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 May 15, 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 May 15, 1973

Domestic policy directive

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 8 per cent in the first quarter, the same rate as in the fourth quarter of 1972. Growth appeared to be moderating somewhat in the current quarter, and staff projections continued to suggest that it would moderate further in the second half of 1973.

In April industrial production continued to expand at a high rate, reflecting further substantial gains in output of consumer goods, business equipment, and materials. Employment in manufacturing establishments also rose appreciably, and the average factory workweek advanced to the highest level since late 1966. However, total nonfarm payroll employment rose less rapidly than in the first 3 months of the year, and the unemployment rate remained at 5 per cent. Retail sales declined in April, according to the advance report, after having increased sharply in the first quarter.

The advance in average hourly earnings of production workers on nonfarm payrolls stepped up in March and April, following only modest increases in the first 2 months of the year. The consumer price index continued to rise rapidly in March, as retail prices of foods soared for the third successive month and prices of other consumer goods and services continued to move up at substantial rates. In April wholesale prices of consumer foods rose considerably further. As in February and March, moreover, increases among wholesale prices of industrial commodities were large and widespread.

The latest staff projection of growth in real output in the second quarter of 1973 was essentially unchanged from that of 4 weeks earlier, although the projected increase in inventory investment was somewhat larger. It was still expected that the rise in consumption expenditures would be substantial, but not so large as the extraordinary increase in the first quarter; that expansion in business fixed investment and in State and local government purchases of goods and services would remain strong; and that outlays for residential construction would turn down.

For the final two quarters of the year, expectations were that residential construction outlays would decline further; that fixed investment and inventory investment of businesses would expand less rapidly; and that the rise in disposable income and consumption expenditures would slow considerably.

U.S. merchandise exports rose substantially in March, led by a large further increase in agricultural commodities. Imports remained at the January-February level, and the trade deficit dropped sharply. For the first quarter as a whole, the trade deficit was well below that in the fourth quarter of 1972.

Exchange markets had been quiet in late April and early May, and the dollar had firmed against most other major currencies--especially just after the announcement, on April 26, of the U.S. foreign trade statistics for March. On the day before this meeting, however, new speculative pressures developed and the dollar declined markedly against major European currencies.

At U.S. commercial banks, expansion in business loans, although still substantial, moderated further in April in association with a reduction in business substitution of bank credit for commercial paper financing. Growth in real estate and consumer loans remained rapid, while bank holdings of securities declined somewhat.

Growth in the narrowly defined money stock (M_1),[1/] which had been at an annual rate of less than 2 per cent in the first quarter,[2/] picked up in April. Reflecting the faster rate of expansion in M_1, growth in the more broadly defined money stock (M_2)[3/] also increased; inflows of time and savings deposits other than large-denomination CD's were about the same as in March. The

1/ Private demand deposits plus currency in circulation.

2/ 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.

3/ M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

increase in the outstanding volume of large-denomination CD's, although still large, was below the record March expansion, and U.S. Government deposits declined. Consequently, the bank credit proxy[4/] grew much less rapidly than in March.

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

The Treasury announced on April 25 that in its mid-May financing it would auction a 7-year, 6-7/8 per cent note and a 25-year, 7 per cent bond to refund up to $2.65 billion of the $4.30 billion of publicly held notes maturing on May 15; the balance of the maturing notes held by the public would be redeemed for cash. In the auctions, held on May 1 and 2, $2 billion of the note was sold at an average price to yield 7.01 per cent, and $650 million of the bond was sold at the lowest bid price (paid by all successful bidders) to yield about 7.11 per cent. In addition to the cash redemption of part of the notes maturing in mid-May, the Treasury announced that, in view of its strong cash position, it would reduce the size of the weekly auction of 6-month bills by $100 million and that it foresaw no need to borrow new money until August.

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

System open market operations since the meeting on April 17 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead. Soon after the April meeting, it appeared that the monetary aggregates would grow in the April-May period at rates in excess of an acceptable range even though estimates suggested that reserves available to support private nonbank deposits (RPD's) would grow in that period at an annual rate below the range of 10 to 12 per cent specified by the Committee. The divergent tendencies were attributed to two main factors: Banks' excess reserves were lower than anticipated and currency in circulation was growing more rapidly than expected.

