of the continuing authority directive to restore the $2 billion limit that had been in effect prior to the action on February 29.

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

On March 7, 1972, a majority of Committee members had voted to suspend, until the close of business on March 21, 1972, the lower limit (set forth in paragraph 1(c) of the continuing authority directive) on interest rates on repurchase agreements (RP's) arranged by the Federal Reserve Bank of New York with nonbank dealers. The provision in question--which had also been suspended for the periods from December 23, 1971, through January 11, 1972, and from January 26 through February 15, 1972--specified that such RP's were to be made "at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower."

Votes for this action: Messrs. Hayes, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Sheehan, and Winn. Votes against this action: Messrs. Brimmer and Robertson.
Absent and not voting: Messrs. Burns and Maisel.

This action had been taken on recommendation of the Manager, to provide against the contingency that under existing rate limitations it might not prove feasible to enter into RP's during coming

days in the volume likely to be found desirable to meet the Committee's objectives for member bank reserves. It was understood that rates below 3-1/4 per cent would not be used without prior notification to the Committee.

Mr. Brimmer had dissented from this action because he felt that excessive reliance was being placed on RP's in open market operations. He was also disturbed about the frequency with which RP's had been made recently at rates below the lower limit that would obtain in the absence of Committee action to suspend the relevant provision of the continuing authority directive. He thought that since such RP rates were typically below yields on 3-month Treasury bills, their continued use might give the market a misleading impression of the Committee's policy objectives.

Mr. Robertson had dissented from the action in question for the same reasons underlying his dissents from similar actions taken in December and January. He preferred to have needed reserves injected into the banking system by means of outright purchases of Treasury securities in the open market rather than through RP's with Government securities dealers. In his judgment such agreements actually constituted subsidized loans to dealers.

The action of March 7 was ratified by unanimous vote at today's meeting. Messrs. Brimmer and Robertson, having recorded their dissents from the action of March 7, did not consider it necessary to dissent also from the ratification.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1972, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the continuing authority directive with respect to domestic open market operations, the authorization for System foreign currency operations, and the foreign currency directive in the forms in which they were presently outstanding.

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

In connection with the review of the continuing authority directive for domestic open market operations, the Committee took special note of paragraph 3, which authorized the Reserve Banks to engage in lending of U.S. Government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the directive on October 7, 1969, on the basis of a judgment by the Committee that in the existing circumstances such lending of securities was reasonably necessary to the effective conduct of open

market operations and to the effectuation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager that the lending activity in question remained necessary and, accordingly, that the authorization should remain in effect subject to periodic review.