



FEDERAL RESERVE

press release

For immediate release

May 3, 1976

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 15-16, 1976.

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 March 15-16, 1976^{1/}

1. Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services--which had increased at a revised annual rate of 4.9 per cent in the fourth quarter of 1975--continued to expand at a moderate rate in the first quarter of 1976 and that the rise in prices slowed somewhat. Staff projections suggested that growth in output would remain moderate in the second quarter and in the second half of the year as well.

In February retail sales had risen considerably--according to the advance report--and while the January level had been revised downward, the December level had been revised upward. Industrial production continued to recover in February at about the average pace of the preceding 4 months. Gains in nonfarm payroll employment were again widespread. In manufacturing, the increase in employment was relatively small in February, following a large rise in January, and the average workweek declined to its December level. With the labor force about

^{1/} This meeting was held over a 2-day period, beginning on the afternoon of March 15.

unchanged in February, the unemployment rate fell 0.2 percentage point further to 7.6 per cent.

The index of average hourly earnings for private non-farm production workers rose at a somewhat less rapid pace over the period from October 1975 to February 1976 than it had over the earlier months of 1975. The wholesale price index for all commodities fell again in February, as average prices of farm products and foods declined appreciably for the fourth consecutive month. Average wholesale prices of industrial commodities increased somewhat less than in January, owing in part to the reduction in crude oil prices required by the Energy Policy and Conservation Act. In January the rise in the consumer price index had slowed somewhat, reflecting decreases in prices of foods, gasoline, and some other fuels; however, prices of services rose substantially.

Staff projections for the second quarter of 1976 were similar to those of 4 weeks earlier. They suggested that personal consumption expenditures would expand at about the same rate as in recent quarters; that residential construction and business fixed investment would continue to recover; and that business inventories, which were estimated to have shifted from liquidation in the fourth quarter of 1975 to accumulation in the first quarter

of this year, would be accumulated at a somewhat higher rate in the second quarter. It was anticipated that exports of goods and services would expand at a slightly slower pace than imports.

In recent weeks the average value of the dollar against leading foreign currencies had increased to its highest level in 2 years. In the exchange markets, the British pound had depreciated sharply and the Italian lira had weakened further. Considerable central bank intervention had been needed to preserve rate relationships among other European currencies; on March 15 efforts to maintain fixed margins between the French franc and certain other European currencies were abandoned, and the franc depreciated. In January U.S. merchandise imports rose while exports declined, and the foreign trade balance shifted into deficit.

Total loans and investments at U.S. commercial banks continued to expand in February, reflecting another large increase in bank holdings of Treasury securities. Business credit demands remained weak: outstanding bank loans to businesses declined, and the decline exceeded the rise in the outstanding volume of commercial paper issued by non-financial corporations.

M_1 --which had increased only a little in January--expanded moderately in February, while M_2 and M_3 rose sharply.

At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's were again sizable. Inflows into savings accounts at commercial banks expanded substantially further, as short-term market interest rates remained below Regulation Q ceiling rates on such accounts.

System open market operations in the inter-meeting period had been guided by the Committee's decision that open market operations should be directed toward maintaining the bank reserve and money market conditions prevailing at the time of the February meeting--characterized by a Federal funds rate of about 4-3/4 per cent--provided that monetary aggregates appeared to be growing at about the rates then expected.

Data that became available near the end of February suggested that both M_1 and M_2 were growing faster than had been expected, and open market operations permitted a slight firming in bank reserve and money market conditions. However, data that became available toward the end of the first week in March suggested that the monetary aggregates were growing at rates closer to those that had been originally expected, and money market conditions eased. The Federal funds rate, which had averaged almost 5 per cent in the week ending

March 3, was again close to 4-3/4 per cent at the time of this meeting.

Short-term market interest rates in general rose somewhat in early March in part reflecting a shift in market attitudes in response to the firming of the money market and to favorable reports on various aspects of the economy. Later, however, rates declined again, and over the whole inter-meeting period they changed little on balance. On March 15 the market rate on 3-month Treasury bills was about 4.95 per cent, compared with about 4.90 per cent 4 weeks earlier.

