FEDERAL RESERVE

press release

For immediate release January 14, 1974

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 October 16, 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 October 16, 1973

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services--which was estimated to have picked up somewhat in the third quarter from an annual rate of about 2.5 per cent in the second quarter--would remain moderate in the current quarter. Staff projections continued to suggest that growth in real output would slacken in the first half of 1974 and that the rise in prices would remain rapid.

In September industrial production rose appreciably, owing to a partial recovery in output of motor vehicles--following a sharp reduction in August caused by shortages of parts and by other temporary influences--and to further gains in output of business equipment and industrial materials. Nonfarm payroll employment continued to rise, but expansion during the third quarter was well below the rapid pace earlier in the year, reflecting in large part a leveling off in employment in manufacturing. The unemployment rate remained at 4.8 per cent. Retail sales declined in both August and September, but sales in the third quarter as a whole were moderately above the second-quarter level.

Wholesale prices of farm and food products declined substantially in September--for the most part because of sizable decreases in prices of meat, poultry, and eggs--but the decline was small in relation to the extraordinarily large increase in August. The rise in wholesale prices of industrial commodities, which had slowed for 2 months after mid-June when the freeze was imposed, accelerated in September. From mid-July to mid-August the consumer price index had risen sharply, reflecting not only a record increase in prices of foods following the relaxation of food price controls on July 18 but also exceptionally large advances in average prices of other consumer goods and of consumer services. The index of average hourly earnings of production workers on nonfarm payrolls had advanced at a faster pace in recent months than it had earlier in the year.

Staff projections for the current quarter in general were similar to those of 4 weeks earlier. It was expected that both Federal and State and local government purchases of goods and services would rise appreciably, that consumption expenditures would expand at a moderate pace, and that business inventory investment would increase further. It was also anticipated, however, that residential construction outlays would decline substantially.

Exchange rates for the dollar against most foreign currencies had changed little since mid-August, following a significant strengthening earlier in the month. In September, as in August, the U.S. balance of payments on an official settlements basis was in surplus.

U.S. merchandise exports expanded substantially further in August, reflecting increases in both prices and the physical volume of agricultural commodities; however, imports rose even more--for the most part owing to a large increase in imports of fuels following a dip in July--and the trade balance slipped back into deficit. For July and August combined, the trade balance was close to zero. Net foreign purchases of U.S. equity securities, which had risen considerably in July, remained large in August.

At U.S. commercial banks, expansion in loans to business slowed in September to the lowest rate in more than a year, in part because business borrowers shifted to the commercial paper market in response to declines in market interest rates relative to effective rates on bank loans. Most other types of bank loans continued to expand rapidly, but banks again liquidated substantial amounts of their holdings of Government securities. Altogether, the increase in total bank credit was small.

The narrowly defined money stock (M_1)[1/] declined in September for the second successive month; M_1 changed little over the third quarter, after having grown at a rate of about 10.5 per cent in the second quarter.[2/] Inflows of time and savings deposits other than large-denomination CD's were substantial in September--although well below the high rate of August--and the more broadly defined money stock (M_2)[3/] expanded slightly. The outstanding volume of large-denomination CD's continued to rise in early September, but the volume declined after midmonth as banks reduced the rates paid on such CD's in response to the weakening in business loan demand; over the whole month, the outstanding volume changed little, and growth in the bank credit proxy slowed markedly.[4/]

Nonbank thrift institutions experienced a net increase in savings deposits in September--even after adjustment for the crediting of interest and other seasonal influences--following net outflows of funds in August. Although outstanding borrowings by savings and loan associations from the Federal home loan banks

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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 preceding the quarter.

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.

rose substantially in September, the increase was below that in each of the two preceding months. Mortgage interest rates rose appreciably further.

Short-term market interest rates began to decline sharply soon after the Committee's meeting on September 18, in large part because of widespread market expectations that the recent weakness in the behavior of the monetary aggregates would lead to more aggressive System efforts to supply reserves and, consequently, to an easing in money market conditions. The market rate on 3-month Treasury bills was 7.19 per cent on the day before this meeting, compared with 8.70 per cent on the day before the September meeting and with an inter-meeting period low of 6.96 per cent on September 27.

Yields on long-term securities, which had turned down in early August, declined moderately further after the September meeting--although the decline, as usual, was not so sharp as that for short-term instruments. The volume of new public offerings of corporate bonds fell contraseasonally in September, following a more-than-seasonal reduction in August, but a substantial rise in the volume was in prospect for October.

