FEDERAL RESERVE

press release

For immediate release March 24, 1975

The Federal Open Market Committee announced today that it has voted to speed up publication of the records of policy actions taken at each of its monthly meetings.

At its meeting of March 18, the Committee revised its Rules Regarding the Availability of Information to reduce the delay between a meeting and the publication of the information regarding the domestic policy directive from approximately 90 days to approximately 45 days.

In view of this action, the FOMC and the Board of Governors today released the attached record of policy actions taken at the FOMC meeting of January 20-21, 1975. Under previous rules, this record would not have been made available until April 21. The record for the meeting held on February 19 will be released on or about April 7, 1975.

A delay of approximately 90 days had been in effect since mid-1967 when the rules were changed to comply with the Freedom of Information Act. Prior to 1967, the records of policy actions were published only in the Board's Annual Report to Congress.

In the light of experience, the Committee decided that a delay as long as 90 days was no longer necessary to avoid an unacceptable degree of risk that speculators would be able to take unfair advantage of the information or that market reactions would impair the effectiveness of the Committee's functions.

The records of policy actions also 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 January 20-21, 1975[1/]

1. Domestic policy directive

Preliminary estimates of the Commerce Department indicated that real output of goods and services (real gross national product) had fallen at an annual rate of about 9 per cent in the fourth quarter of 1974, after having declined at an average rate of about 3.5 per cent over the first three quarters of the year. Staff projections suggested that real economic activity would continue to recede in the first half of 1975; that the rate of increase in prices, while still rapid, would moderate; and that nominal GNP would continue to grow at a slow pace.

In December retail sales had risen somewhat, according to the advance estimate, after having declined considerably in the preceding 3 months. The index of industrial production fell sharply further in December; curtailments in output were large and widespread in part because of efforts to liquidate inventories. Employment cutbacks also were widespread, especially among manufacturing establishments. The unemployment rate rose

1/ This meeting began on the afternoon of January 20 and continued on the following day.

from 6.5 to 7.1 per cent, and the number of persons with only part-time jobs continued to increase.

Average wholesale prices of industrial commodities were unchanged in December--after having risen much less rapidly from August to November than earlier in the year--as declines in a number of basic commodities offset increases in machinery and other more highly fabricated products. Wholesale prices of farm and food products declined, following 2 months of substantial increases. During the final 3 months of 1974 the advance in the index of average hourly earnings for private nonfarm production workers was considerably less rapid than in the two previous quarters.

In his State of the Union message on January 15, the President set forth a program of fiscal stimulus, which included cash refunds of 1974 personal income taxes in two equal instalments--in May and September of this year--and an increase for 1 year in the investment tax credit for businesses and farmers. The proposed tax reductions were estimated to amount to $12 billion for individuals and $4 billion for businesses and farmers. In addition, the President proposed excise taxes and import fees on petroleum and excise taxes on natural gas to reduce the use of these energy sources; removal of price controls from domestic crude oil to encourage production; and a tax to recover the windfall profits resulting from the decontrol of prices. The taxes and fees would yield $30 billion in Federal revenues, on an annual basis, which would be returned to the economy through a permanent reduction in taxes on corporate and individual incomes; through payments of up to $80 to low-income individuals, including some who would pay no Federal income taxes; and through certain other measures.

Staff projections for the first half of 1975 in essence were similar to those of 5 weeks earlier, although the declines now expected in real GNP were larger for the current quarter and smaller for the second quarter. The President's fiscal program, if enacted, was expected to improve the prospects for an upturn in economic activity in the second half of the year but to have little impact before then, apart from adding to disposable personal income toward the end of the second quarter. Accordingly, it was still anticipated that the rise in personal consumption expenditures would be little, if any, greater than the increase in prices; that the expansion in business fixed investment outlays would fall short of the increase in prices; that residential construction activity would decline further in the current quarter and then turn up; and that the rate of business inventory investment would fall substantially in the first quarter and then shift to liquidation in the next.

The exchange rate for the dollar against leading foreign currencies--which had been declining since early September--fell somewhat further between mid-December and mid-January, in association with decreases in interest rates in this country relative to those in other major countries. The U.S. foreign trade deficit--after narrowing in September and October--remained moderate in November, as both exports and imports rose substantially. Oil-exporting countries continued to add to their investments in the United States, and large inflows and outflows of bank-reported private capital were roughly offsetting.