Long-term market interest rates also changed little on balance over the inter-meeting period. The volume of publicly offered corporate bonds remained large in February. Offerings of corporate stock expanded considerably, following the substantial rise that had occurred in stock prices.

At its January meeting the Committee had agreed that growth in the monetary aggregates on the average over the period from the fourth quarter of 1975 to the fourth quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1 , 4-1/2 to 7-1/2 per cent; M_2 , 7-1/2 to 10-1/2 per cent; and M_3 , 9 to 12 per cent. The associated range for growth in the bank credit

proxy was 6 to 9 per cent. 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 the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money-- at current levels of short-term interest rates--might be expected to increase in association with expansion in nominal GNP; in view of recent experience, however, the analysis also suggested that the increase might be less than would be expected on the basis of historical relationships. It was expected that growth in time and savings deposits other than large-denomination CD's, while still substantial, would slow from the rapid pace of recent months. Moreover, it was anticipated that business loan demand would remain weak in the March-April period and that, as a result, banks would continue to reduce the outstanding volume of large-denomination CD's.

During the discussion it was noted that the recovery in economic activity had remained orderly, that liquidity had

improved, and that the outlook for activity was satisfactory-- although inflation remained a problem. Against that background, Committee members indicated that they favored essentially no change in policy.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the members concluded that growth in M_1 and M_2 over the March-April period at annual rates within ranges of 4 to 8 per cent and 7 to 11 per cent, respectively, would be acceptable. Mainly because of the projected decline in the outstanding volume of large-denomination CD's over the 2-month period, it was expected that these growth rates for the monetary aggregates would be associated with an annual rate of change in reserves available to support private nonbank deposits between -2 and +2 per cent.

The members agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4-1/4 to 5-1/4 per cent. They also agreed that, in the conduct of operations, account should be taken of developments in domestic financial markets and of the sensitive state of foreign exchange markets.

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 has continued to expand at a moderate rate in the current quarter. In February retail sales rose considerably and recovery in industrial production continued. Gains in nonfarm employment were again widespread and the unemployment rate dropped from 7.8 to 7.6 per cent. Wholesale prices of all commodities declined again in February, as average prices of farm products and foods fell appreciably further. Average wholesale prices of industrial commodities increased somewhat less than in January, owing in part to a reduction in crude oil prices required by the Energy Policy and Conservation Act. Over recent months, the advance in the index of average wage rates has moderated somewhat.

The average value of the dollar against leading foreign currencies has increased in recent weeks to its highest level in 2 years. In the exchange markets, the British pound has depreciated sharply; the lira has weakened further; and most recently, the French franc has depreciated after abandonment of efforts to maintain fixed margins with certain other European currencies. In January the U.S. foreign trade balance shifted into deficit.

M_1 , which had increased only a little in January, expanded moderately in February; M_2 and M_3 rose sharply. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's remained large. Since mid-February, both short- and long-term interest rates have changed little on balance.

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 financial markets and the sensitive state of foreign exchange markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None.

2. Authorization for domestic open market operations

On March 10, 1975, the Committee had voted to amend a provision of paragraph 2 of the authorization for domestic open market operations to raise from \$1 billion to \$2 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury; and at its meeting on March 18, 1975, the Committee had voted to maintain the limit at \$2 billion for a period of 1 year, unless in the interim the Committee decided otherwise. At today's meeting, the Committee voted to remove the 1-year time limitation it had attached to the increase in the limit, thereby maintaining it at \$2 billion. This action was taken in light of the potential cash-management problems that the Treasury might experience in financing the large budget deficit in the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None.

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, 1976, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the authorization for foreign currency operations, and the foreign currency directive in the forms in which they were presently outstanding.

Votes for these actions: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against these actions: None.

The Committee also took special note of paragraph 3 of the domestic authorization, which authorizes 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 authorization 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 reasonably necessary and that, accordingly, the authorization should remain in effect subject to periodic review.