In view of the strength in the monetary aggregates, System operations had been directed toward limiting growth in reserves, while continuing to avoid marked changes in money market conditions and while taking account of the Treasury financing. At the time of this meeting, it still appeared that growth in RPD's would fall somewhat short of the specified range. The Federal funds rate was about 7-3/4 per cent in the days before the meeting, compared with about 7 per cent shortly before the preceding meeting. In the 4 weeks ending May 9, member bank borrowings averaged about $1,715 million, compared with an average of about $1,850 million in the preceding 4 weeks.

Short-term market interest rates, which had risen sharply earlier in the year, advanced little further on balance in the inter-meeting period, despite the substantial increase in the Federal funds rate. Markets, especially for Treasury bills, were strengthened by a shortage in the market supply of bills and by current and prospective Treasury financing operations. On the day before this meeting, the market rate on 3-month Treasury bills was 6.17 per cent, compared with 6.19 per cent on the day before the April meeting. Federal Reserve discount rates were raised 1/4 percentage point, to 5-3/4 per cent, at all Reserve Banks on April 23 and 1/4 point further, to 6 per cent, at 11 of the Reserve Banks on May 11.

Interest rates on long-term securities had changed little since the April meeting of the Committee, as demands for funds in the capital markets had remained moderate. The over-all volume of new public offerings of corporate and State and local government bonds had declined substantially in April, and although a partial recovery was in prospect, it appeared likely that the volume in May would be close to the reduced monthly rate in the first quarter.

The Committee agreed that the economic situation and prospects called for somewhat slower growth in the monetary aggregates over the months immediately ahead than had occurred on average in the past 6 months. A staff analysis suggested that the unusually large refunds of Federal personal income taxes had added temporarily to both demand deposits and consumer-type time and savings deposits and that as such refunds diminished growth in the demand for money would tend to moderate in the period immediately ahead. The analysis also suggested that the lagged effects of recent increases in interest rates would work in the direction of moderating the demand for money. Faced with sustained strong demands for credit, banks were likely to continue to increase substantially the outstanding volume of large-denomination CD's. Therefore, according to the analysis, relatively rapid growth in RPD's in the May-June period was likely to be consistent with somewhat slower growth in the monetary aggregates than had occurred on average over the past 6 months. The staff analysis also indicated that such a slowing in monetary growth would probably be associated with further increases in short-term interest rates and also with some rise in longer-term rates.

The Committee decided that operations should be directed at fostering RPD growth during the May-June period at an annual rate within a range of 9 to 11 per cent, while continuing to avoid marked changes in money market conditions. The members also agreed that allowance should be made in operations if growth in the monetary aggregates appeared to be deviating from an acceptable range and that in the conduct of operations account should be taken of international and domestic financial market developments. 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 chances seemed greater than usual that such consultation would be needed.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services is likely to moderate somewhat in the current quarter from an exceptionally rapid pace in the two preceding quarters. Over the first 4 months of this year, employment rose considerably but the unemployment rate remained about 5 per cent. Retail prices of foods continued upward at an extraordinary pace in March, and in April average wholesale prices of consumer foods rose further. Increases in wholesale prices of industrial commodities were large and widespread in April, as in the two preceding months. In foreign exchange markets, which had been relatively quiet since mid-March, speculative pressures have developed in recent days and exchange rates for major European currencies have appreciated against the dollar. The U.S. merchandise trade balance improved considerably in the first quarter, reflecting in part an especially large increase in agricultural exports.
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> In April growth in the narrowly defined money stock picked up from its low first-quarter rate, and growth in the broadly defined money stock also increased. Growth in business loans at banks slowed, and banks reduced the pace at which they issued large-denomination CD's; consequently, the bank credit proxy expanded somewhat less than in other recent months. In recent weeks Federal Reserve Bank discount rates have been increased in two steps of one-quarter point to 6 per cent by May 11. Most short-term market interest rates,

which had risen sharply earlier, have advanced slightly further. Interest rates on long-term market securities have been relatively stable.

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 occurred on average in the past 6 months.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Morris, and Sheehan. Votes against this action: None.

Absent and not voting: Mr. Mitchell.

Subsequent to the meeting it appeared that in the May-June period the annual rate of growth in RPD's would be above 11 per cent and that growth in the monetary aggregates would exceed an acceptable range, even though money market conditions continued to tighten. On May 24, 1973, and again on June 8, 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.