At U.S. commercial banks total loans and investments declined sharply from the end of November to the end of December, reflecting in large part decreases in outstanding loans to businesses and to nonbank financial institutions; banks reduced their over-all holdings of securities slightly. In contrast with immediately preceding months, businesses reduced their borrowings in the commercial paper market as well as at banks, in part as a result of efforts to fund short-term debts. In early January most banks reduced the prime rate applicable to large corporations in two steps from 10-1/2 per cent to 10 per cent, but reductions in the rate continued to lag behind declines in commercial paper rates.

Growth in the narrowly defined money stock (M_1)[2/] slowed to an annual rate of about 2 per cent in December. Growth in the more broadly defined money stock (M_2)[3/] also slowed as net inflows to banks of time and savings deposits other than money market certificates of deposit (CD's) declined sharply; however, net inflows of deposits to nonbank thrift institutions continued to improve. Over the fourth quarter as a whole, M_1 and M_2 grew at rates of 4 and nearly 7 per cent, respectively.[4/] Weekly data indicated that M_1 had declined somewhat in early January but that inflows to banks of consumer-type time and savings deposits had picked up.

On January 20 the Board of Governors announced a reduction in reserve requirements on the net demand deposits of member commercial banks. The action--which would release about $1.1 billion in reserves to the banking system in the week beginning February 13--was designed to permit further gradual improvement in bank liquidity and to facilitate moderate growth in the monetary aggregates.

2/ Private demand deposits plus currency in circulation.

3/ M_1 plus commercial bank time and savings deposits other than money market CD's.

4/ The growth rates cited for the quarter 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.

System open market operations since the December 16-17 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than had occurred in recent months, while taking account of developments in domestic and international financial markets. Data that had become available in the weeks immediately after the December meeting suggested that in the December-January period the aggregates would grow at rates near or below the lower limits of the ranges of tolerance that had been specified by the Committee. Consequently, System operations persisently had been directed toward further easing in bank reserve and money market conditions. In the statement week ending January 8, the Federal funds rate had averaged slightly below 7-3/4 per cent--down from about 8-3/4 per cent at the time of the December meeting.

The data that became available on January 9 indicated still greater weakness in the aggregates; it appeared that M_1 and M_2 would grow in the December-January period at rates well below the lower limits of the specified ranges of tolerance. The System currently was conducting reserve-supplying operations thought to be consistent with a weekly average funds rate at about the 7-1/2 per cent lower limit of its specified range of tolerance. Against the background of those developments and to give the Manager greater flexibility, Chairman Burns recommended on January 9 that the lower limit of the funds rate constraint be reduced to 7-1/8 per cent for the period remaining until the next Committee meeting. The members of the Committee concurred, and over most of that period the funds rate was slightly above 7 per cent.

Short-term market interest rates declined substantially further over the inter-meeting period, in response to the weakening in business demands for short-term credit, to System open market operations to ease bank reserve and money market conditions, and to a reduction in Federal Reserve discount rates. Discount rate reductions of 1/2 of a percentage point, to 7-1/4 per cent, at six Reserve Banks were announced on January 3, to be effective on January 6; shortly thereafter, rates were reduced at the remaining six Banks. Over the inter-meeting period the market rate on 3-month Treasury bills declined nearly three-fourths of a percentage point, to about 6.40 per cent, and rates on private short-term instruments declined considerably more.

Yields on longer-term bonds in general changed little in the inter-meeting period--despite the declines in short-term rates--because corporate financing in the capital market had been and was expected to remain substantial and prospective Treasury financings were large. The volume of public offerings of corporate bonds in December was exceptionally heavy for that season, and a near-record volume was in prospect for January. In the home mortgage market contract interest rates on new commitments for conventional mortgages in the primary market and yields on commitments in the secondary market for Federally underwritten mortgages declined further from early December to mid-January.

The Treasury was expected to announce shortly the terms of its mid-February refunding. Of the maturing issues, $3.55 billion were held by the public.

The Committee decided that the economic situation and outlook called for more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. A staff analysis suggested that--although M_1 was not expanding in January--the demand for money would pick up in February, in part as a result of the lagged effects of earlier declines in interest rates. Nevertheless, it appeared likely that if

M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease further in the period immediately ahead. It was expected that net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions would be relatively strong. Demands for bank credit appeared likely to be moderate.

The Committee concluded that growth in M_1 and M_2 over the January-February period at annual rates within ranges of tolerance of 3-1/2 to 6-1/2 per cent and 7 to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of 6-1/4 to 9-1/4 per cent. They also agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion within a range of 6-1/2 to 7-1/4 per cent, if necessary in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets.

