



FEDERAL RESERVE

press release

For immediate release

December 8, 1975

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 21, 1975.

Such records are made available approximately 45 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 21, 1975

Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services--which had turned up in the second quarter--increased at an annual rate of about 11 per cent in the third quarter and that prices, on the average, rose at a faster pace than in the first half of the year. Staff projections suggested that expansion in output, although continuing strong, would be less rapid in the fourth than in the third quarter and that growth would then moderate further in the first half of 1976. The projections also suggested that the rate of increase in prices over the period to mid-1976, while still relatively rapid, would be well below the high rate in the third quarter of 1975.

In September retail sales apparently remained at about the level that had been reached in July after 4 months of large gains. Industrial production, which had turned up in May, expanded at progressively higher rates in the three following months. Employment in nonfarm establishments continued to expand in September, reflecting widespread gains among manufacturing

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industries, and the unemployment rate edged down further to 8.3 per cent from 8.4 per cent in August.

The increase in the index of average hourly earnings for private nonfarm production workers was moderate in September; although increases had been substantial in the immediately preceding months, the advance over the third quarter remained somewhat less rapid than during 1974 and the first quarter of 1975. Wholesale prices of farm and food products rose sharply in September, and as in August, average wholesale prices of industrial commodities rose somewhat faster than earlier in the year, in part because of increases in prices of energy products. In August retail prices of foods had been unchanged, and the consumer price index had increased relatively little.

Staff projections for the fourth quarter and for the first half of 1976 suggested that growth in personal consumption expenditures would be substantial--although less so than in the third quarter of this year when growth had been stimulated by the tax rebates--and that business inventories would shift from substantial liquidation in the third quarter to little change in the fourth quarter and then to moderate accumulation. It was also anticipated that residential construction would continue to pick up and that business fixed investment would increase

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somewhat. However, growth in State and local government purchases of goods and services--which had slowed in the third quarter--was expected to remain at a reduced rate over the current and next two quarters. In addition, exports were projected to expand less than imports.

The exchange value of the dollar against leading foreign currencies rose further in late September, extending the substantial gain that had begun in late June. Subsequently, it fell back to the mid-September level, in part because of declines in interest rates in this country relative to those abroad. In August the U.S. foreign trade surplus increased, reflecting appreciable gains in exports of soybeans, corn, and other agricultural products. Private capital transactions reported by banks, after having shifted to a net inflow in July, showed a larger inflow in August, and U.S. liabilities to foreign official agencies declined further.

Total loans and investments at U.S. commercial banks increased slightly in September. Outstanding loans to business declined and total loans changed little, but banks again added a sizable amount to their holdings of U.S. Government securities. The outstanding volume of commercial paper issued by nonfinancial business--which had turned up in July and had increased further in August--declined sharply in September.

M_1 rose slightly on the average in September, but according to weekly data, it declined in the latter part of the month and in early October. From the second to the third quarter, M_1 grew at an annual rate of 6.9 per cent.^{1/} Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate in September, reflecting in part the attractiveness of alternative investments, and growth in M_2 and M_3 slowed further. From the second to the third quarter, M_2 and M_3 grew at annual rates of 10.4 per cent and 13.1 per cent, respectively.

On October 15 the Board of Governors announced a reduction in reserve requirements on member bank time deposits with original maturities of 4 years or more. The action--which was expected to release about \$350 million in reserves to the banking system in the week beginning October 30--was designed primarily to encourage banks to lengthen the structure of their liabilities. It would also help to meet the seasonal need for bank reserves over the coming weeks and to facilitate moderate growth in monetary aggregates.

System open market operations since the September 16 meeting of the Committee had been guided by the Committee's

^{1/} Growth rates cited are based on changes in the average amounts outstanding for the whole quarter.

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decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead. Immediately after the meeting, operations were directed toward a slight firming of bank reserve and money market conditions with the objective of moving the Federal funds rate up toward the midpoint of the 6 to 7 per cent range of tolerance that had been specified by the Committee. However, data that became available a week later suggested that in the September-October period M_1 and M_2 would grow at rates near the lower limits of their ranges of tolerance, and operations were directed toward a slight easing in bank reserve and money market conditions.

Data that became available in early October suggested that in the September-October period both M_1 and M_2 would grow at rates well below the lower limits of the specified ranges of tolerance, and all available members of the Committee concurred in Chairman Burns' recommendation of October 2 that the Manager be instructed to aim to reduce the Federal funds rate to 6 per cent over the next few days. The available members--with one exception--also concurred in the Chairman's recommendation that the lower limit of the Federal funds rate constraint be reduced to 5-3/4 per cent, in order to provide leeway for further operations in the event that weakness of the aggregates

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was confirmed by incoming data in the following weeks. Later data did confirm the weakness, and operations were directed toward a further easing in bank reserve and money market conditions. In the remaining trading days before this meeting, the Federal funds rate was close to 5-3/4 per cent.

Short-term market interest rates continued to change little in late September but then declined significantly in October under the influence of weakness in business demands for credit, indications of slow growth in monetary aggregates, and the decline in the Federal funds rate. On the day before this meeting, the market rate on 3-month Treasury bills was 5.90 per cent, down from 6.50 per cent on the day before the September meeting.