The Treasury was expected to announce on October 24 the terms of its mid-November refunding. Of the maturing issues, \$3.6 billion were held by the public.

System open market operations since the meeting on September 18 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, while taking account of international and domestic financial market developments. Operations initially had been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 15 to 18 per cent, while avoiding unduly sharp changes in money market conditions.

In late September incoming data suggested that in the September-October period growth in both M_1 and M_2 would fall short of acceptable ranges and that RPD's would grow at a rate well below the range that the Committee had specified, in part because of the decline in the outstanding volume of large-denomination CD's that began in late September. The System Open Market Account had been avoiding overly aggressive reserve-supplying operations because of the substantial declines in market interest rates that had occurred and a concern that such operations would contribute to further declines in interest rates. The Federal funds rate remained at about 10-3/4 per cent. On October 1 the Account Manager reported that significant inconsistencies existed among the Committee's various objectives and constraints, and the Committee held a telephone meeting on October 2.

Following the telephone meeting, at which the majority of the members concluded that money market conditions should be allowed to ease somewhat if such easing did not threaten to reinvigorate the sharp rally in markets for short-term securities, the System became somewhat more aggressive in supplying reserves. Short-term interest rates in general declined further, but the Federal funds rate on most days through October 8 remained close to 10-3/4 per cent. Moreover, incoming data indicated that growth in RPD's and the monetary aggregates would be even weaker in the September-October period than had been expected a week earlier.

On October 10 the Committee held another telephone meeting, at which the members agreed that in the few days remaining until this meeting, reserves should be supplied at a rate consistent with some easing in money market conditions beyond that decided upon on October 2. In the days just before this meeting, the Federal funds rate was around 10 per cent. In the 4 weeks ending October 10, member bank borrowings averaged about $1,690 million, down from an average of $2,135 million in the preceding 4 weeks.

At this meeting the Committee agreed that the economic situation and prospects continued to call for moderate growth in monetary aggregates over the months ahead. A staff analysis indicated that, although the transactions demand for money would probably expand, the sharp rise in short-term interest rates that had occurred through early September would tend to dampen the demand for money in the months ahead. Consequently, achievement of moderate growth in monetary aggregates was likely to require some easing in money market conditions.

The staff analysis also indicated that growth of consumer-type time and savings deposits probably would strengthen and that expansion in the outstanding volume of large-denomination CD's would be resumed in response to moderate growth in business loan demand. However, because of the recent weakness in the aggregates in combination with lagged reserve accounting, relatively slow growth in RPD's in the October-November period--at an annual rate in a range of 2 to 4 per cent--was thought likely to be consistent with moderate growth in both the narrowly defined and the more broadly defined money stock over the months ahead.

In view of the weak behavior of the monetary aggregates in August and September, the Committee concluded that reserve-supplying operations should not become restrictive unless RPD's in the October-November period appeared to be growing at an annual rate of more than 5 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period within a range of 2 to 5 per cent, while avoiding unduly sharp changes in money market conditions.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, 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 suggests that growth in real output of goods and services in the fourth quarter is likely to remain at about the moderate rate indicated for the third quarter. In recent months manufacturing employment has leveled off and total nonfarm employment has expanded less rapidly than earlier; the unemployment rate has remained at 4.8 per cent. The advance in wage rates has been somewhat faster than earlier. In September wholesale prices of industrial commodities rose appreciably; farm and food prices declined, but by far less than they had risen in August. The U.S. merchandise trade balance weakened slightly in August. Net foreign purchases of U.S. stocks continued large, however, and the balance of payments on an official settlements basis was in surplus in both August and September. Exchange rates for the dollar against most foreign currencies have changed little since mid-August.
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> The narrowly defined money stock, which had risen sharply during the second quarter, declined in September for the second successive month. The more broadly defined money stock expanded slightly in September as a result of net inflows at banks of consumer-type time deposits. The

deposit experience at nonbank thrift institutions improved somewhat in September following a period of sizable outflows. Bank credit--which had been expanding rapidly--increased little as business loan growth slowed markedly, and after mid-September the outstanding volume of large-denomination CD's declined substantially. Short-term market interest rates fell sharply from mid-September to early October, partly as a result of a shift in market expectations regarding monetary policy, and rates on long-term market securities declined moderately further.

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 sustainable rate of advance in economic activity, and continued progress toward equilibrium in the country's balance of payments.

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

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