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 real output of goods and services fell sharply in the fourth quarter of 1974 and that further declines are in prospect for the months immediately ahead. In December declines in industrial production and employment again were sharp and widespread, and the unemployment rate increased from 6.5 to 7.1 per cent. Average wholesale prices of industrial commodities were unchanged, after having risen much less rapidly from August to November than earlier in the year, and prices of farm and food products declined. In recent months increases in average wage rates have been large, but not so large as in the spring and summer.
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> In his State of the Union message, the President set forth a program of fiscal stimulus, including tax rebates for individuals and a temporary increase in the investment tax credit for business. The President also proposed a new program to reduce the consumption of energy; the program includes new taxes in the energy area along with measures of tax relief that, on balance, are designed to have a neutral effect on the size of the Federal deficit.
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> The dollar in December and early January continued the gradual decline against leading foreign currencies that began in September. In November, as in October, the U.S. foreign trade deficit was moderate; sizable inflows of official funds from

oil-exporting countries continued, while other capital inflows and outflows reported by banks were roughly offsetting.

The narrowly defined money stock grew at an annual rate of 4 per cent over the fourth quarter of 1974, while the more broadly defined measure of the stock grew at a rate of nearly 7 per cent. In December and early January, however, the narrowly defined money stock changed little. Net inflows of consumer-type time and savings deposits at banks slowed sharply in December, although they continued to improve at nonbank thrift institutions; in early January deposit inflows at banks picked up. Business demands for short-term credit, both at banks and in the commercial paper market, moderated further in December, while demands in the long-term market remained strong. Over recent weeks short-term market interest rates have declined substantially, but yields on long-term securities have changed little, on balance. Federal Reserve discount rates were reduced from 7-3/4 to 7-1/4 per cent in early January, and on January 20 the Board announced a reduction in reserve requirements on demand deposits estimated to release $1.1 billion in required reserves.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments, to foster financial conditions conducive to cushioning recessionary tendencies and stimulating economic recovery.

To implement this policy, while taking account of the forthcoming Treasury financing, developments in domestic and international financial markets, and the Board's action on reserve requirements, the Committee seeks to achieve bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Sheehan, Wallich, Winn, and Debs. Votes against this action: None.

Absent and not voting: Mr. Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

Subsequent to the meeting, on February 5, the available data suggested that in January M_1 had declined sharply and that growth in M_2 had been only modest. Growth rates for the January-February period appeared to be well below the lower limits of the ranges of tolerance specified by the Committee. The weakness in the monetary aggregates wholly reflected the behavior of demand deposits; growth in consumer-type time deposits remained relatively strong. The System Account Manager currently was endeavoring to supply reserves at a rate thought to be consistent with a Federal funds rate of 6-1/2 per cent, the lower limit of the range of tolerance that had been specified by the Committee. On February 5 a majority of the members concurred in the Chairman's recommendation that, in light of those developments and of the reduction in discount rates effective that day, the lower limit of the funds rate constraint be reduced to 6-1/4 per cent. Mr. Sheehan did not concur, because he preferred to reduce the lower limit of the funds rate constraint to 6 per cent, rather than 6-1/4 per cent.

2. <u>Amendment to authorization for domestic open market operations</u>

On January 30 the Committee members voted to amend a provision of paragraph 2 of the authorization for domestic open market operations, which specified that a Reserve Bank other than the New York Bank could purchase special certificates of indebtedness directly from the Treasury only if the latter Bank was closed, by striking the word "if" in the clause "or, if the New York Bank is closed," and inserting in its place the words "under special circumstances, such as when. . .." With this amendment, paragraph 2 read as follows:

> The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $1 billion.

Votes for this action: Messrs. Burns, Black, Bucher, Clay, Coldwell, Holland, Mitchell, Sheehan, Winn, Baughman, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Hayes, Kimbrel, and Wallich. (Mr. Debs voted as alternate for Mr. Hayes and Mr. Baughman voted as alternate for Mr. Kimbrel.)

This action was taken on the recommendation of the Account Manager, who had advised Committee members that under certain circumstances involving holidays not uniformly celebrated throughout the country it would be convenient for the Treasury if the authority for Reserve Banks other than New York to purchase special Treasury certificates of indebtedness was not confined exclusively to times when the New York Reserve Bank was closed.