Yields on longer-term Treasury and corporate securities also declined in early October, in response to the easing in short-term markets. However, yields on State and local government securities rose to new highs in the first week of October, reflecting widespread concern about the possible repercussions of the New York City financial crisis, but subsequently the market for issues other than those of New York improved somewhat.

At this meeting the Committee reviewed the ranges for growth in the monetary aggregates over the period from the second quarter of 1975 to the second quarter of 1976 that it had specified at its July meeting. The Committee projected growth ranges that differed little from those specified earlier, and it decided to apply the ranges to the 12-month period from the third quarter of 1975 to the third quarter of 1976. Given the rates of growth realized in the second quarter of this year, the updating of the base allowed for slightly higher longer-run rates of monetary expansion than if the time frame from this year's second quarter to next year's had been retained.

The growth range specified for M_1 , as before, was 5 to 7-1/2 per cent. The ranges for M_2 and M_3 were widened by reducing the lower end of each by 1 percentage point; thus, the ranges were 7-1/2 to 10-1/2 per cent for M_2 and 9 to 12 per cent for M_3 . Those adjustments were made because recent experience had suggested that pressures on market interest rates stemming in part from heavy Treasury borrowings might serve to moderate inflows of savings funds to depositary institutions. The associated range for growth in the bank credit proxy was 6 to 9 per cent. As at earlier meetings, it was understood that the longer-term ranges, as well as the particular list of aggregates for

which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In discussing current policy, the Committee took note of a staff analysis in which it was suggested that, in view of the projected expansion in GNP, growth in M_1 was likely to resume in coming weeks. Because of its reduced level in early October, however, M_1 was expected to show relatively slow growth over the October-November period. Time deposit experience at banks and nonbank thrift institutions was expected to improve somewhat in the short run, in response to the declines in market interest rates that had occurred in recent weeks.

During the discussion of current policy at this meeting, some Committee members expressed doubt concerning the strength of recovery in economic activity over the quarters immediately ahead, in part because of the possible repercussions of New York's financial problems and because of the relatively high levels of market interest rates prevailing at this early stage of the recovery. It was noted, moreover, that inflation remained a serious problem. Against that background, and in view of the recent weak performance of the monetary aggregates, some members

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advocated operations to ease bank reserve and money market conditions--with the objective of promoting prompt resumption of moderate growth in the monetary aggregates. There was some sentiment for maintaining prevailing money market conditions, in part because of the likelihood of substantial strengthening in demands for money and credit over coming months which might lead to a reversal of the easing in money market conditions. None of the members advocated operations to tighten bank reserve and money market conditions in the period immediately ahead.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Specifically, the members agreed that growth in M_1 and M_2 over the October-November period at annual rates within ranges of tolerance of 3 to 7 per cent and 5-1/2 to 8-1/2 per cent, respectively, would be acceptable. It was thought that such growth rates would be likely to involve an annual rate of growth in reserves available to support private nonbank deposits (RPD's) within a range of 0 to 4 per cent.

The members agreed that until the next meeting the weekly average for the Federal funds rate might be expected to vary in

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an orderly fashion within a range of 5-1/4 to 6-1/4 per cent. It was understood, however, that unless new data suggested that growth in the monetary aggregates in the October-November period would exceed the rates now expected, operations would be directed toward moving the Federal funds rate down to 5-1/2 per cent by the end of the statement week following this meeting.

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

The information reviewed at this meeting suggests that output of goods and services--which had turned up in the second quarter--increased sharply further in the third quarter. In recent months retail sales have been maintained at the higher levels reached in early summer, and industrial production has strengthened progressively. Nonfarm payroll employment continued to expand in September, and the unemployment rate edged down from 8.4 to 8.3 per cent. In September, as in August, average wholesale prices of industrial commodities rose somewhat faster than earlier in the year, in part because of increases in prices of energy products; prices of farm and food products rose sharply in September. The advance in average wage rates in recent months has remained somewhat less rapid than in 1974 and early 1975.

After rising further in late September, the exchange value of the dollar against leading foreign currencies has declined to about its mid-September level. In August the U.S. foreign trade surplus increased as agricultural exports rose. Bank-reported private capital movements showed a further net inflow, while U.S. liabilities to foreign official agencies declined again.

M_1 rose slightly on the average in September but declined in the latter part of the month and in early October. From the second to the third quarter, however, M_1 grew at a 6.9 per cent annual rate. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate in September, reflecting in part the attractiveness of alternative investments, and growth in M_2 and M_3 slowed further. Although conditions in markets for State and local government securities continued to be adversely affected by New York's financial problems, most short- and long-term interest rates have declined in recent weeks. On October 15 the Board of Governors announced a reduction of member bank reserve requirements on long-term time deposits.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Volcker, Baughman, Coldwell,
Eastburn, Holland, Jackson, MacLaury,
Mayo, Mitchell, and Wallich. Votes
against this action: None.

Absent and not voting: Mr. Bucher.